

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

Circular No. 18

www.liquidator-swissair.ch

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

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**Unofficial Translation
of German Original**

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

Küsnacht, May 2012 WuK/SoC

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**Swissair Swiss Air Transport Company Ltd. in debt restructuring
liquidation;
Circular no. 18**

Dear Sir or Madam,

This circular provides information on the current status of the Swissair Swiss Air Transport Company Ltd. ("Swissair") debt restructuring liquidation proceedings, as well as on how these proceedings are scheduled to progress over the coming months.

I. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2011

After having been acknowledged and approved by the Creditors' Committee, the 9th Liquidator's report on activities for 2011 was submitted to the debt restructuring judge at the District Court of Bülach on 19 March 2012. 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 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 Liquidator

The activities of the Liquidator and Deputy Liquidator in 2011 concentrated on pursuing the remaining actions to contest the schedule of claims (see section VI.1 below), pursuing the enforcement of the claims not yet satisfied under avoidance actions (see section V.1 below) and preparing for the publication of supplement no. 2 to the schedule of claims and the second interim payment to creditors with subsequently recognized privileged claims (see sections VI.1 and VII. below). The Deputy Liquidator's investigations on responsibility were continued (see section V.2 below). In addition, work to settle accounts between the Swiss Federal Government and Swissair in respect of the federal government loans was continued (see section VI.2 below) and a number of assets were realized (see section IV. below).

2. Activities of the Creditors' Committee

The Creditors' Committee held one meeting in the course of 2011. The Committee discussed the various proposals submitted by the Liquidator or Deputy Liquidator and passed resolutions accordingly. It also passed resolutions on three proposals submitted by the Liquidator in the form of circulars.

III. ASSET STATUS OF SWISSAIR AS OF 31 DECEMBER 2011

1. Introductory remark

Enclosed is a report on the liquidation status of Swissair as of 31 December 2011 (Enclosure 1), containing a statement of assets of Swissair as of 31 December 2011 according to the information currently available.

2. Assets

Assets as yet unrealized: 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 2011 relate to costs incurred during debt restructuring liquidation.

Provision for open statements: In proceedings relating to the settlement of federal government loans, it became apparent from the federal government's comments that there are numerous and significant differences in contract interpretation between the Swiss Federal Audit Office SFAO and the Liquidator (see section VI.2 below). Consequently, the provision of CHF 80 million previously reported in the liquidation status in relation to this settlement was increased to CHF 370 million. This also includes the provision for the outstanding settlement with Swisscargo.

Provision for first interim payment: The liquidation status of Swissair as of 31 December 2011 includes the sum of CHF 53,386,551 as a provision for the first interim payment. Of this amount, CHF 788,096 relates to 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 relates to interim payments for contingent claims for which the condition concerned has not yet been met. The remainder of the provision – CHF 46,752,537 – relates to claims that are still suspended at present. The provision that has been made guarantees the maximum amount for the first interim payment with respect to all claims which have not yet been settled.

4. Creditors' claims

The overview of the schedule of claims proceedings (Enclosure 2) lists the claims amounts according to their classes and specifies those claims which have been registered, recognized, definitively rejected, and those which are in dispute (actions to contest the schedule of claims, see section VI.1 below), or 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 2011 give a maximum dividend of 7.1% for third-class claims. 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 suspended claims be recognized in full, however, the minimum dividend would be 5.7%. Of this, 2% has already been paid out by way of the first interim payment. The future dividend that may be expected, therefore, is between 3.7% and 5.1%.

IV. REALIZATION OF ASSETS

1. General

In 2011, Swissair received payments totalling CHF 1,569,204. Inter alia, Swissair received payments from Airclaims Group Ltd., Victoria Lebensversicherung and the liquidator in England (see section IV.2-4 below).

2. Payment from Airclaims Group Ltd., Heathrow

On 24 February 2000, a Swissair aircraft was damaged in an accident at Munich airport. The aircraft involved was an Airbus A319-100 with the registration HB-IPV and engine numbers ESN 779-190 and ESN 779-191.

Both the aircraft and the engines were insured by a number of insurance companies ("Insurers"). In November 2011, the Insurers made payments on account totalling USD 4,250,000 to Swissair for the losses resulting from the accident.

Subsequently, the statement of the definitive insurance amount and the payment of the difference to Swissair were still outstanding. Owing to the complex ownership structure and legal conditions relating to the aircraft and engines, the Insurers have made the final payment of the claim contingent on the presentation of a statement by all parties involved that they will make no further claims based on the accident ("Release Statements"). The last Release Statements required were obtained in 2011. After these requirements were satisfied, the final payment for the claim was made to Swissair by the Insurers in the total amount of USD 832,293.16, or CHF 657,488.

