

**Unofficial Translation
of German Original**

DR. WERNER WENGER*
DR. JÜRGE PLATTNER
DR. PETER MOSIMANN
STEPHAN CUENI*
PROF. DR. GERHARD SCHMID
DR. JÜRGE RIEBEN
DR. DIETER GRÄNICHNER*
KARL WÜTHRICH
YVES MEILI
FILIPPO TH. BECK, M.C.J.
DR. FRITZ ROTHENBÜHLER
DR. STEPHAN NETZLE, LL.M.
DR. BERNHARD HEUSLER
DR. ALEXANDER GUTMANS, LL.M.*
PETER SAHLI**
DR. THOMAS WETZEL
DR. MARC NATER, LL.M.
BRIGITTE UMBACH-SPAHN, LL.M.
SUZANNE ECKERT
PROF. DR. MARKUS MÜLLER-CHEN
ROLAND MATHYS, LL.M.
MARTIN SOHM
RETO ASCHENBERGER, LL.M.
DR. DAVID DUSSY
GUDRUN ÖSTERREICHER SPANIOL
AYESHA CURMALLY*
DR. PHILIPPE NORDMANN, LL.M.
CORNELIA WEISSKOPF-GANZ
OLIVER ALBRECHT RHOMBERG
DR. CHRISTOPH ZIMMERLI, LL.M.
DR. REGULA HINDERLING
DR. STEPHAN KESSELBACH
MADLAINA GAMMETER
PD DR. PETER REETZ
DR. MAURICE COURVOISIER, LL.M.
DR. RETO VONZUN, LL.M.
MARTINA STETTLER
CRISTINA SOLO DE ZALDÍVAR
DANIEL TOBLER**
MILENA MÜNSTERBURGER
DR. ALEXANDRA ZEITER
DR. ROLAND BURKHALTER
DR. BLAISE CARRON, LL.M.
VIVIANE BURKHARDT
DR. OLIVER KÜNZLER
ROBERT FRHR. VON ROSEN***
ANDREA SPÄTH
CORINNE LAFFER
DR. EMANUEL JAGGI
PAOLA MÜLLER, LL.M.***
PLACIDUS PLATTNER

PROF. DR. FELIX UHLMANN, LL.M.
ANDREAS MAESCHI
KONSULENTEN

Registered mail

To the creditors of SAirGroup
in debt restructuring liquidation

Küsnacht, 17 August 2007 WuK/fee

**SAirGroup in debt restructuring liquidation;
Circular No. 12**

Ladies and Gentlemen

This Circular provides information on the progress of the SAirGroup debt restructuring liquidation since early April 2007:

I. STATUS OF PROCEEDINGS REGARDING THE SCHEDULE OF CLAIMS

1. First-class claims

Of the 90 actions totalling CHF 101,819,428.43 originally lodged to contest the rejection of first-class claims or privileges in the schedule of claims only one — that of the VEF insurance fund for Swissair flight crews, of CHF 5,899,470 — is still pending before the District Court of Zurich. The creditor has also registered the same claim with Swissair Swiss Air Transport Company Ltd. ("Swissair"), where it has been recognized as a first-class claim. The creditor will withdraw their appeal as soon as it has been established that all first-class claims against Swissair can be satisfied in full.

Actions have been withdrawn or settled in 86 cases. As a result, of the CHF 14,948,613.15 in claims that were under litigation, CHF 6,945,510.45 has now been recognized in the first class. This sum includes severance plan claims totalling CHF 4,239,977.10 from members of management.

The three actions from SAirGroup pension institutions totalling CHF 74,175,881.95, which demanded that the claims arising from the SAirGroup bonds held by the pension funds be included in the schedule as first-class rather than third-class claims, were rejected in the first instance by the District Court of Zurich. The pension institutions have since filed an appeal against this decision with the Higher Court of Canton Zurich.

