

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

Circular no. 7

www.liquidator-swissair.ch

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debt restructuring liquidation**

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

Küsnacht, April 2006 WuK/fee

**Swissair Swiss Air Transport Company Ltd.
in debt restructuring liquidation; Circular no. 7**

Ladies and Gentlemen

This Circular provides information on the status of the Swissair Swiss Air Transport Company Ltd. ("Swissair") debt restructuring proceedings since the beginning of December 2005, as well as on the next steps planned in these proceedings over the coming months.

I. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2005

Having been acknowledged and approved by the Creditors' Committee, the third of the Liquidator's reports on activities for 2005 has been submitted to the debt restructuring judge at the district court of Bülach on 8 March 2006. The report on activities will be available for inspection by creditors at the Liquidator's offices at Seestrasse 39, Goldbach-Center, 8700 Küsnacht until 26 April 2006. Appointments must be made in advance with Ch. Rysler, telephone +41 43 222 38 00.

The following is a summary of those points of the report on activities which have not already been covered by one of the Circulars published over the past year.

ALLE ANWÄLTE SIND AN IHREM JEWEILIGEN STANDORT
IM ANWAITSREGISTER EINGETRAGEN

II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidator

1.1 General

The activities of the Liquidator and Deputy Liquidator in 2005 focused on examining avoidance claims (see Circular No. 5, section I and Circular No. 6, section II) and the assessment of liabilities. A number of assets were also realized.

1.2 Payment of the privileged claims of former employees settled by the debt restructuring agreement

Of the former Swissair employees who received an offer pursuant to para. 4 of the debt restructuring agreement for the settlement of their registered privileged claims, an additional 12 accepted the offer in 2005. Statements could be drawn up and payments made to ten of these employees, as well as to the 14 employees whose statements had not yet been finalized at the end of 2004. A total of CHF 138,538.35 net was paid out to 24 former employees in 2005. Two statements were still outstanding as at 31 December 2005.

In connection with the statements, Swissair also paid out sums to the pension fund (CHF 1,861.15), to the AHV/ALV equalization funds (CHF 187,135.45), to the withholding tax authorities of Canton Zurich (CHF 407.10), and to various third parties (CHF 6,618,296.81) as a result of assignments of rights. Total payments for the year 2005 thus amount to CHF 6,946,238.86.

The status as at 31 December 2005 of settlements pertinent to para. 4 of the debt restructuring agreement is as follows:

- Total number of employees whose privileged claims have been settled		5,126
- Number of cases not yet settled		2
- Payments to employees	CHF	100,321,041.52
- Payments to pension fund	CHF	142,058.15
- Payments to social insurance funds	CHF	6,650,557.90

- Withholding taxes	CHF	1,588,065.62
- Payments to third parties	CHF	7,114,241.51
- <u>Payments to third parties (outstanding)</u>	CHF	<u>168,235.75</u>
Total settlements	CHF	115,984,200.45
- Future payments (estimated)	CHF	10,000.00

2. Activities of the Creditors' Committee

The Creditors' Committee held a total of eight meetings and one telephone conference in the course of 2005. At its meetings, the Committee discussed the various proposals submitted by the Liquidator or Deputy Liquidator, and passed resolutions accordingly. Assessing and pursuing avoidance claims, in particular, occupied a great deal of the Committee's time and resources. In addition to making general assessments of these claims, the Creditors' Committee also had to review and decide upon 17 proposals from the Liquidator regarding the institution of legal proceedings.

III. REALIZATION OF ASSETS

1. General

Creditors were informed about major transactions in the asset liquidation process in Circulars No. 4 to 6. Furthermore, in 2005, the Liquidator continued to collect outstanding accounts receivable arising from flight operations and loan claims in Switzerland and abroad. Operating facilities and real estate located abroad were also sold.

