

**Unofficial Translation
of German Original**

Registered

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

Küsnacht, 24 August 2007 WuK/fee

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Ladies and Gentlemen

**Swissair Swiss Air Transport Company Ltd in debt restructuring
liquidation;
Circular No. 11**

This Circular provides information on the progress of the Swissair Swiss Air Transport Company Ltd. ("Swissair") debt restructuring liquidation since early April 2007:

I. STATUS OF PROCEEDINGS TO DRAW UP THE SCHEDULE OF CLAIMS

1. First-class claims

Of the 181 actions totalling CHF 707,010,970.95 originally lodged against the rejection of claims in the schedule of claims, three have so far been settled. There are still 177 actions, worth a total of CHF 30,566,528, pending before the District Court of Bülach.

One action of CHF 2,362.75 had to be recognized because the grounds stated by the claimant proved correct. Three actions were withdrawn and are thus resolved. These included the action by the General Pension Fund of SAirGroup in respect of CHF 676,374,766. The General Pension

Fund withdrew its action after the Federal Supreme Court had rejected actions by flight attendants against the pension fund in connection with the F/A fund (see Circular No. 9 of 13 February 2007, Section 1.2.3). The withdrawal of the action means that privileged claims can be met in full.

2. Third-class claims

Of the 51 actions totalling CHF 8,316,079,403.93 that were originally lodged against the schedule of claims, 44 claims with a combined value of CHF 8,272,329,329.14 are still pending before the District Court of Bülach.

Three actions, totalling CHF 2,002.35, have been resolved owing to insufficient grounds of applicability or because they were not pursued. Settlements have been reached with four creditors. Of the CHF 43,750,074.79 that was the subject of action, CHF 5,052,574.33 has been recognized in settlements.

Chasseral Aircraft Leasing Ltd. registered claims totalling CHF 175,826,095.90 from aircraft leasing contracts. The decision on the admission or rejection of these claims was suspended at the time when the schedule of claims was presented for inspection. With the consent of the Creditors' Committee, a settlement has since been reached with Chasseral Aircraft Leasing Ltd. Claims of CHF 90 million will be recognized in favour of Chasseral Aircraft Leasing Ltd. in the third-class section of the schedule.

3. Recognition as a third-class claim before the District Court of Zurich of the CHF 41,233 claimed by Beatrice Stöckli prior to the debt restructuring moratorium

3.1 Background

Beatrice Stöckli was employed as a flight attendant at Swissair between 1967 and 1972. In 1990, she rejoined Swissair, but as an auxiliary flight attendant, since Swissair's general employment conditions at the time did not permit female flight attendants aged over 35 to be part of the regular corps. After Swissair had revoked this questionable rule in 1999,

Beatrice Stöckli applied for a transfer to the regular flight attendant corps. This application was rejected. The employment relationship between Beatrice Stöckli and Swissair ended effective 30 April 2001 and she was given retirement as of 1 May of that year.

On 27 March 2001, Beatrice Stöckli filed suit against Swissair at the District Court of Bülach. With her action, she asserted salary claims of CHF 36,085, plus interest of CHF 5,148, i.e. a total of CHF 41,233, against Swissair for the period from 1994 to 2000. As grounds for her action, Beatrice Stöckli claimed that she had been discriminated against in her employment as an auxiliary flight attendant instead of in the regular corps, which resulted in particular in a considerable drop in salary.

Swissair disputed the asserted claims mainly on the grounds that the intended model for auxiliary flight attendants had been specially tailored to the needs of such auxiliary staff. Auxiliary flight attendants, it claimed, enjoyed much greater flexibility with regard to their working hours than was possible for regular flight attendants. The models differed considerably on key points, but there were objective reasons for this, Swissair maintained, in order to avoid any breach of the principle of equal treatment. Swissair also disputed discrimination on the basis of gender, as the applicant had claimed.

After primary proceedings had been conducted in writing, the Court held an open discussion on the case on 4 December 2002 at which it explained to the parties its views as regards the law and evidence. The Court was of the opinion that the claimant was in the right.

In the ruling on the schedule of claims of 13 February 2007, a provisional entry of Beatrice Stöckli's claim based on the pending proceedings was made pro memoria in the third-class section of the schedule of claims. First-class privilege was rejected because the claim had arisen neither in the last six months prior to the debt restructuring moratorium, nor as a result of the premature termination of the employment relationship because of the debt restructuring moratorium. Beatrice Stöckli has not lodged any action against the rejection of such privilege in the schedule of claims.

The applicant's legal action concerns a claim of a nominal amount of CHF 41,233 gross (incl. default interest). Based on the expected maximum dividend of 10.4%, this claim will yield a payout of CHF 4,288 at most. Although the main proceedings before the District Court of Zurich have already been concluded, it may be assumed that evidence hearings might still be held with regard to the disputed statements on the facts of the case. The effort and cost involved in such hearings would be considerable. The matter in question is complex and the legal issues extremely challenging. Even if the decision were to fall entirely in Swissair's favour, the costs incurred could hardly be covered by any court award. Regardless of the anticipated outcome of proceedings, for financial reasons it is not worth for the estate to pursue the action. This is especially true given that the District Court of Bülach indicated in the course of the open discussions that the case had a good chance of success.

