

**Unofficial Translation
of German Original**

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To the creditors of SAirLines
in debt restructuring liquidation

Küschnacht, April 2008 WuK/fee

**SAirLines in debt restructuring liquidation;
Circular No. 11**

Ladies and Gentlemen

This Circular provides information on the progress of the SAirLines debt restructuring liquidation proceedings since April 2007, as well as on the next steps planned in these proceedings over the coming months.

I. REPORT ON ACTIVITIES AS AT 31 DECEMBER 2007

Having been acknowledged and approved by the Creditors' Committee on 17 March 2008, the fifth of the Liquidators' reports on activities for 2007 has been submitted to the debt restructuring judge at the district court of Zurich. The report is available for inspection by creditors at the premises of the Co-Liquidator Karl Wüthrich at Goldbach-Center, Seestrasse 39, 8700 Küschnacht, until 9 May 2008. Please make an appointment with Mr Christian Rysler, telephone +41 43 222 38 00.

The following is a summary of the content of the report on activities.

II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidators

During the year just ended, the Liquidators' activities focused on settling liabilities, including the pursuit of pending legal action to contest the schedule of claims (Section IV below), preparing and

executing a first interim payment, defending the estate against guarantee claims in connection with the sales of the Nuance Group and Avireal AG, the pursuit of one avoidance claim, the sale of minor shareholdings (Section III below) and the collection of claims. Investigations into the responsibility borne by directors and officers were also continued.

2. Activities of the Creditors' Committee

The Creditors' Committee held three meetings in the course of 2007. At its meetings, the Committee discussed the various proposals submitted by the Liquidator and passed resolutions accordingly.

III. REALIZATION OF ASSETS

1. General

The Liquidators continued to collect accounts receivable from Switzerland and abroad during the period under review. Payments totalling CHF 1.15 million were added to the estate's assets as a result.

2. SALE OF THE SHAREHOLDING IN GLOBAL FREIGHT EXCHANGE LIMITED, LONDON

In May 2000, SAirLogistics took a 2.5% equity stake in Global Freight Exchange Limited, London ("GF-X"), which had been set up in 1998. It paid USD 4.5 million for 5,000 shares.

GF-X is an electronic trading platform for bookings and price queries for air freight consignments. It was founded in the age of e-business euphoria and was intended as an internet-based service to bring together air freight providers and air freight customers. The company's founding members and original investors were Deutsche Post, Lufthansa, Panalpina, Morgan Stanley and SAirLogistics. The inclusion of new investors (Lufthansa Cargo, British Airways Cargo, Air France Cargo) diluted the SAirLogistics holding to around 2.3%. Thanks to the new investors, GF-X's financial situation improved; it had been about to go into liquidation after a very poor start and the bursting of the

internet bubble. It never subsequently succeeded in making a profit, however.

Since the beginning of the debt restructuring moratorium for SAirLines in October 2001, SAirLines, as the successor to SAirLogistics, has made a variety of attempts to sell the share packet to a co-owner of the company and to new investors on the open market. No buyer could be found, however. In 2004, SAirLines attempted to sell the shares to the company itself, but enquiries with the GF-X board of directors revealed that this was not possible under English law.

In 2006, the GF-X board of directors initiated a project to find a strategic partner, the object being to finance the future development of the company. Some fifty potential partners were contacted. Finally, a letter of intent was signed with Descartes Systems Group Inc. ("DSG") in February 2007. DSG offered to take over all of the existing shareholders' shares. SAirLines could have received a maximum price of USD 310,000 for its share packet. However, USD 80,000 of that figure would have had to be held in escrow as security for any guarantee claims on the part of DSG. It also emerged in negotiations that the contract of sale contained a number of contractual assurances and guarantees which, in addition to the funds in escrow, might have delayed the liquidation of SAirLines.

In the light of this situation, attempts were made to sell the SAirLines holding to an existing shareholder in advance of the DSG acquisition. Kühne + Nagel was interested in buying the share packet and offered USD 200,000, free of any guarantee obligations on the part of SAirLines. With the consent of the Creditors' Committee, the GF-X shares were sold to Kühne + Nagel at a price of USD 200,000 in the summer of 2007.

3. POLYGON GROUP, GUERNSEY

3.1 Background

SAirGroup, Swissair 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.

3.2 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, the holders of the loan notes were forced to declare in 2004 that they would waive repayment for an 18-month period.

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

3.3 Sale of the Polygon Group shareholding

Taking the background to the situation into account, in 2005 the Liquidators 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 new shareholders. SAirGroup waived any claims against Polygon Switzerland.
- The new shareholders paid a purchase price of USD 2.43 million. In addition, PICL (Polygon Switzerland) 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. SETTLEMENT OF LIABILITIES

1. Agreement on the settlement of claims registered by 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 two companies resulted in a variety of outstanding claims and counterclaims at the time insolvency was declared. 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 de facto directorship/employer liability. For its part, SAirLines registered counterclaims against EuropeBV totalling the equivalent of CHF 604,159.20. 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 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 de facto directorship/employer liability. For its part, SAirGroup registered counterclaims against EuropeBV totalling the equivalent of CHF 5'805'777.50.