2. Third-class claims

Of the 41 actions totalling CHF 6,017,164,743.40 that were originally lodged to contest the schedule of claims, 12 actions with a combined value of CHF 5,247,046,502.89 are still pending before the District Court of Zurich. Of these, five appeals totalling CHF 3,877,894,804.96 concern the complex situation in Belgium, and two appeals totalling CHF 1,328,904,521.00 relate to claims arising from the Group's purported liability for leasing claims against Swissair.

Of the 41 actions referred to above, 29 have been dealt with, having been thrown out owing to insufficient grounds or applicability, withdrawn or settled. Of the total of CHF 770,118,240.51 in claims that were the subject of litigation, CHF 139,625,762.36 has been recognized.

3. Inclusion in the schedule of claims of previously suspended claims from SAirGroup Finance (NL) B.V. and SAirLines Europe B.V.

SAirGroup Finance (NL) B.V. ("FinBV") and SAirLines Europe B.V. ("EuropeBV") were both companies of the former Swissair Group. Both companies had close business ties with the other group companies, in particular SAirGroup and SAirLines. Through FinBV, EUR-denominated bonds were purchased and held, and the company was also pool leader in the *cash pooling arrangement* within the Swissair Group. EuropeBV

served as a SAirLines sub-holding company for the purposes of acquiring shareholdings in other airlines, e.g. SAA and LOT. On 27 March 2002, the *Amsterdam District Court* declared FinBV insolvent. The same ruling was declared in respect of EuropeBV on 11 February 2003.

Reciprocal business relations between the companies resulted in a variety of outstanding claims and counterclaims at the time insolvency was declared.

FinBV registered total claims amounting to the equivalent of CHF 4,031,563,358.22 with SAirGroup. These claims stemmed from the cash pool, money market transactions, guarantees and FinBV's de facto directorship/employer liability. Meanwhile, SAirGroup registered counterclaims against FinBV totalling the equivalent of CHF 292,596,351.40.

EuropeBV registered total claims of the equivalent of CHF 1,189,872,297 against SAirGroup on the grounds of its de facto directorship/employer liability. For its part, SAirGroup registered counterclaims against EuropeBV totalling the equivalent of CHF 5'805'777.50.

FinBV registered a cash pool-related claim of CHF 2,540,416.60 against SAirLines. This claim has been recognized in the SAirLines schedule of claims.

EuropeBV registered total claims of the equivalent of CHF 1,189,872,297 against SAirLines on the grounds of its de facto directorship/employer liability. For its part, SAirLines registered counterclaims against EuropeBV totalling the equivalent of CHF 604,159.20.

The review by a Dutch lawyer of the claims of several billion Swiss francs registered by FinBV and EuropeBV on the grounds of de facto directorship/employer liability revealed that both SAirGroup and SAirLines are exposed to considerable risk in this area. The risk relating to SAirLines was deemed to be somewhat lower because SAirLines was not the employer of the SAirGroup staff acting as directors and officers of the two Dutch companies.

Whether or not the two Dutch insolvency estates of FinBV and EuropeBV are able to assert their rights in Switzerland by means of legal action is unclear, however. There is some debate about whether or not a foreign insolvent's estate can be a party to litigation in Switzerland. In a relatively recent ruling, the Federal Supreme Court determined that, in Switzerland, a foreign insolvent's estate could only demand recognition of the foreign insolvency ruling and thus institute only so called "mini-insolvency proceedings" in the Swiss courts. However, for this to be possible, the foreign state must grant reciprocity. This condition is not met where the Netherlands is concerned. Whether or not the legal precedent of the Federal Supreme Court applies in such cases is an unresolved issue. This legal situation entailed the risk for FinBV and EuropeBV that they would not be able to contest the schedule of claims in respect of decisions by SAirGroup and SAirLines which rejected the inclusion of the Dutch companies' claims in their schedules of claims.

