

**Swissair Swiss Air Transport Company
Ltd in debt restructuring liquidation**

Circular No. 16

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**Hotline Swissair Swiss Air Transport Company Ltd
in debt restructuring liquidation**

Deutsch: +41-43-222-38-30

Français: +41-43-222-38-40

English: +41-43-222-38-50

**Unofficial Translation
of German Original**

To the creditors of Swissair Swiss Air
Transport Company Ltd.
in debt restructuring liquidation

Küsnacht, April 2011 UmB/SoC

DR. WERNER WENGER 1)
DR. JÜRIG PLATTNER
DR. PETER MOSIMANN
STEPHAN CUENI 1)
PROF. DR. GERHARD SCHMID
DR. DIETER GRÄNICHNER 1)
KARL WÜTHRICH
YVES MEILI
FILIPPO TH. BECK, M.C.J.
DR. FRITZ ROTHENBÜHLER
DR. BERNHARD HEUSLER
DR. ALEXANDER GUTMANS, LL.M. 1)
PETER SAHLI 2) 10)
DR. THOMAS WETZEL 5)
DR. MARC RUSSENBERGER
DR. MARC NATER, LL.M.
ALAIN LACHAPPELE 7) 10)
BRIGITTE UMBACH-SPAHN, LL.M.
ROLAND MATHYS, LL.M.
MARTIN SOHM 5)
DR. CHRISTOPH ZIMMERLI, LL.M.
DR. PHILIPPE NORDMANN, LL.M.
PD DR. PETER REETZ 5)
DR. RETO VONZUN, LL.M.
SUZANNE ECKERT
DR. DAVID DUSSY
AYESHA CURMALLY 1) 4)
CORNELIA WEISSKOPF-GANZ
DR. STEPHAN KESSELBACH
DR. MAURICE COURVOISIER, LL.M.
CRISTINA SOLO DE ZALDÍVAR
DANIEL TOBLER 2) 10)
DR. ROLAND BURKHÄLTER
PETER ENDERLI 9) 10)
DR. OLIVER KÜNZLER
ANDREA SPÄTH
THOMAS SCHÄR, LL.M.
DR. GAUDENZ SCHWITTER
KARIN GRAF, LL.M.
NICOLÁS ARIAS 7) 8) 10)
VIVIANE GEHRI-BURKHARDT
LUDWIG FÜRGER 8) 10)
MILENA MÜNST BURGER, LL.M.
PLACIDUS PLATTNER
ROBERT FRHR. VON ROSEN 3)
STEFAN BOSSART
MARCO KAMBER
JÖRG HÜCHTING 7) 10)
DR. MICHAEL ISLER
FRANZISKA RHINER
VANESSA SCHMIDT, LL.M.
ANNETTE DALCHER
DOMINIK LEIMGRÜBER
MANUEL MOHLER
STEFAN FINK
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SIMON KOHLER
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MARCO BORSARI, LL.M.
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REGULA SCHRANER
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EVA SCHULD
CÉCILE MATTER
SARAH HILBER
PASCAL STOLL
KONSULENTEN
PROF. DR. FELIX UHLMANN, LL.M.
PROF. DR. MARC-ANDRÉ RENOLD
DR. JÜRIG RIEBEN
STEPHAN WERTHMÜLLER 7) 10)

WWW.WENGER-PLATTNER.CH

Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation;

Circular No. 16

Dear Sir or Madam,

This circular provides information on the progress of the Swissair Swiss Air Transport Company Ltd. ("Swissair") debt restructuring liquidation proceedings since April 2010, as well as on the next steps planned in these proceedings over the coming months.

I. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2010

After having been acknowledged and approved by the Creditors' Committee on 4 March 2011, the eighth of the Liquidator's reports on activities for 2010 has been submitted to the debt restructuring judge at the District Court of Bülach. The report on activities will be available for inspection by creditors at the Liquidator's offices at Wenger Plattner, Seestrasse 39, Goldbach Center, 8700 Küsnacht, until 30 April 2011. Appointments should be made in advance with Christian Rysler (phone: +41 43 222 38 00).