3. Victoria Lebensversicherung AG

In order to finance the pension benefits promised to its employees in Germany, Swissair had taken out a direct insurance policy and a reinsurance policy with Victoria Lebensversicherung AG ("Victoria"). Swissair is entitled to interest-bearing profit shares from the direct insurance policy. On this basis, in January 2011 Victoria made a payment totalling an equivalent of CHF 289,115 for 2010.

4. England

In March 2011, the English ancillary proceedings to protect the assets of Swissair's branch in England were concluded. A large proportion of the surplus accrued to Swissair from the liquidation proceedings in England was transferred to Switzerland in 2009 and 2010 (see Circular no. 16 from April 2011, Section IV.2). The final payment of CHF 164,282 was made to Swissair by the English liquidator in March 2011. A total surplus of around CHF 20 million was made available for Swissair from England.

V. PURSUIT OF CONTESTED CLAIMS**1. Avoidance claims***1.1 General remarks*

All of the avoidance claims instituted by Swissair had been settled by the end of 2010 (see Circular no. 16 from April 2011, section V.2). To date, avoidance claims lodged (net, after deduction of costs) have yielded approximately CHF 37 million plus approximately USD 23 million.

1.2 Hong Kong Sinopec/Caosc Co. Ltd.

With the Zurich Commercial Court ruling of 17 January 2008, Hong Kong Sinopec/Caosc Co. Ltd. ("Hong Kong Sinopec/Caosc") was obligated to pay Swissair USD 380,879 plus 5% interest from 23 May 2005. However, Hong Kong Sinopec/Caosc did not fulfill this obligation.

The proceedings subsequently introduced to enforce this claim resulted in an agreement, under which Hong Kong Sinopec/Caosc is to pay Swissair USD 469,890.06 as the balance of all claims. The agreed settlement amount consists of the following:

- USD 331,364.56 (corresponding to 87% of the USD 380,879 claim based on the consideration that the dividend on a revived claim would be 13%);
- USD 110,350.50 (corresponding to 5% interest from 23 May 2005 until the beginning of the settlement negotiations on 9 March 2011);
- USD 28,175.00 (corresponding to 50% of the court costs and costs awarded to the other party, converted into USD).

Hong Kong Sinopec/Caosc has already transferred the agreed settlement amount of the equivalent of CHF 390,009 to Swissair.

1.3 *Enforcement of further avoidance claim rulings*

Execution of judgements in Swissair's favour in respect of proceedings against Flightlease (Ireland) Ltd. and Dor Alon Energy In Israel (1988) Ltd. ("Dor Alon") is still outstanding. In accordance with these judgements, Flightlease (Ireland) Ltd. and Dor Alon were ordered to pay Swissair CHF 8,000,000 and USD 339,796.83, respectively. The companies have, however, still not paid the sums owed.

Appropriate steps have been taken to begin enforcement of the judgement against Dor Alon. In the enforcement proceedings in relation to the avoidance action against Flightlease (Ireland) Ltd., the Irish Supreme Court rejected the enforceability of the Swiss ruling in Ireland in its final decision of 23 February 2012.

2. Responsibility claims

Efforts to clarify in detail the responsibilities under company law were considerably pushed ahead. A draft claim was drawn up, based on the following topical issues:

- Claim for losses of the equivalent of around CHF 104 million caused by Swissair's participation in the group cash pool.
- Claim resulting from the failure to repay fixed term deposits of the equivalent of around CHF 93 million, which Swissair still had to grant SAirGroup after 11 September 2001.
- Claim resulting from the failure to report Swissair's overindebtedness (delay damages for the period from 31 March 2001 to 5 October 2001) in the amount of CHF 302 million.

Swissair submitted the above-mentioned draft claim to the responsible company bodies in June 2011 and gave them the opportunity to inform the Liquidator whether they were interested in a settlement. Swissair reserves the right to file a lawsuit against the responsible.

VI. SETTLEMENT OF LIABILITIES**1. Schedule of claims proceedings***1.1 Publication of supplement no. 2 to the schedule of claims*

Following publication of the schedule of claims and supplement no. 1 to the schedule of claims, and the first interim payment, a number of creditors registered further privileged claims in the Swissair debt restructuring proceedings. As a result of the partial admission of these claims, supplement no. 2 to the schedule of claims was published in January 2012 (see Circular no. 17 of January 2012, section I).

1.2 Current status of the schedule of claims proceedings

First-class claims: Of the 19 actions worth a total of CHF 9,544,970 pending with the District Court of Bülach at the beginning of 2011, all claims were resolved by means of a judgement, settlement or withdrawal by the end of 2011.

The 19 claims still pending at the start of 2011 were actions contesting the schedule of claims by a group of former Swissair pilots. On 16 December 2010, the Zurich High Court had dismissed the claim of Fredi Altherr in the test case. Following this judgement, six of the 18 proceedings stayed at the District Court of Bülach were resolved by settlement.

In the test case, the Federal Supreme Court dismissed the appeal lodged by the claimant against the Zurich High Court judgement on 15 August 2011. The remaining 12 proceedings still stayed at the District Court of Bülach were subsequently resolved by withdrawal.