In the summer of 2006 the Liquidator began negotiations with the receiver of FinBV and EuropeBV on an out-of-court settlement of reciprocal claims. These negotiations were brought to a close in the spring of 2007. With the consent of the Creditors' Committees of SAirGroup and SAirLines, as well as the competent Dutch insolvency court judge, the parties ultimately concluded the following agreement in July 2007:

- SAirGroup recognizes claims of CHF 942,683,000 on the part of FinBV and CHF 475,949,000 on the part of EuropeBV and will include them in the schedule of claims as third-class claims.
- SAirLines recognizes claims of CHF 356,962,000 on the part of EuropeBV and will include them in the schedule of claims as third-class claims. The FinBV claim which has already been included in the schedule of claims is not affected by the settlement.
- The parties will otherwise waive the right to enforce any other claims against each other.

This agreement is a fair one given the material risks to SAirGroup and SAirLines and the litigation-related risks to FinBV and EuropeBV. In the

case of SAirGroup, it results in the settlement of a significant claim item which had previously been suspended. Third-class claims which are still suspended now total CHF 4,312,922,017.26.

4. Estimated dividend

The disposable assets reported in the liquidation status updated as of 30 June 2007 give a maximum dividend of 14.1%, providing all of the actions that have been lodged to contest the schedule of claims are unsuccessful and only 40% of suspended third-class claims have to be recognized. Should all pending actions to contest the schedule of claims be admitted and all suspended claims have to be recognized, however, the minimum return would be 7.1% (cf. the enclosed summary of the status of proceedings to draw up the schedule of claims).

II. INTERIM PAYMENT

Both the degree of settlement for the schedule of claims and the financial situation of SAirGroup in debt restructuring liquidation (see Appendix 2 to Circular No. 11), enable the recognized first and second-class privileged claims to be paid out and an initial instalment of 5.3% to be paid out to creditors with recognized third-class claims. Interim payments on suspended claims or on those for which an action to contest the schedule of claims is pending will be assured. The Liquidator and the Creditors' Committee have therefore decided to make initial payments, corresponding to the stated percentage, in the autumn of this year.

III. REALIZATION OF ASSETS

1. Real estate in Hong Kong

Between 1981 and 1988, SAirGroup (then still known as Swissair Swiss Air Transport Company Ltd.) purchased office premises in Tower II, 8th Floor, Admiralty Centre, 18 Harcourt Road, Hong Kong ("Admiralty Centre"). In 1990, the company acquired Flat A, 9th Floor, Tower II, Ruby Court, 55 South Bay Road ("Ruby Court") and House 6C,

Evergreen Garden, 18 Shouson Hill Road ("Evergreen Garden"), both also in Hong Kong.

The properties in Hong Kong were used by (the new) Swissair after the Swissair Group had been reorganized into a holding structure in May 1997. Swissair carried the properties as assets in its balance sheet and also met their maintenance costs. The properties all stood vacant from 2002 onwards. A local property manager was engaged to manage the properties and do the maintenance work necessary to preserve their value.

With the consent of the Creditors' Committees of SAirGroup and Swissair, efforts to sell the real estate have been ongoing since the beginning of 2007. The following sales have been concluded to date:

- Admiralty Centre HKD 73,200,000 approx. CHF 11.2 million
- Evergreen Garden HKD 34,500,000 approx. CHF 5.3 million

The sale of Ruby Court is expected to go through by the end of September 2007. An offer of approx. HKD 20 million (approx. CHF 3 million) has been received.

In order to allocate the sale proceeds, investigations had to be conducted in Hong Kong into which entity – SAirGroup or Swissair – is entitled under Hong Kong law to the proceeds of the Hong Kong real estate sales. The Liquidator of SAirGroup and the Deputy Liquidator of Swissair each engaged a firm of lawyers in Hong Kong to clarify this issue. The legal experts concurred that the real estate in Hong Kong was acquired at a time at which (the new) Swissair did not yet exist. No changes had been made to the Hong Kong land register since the properties were purchased. SAirGroup is thus the legal owner of the properties. Swissair, meanwhile, is the beneficial owner of the Hong Kong real estate. Under Hong Kong law, the beneficial owner is entitled to the income from the use of a property (rental income and sale proceeds). This entitlement can also be asserted by the beneficial owner in the event of the insolvency of the legal owner. It is therefore clear that the proceeds from the sale of the Hong Kong real estate are due to Swissair alone.