BASEL: AESCHENVORSTADT 55, CH-4010 BASEL, TELEFON +41 (0)61 279 70 00, TELEFAX +41 (0)61 279 70 01
BERN: JUNGFRAUSTRASSE 1, CH-3000 BERN 6, TELEFON +41 (0)31 357 00 00, TELEFAX +41 (0)31 357 00 01
GENÈVE: 11, RUE DU GÉNÉRAL DUFOUR, 1204 GENÈVE, TELEFON +41 (0)22 800 32 70, TELEFAX +41 (0)22 800 32 71

ALLE ANWÄLTE SIND AN IHREM STANDORT IM ANWALTSREGISTER BZW. IN DER EU/EFTA ANWALTSLISTE EINGETRAGEN
1) AUCH NOTAR IN BASEL 2) INHABER ZÜRCHER NOTARPATENT 3) DEUTSCHER RECHTSANWALT 4) FACHANWÄLTIN SAV ERBRECHT
5) FACHANWALT SAV BAU- UND IMMOBILIENRECHT 6) FACHANWÄLTIN SAV ARBEITSRECHT 7) DIPL. STEUEREXPERTE
8) DIPL. WIRTSCHAFTSPRÜFER 9) EidG. DIPL. IMMOBILIENREUHÄNDER 10) ALS RECHTSANWALT NICHT ZUGELASSEN

II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidator

The activities of the Liquidator and Deputy Liquidator in 2010 concentrated on the pursuit of pending legal actions to contest the schedule of claims (see section VI below) and on pursuing the remaining avoidance actions (see section V below). The Deputy Liquidator's investigations on responsibility were continued. It was resolved that any possible responsibility claim would be filed not until 2011, when new rules of civil procedure would apply. In addition, work to settle accounts between the Swiss Federal Government and Swissair in respect of the loans from 5 and 25 October 2001 of CHF 1.45 billion (see section III.3 below) has been pushed further forward. A number of assets were also realised (see section IV below).

2. Activities of the Creditors' Committee

The Creditors' Committee held two meetings in 2010. The Committee discussed the various proposals submitted by the Liquidator or Deputy Liquidator and passed resolutions accordingly. It also passed a circular resolution on a proposal submitted by the Liquidator.

III. ASSET STATUS OF SWISSAIR AS OF 31 DECEMBER 2010

1. Introductory remark

Enclosed is a report on the liquidation status of Swissair as of 31 December 2010 (Enclosure 1). It contains a statement of the assets of Swissair at 31 December 2010, according to present information.

2. Assets

As-yet unrealised assets: This item still consists primarily of bank deposits abroad which are frozen, outstanding accounts receivable arising from flight operations, claims against former Swissair Group companies, shareholdings held by Swissair, and real estate abroad

(insofar as it is owned by Swissair). Furthermore, any responsibility claims are carried pro memoria.

3. Debts incurred in the course of the liquidation process

Accounts payable: The accounts payable reported as of 31 December 2010 relate to costs incurred during debt restructuring liquidation.

Provision for open statements: In proceedings relating to the settlement of federal government loans, the Swiss Federal Audit Office ("SFAO") requested that Swissair provide further documentation for individual items (see Circular No. 15 dated April 2010, section III.3). Most of the documentation has in the meantime been supplied to the SFAO. However, compilation of the necessary documentation has proved to be very time consuming, which is why work continues in this respect. The Swissair liquidation status report as of 31 December 2010 continues to show provisions for open statements of CHF 83.12 million.

Provision for first interim payment: The liquidation status of Swissair as of 31 December 2010 includes the sum of CHF 63,113,634 as provision for the first interim payment. Of this amount, CHF 628,892 is reserved for payments in respect of which creditors have not yet given the Liquidator payment instructions, or for payments that could not be effected for other reasons. An amount of CHF 5,845,918 is reserved for interim payments for conditional claims for which the condition concerned has not yet been met. Another CHF 9,544,970 concerns interim payments for claims for which an action to contest the schedule of claims is pending. The remainder of the provision – CHF 47,093,854 – is for claims that are still suspended at present. The provision that has been made guarantees the maximum amount of the first interim payment for all claims that have not yet been settled.

4. Creditors' claims

The enclosed overview of the schedule of claims proceedings (Enclosure 2) shows the total of claims that have been registered in the respective classes, those claims which have been recognised, those

which have been definitively rejected, those which are in dispute (actions to contest the schedule of claims, see section VI below) and those which are still suspended. The claim amounts in all classes are still subject to change as efforts to settle the schedule of claims proceed.

