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**Unofficial Translation
of German Original**

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To the creditors of SAirLines
in debt restructuring liquidation

Küsnacht, May 2012 WuK/KeS

**SAirLines in debt restructuring liquidation;
Circular no. 16**

Dear Sir or Madam,

This circular provides information on the progress of the SAirLines debt restructuring liquidation since April 2011, as well as on the further course of proceedings over the coming months.

I. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2011

After having been acknowledged and approved by the Creditors' Committee on 19 March 2012, the ninth of the Liquidators' reports on activities for 2011 has been submitted to the debt restructuring judge at the District Court of Zurich. The report is available for inspection by creditors at the offices of the Co-Liquidator Karl Wüthrich at Seestrasse 39, Goldbach Center, 8700 Küsnacht, until 8 June 2012. Appointments should be made in advance with Christian Rysler (phone: +41 43 222 38 00).

The following pages summarize the content of the report on activities.

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II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidators

During the year just ended, the Liquidators' activities focused on the pursuit of pending legal actions brought by creditors to contest the schedule of claims (section III./4. below) and the pursuit of an avoidance action (section V. below). Investigations relating to the responsibility of directors and officers were also continued.

2. Activities of the Creditors' Committee

The Creditors' Committee held one meeting in the course of 2011.

3. Second interim payment

SAirLines' financial situation enabled a second interim payment to be made in the period under review. As a result, creditors with recognized preferential rights to the assets of S Air Logistics AG were paid a 94.5% dividend, while creditors with recognized third-class claims received a 2.6% dividend. The provisional distribution list for this second interim payment was made available to creditors for inspection in October 2011.

Accordingly, 100% of the claims of all creditors with recognized preferential rights to the assets of S Air Relations AG, S Air Services AG or S Air Logistics AG and creditors with privileged rights have been satisfied overall. Creditors with recognized third-class claims have received a dividend totaling 7.4% to date.

III. ASSET STATUS OF SAIRLINES AS OF 31 DECEMBER 2011

1. Introductory remark

Enclosed is a report on the liquidation status of SAirLines as of 31 December 2011 (Enclosure 1). The report contains a statement of assets and liabilities of SAirLines in debt restructuring liquidation as of 31 December 2011 according to present information.

2. Assets

Pending apportionment of proceeds from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance: It again proved impossible in 2011 to apportion the proceeds of the sales of the Swissport group, the Gate Gourmet group and the Nuance group. However, efforts will be made to resolve these outstanding matters in the course of this year.

As-yet unrealized assets: This item still consists primarily of claims against former Swissair group companies and of shareholdings held by SAirLines. Furthermore, any responsibility and avoidance claims are carried pro memoria.

3. Debts incurred in the course of the liquidation process

Accounts payable: The accounts payable reported as at 31 December 2011 relate to costs incurred in the course of debt restructuring liquidation.

Provision for first and second interim payments: The liquidation status of SAirLines as of 31 December 2011 includes the sum CHF 340,329,109.85 as a provision for the first interim payment. Of this amount, CHF 2,726,058.15 is reserved for payments in respect of which creditors have not yet given the Liquidators payment instructions, or for payments that could not be effected for other reasons. A further CHF 46,922,943.95 concerns interim payments for claims for which an action to contest the schedule of claims is pending. The remainder of the provision – CHF 290,680,107.75 – is for claims that are still suspended at present.

With respect to the second interim payment, a provision of CHF 194,006,160.40 was included in the liquidation status of SAirLines as at 31 December 2011. Of this amount, CHF 21,163,767.00 is reserved for payments in respect of which creditors have not yet given the Liquidators payment instructions, or for payments that could not be effected for other reasons. A further CHF 25,416,594.65 concerns interim payments for claims for which an action to contest the schedule

of claims is pending. The remainder of the provision – CHF 147,425,798.75 – is for claims that are still suspended at present.

The provisions that have been made guarantee the maximum amounts for both interim payments for all claims that have not yet been settled.

4. Creditors' claims

4.1 Introductory remarks

The enclosed overview of the schedule of claims proceedings (Enclosure 2) states the current total of claims that have been registered in the respective classes, those claims that have been recognized, those that have been definitively rejected, those that are in dispute (actions to contest the schedule of claims) and those which are still suspended. The claims with preferential rights 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, are still subject to change as efforts to settle the schedule of claims proceed.

Since the schedule of claims was issued in July 2006, three creditors have subsequently registered claims which were assessed in the period under review. The subsequently registered claims were made available for inspection in October 2011 by providing creditors with Supplement no. 1 to the schedule of claims. As shown in Supplement no. 1 to the schedule of claims, a preferential claim to the assets of S Air Logistics AG in the sum of CHF 192,383, a preferential claim to the assets of S Air Services AG in the sum of CHF 9,942, and third-class claims totaling CHF 3,258,872 have been recognized. Registered claims to the value of CHF 1,830,371 have been denied. No actions to contest the decisions made with regard to these claims have been initiated.