2. Polygon Group

2.1 Background

SAirGroup and other former Swissair Group companies handled some of their insurance risks via the Polygon Group. The Polygon Group was managed by Heritage Trust Ltd. Polygon Holding Ltd. ("PGL") and Pentagram Holdings Ltd. ("Pentagram"), both with their registered offices in Guernsey, are holding companies within the Polygon Group. SAirGroup held a 30.83% stake in these two companies. Up to the end of 2004, the remaining shares in PGL and Pentagram were held by the airlines KLM, SAS, Finnair and AUA ("former shareholders"). Since the beginning of 2005, these shares have been in the ownership of two companies ("new shareholders") which are associated with PGL's management company, Heritage Trust Ltd. Pentagram is no longer of any financial significance.

PGL is the sole owner of the Polygon Insurance Company Ltd. ("PICL"), which also has its registered office in Guernsey. PICL, in turn, has a branch office in Switzerland ("Polygon Switzerland"). Polygon Switzerland handled both mandatory and supplementary accident insurance for staff of the Swissair Group. When Polygon Switzerland was set up in 1997, SAirGroup provided a deficit guarantee. In return, it was entitled to an annual payout corresponding to the net surpluses on premium payments. Polygon Switzerland falls under the supervision of the Federal Office of Private Insurance. SAirGroup ceased to make any further payments to Polygon Switzerland as of 5 October 2001. As a result, Polygon Switzerland registered a claim of CHF 5,176,667.60 against SAirGroup. The decision on the admission or rejection of this claim was suspended.

From 1998 onwards, "Accounts" were set up within PICL as a means of handling certain insurance risks. These "Accounts" were subsequently transferred to "Cells". SAirGroup's real estate and business interruption insurance was transferred to Harlequin Insurance PCC Ltd. Cell S2 (referred to below as "Cell S2"). SAirGroup Trust, registered in Guernsey, is the beneficial owner of Cell S2. SAirGroup, Swissair and

SAirLines are the beneficiaries of this trust. Heritage Trust Ltd. is trustee of the SAirGroup Trust.

From the end of the 1990s onwards, the difficult air travel insurance market meant that the Polygon Group made substantial losses. In the second half of 2002, these losses reached a level which jeopardized the solvency — and thus the continued existence — of PGL and PICL. In order to maintain the solvency of PGL and PICL, in December 2002 SAirGroup subscribed PGL loan notes worth USD 3 million. Meanwhile, the former shareholders subscribed loan notes worth USD 7 million. SAirGroup subscribed the said loan notes to secure the insurance settlement from the SR111 crash in Halifax, which had still to be concluded. Securing the settlement was of interest primarily to SAirLines in connection with the sale of SR Technics. SAirGroup's subscription of the loan notes was therefore financed by a loan from SAirLines to SAirGroup. SAirGroup pledged its shares in PGL to SAirLines as collateral for the loan, and also assigned all rights to the loan notes to SAirLines as an additional safeguard. SAirGroup was obliged to repay the loan to SAirLines only to the extent that PGL made repayments on the loan notes.

2.2 Financial situation of the Polygon Group

After 2003, any sustained improvement in the financial situation of the Polygon Group proved impossible. In the spring of 2004, PGL and PICL auditors Deloitte & Touche informed management that if the shareholders failed to provide PGL with financial support, the continued operation of PICL's business would be jeopardized. Specifically, the auditors maintained, it was not certain that Guernsey's insurance supervisory authority would permit PICL to continue business operations under the new circumstances. Stagnating revenues at PICL might thus lead to the risk of PGL itself becoming overindebted, as it would no longer be able to meet its obligations and, specifically, repay the loan notes. For the auditors to recommend the PGL and PICL balance sheets without reservation, in 2004 the holders of the loan notes were forced to declare that they would waive repayment for an 18-month period.