5. Estimated dividend

The disposable assets reported in the liquidation status as of 31 December 2010 give a maximum dividend of 15.0% for third-class claims, providing all of the still pending actions to contest the schedule of claims are dismissed. This calculation factors in 60% of the third-class claims that have been suspended or included pro memoria in the schedule of claims. Should all of the actions be admitted and the suspended claims have to be recognised in full, however, the minimum dividend would be 11.9%. 2% has already been paid out in the first interim payment. The dividend still to be expected is therefore between 9.9% and 13.0%.

IV. REALISATION OF ASSETS

1. General

The Liquidator continued to collect accounts receivable both in Switzerland and abroad during 2010. Swissair received payments totalling around CHF 29.4 million in 2010. Inter alia, it received payments from the local liquidator in England (see section IV.2 below) and from the SNAV in France (see section IV.3). Swissair also received a further dividend payment from insolvency proceedings concerning SAirGroup Finance (NL) B.V. on the basis of its definitively recognised claim (see section IV.4). Further payments were received from the settlement with the SAirGroup pension fund (see section IV.5) as well as from the settlement of accounts with Swissair's pension fund in Germany at Victoria Lebensversicherung AG (see section IV.6).

2. England

The proceedings for repatriation of assets located in England were successfully completed in 2009. A large proportion of the surplus accrued to Swissair from liquidation proceedings in England was transferred to Switzerland in 2009. In 2010, the English liquidator transferred a further CHF 2,302,980 to Swissair as a result of the proceedings in England.

3. SNAV - Syndicat National des Agences de Voyages

The Syndicat National des Agences de Voyages ("SNAV") is the association of travel agents in France. After the grounding of Swissair, SNAV applied to the Tribunal de Grand Instance in Paris for all monies from the sale of Swissair Tickets through French travel agents to be deposited at the Caisse des Dépôts et Consignations ("CDC"). The SNAV thus aimed to protect its members from future refund claims from customers in respect of Swissair tickets which had been paid for but for which no flight took off. The primary defendant in the proceedings before the Tribunal de Grande Instance was the International Air Transport Association ("IATA") as "administrator" of the French Billing and Settlement Plan ("French BSP") through which the proceeds from the sale of Swissair tickets were collected.

Based on a court settlement between SNAV, IATA and Swissair, in its decision of 16 October 2001, the Tribunal de Grande Instance ordered that all future proceeds from the sale of Swissair tickets through French travel agents be deposited with the CDC. The decision held that IATA must ensure that all necessary information is acquired on the actual departure of Swissair flights for which tickets were sold through French travel agents. In accordance with this information, periodic disbursements from the CDC account were to be made to Swissair.

However, based on this, Swissair received only one payment of roughly EUR 900,000, in February 2002. The remaining assets amounting to around EUR 1 million remain frozen in the CDC account because IATA did not adequately comply with its settlement duties.

As a result, Swissair took legal steps in order to effect disbursement of the frozen BSP monies. In October 2010, the Cour d'Appel de Paris ruled that BSP monies had to be disbursed to Swissair. On the basis of this decision, the CDC made a payment of CHF 1,467,180 to Swissair in December 2010. It remains to be clarified, on the basis of a statement to be compiled by the CDC, whether this sum represents the entire credit due to Swissair. The Cour d'Appel also held that IATA and SNAV are jointly and severably liable to pay default interest and that SNAV is also liable to pay compensation.

4. SAirGroup Finance (NL) B.V.

SAirGroup Finance (NL) B.V. ("FinBV") received additional funds in 2010 as a result of a settlement agreed in relation to proceedings between Flightlease Holdings (Guernsey) Ltd. and Airbus. Accordingly, a further interim payment was made in the insolvency proceedings concerning FinBV. Within the scope of this interim payment, Swissair received a further dividend payment in the amount of around CHF 11.4 million on the basis of its definitively recognised claim (see Circular No. 14 of April 2009, section IV.4).