4.2 Action contesting the schedule of claims filed by the Belgian government

In a decision made on 22 February 2011 in the course of expedited proceedings at the District Court of Zurich, the sole presiding judge

("DCZ sole presiding judge") dismissed the action to contest the schedule of claims which had been filed by the Belgian government and companies controlled by it. The claimants lodged an appeal against the decision with the High Court of the Canton of Zurich ("High Court") on 1 April 2011, submitting various procedural applications. By order of 19 April 2012 the High Court denied the application for a stay, and set a time limit of 30 days for SAirLines to file a response to the appeal.

4.3 *Action contesting the schedule of claims filed by Sabena S.A.*

In a decision that was also handed down on 22 February 2011, the DCZ sole presiding judge dismissed the action contesting the schedule of claims filed by *Sabena S.A. in Liquidation ("Sabena")*. Sabena challenged this decision by lodging an appeal with the High Court on 1 April 2011, submitting various procedural applications (including an application for a stay of proceedings) to which SAirLines responded on 14 September 2011. By order of 10 January 2012, the High Court denied the procedural applications, setting a time limit for SAirLines to file its response to the appeal. SAirLines filed said response on 13 February 2012.

4.4 *Actions in Belgium*

In parallel proceedings brought by the Belgian state and Sabena et al. against SAirGroup and SAirLines in Belgium, SAirGroup and SAirLines, together with other parties to the action, filed an appeal with the Belgian Court of Cassation in July 2011 against the ruling of the Court of Appeals in Brussels dated 27 January 2011 (see Circular no. 14). The appeal is still pending.

4.5 *Exequatur proceedings*

Sabena also filed an application at the District Court of Zurich under the Lugano Convention for the recognition of the judgment of the Court of Appeals in Brussels of 27 January 2011 for the territory of Switzerland and for the judgment to be declared enforceable. In a decision dated 25 March 2011, without hearing SAirLines and SAirGroup, the court partially granted this application at first instance. The Brus-

sels judgment was declared enforceable to the extent that SAirGroup and SAirLines were obligated to pay Sabena EUR 18,290,800.60. The remaining aspects of the application were dismissed on procedural grounds. Sabena, SAirGroup and SAirLines all appealed the exequatur ruling to the High Court. The High Court decision is still pending. In the opinion of SAirGroup and SAirLines, a decision on Sabena's claims against them should be reached exclusively in the pending actions contesting the schedule of claims.

4.6 *The action to contest the schedule of claims filed by Société d'Exploitation AOM - Air Liberté*

In the action to contest the schedule of claims brought by *Société d'Exploitation AOM - Air Liberté ("AOM")* against Holco SAS and SAirLines, the High Court dismissed the claim in its decision dated 4 February 2011 on procedural grounds. The High Court acknowledged that where two claimants seek to enforce the same claim in debt restructuring proceedings, it is permissible to recognize the claim of one of the creditors and deny the claim of the other. However, rejecting the arguments of SAirLines, the High Court held that the issue of which of the two parties is entitled to the claim (*Prätendentenstreit*) must be determined outside the schedule of claims proceedings. For SAirLines, the High Court's findings meant running the risk of being embroiled in further litigation and in the worst case of being ordered to pay a dividend to both claimants. SAirLines therefore lodged a civil appeal against the High Court decision with the Federal Supreme Court. The civil appeal was dismissed in a decision dated 5 September 2011 on procedural grounds. In reliance on the procedure selected by the Liquidators, which was based on an earlier Federal Supreme Court decision, the Federal Supreme Court held that the decisions on the claims at issue which had been lodged by both AOM and Holco SAS (recognition of the Holco SAS claim and denial of the AOM claim) had become final with the High Court's ruling. The action to contest the schedule of claims brought by AOM is thus resolved with legally binding effect.

4.7 *Conclusion*

As of the end of 2011, actions contesting the schedule of claims in the amount of CHF 977 million were still pending.

5. Estimated dividend

The disposable assets reported in the liquidation status give a maximum dividend of 25.3%, providing all of the still pending actions to contest the schedule of claims are dismissed and no more than 50% of suspended claims have to be recognized. Should all of the actions be upheld and the suspended claims have to be recognized in full, however, the minimum dividend would be 10.1%. 7.4% has already been paid out in the first and second interim payments. The future dividend that may be expected, therefore, is between 2.7% and 17.9%.