No further actions were pending as at 31 December 2011. Of the first-class claims originally issued totalling CHF 708,062,460, only CHF 3,385,954 have needed to be recognized.

Second-class claims: No second-class claims contesting the schedule of claims are pending. A claim of the AZA (Ausgleichskasse Zü-

rcher Arbeitgeber) totalling CHF 308,395 is still included pro memoria in the schedule of claims. The claim is the subject of appeal proceedings pending at the Social Security Court of the canton of Zurich.

Third-class claims: With the exception of the suspended claims, all third-class claims included in the schedule of claims were assessed by the end of 2009. At the end of 2011, claims totalling around CHF 2 billion were still suspended.

2. Statement on the loans from the Swiss federal government in the amount of CHF 1.15 billion

In connection with implementation of the Phoenix and Phoenix Plus projects, on 5 October 2001 the Swiss federal government granted Swissair a loan of CHF 450,000,000 and, on 25 October 2001, a further loan of CHF 1 billion. On the basis of these loan agreements, the Swiss federal government paid out loan amounts totalling CHF 1,150,000,000 between 5 October 2001 and 30 March 2002 during the period of continued Swissair flight operations.

Swissair prepared a statement on this loan and provided it to the Swiss federal government in spring 2008. On 31 October 2011, the Swiss Federal Audit Office (SFAO) submitted its report on the audit of the statement to the Liquidator for comments and presented it at a meeting in Bern. This revealed that there are numerous and significant differences in contract interpretation between the SFAO and the Liquidator.

VII. SECOND INTERIM PAYMENT TO CREDITORS WITH PRIVILEGED CLAIMS

Recognized privileged claims were paid in full with the first interim payment in 2008. However, the creditors concerned only registered the privileged claims in the Swissair debt restructuring proceedings recognized in supplement no. 2 after the issue of the distribution list for the first interim payment. It was therefore not possible to pay these claims with the first interim payment. Consequently,

there was a second interim payment in January 2012, which was restricted to creditors with subsequently recognized privileged claims (see Circular no. 17 from January 2012, section II.).

VIII. PLANNED NEXT STEPS IN THE PROCESS

The next phase of the proceedings will involve further finalization of the schedule of claims, particularly through the assessment of the claims that are still suspended, and liquidation of the remaining assets, particularly real estate abroad.

The liquidation bodies will also continue their investigations into responsibility claims and initiate further legal action if 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 resolved.

In line with how the proceedings progress, creditors will continue to receive information about important developments in the form of circulars. A report on the progress of the liquidation process in the current year will be issued by spring 2013 at the latest.

Yours faithfully

Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation

The Liquidator

Karl Wüthrich

- Enclosures:
1. Liquidation status of Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation as of 31 December 2011
 2. Overview of the schedule of claims proceedings

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LIQUIDATION STATUS AS OF 31 DECEMBER 2011

	31.12.2011	31.12.2010	Change
	CHF	CHF	CHF
ASSETS			
Liquid funds			
UBS AG CHF	24'949	3'701	21'248
UBS AG USD 1)	84'764	86'627	-1'863
ZKB CHF	482'269'777	483'481'509	-1'211'732
ZKB EUR	673'148	1'091'667	-418'519
ZKB USD	419'578	66'849	352'729
Total liquid funds	483'472'216	484'730'353	-1'258'137
Liquidation positions			
Banks/cash abroad	1'437	24'045	-22'608
Accounts receivable by the estate	68'878	16'958	51'920
Receivables from third parties	105'761'305	105'815'497	-54'192
Prepaid court expenses	0	5'850	-5'850
Deposits/Guarantees	698'145	708'154	-10'009
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	107'529'768	107'570'507	-40'739
TOTAL ASSETS	591'001'984	592'300'860	-1'298'876
LIABILITIES			
Debts of the estate			
Accounts payable to the estate	677'307	289'938	387'369
Provision, 1st interim payment	53'386'551	63'113'634	-9'727'083
Provisions for liquidation costs	2'355'261	2'355'261	0
Provisions for outstanding statements	370'000'000	83'120'000	286'880'000
Total debts of the estate	426'419'119	148'878'833	277'540'286
TOTAL DISPOSABLE ASSETS	164'582'865	443'422'027	-278'839'162

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

Summary of schedule of claims status

Category	Registered Amount in CHF	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		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	1'7975'081.90	-	5'190'363.60	879'490'322.00	100%	-	-	100%	100%	100%
Second Class	934'534.80	624'276.21	-	308'394.88	1'863.71	100%	-	-	100%	100%	100%
Third Class ¹⁾	27'054'685'526.55	2'392'879'088.79	-	2'062'688'925.93	22'599'117'511.83	2.0%	3.7%	5.1%	5.7%	7.1%	7.1%
Total	27'963'034'792.65	2'412'552'786.25	-	2'068'187'684.41	23'482'294'321.99						

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