3.2 Waiver of the continued pursuit of the lawsuit pending before the District Court of Bülach; offer of the assignment of the right to take legal action

Each creditor is entitled to request the assignment of the right to take legal action in respect of any suits filed prior to the debt restructuring moratorium in which Swissair is a defendant and which the Liquidator and the Creditors' Committee have decided not to pursue. Creditors who request assignment are then entitled to pursue the action 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 Swissair. 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.

The Liquidator and the Creditors' Committee have decided, for the aforementioned reasons, not to pursue legal proceedings against Beatrice Stöckli and to recognise the claim of CHF 41,233 as a third-class claim. Creditors are hereby offered the right to continue pursuing the legal proceedings pending before the District Court of Bülach in defence of the claim of CHF 41,233 asserted in the action brought by Beatrice Stöckli.

Requests for assignment within the meaning of Art. 260 DEBL may be lodged with the undersigned Liquidator **in writing** by **7 September 2007 at the latest** (date of postmark of a Swiss post office). The right to request assignment will be deemed to have **forfeited** if this deadline is not met.

II. ESTIMATED DIVIDEND

On the basis of the disposable assets reported in the latest liquidation status as at 30 June 2007, as well as the current progress of proceedings to draw up the schedule of claims, it has been established that privileged first and second-class claims can be satisfied in full. Creditors with third-class claims will receive a maximum dividend of 10.4%, providing all of the actions that have been lodged against the schedule of claims are unsuccessful and only 60% of suspended claims have to be recognized. Should all of the actions be admitted and all suspended claims have to be recognized, however, the minimum return would be 2.9%.

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, 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 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) 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 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.

3. PAULIANA CLAIMS AGAINST THE CHEVRON PRODUCTS COMPANY - A DIVISION OF CHEVRON USA INC., AND THE CHEVRON FINANCE COMPANY (REFERRED TO BELOW AS THE "CHEVRON COMPANIES")

The Chevron companies supplied Swissair with fuel at the airports of Dubai, San Francisco, Anchorage and Cairo. With a payment order dated 4 October 2001 and value-dated 5 October 2001, Swissair settled outstanding invoices from the Chevron companies of a total of USD 849,116.80 relating to fuel deliveries in June, July and August 2001.

An independent lawyer examined whether or not the payment to the Chevron companies could be challenged. He concluded that the case fulfilled the criteria for a challenge that are laid down in Art. 288 DEBL. With the consent of the Creditors' Committee, Swissair thus submitted a claim against the Chevron companies before the relevant deadline.

The following settlement was reached in the course of a settlement conference between the parties before the Commercial Court of Canton Zurich. This settlement takes into account the enforcement risks faced by Swissair:

- Swissair reduces the Pauliana claims that it had lodged from USD 849,116.80 to USD 420,000.
- The Chevron companies recognize the claim for this amount and undertake to pay the sum of USD 420,000 to Swissair.
- The Chevron companies waive their claim in connection with the payment of USD 420,000, which would be revived under the terms of Art. 291.2 DEBL.
- Court costs are to be split 50:50 between the parties and neither party will seek a court award.
- Once the agreement has been fulfilled, the parties declare all reciprocal claims to be settled.

The settlement was approved by the Creditors' Committee. Swissair received the payment of USD 420,000 from the Chevron companies in July 2007.

IV. NEXT STEPS IN THE PROCEEDINGS

It has now been established that privileged claims can be satisfied in full. As such, one of the conditions for the payment of recognized privileged claims has been met. Furthermore, the Liquidator will investigate whether or not an initial interim payment might also be made in respect of third-class claims. The Liquidator will submit the corresponding proposal to the Creditors' Committee in the near future.

Creditors will be informed of the size and timing of an initial interim payment in a circular to be published no later than the autumn of 2007.

Yours sincerely

Swissair Swiss Air Transport Company Ltd in debt restructuring liquidation

The Liquidator

Karl Wüthrich

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Overview of proceedings to draw up the schedule of claims

Category	Registered Amount in CHF	Schedule of claims				Dividend	
		Recognized	Appeal lodged	Decision suspended	Rejected	minimal	maximal
		Amount in CHF	Amount in CHF	Amount in CHF	Amount in CHF		
Secured by right of lien	4'758'963.80	2'345'598.85	-	2'107'148.45	306'216.50	100.0%	100.0%
First Class	902'530'566.05	14'245'438.30	30'574'723.00	17'980'993.13	839'729'411.62	100.0%	100.0%
Second Class	756'363.60	335'280.50	-	414'747.86	6'335.24	100.0%	100.0%
Third Class ¹⁾	27'244'494'648.57	3'011'811'639.34	8'272'329'329.14	2'025'175'687.50	13'935'177'992.59	2.9%	10.4%
Total	28'152'540'542.02	3'028'737'956.99	8'302'904'052.14	2'045'678'576.94	14'775'219'955.95		

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