5. SAirGroup pension fund

The SAirGroup pension fund is an independent pension fund foundation used by Swissair and other SAirGroup group companies to increase voluntary employer contribution reserves. Within the scope of the first interim payment, Swissair made employer contributions in accordance with Swiss federal law (BVG) to the SAirGroup general pension fund, SAirGroup management insurance scheme and the insurance scheme for Swissair flight personnel. The Liquidator requested SAirGroup pension fund to refund contributions made by Swissair amounting to a total of CHF 6,843,307.90. SAirGroup pension fund refused to make the refund. It claimed that such a refund would run contrary to the general principle that once funds had been allocated to pension reserves, these may not flow back to the employer. Moreover, it continued, Swissair is not a beneficiary of SAirGroup pension fund.

In summer 2010, a settlement agreement was reached with SAirGroup pension fund. The settlement agreement provides that SAirGroup pension fund is to reimburse contributions amounting to CHF 2,395,157.75 to Swissair. The payment has meanwhile been made.

6. Victoria Lebensversicherung AG

In addition to their state pension entitlements, Swissair had promised its employees in Germany further occupational pension benefits. These pension benefits were made up of two components. Firstly, Swissair obtained direct insurance (life insurance) for the benefit of its employees and, secondly, Swissair made direct commitments to its employees to granting direct pension benefits.

Benefits payable under the occupational pension scheme were financed and secured externally by Victoria Lebensversicherung AG ("Victoria"). To this end, Swissair concluded the direct insurance policies promised within the scope of the respective pension fund. It also financed direct pension benefits through a respective reinsurance policy.

In 2009, Swissair terminated the reinsurance held with Victoria. Termination of the insurance resulted in a credit due to Swissair in the amount of EUR 7,741,890.38. In addition, there was also the payment of profit shares in the amount of EUR 43,674.77. Victoria made a payment totalling an equivalent of CHF 11,522,643 to Swissair in January 2010.

V. PURSUIT OF AVOIDANCE CLAIMS

1. Dor Alon Energy in Israel (1988) Ltd.

On 7 April 2006, Swissair filed an avoidance action before the Commercial Court in Zürich for USD 339,796.83 plus interest of 5% calculated from 24 May 2005 in respect of a payment to Dor Alon Energy in Israel (1988) Ltd. ("Dor Alon"). This action aimed at setting aside the payment of USD 339,796.83 made by Swissair to Dor Alon on 4 October 2001. The Commercial Court in Zürich upheld the claim for USD 339,796.83 in a decision dated 26 July 2009. The defendant

lodged an appeal against that decision with the Swiss Federal Supreme Court. In a decision dated 11 June 2010, the Federal Supreme Court dismissed the appeal by Dor Alon, upholding the judgment of the Commercial Court in Zürich. Payment of the sum owed by Dor Alon is still outstanding.

2. Additional comments

All avoidance claims instituted by Swissair have thus been settled. Execution of the judgements in Swissair's favor in respect of proceedings against Flightlease (Ireland) Ltd. and Hong Kong Sinopec/Caosc Co. Ltd is still outstanding. In accordance with these judgements, Flightlease (Ireland) Ltd. was ordered to pay CHF 8,000,000 and Hong Kong Sinopec/Caosc Co. Ltd. was ordered to pay USD 380,879. The companies have, however, still not paid the sums owed. Suitable measures have therefore been initiated to enforce the judgements.

To date, avoidance claims lodged (net, after deduction of costs) have yielded approximately CHF 37 million plus approximately USD 22.5 million.

VI. SETTLEMENT OF LIABILITIES / SCHEDULE OF CLAIMS PROCEEDINGS

First-class claims: At the start of 2010, 23 claims worth a total of CHF 11,206,625 were still pending before the District Court of Bülach. Of these claims, four could be disposed of by way of settlement by the end of 2010. The claims still pending are actions contesting the schedule of claims by former Swissair pilots. Of these, only one was pursued as a test case. All other proceedings were stayed pending the decision of the District Court of Bülach in the test case. In a judgement delivered on 4 January 2009, the sole judge dismissed the action brought in a test case in expedited proceedings before the District Court of Bülach. The subsequent appeal was dismissed by the High Court of the Canton of Zurich in its decisions from 16 December 2010.

A further appeal against the decision of the High Court has been lodged before the Federal Supreme Court. At present then, 19 claims are still pending worth a total of CHF 9,544,970. Of the first-class claims originally filed totalling CHF 708,062,460, only CHF 3,334,214 have needed to be recognised up to now.