The review by a Dutch lawyer of the claims of several billion Swiss francs registered by FinBV and EuropeBV on the grounds of the 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 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 lodge actions to contest the schedule of claims in respect of decisions by SAirLines and SAirGroup which rejected the inclusion of the Dutch companies' 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 SAirLines and SAirGroup, as well as the competent Dutch insolvency court judge, the parties ultimately concluded the following agreement in July 2007:

- 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.
- SAirGroup recognized claims of CHF 942,683,000 on the part of FinBV and CHF 475,949,000 on the part of EuropeBV and included them in the schedule of claims as third-class claims.
- The parties otherwise waived the right to enforce any other claims against each other.

This agreement is a fair one given the material risks to SAirLines and SAirGroup and the litigation-related risks to FinBV and EuropeBV. In the case of SAirLines, it results in the settlement of a significant claim item which had previously been suspended.

2. Initial interim payment

After the provisional distribution list was published in May 2007, a total of around CHF 45 million had been paid out to creditors by the end of 2007.

V. ASSET STATUS OF SAIRLINES AS AT 31 DECEMBER 2007

1. Introductory remark

In the Appendix, you will find a report on the liquidation status of SAirLines as at 31 December 2007, containing a statement of the assets of SAirLines in debt restructuring liquidation as of that date, according to present information.

2. Assets

Open apportionment of proceeds from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance: In 2007 it again proved impossible to apportion the proceeds of the sales of the Swissport Group, the Gate Gourmet Group and the Nuance Group. Efforts will be made to complete this outstanding work during the current year.

As-yet unrealized assets: As in the past, this category consists primarily of claims against former Swissair group companies and shareholdings (specifically the holding in Cargolux, Luxembourg) and securities held by SAirLines. Any responsibility and avoidance claims are listed pro memoria. Valuations of as-yet unrealized assets can still be described as conservative, and it is, therefore, likely that the reported liquidation figures can be achieved.

3. Debts incurred in the course of the liquidation process

Accounts payable: The accounts payable reported as at 31 December 2007 relate to costs incurred during the debt restructuring liquidation.

Provision for share of salary costs for Close-Down Team: During the debt restructuring moratorium, SAirGroup bore the costs of services from which SAirLines also benefited. An agreement on the

apportionment of these costs was reached during the year just ended and has since been implemented. The provision has, therefore, been liquidated.

4. **Creditors' claims**

The presentation of the schedule of claims for inspection by creditors resulted in the settlement of the majority of creditors' claims. The overview of the schedule of claims proceedings states the total of claims that had been registered in the individual classes as at 31 December 2007, those claims which have been recognised, those which have received a final rejection, those which are in dispute (actions to contest the schedule of claims) and those for which schedule of claims entries are still suspended. The claim amounts with a priority entitlement to the estates of S Air Logistics AG, S Air Relations AG and S Air Services AG, as well as those of third-class claims, may change in the course of work to settle the schedule of claims.

The situation in the individual areas was as follows as at 31 December 2007:

- S Air Logistics AG: Claims of CHF 170,217.80 have been finally recognized. One creditor filed an action to contest the schedule of claims to challenge the rejection of his registered claim of CHF 10 million. This action was dismissed in court, in a decision dated 2 May 2007. This decision has since become legally binding. The assets of the estate of S Air Logistics AG stood at CHF 135,990,512 as at 31 December 2007. Even if claims that have so far been suspended should have to be recognised in addition to those that have already been admitted, all claims could be met in full.
- S Air Relations AG: Recognized claims of CHF 4,292,146.45 were paid out in full with the initial interim payment. An appropriate provision has been created for the suspended claims of CHF 102,637,015.06. The remaining assets of approximately CHF 117.9 million are available for distribution among SAirLines creditors.

- S Air Services AG: Recognized claims of CHF 4,429,846.30 were paid out in full with the initial interim payment. An appropriate provision has been created for the suspended claims of CHF 40,184,286.86. The remaining assets of CHF 267.1 million are available for distribution among SAirLines creditors.
- Second-class claims: Registered and legally recognized claims of CHF 3,082.40 were paid out in full with the initial interim payment. No further second-class claims are outstanding.
- Third-class claims: One action to contest the schedule of claims, worth CHF 2,014,975.00, was resolved by means of a settlement during 2007. The applicant creditor reduced his claim to CHF 1,410,000.00, which was then recognized as a third-class claim with the consent of the Creditors' Committee. During 2007, three creditors registered new third-class claims totalling CHF 172,073,271.91. There are only five actions to contest the schedule of claims, worth a total of CHF 1,735,832,868.32, still pending at the present time. These largely concern claims relating to the complex situation in Belgium.