The Polygon Group's situation has not improved significantly since then.

2.3 Sale of the Polygon Group shareholding

Taking the background to the situation into account, in 2005 the Liquidator began talks with the new shareholders on the sale of the Polygon Group shareholding. After extensive and complex negotiations, the following agreement was concluded and executed in July 2007 with the consent of the Creditors' Committees of SAirGroup, SAirLines and Swissair:

- SAirGroup, SAirLines and SAirGroup Trust sold their shares in PGL and Pentagram, as well as the loan notes and Cell S2, to the buyers. SAirGroup waived any claims against Polygon Switzerland.
- The buyers paid a purchase price of USD 2.43 million. In addition, PICL (Polygon Switzerland, respectively) waived the right to enforce the claim of CHF 5,176,667.60 that had been registered as part of the SAirGroup debt restructuring proceedings and had been suspended temporarily when the SAirGroup schedule of claims was being drawn up.

The sale proceeds from the Polygon deal were transferred to a joint account in the names of SAirGroup, SAirLines and Swissair, and will be divided between these liquidation estates. The allocation must take the following factors into account:

- The agreement on the deficit guarantee means that the SAirGroup liquidation estate is entitled to the sale proceeds from Polygon Switzerland shares;
- The financing it provided for the loan notes means that the SAirLines liquidation estate is entitled to the sale proceeds from loan notes and PGL shares;
- Their entitlements in respect of the SAirGroup Trust mean that the liquidation estates of SAirGroup, SAirLines and Swissair share the sale proceeds from Cell S2.

IV. WAIVER OF DISPUTED CLAIMS**1. Rejected claims lodged by SAirGroup in liquidation proceedings concerning the Volare Group S.p.A., Volare Airlines S.p.A. and Air Europe S.p.A.**

SAirLines held a 48.62% stake in the Volare Group S.p.A. from 1998 onwards. During the debt restructuring moratorium this shareholding was sold by SAirLines to co-shareholder Gino Zoccai, or more specifically to one of the companies controlled by him, on 1 February 2002. Reciprocal claims between the Volare Group, on the one hand, and the companies of the former Swissair Group, on the other, were settled at this occasion. To the extent that they concerned SAirGroup and SAirLines, the corresponding agreements were approved by the District Court of Zurich in its decision of 20 March 2002.

The settlement amount to be paid by the Volare Group to the Swissair companies was stipulated in the agreements as CHF 21,572,944 for shares and bonds and CHF 48,427,056 for other claims, bringing the total to CHF 70 million. The outstanding amounts were to be paid to SAirGroup in instalments, with SAirGroup acting as authorized agent for the other former Swissair companies – a role which it still fulfils. Persistent payment problems at the Volare Group resulted in the original agreements being modified several times and the payment deadlines being extended. The amendments included the agreement of financial penalties for late payment and the issue of a bank guarantee in favour of the Swissair companies by Interbanca S.p.A. and Banca Intesa S.p.A. for the maximum amount of EUR 12,500,000. In total, the Volare Group paid SAirGroup CHF 49,578,420 up to 30 June 2004. SAirGroup then forwarded this amount to the other parties concerned, including SAirLines, with each party receiving its agreed share. A further EUR 10,793,947.08 was made available to SAirGroup from the bank guarantee. This was also distributed.

In its submissions of 21 November 2005, on behalf of the former Swissair companies concerned, SAirGroup registered claims of CHF 10,651,322.38 (EUR 7,047,321.94) in each of the debt restructuring proceedings for the Volare Group S.p.A., Volare Airlines

S.p.A. and Air Europe S.p.A. In all three proceedings, the competent debt restructuring judge admitted the claim of SAirGroup and the companies concerned in an amount of EUR 4,095,855.43 and rejected the remaining claim of around EUR 3 million. The contractually agreed penalty payments were not admitted, and the EUR/CHF exchange rate that was used was an unfavourable one for the Swissair companies. The SAirGroup share of the rejected claims is 20.3067%, or around EUR 600,000.