Second-class claims: No second-class claims contesting the schedule of claims are pending. A claim totalling CHF 308,395 is included in the schedule of claims pro memoria. The claim is the subject of proceedings pending against the AZA (Ausgleichskasse Zürcher Arbeitgeber) compensation fund under social insurance law.

Third-class claims: With the exception of suspended claims, all third-class claims included in the schedule of claims were settled by the end of 2009. Of the filed claims totalling CHF 8,316,079,404, only CHF 50,783,617 have so far needed to be recognised as definitive claims and CHF 35,861,138 as conditional claims.

VII. PLANNED NEXT STEPS IN THE PROCESS

The next phase of proceedings will involve further finalisation of the schedule of claims and liquidation of the remaining assets, particularly real estate abroad.

The liquidation bodies will also conclude their investigations into responsibility claims and institute further legal action as necessary. Collection on still unenforced judgements in respect of avoidance claims will also be continued. It is also important to resolve the matter of federal government loans. It is not possible at present to estimate how long it will take for these issues to be settled.

A second interim payment to creditors is planned for summer 2011. Preparations for compilation of the distribution list necessary and the

individual calculations in respect of each creditor have already been undertaken. Creditors will be notified of the definitive date and extent of this second interim payment in a further circular.

Yours faithfully

Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation

The Liquidator

Karl Wüthrich

Enclosures: 1. Liquidation status as of 31 December 2010 of Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation
2. Overview of the schedule of claims proceedings

LIQUIDATION STATUS AS OF 31 DECEMBER 2010

	31.12.2010	31.12.2009	Change
	CHF	CHF	CHF
ASSETS			
Liquid funds			
UBS AG CHF	3'701	100'257	-96'556
UBS AG USD 1)	86'627	96'810	-10'183
ZKB CHF	483'481'509	459'704'685	23'776'824
ZKB EUR	1'091'667	186'933	904'734
ZKB USD	66'849	87'910	-21'061
Total liquid funds	484'730'353	460'176'595	24'553'758
Liquidation positions			
Banks/cash abroad	24'045	23'144	901
Accounts receivable by the estate	16'958	182'945	-165'987
Receivables from third parties	105'815'497	109'153'775	-3'338'278
Prepaid court expenses	5'850	5'850	0
Deposits/Guarantees	708'154	991'865	-283'711
Claims from proceeds of sale of operating equipment	2	2	0
Real estate	1	1	0
Participations	1'000'000	1'000'000	0
Responsibility claims	p.m.	p.m.	
Total liquidation positions	107'570'507	111'357'582	-3'787'075
TOTAL ASSETS	592'300'860	571'534'177	20'766'683
LIABILITIES			
Debts of the estate			
Accounts payable to the estate	289'938	477'806	-187'868
Provision, 1st interim payment	63'113'634	63'689'424	-575'790
Provisions for liquidation costs	2'355'261	2'355'261	0
Provisions for outstanding statements	83'120'000	83'120'000	0
Total debts of the estate	148'878'833	149'642'491	-763'658
TOTAL DISPOSABLE ASSETS	443'422'027	421'891'686	21'530'341

¹⁾ USD 50'000.00 is assigned as collateral for contingent liabilities at UBS AG

Summary of schedule of claims status

Category	Registered		Schedule of claims				Dividend				
	Amount in CHF		Recognized Amount in CHF	Appeal lodged Amount in CHF	Decision suspended Amount in CHF	Rejected Amount in CHF	1st interim payment	Future dividend		Total	
								minimal	maximal	minimal	maximal
Secured by right of lien	4'758'963.80		1'074'339.35	-	-	3'684'624.45	-	-	-	-	-
First Class	902'655'767.50		17'737'123.65	9'544'969.95	5'190'363.60	870'183'310.30	100%	-	-	100%	100%
Second Class	934'534.80		6'19'804.51	-	308'394.88	6'335.41	100%	-	-	100%	100%
Third Class ¹⁾	27'054'685'526.55		2'393'292'295.51	-	2'079'754'802.28	22'581'638'428.76	2.0%	9.9%	13.0%	11.9%	15.0%
Total	27'963'034'792.65		2'412'723'563.02	9'544'969.95	2'085'253'560.76	23'455'512'698.92					

¹⁾ The third-class claims for which decisions have been suspended are factored into this calculation at 60%.

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