5. Estimated dividend

The disposable assets reported in the liquidation status give a maximum dividend of 21.1%, providing all of the still pending actions to contest the schedule of claims are unsuccessful and no more than 50% of suspended claims have to be recognised. Should all of the actions be admitted and the suspended claims have to be recognised in full, however, the minimum dividend would be 8.7%. Of this, 4.8% has already been paid out in an initial interim payment. The remaining dividend that may be expected is, therefore, between 3.9% and 16.3%.

VI. PLANNED NEXT STEPS IN THE PROCEEDINGS

The Liquidators' activities this year will concentrate on ongoing work to settle liabilities, as well as the sale of the last shareholding, Cargolux. The liquidation bodies will also look into whether or not there is any scope for responsibility claims. It is not possible at present to estimate

how long it will take before liquidation is complete. Creditors will be provided with further information in a Circular that is planned for the autumn of 2008.

Yours sincerely

SAirLines in debt restructuring liquidation

The Liquidators

Karl Wüthrich

Dr. Roger Giroud

- Encs:
- Liquidation status of SAirLines in debt restructuring liquidation, as at 31 December 2007
 - Overview of the schedule of claims relating to SAirLines

www.liquidator-swissair.ch

Hotline

SAirLines in debt restructuring liquidation

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LIQUIDATION STATUS AS OF 31 December 2007

	Total CHF	S Air Logistics AG CHF	S Air Relations AG CHF	S Air Services AG CHF	SAirLines CHF
ASSETS					
Liquid funds					
UBS AG CHF	90'587'419	5'671'054	33'704'519	49'565'670	1'646'176
UBS AG USD	1'209'464	239'727			969'737
Credit Suisse	807'835		576'622		231'213
ZKB CHF	614'454			575'974	38'480
Fixed-term deposits	345'000'000		130'000'000	205'000'000	10'000'000
Total liquid funds	438'219'172	5'910'781	164'281'141	255'141'644	12'885'606
Liquidation positions					
Accounts receivable	1'458'818		4'357		1'454'461
Advance on legal costs	655'153		364'153		291'000
Open apportionment of proceeds and escrow accounts from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance	57'505'184		56'505'184	1'000'000	-
Receivables from third parties	2'677'345	54'195	8	1	2'623'141
Shareholdings, securities	190'902'356	135'942'349	-	52'760'000	2'200'007
Responsibility claims	p.m.	p.m.	p.m.	p.m.	p.m.
Avoidance claims	p.m.	-	-	-	p.m.
Total liquidation positions	253'198'856	135'996'544	56'873'702	53'760'001	6'568'609
TOTAL ASSETS	691'418'028	141'907'325	221'154'843	308'901'645	19'454'215
LIABILITIES					
Debts of the estate					
Accounts payable	379'533			336'101	43'432
Provision for portion of salary costs for Close-Down Team	-	-	-	-	-
Provision for liquidation costs	6'232'500	1'870'000	625'000	1'245'000	2'492'500
Provision, 1st interim payment	389'919'581	4'046'813	102'637'015	40'184'287	243'051'466
Total debts of the estate	396'531'614	5'916'813	103'262'015	41'765'388	245'587'398
TOTAL DISPOSABLE ASSETS	294'886'414	135'990'512	117'892'828	267'136'257	-226'133'183
Surplus to SAirLines			-117'892'828	-267'136'257	385'029'085
Total Disposable Assets SAirLines					158'895'902

Overview of the schedule of claims relating to SAirLines

Category	Registered	Schedule of claims					Dividend				
		Recognized	Appeal lodged	Decision suspended	Rejected	1st interim payment	Future Dividend		Total		
		Amount in CHF	Amount in CHF	Amount in CHF	Amount in CHF		min.	max.	min.	max.	
Secured by right of lien	-	-	-	-	-	-	-	-	-	-	
Preferential rights to the corporate assets of S Air Logistics AG	83'883'644.64	170'217.80	-	73'578'416.39	10'135'010.45	5.5%	94.5%	94.5%	100%	100%	
Preferential rights to the corporate assets of S Air Relations AG	242'285'270.88	4'292'146.45	-	102'637'015.06	135'356'109.37	100%	-	-	100%	100%	
Preferential rights to the corporate assets of S Air Services AG	44'747'368.51	4'429'846.30	-	40'184'286.86	133'235.35	100%	-	-	100%	100%	
First class	91'709'000.29	-	-	-	91'709'000.29	100%	-	-	100%	100%	
Second Class	3'082.40	3'082.40	-	-	-	100%	-	-	100%	100%	
Third Class ¹⁾	65'470'710'388.82	858'303'793.28	1'735'832'868.32	3'239'056'233.45	59'637'517'493.77	4.8%	3.9%	16.3%	8.7%	21.1%	
Total	65'933'338'755.54	867'199'086.23	1'735'832'868.32	3'455'455'951.76	59'874'850'849.23						

¹⁾ The third-class claims for which decisions have been suspended are factored into this calculation at 50%.