

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

Circular No. 19

www.liquidator-swissair.ch

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in debt restructuring liquidation**

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

Küsnacht, May 2013 WuK

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

Circular no. 19

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 2012

After having been acknowledged and approved by the Creditors' Committee, the 10th Liquidator's report on activities for 2012 was submitted to the debt restructuring judge at the District Court of Bülach on 13 March 2013. 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 3 June 2013. (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.

II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidator

The activities of the Liquidator and Deputy Liquidator in 2012 focused on settlement of reciprocal claims against former group companies (see sections IV.2, IV.4 and VI.1.2 below). The Deputy Liquidator's investigations on responsibility were largely concluded (see section V.2 below). In addition, work continued to settle accounts between the Swiss Federal Government and Swissair in respect of loans in the amount of CHF 1.15 billion of 5 and 25 October 2001 (see section VI.2 below). Further, a number of assets were realized (see section IV. below).

2. Activities of the Creditors' Committee

The Creditors' Committee held three meetings in the course of 2012. The Committee discussed the various proposals submitted by the Liquidator or Deputy Liquidator and passed resolutions accordingly.

III. ASSET STATUS OF SWISSAIR AS OF 31 DECEMBER 2012

1. Introductory remark

Enclosed is a report on the liquidation status of Swissair as of 31 December 2012 (Enclosure 1), containing a statement of assets of Swissair as of 31 December 2012 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 2012 relate to costs incurred during debt restructuring liquidation.

Provision for open statements: As the Swiss federal government loan (see section VI.2 below) remains to be settled, provisions continue to be reported in the liquidation status for this settlement. Thanks to the settlement of mutual claims with Swisscargo (see section VI.1.2 below), the provision was reduced from CHF 370 million to CHF 364 million.

Provision for first interim payment: The liquidation status of Swissair as of 31 December 2012 includes the sum of CHF 49,950,693 as a provision for the first interim payment. Of this amount, CHF 430,719 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 5,845,858 relates to interim payments for contingent claims for which the condition concerned has not yet been met. The remainder of the provision — CHF 43,674,116 — 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 that 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 or still suspended. No actions contesting the schedule of claims remained pending at the end of 2012. Several decisions concerning the schedule of claims remain suspended (see section VI.1 below). 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 2012 give a maximum dividend of 7.2% for third-class claims. This calculation factors in 60% of the third-class claims that have been sus-

pending or included pro memoria in the schedule of claims. Should all suspended claims be recognized in full, however, the minimum dividend would be 5.8%. 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 3.8% and 5.2%.

IV. REALIZATION OF ASSETS

1. General

In 2012, Swissair received payments totalling CHF 7,329,200. Inter alia, Swissair received payments from the apportionment of the proceeds on sale of the Swissport group (see section IV.2 below).

2. Apportionment of proceeds on sale of the Swissport Group

Swissport International Ltd. (hereinafter "Swissport") was a wholly owned subsidiary of SAirLines, which in turn is a wholly owned subsidiary of SAirGroup. During the debt restructuring moratorium of SAirLines and SAirGroup, the Swissport group (excluding debts of the Swissport Group vis-à-vis the Swissair Group) and the "Swissport" brand was sold to the Candover group for a net purchase price of approximately CHF 400 million pursuant to a purchase agreement dated 19 December 2001.

The realized purchase price was not sufficient to settle the Swissport group's debts to the Swissair group in the amount of approximately CHF 820 million. In addition to SAirGroup's claims of roughly CHF 705 million, Swissair (approx. CHF 39 million), SAirLines (approx. CHF 19 million), SAirGroup Finance (USA) Inc. (hereinafter "FinInc", approx. CHF 27 million) and SAirGroup Finance (NL) B.V. (hereinafter "FinBV", approx. CHF 30 million) had claims totalling approximately CHF 115 million against companies of the Swissport group. CHF 114,636,257 of the purchase price was paid into an escrow account to secure the claims of Swissair, SAirLines, FinInc and FinBV (hereinafter "Minority Lenders"). The remaining purchase price of approximately CHF 285 million went directly to SAirGroup. An agreement was reached between SAirGroup and the Minority Lenders stipulating in essence that the purchase price would

be apportioned among the parties to cover their respective claims according to the following criteria:

- nominal amount of each claim,
- net assets of each Swissport debtor company and
- value of each Swissport debtor company.