IV. REALIZATION OF ASSETS

No major assets were realized in the period under review. Payments totaling CHF 57,008 were added to the estate's assets, including CHF 44,095 in withholding tax rebates paid to SAirLines by the Swiss Federal Tax Administration. CHF 12,500 was raised from the sale of shares in Skyguide SA, Meyrin held by SAirLines.

V. ASSERTION OF AVOIDANCE ACTIONS AGAINST PROP LEASING AND TRADING COMPANY LIMITED

A final judgment is still pending with regard to the avoidance action filed by SAirLines against Prop Leasing and Trading Company Limited ("PLTC"). After the Federal Supreme Court had remitted the matter for reconsideration, the Commercial Court rendered a new decision on 16 November 2010. It approved the claim, ordering PLTC to pay SAirLines EUR 1,324,601.50 and USD 3,174,282.85 plus interest at a rate of 5% accruing since 20 June 2005. PLTC lodged a nullity appeal against this decision with the Court of Cassation of the Canton of Zurich. SAirLines filed its response on 7 April 2011. The Court of Cassation's decision on the nullity appeal is pending.

VI. PLANNED NEXT STEPS IN THE PROCESS

The Liquidators' activities will concentrate on ongoing work to settle liabilities as well as on investigating, and if necessary enforcing, responsibility claims. It is not possible at present to estimate how long it will take to complete the liquidation.

Creditors will continue to receive information about important developments in the form of circulars, depending on how things proceed. A report on the progress of the liquidation process in the current year will be issued by spring 2013 at the latest.

Yours faithfully

SAirLines in debt restructuring liquidation

The Liquidators

Karl Wüthrich

Roger Giroud

- Encl.:
- Liquidation status of SAirLines in debt restructuring liquidation as of 31 December 2011
 - Overview of proceedings to draw up the schedule of claims for SAirLines in debt restructuring liquidation

www.liquidator-swissair.ch

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in debt restructuring liquidation**

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LIQUIDATION STATUS AS OF 31 December 2011

	Total	S Air Logistics AG	SAirLines (incl S Air Services and S Air Relations)
	CHF	CHF	CHF
ASSETS			
Liquid funds			
UBS AG CHF	8'110	-	8'110
UBS AG USD	246'654	-	246'654
Credit Suisse	143'062	-	143'062
ZKB CHF	562'631'534	93'398'723	469'232'811
ZKB USD	86'951	16'083	70'868
Total liquid funds	563'116'311	93'414'806	469'701'505
Liquidation positions			
Accounts receivable	85'953	10'938	75'015
Advance on legal costs	482'700	-	482'700
Open apportionment of proceeds and escrow accounts from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance	49'846'531		49'846'531
Receivables from third parties	2'663'148	40'002	2'623'146
Shareholdings, securities	54'960'006	-	54'960'006
Responsibility claims	p.m.	p.m.	p.m.
Avoidance claims	p.m.	-	p.m.
Total liquidation positions	108'038'338	50'940	107'987'398
TOTAL ASSETS	671'154'649	93'465'746	577'688'903
LIABILITIES			
Debts of the estate			
Accounts payable	385'324	150'000	235'324
Provision for part of wages for Close Down Team	-	-	-
Provision for liquidation costs	6'232'500	1'870'000	4'362'500
Provision, 1st interim payment	340'329'110	4'048'051	336'281'059
Provision, 2nd interim payment	194'006'160	69'552'871	124'453'289
Total debts of the estate	540'953'095	75'620'922	465'332'172
TOTAL DISPOSABLE ASSETS	130'201'554	17'844'824	112'356'731

Summary of schedule of claims status

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	Amount in CHF		min.	max.	min.	max.
Secured by right of lien	-	-	-	-	-	-	-	-	-	-
Preferential rights to the corporate assets of S Air Logistics AG	83'906'150.39	362'601.33	-	73'600'922.14	9'942'626.92	100.0%	-	-	100%	100%
Preferential rights to the corporate assets of S Air Relations AG	242'320'720.60	4'292'146.45	-	102'672'464.78	135'356'109.37	100%	-	-	100%	100%
Preferential rights to the corporate assets of S Air Services AG	44'748'165.51	4'439'788.42	-	40'194'187.91	114'189.18	100%	-	-	100%	100%
First class	91'709'000.29	-	-	-	91'709'000.29	100%	-	-	100%	100%
Second Class	6'767.50	6'767.50	-	-	-	100%	-	-	100%	100%
Third Class ¹⁾	65'471'365'318.57	852'670'454.74	977'561'332.59	2'995'112'590.13	60'646'020'941.11	7.4%	2.7%	17.9%	10.1%	25.3%
Total	65'934'056'122.86	861'771'758.44	977'561'332.59	3'211'580'164.96	60'883'142'866.87					

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