2. SETTLEMENT OF RECIPROCAL CLAIMS WITH SWISS INTERNATIONAL AIR LINES AG ("SWISS")

Mutual claims between Swissair and Swiss generally were not collected via the IATA Clearing House (ICH). Instead, the receivables in question were settled directly between the two airlines. Contrary to this practice, however, at the end of September 2001 Swiss submitted CHF 35,564,921 of claims against Swissair to the ICH. These claims arose from the Interline Agreement and a wetlease agreement. Swissair initially lodged an appeal against the Swiss bills, before later

withdrawing it on 4 October 2001. By this means, Swiss received a payment of CHF 35,564,921 from the ICH in settlement of its claim against Swissair. Having examined the precise circumstances of this case and evaluating the attendant legal situation, the Liquidator and Creditors' Committee have concluded that the way in which Swiss chose to enforce its outstanding claim against Swissair was unusual (Art. 287 para. 1.2 of the Swiss Debt Enforcement and Bankruptcy Law, "DEBL") and can thus be challenged. A suit for CHF 35,564,921 has therefore been filed against Swiss in order to safeguard the rights of Swissair.

The parties were holding talks even before the suit was filed. As far back as November 2005, Swissair and Swiss agreed to the following settlement, subject to the approval of the Swissair Creditors' Committee and the Swiss Board of Directors:

- Without prejudice to any future payments, Swiss acknowledges the obligation to repay Swissair CHF 18,103,978 of the payment made via the ICH.
- The recognized amount is set off against evidenced claims of CHF 34,983,978 by Swiss against Swissair that result from the 2001/2002 winter flight schedule. Swissair undertakes to pay Swiss the balance of CHF 16,880,000.
- Swiss waives its right to register in the Swissair debt restructuring proceedings claims which corresponded to the acknowledged repayment obligation.
- The amount of CHF 16,880,000 has to be paid by 31 December 2005 at the latest.
- Swissair undertakes to withdraw the suit that it had filed with the Commercial Court of Canton Zurich and to assume the associated legal costs.
- The parties' individual costs are declared settled.
- The parties declare all claims to be settled in full once the aforementioned payments will be made. This settlement clause does not cover the claims that Swiss has registered for other legal reasons in the Swissair debt restructuring proceedings.

The settlement agreement enabled the reciprocal claims between Swissair and Swiss to be settled, taking due account of the risks associated with legal action. It was approved by the Swissair Creditors' Committee and the Swiss Board of Directors. The payment of CHF 16,880,000 was made to Swiss on schedule and Swissair then withdrew its pending action with the Commercial Court of Canton Zurich.

IV. ASSESSMENT OF LIABILITIES

Work on drawing up the schedule of claims had to be deferred owing to the very great time pressure arising in the investigation and pursuit of avoidance claims pursuant to Arts. 286 – 288 DEBL which, under the terms of Art. 292 DEBL, would have been deemed to be forfeited after 16 June 2005. Despite this, the schedule of claims is now largely complete. It will be submitted to the Creditors' Committee for approval in the next three months and then published for inspection by the creditors.

V. ASSET STATUS OF SWISSAIR AS OF 31 DECEMBER 2005

1. Introductory remark

In the Appendix, you will find a report on the liquidation status of Swissair as of 31 December 2005, containing a statement of the assets of Swissair in debt restructuring liquidation as of that date, according to present knowledge.

2. Assets

As-yet unrealized assets: These consist, in the main, of bank deposits abroad which are still frozen, outstanding accounts receivable arising from flight operations, claims against former companies of the Swissair group, participations held by Swissair, residual IT items and office fixtures and fittings, as well as foreign real estate, where owned by Swissair. Any responsibility and avoidance claims are listed pro memoria.

3. Debts of the estate

Accounts payable: The accounts payable reported as of 31 December 2005 relate to costs incurred during the debt restructuring liquidation.

Provision for outstanding statements: The statement on the loans from the Swiss Confederation could not be finalized in 2005. In the coming weeks the Swiss Federal Audit Office, on behalf of the Confederation, will receive for examination and approval the statement that has already been assessed and approved by Swissair. In negotiations with Swisscargo AG in debt restructuring liquidation, an agreement has been reached in principle about the settlement of reciprocal claims. This agreement also concerns the settlement of claims with the Confederation. Therefore, reciprocal claims with Swisscargo AG cannot be settled finally until the statement on the Confederation loan has been finalized. It has, on the other hand, been possible to reach agreement with Swiss about the outstanding settlement issues (see section III.2 above). The provision has been reduced by CHF 16.68 million, corresponding to the payment to Swiss. The Swissair liquidation status report as at 31 December 2005 still contains a provision of CHF 83.12 million to cover the outstanding statements and payments to the Swiss Confederation and to Swisscargo AG.