The parties agreed to a first interim payment to the Minority Lenders in February 2002. The following payments from the escrow account to the Minority Lenders were effected on 21 February 2002:

Company	Interim payment (CHF)
SAirLines	5,159,834
FinBV	8,108,310
FinInc	7,347,413
Swissair	3,162,479
TOTAL	23,778,036

On 6 March 2002 the parties reached an agreement with FinInc concerning its share of the purchase price for the Swissport group. FinInc had claims only against Swissport North America, against which none of the other Swissair companies had outstanding claims. Swissport North America was in good financial condition. In applying the agreed criteria, the parties agreed that FinInc would receive a share of the Swissport group purchase price equal to 100% of its claims against Swissport North America (CHF 27,212,349). After deducting the interim payment of CHF 7,347,413 plus proportionate interest, FinInc received a payment of CHF 19,948,386 from the escrow account for full and final settlement.

The remaining balance on the escrow account after the final payment to FinInc was CHF 71,544,264. On 30 March 2012 the balance on the escrow account including accrued interest less escrow agent costs was CHF 76,395,000.

It was disputed between SAirGroup and the Minority Lenders remaining after the settlement with FinInc how each criterion should be applied to each Swissport debtor company. Various models were developed with the assistance of advisors. Finally, following protracted negotiations, the par-

ties agreed in the summer of 2012 to the following apportionment of the escrow account balance:

Company	Nominal amount (CHF)	Escrow account interest (CHF)	Payout amount (CHF)
SAirLines	1,964,281.00	150,151.10	2,114,432.10
SAirGroup	60,052,268.00	4,590,440.45	64,642,708.45
Swissair (loan)	1,212,188.00	92,660.55	1,304,848.55
Swissair (know-how fee)	5,500,000.00	420,424.10	5,920,424.10
FinBV	2,241,263.00	171,323.80	2,412,586.80
Total	70,970,000.00	5,425,000.00	76,395,000.00

This apportionment was approved by the creditors' committees of Swissair, SAirLines and SAirGroup and by the Dutch bankruptcy judge. The payments from the escrow account have since been effected, thereby definitively concluding the sale of the Swissport group.

3. Sale of real estate in Madrid

On 14 January 1980, SAirGroup (the then/former Swissair) acquired five offices on the first floor of Calle Santa Cruz de Marcenado nos. 31 and 33, 28015 Madrid, together with five garage spaces. By entry in the public register dated 24 March 1980, a Spanish branch of SAirGroup designated "Swissair S.A., Sucursal en España" was established. The latter acquired further office spaces on the first floor of said property in 1991.

It is currently disputed between Swissair and SAirGroup whether the office spaces in question remained with SAirGroup or were transferred to Swissair as part of the corporate restructuring undertaken in 1997. The parties have commissioned legal opinions in the matter, which arrived at contrary conclusions. In order to be able to dispose of the office spaces at market value in the creditors' interest, Swissair and SAirGroup have agreed to a joint sale. The proceeds are to be placed in a shared account, and the apportionment of the proceeds of sale is to be decided at a later date.

Efforts to sell the property have been affected by the economic crisis in Spain and the ensuing collapse of the real estate market. On 20 Septem-

ber 2012 a binding offer in the amount of EUR 1.4 million was submitted by Minorista de Viajes SA, Madrid. Given the unfavourable circumstances mentioned above, SAirGroup and Swissair found the offered purchase price acceptable. The creditors' committees of Swissair and SAirGroup approved the sale of the property at this price, and the sale was concluded on 30 January 2013. The net sale price (CHF 1,454,831 after deducting taxes and costs) was transferred to the shared account.