No official estimate exists of the dividends which may be paid out from the liquidation proceedings of the three Volare companies. According to the additional research conducted by SAirGroup's Italian lawyers, however, non-privileged creditors may expect a very small dividend at best.

The Swissair companies could have lodged a joint action against the debt restructuring judge's decision to reject their claims. However, not all of the Swissair companies concerned were prepared to file suit. In order to protect the interests of its creditors, SAirGroup therefore took the precaution of instituting the necessary legal action for only a part of the claim. The chances of a positive outcome are regarded as poor by the Italian lawyers, as not all Swissair companies have filed the action. Furthermore, given the anticipated costs, the value at issue is relatively small. The Liquidator and Creditors' Committee have therefore decided not to continue pursuing the action in Italy.

2. Assignment requests by individual creditors

Each creditor is entitled to request the assignment of the right to take legal action in respect of those legal claims for which the Liquidator and the Creditors Committee decide not to further pursue them (Art. 325 in conjunction with Art. 260 DEBL). A creditor who requests assignment is then entitled to assert the legal claim at their own risk and expense. Should they win the legal action, they are entitled to use any award to cover both the costs incurred and their claims against SAirGroup. Any surplus would have to be surrendered to the liquidation estate. Should the creditor lose the action, they are liable for any court costs and legal fees.

Creditors are hereby offered the assignment of the right to pursue the action in respect of the claims of SAirGroup against the Volare Group S.p.A., Volare Airlines S.p.A. and Air Europe S.p.A. (see section IV.1 above).

Requests for assignment within the meaning of Art. 260 DEBL may be lodged with the undersigned Liquidator **in writing** by **31 August 2007 at the latest** (date of postmark of a Swiss post office). The right to request assignment will be deemed to be **forfeited** if this deadline is not met.

V. NEXT STEPS IN THE PROCEEDINGS

The distribution list for the first interim payment is currently being drawn up. Creditors will receive special notice as soon as it has been completed, and will be informed of the status of liquidation proceedings in a further circular. The first interim payment will probably be made in November 2007.

Yours sincerely

SAirGroup in debt restructuring liquidation

The Liquidator

Karl Wüthrich

Encs: Summary of schedule of claims status

<p style="text-align: center;">Hotline SAirGroup in debt restructuring liquidation</p> <p style="text-align: center;">Deutsch: +41 43 222 38 30</p> <p style="text-align: center;">Français: +41 43 222 38 40</p> <p style="text-align: center;">English: +41 43 222 38 50</p>

Summary of schedule of claims status

Category	Registered	Schedule of claims					Dividend	
	Amount in CHF	Recognized Amount in CHF	Admitted subject to conditions Amount in CHF	Schedule of claims appeal pending Amount in CHF	Suspended Amount in CHF	Rejected Amount in CHF	min.	max.
Secured by right of lien	-	-	-	-	-	-	-	-
First class	467'115'199.72	18'620'829.54	-	80'075'351.95	176'920'022.00	191'498'996.23	100%	100%
Second class	615'381.22	289'240.50	-	-	224'571.12	101'569.60	100%	100%
Third class ¹⁾	48'432'959'819.94	9'799'985'273.19	1'035'391'823.51	5'247'046'502.89	4'312'922'017.26	29'073'006'026.60	7.1%	14.1%
Total creditors' claims	48'900'690'400.88	9'818'895'343.23	1'035'391'823.51	5'327'121'854.84	4'490'066'610.38	29'264'606'592.43		

¹⁾ The maximum dividend calculation factors in 40% of suspended third-class claims and 1% of conditional claims.