4. Agreement with Swisscargo Ltd. in debt restructuring liquidation concerning settlement of reciprocal claims

In the course of restructuring of the Swissair group in 1997, the freight business was legally spun off and transferred to the newly founded Swisscargo Ltd. (hereinafter "Swisscargo"). However, Swisscargo continued to pursue its foreign business activities largely by means of Swissair structures. For example, a large portion of the staff working for Swisscargo abroad was actually employed by Swissair. Transactions with third parties were settled through Swissair's account with the IATA Clearing House (hereinafter "ICH"). Swisscargo's structural dependency on Swissair continued even after the economic collapse of both companies until they ceased business at the end of March 2002. This state of affairs resulted in numerous reciprocal claims, both before and during the debt restructuring moratorium.

In the Swisscargo liquidation proceedings, Swissair registered various third-class claims totalling CHF 65,175,075. Swisscargo recognized these claims in full. Swisscargo in turn asserted a preferential claim in the amount of CHF 59,475,849.01 as well as a creditor's claim of CHF 75,698,425 against Swissair. After protracted negotiations and extensive in-depth investigations into the facts of the case, the parties reached an agreement in principle on the amount of reciprocal claims in 2005. The liquidator for Swissair, however, made the execution of a legally valid settlement with Swisscargo contingent upon the Swiss federal government's approval of the settlement of the federal government loans to Swissair. Since settlement of the federal government loans was still pending, the parties abstained from drawing up a written composition agreement.

In the course of the in-depth investigation conducted in late 2011 and early 2012 in connection with the settlement of the federal government loans, it was determined that a resolution of issues between Swissair and Swisscargo was not contingent upon the definitive settlement of the government loans. This uncoupling cleared the way for a definitive agreement to be quickly reached. In November 2012, the parties concluded an agreement of which the essential terms are as follows:

- Swissair recognizes Swisscargo's preferential claim in the amount of CHF 28,744,936.
- With recognition of this preferential claim, Swisscargo's claim to the ICH assets is satisfied in full.
- Swisscargo withdraws its claims registered in Swissair's liquidation proceedings.
- Once the agreement enters into force, Swisscargo will be entitled to offset its preferential claim against Swissair's claims to interim payments. Any interim payments in excess of this amount are to be made to Swissair.
- The parties declare that with fulfilment of the agreement all reciprocal claims shall be fully and finally settled.

The agreement reached adequately takes into account the risks of any potential litigation. The creditors' committees of Swissair and Swisscargo have approved the agreement, which has since been implemented.

V. PURSUIT OF CONTESTED CLAIMS

1. Avoidance claims

To date, avoidance claims lodged have yielded (net, after deduction of costs) approximately CHF 37 million plus approximately USD 23 million.

A judgement in Swissair's favour against Dor Alon Energy In Israel (1988) Ltd. in the amount of USD 339,797 could still not have been enforced. In the matter of the avoidance claim of CHF 8 million against Flightlease (Ireland) Ltd., on 23 February 2012, the Irish Supreme Court

found that the final judgement of the Commercial Court of Canton Zurich in Swissair's favour dated 12 December 2006 is unenforceable in Ireland.

2. Responsibility claims

Efforts to clarify responsibilities under company law were essentially completed in the course of 2012. Swissair reserves the right to file the claim that has already been drawn up (for details see Circular no. 18 of May 2012, section V.2).

VI. SETTLEMENT OF LIABILITIES

1. Schedule of claims proceedings

1.1 Publication of supplement no. 2 to the schedule of claims

Supplement no. 2 to the schedule of claims was published in January 2012 (see Circular no. 17 of January 2012, section I.). This supplement has become legally binding.

1.2 Agreement with Swissport concerning settlement of reciprocal claims

Various business relationships existed between Swissair and Swissport. Swissport performed ground handling services for Swissair. On the other hand, Swissport secured goods and services such as uniform services and telecommunications from third parties through Swissair and used Swissair's ICH account to bill services performed for third-party airlines.

Swissport registered claims totalling CHF 78,223,235 on various grounds in Swissair's liquidation proceedings. Swissair in turn asserted claims totalling CHF 33,977,669.

Swissair and Swissport entered into negotiations to settle their very complex reciprocal claims. Following protracted negotiations, the parties ultimately agreed on the following settlement:

- Swissport reduced its claims to CHF 27,360,000 and Swissair recognized these as third-class claims in the schedule of claims.

- The parties declare that with fulfilment of the agreement all reciprocal claims shall be fully and finally settled, with the exception of claims arising from the dissolution or in connection with the Swissair value-added tax group.

The agreement reached adequately takes into account the risks of any potential litigation. The Creditors' Committee has approved the agreement, which has since been implemented.

1.3 *Current status of the schedule of claims proceedings*

First-class claims: No further actions contesting the schedule of claims remained pending as at 31 December 2012. The schedule of claims decisions for registered claims totalling approximately CHF 5.2 million remain suspended.

Second-class claims: A claim of the AZA (*Ausgleichskasse Zürcher 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 Swiss Federal Supreme Court.

Third-class claims: At the end of 2012, 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**

The Swiss Federal Audit Office (SFAO) submitted its report on the audit of the statement on the Swiss federal government loans to Swissair for comments on 31 October 2011. This revealed that there are numerous and significant differences in contract interpretation between the SFAO and Swissair. Swissair recently submitted the final portion of its comments on the audit report to the SFAO. It remains to be seen whether an agreement on the statement on the federal government loans can now be achieved.

VII. 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 determine the next steps to be taken in the matter of responsibility claims and initiate further legal action if necessary. It is also important to resolve the matter of the 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, the 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 2014 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 2012
 2. Overview of the schedule of claims proceedings

LIQUIDATION STATUS AS OF 31 DECEMBER 2012

	31.12.2012	31.12.2011	Change
	CHF	CHF	CHF
ASSETS			
Liquid funds			
UBS AG CHF	27'093	24'949	2'144
UBS AG USD	36'965	84'764	-47'799
ZKB CHF	480'141'473	482'269'777	-2'128'304
ZKB EUR	636'449	673'148	-36'699
ZKB USD	369'122	419'578	-50'456
Total liquid funds	481'211'102	483'472'216	-2'261'114
Liquidation positions			
Banks/cash abroad	2'333	1'437	896
Accounts receivable by the estate	175'611	68'878	106'733
Receivables from third parties	98'536'032	105'761'305	-7'225'273
Prepaid court expenses	3'000	0	3'000
Deposits/Guarantees	682'938	698'145	-15'207
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	100'399'917	107'529'768	-7'129'851
TOTAL ASSETS	581'611'019	591'001'984	-9'390'965
LIABILITIES			
Debts of the estate			
Accounts payable to the estate	409'740	677'307	-267'567
Provision, 1st interim payment	49'950'693	53'386'551	-3'435'858
Provisions for liquidation costs	2'355'261	2'355'261	0
Provisions for outstanding statements	364'066'341	370'000'000	-5'933'659
Total debts of the estate	416'782'034	426'419'119	-9'637'085
TOTAL DISPOSABLE ASSETS	164'828'985	164'582'865	246'120

Summary of schedule of claims status

Category	Registered		Schedule of claims				Dividend				
	Amount in CHF	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 minimal	Future dividend maximal	Total minimal	Total maximal
Secured by right of lien	4'758'963.80	1'074'339.35	-	-	-	3'684'624.45	-	-	-	-	-
First Class	902'655'767.50	17'975'081.90	-	-	5'190'363.60	879'490'322.00	100%	-	-	100%	100%
Second Class	934'534.80	624'276.21	-	-	308'394.88	1'863.71	100%	-	-	100%	100%
Third Class ¹⁾	27'054'685'526.55	2'420'229'517.09	-	-	1'908'767'862.64	22'725'688'146.82	2.0%	3.8%	5.2%	5.8%	7.2%
Total	27'963'034'792.65	2'439'903'214.55	-	-	1'914'266'621.12	23'608'864'956.98					

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

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