4. Creditors' claims

The process of assessing claims in the context of drawing up the schedule of claims has not yet been completed (see section IV above). The liquidation status report as of 31 December 2005 once again states the sum of the claims in each class, as well as the claims that have been accepted or contested by Swissair. There have been only a few changes compared with the status as of 31 December 2004, a brief explanation of which is given below.

Claims secured by rights of lien: A settlement was reached in 2005 in an insurance case between the insurance company and the owner of a diamond which disappeared during transportation. Thus, the claim secured by right of lien registered by the owner ceased to exist.

First-class claims: Following the further settlement of registered privileged claims under the debt restructuring agreement (see para.

II.1.2 above) as well as additional registered claims, first-class claims registered by 1,039 creditors totalled CHF 236,863,132 as at 31 December 2005. The company and the Liquidator have recognised only CHF 26,976,165 of this sum, however.

Second-class claims: As at 31 December 2005, 13 creditors had registered claims totalling CHF 1,307,847. Of this figure, the company has recognised CHF 459,290.

Third-class claims: A number of registered claims have been settled as part of the work to draw up the schedule of claims. As at 31 December 2005, 6,844 creditors had registered claims totalling CHF 33,888,298,951. Of these claims, the Liquidator and the company have recognized CHF 3,878,525,437.

5. Estimated dividend

No reliable estimate of the probable dividend for holders of third-class claims can be made until the registered claims have been assessed as part of the process of drawing up the schedule of claims. The range lies between 0.5 % and 10.1 %.

VI. PURSUIT OF DISPUTED CLAIMS

1. Responsibility claims

Investigations are currently focusing on transactions effected via the Swissair group cash pool. After 13 September 2001, Swissair paid around EUR 130 million into the cash pool. Swissair then did not have this liquidity available to continue flight operations. The transaction resulted in a loss of some CHF 150 million for Swissair in the final weeks before the debt restructuring moratorium was granted. Investigations are now underway into whether any obligations were breached in this connection and if so, by whom, as well as who is liable for the loss that was incurred.

Creditors will receive further information on the progress of responsibility claims once these investigations have been completed.

2. Avoidance claims

Where the pursuit of avoidance claims was not waived by the Liquidator and the Creditors' Committee (see Circular No. 5, section I and Circular No. 6, section II), they will be pursued by Swissair itself. Following a thorough review of the facts in each individual case, 17 claims worth a total of CHF 65 million and USD 37 million have been or will be filed. In consultation with the Creditors' Committee, in the majority of cases external lawyers were engaged to produce a legal assessment of the individual circumstances of each case and to institute the appropriate legal action.

VII. PLANNED NEXT STEPS IN THE PROCESS

The schedule of claims should be drawn up by June 2006 and then presented to the Creditors' Committee for approval. It is then planned that the schedule of claims will be published for inspection by the creditors in July/August 2006. Further information to creditors will be provided when the schedule of claims is published and in the autumn of 2006.

Yours sincerely

Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation

The Liquidator

The Deputy Liquidator

(for sections III.2 and VI.1)

Karl Wüthrich

Dr. Niklaus Müller

Encl.: Liquidation status of Swissair Swiss Air Transport Company Ltd. in debt restructuring liquidation, as of 31 December 2005

LIQUIDATION STATUS AS OF 31 DECEMBER 2005

	31.12.2005	31.12.2004	Change
	CHF	CHF	CHF
ASSETS			
Liquid funds			
Postal cheque Switzerland	90'419	26'745	63'675
Banks Switzerland	370'624'375	189'115'012	181'509'363
Fixed-term deposits	0	184'800'000	-184'800'000
Total liquid funds	370'714'795	373'941'757	-3'226'962
Liquidation positions			
Banks/cash abroad	742'576	4'311'710	-3'569'134
Accounts receivable by the estate	1'399'418	822'525	576'893
Receivables from third parties	129'322'971	128'327'922	995'049
Claims from proceeds of sale of operating equipment	2'796'674	2'796'674	0
Real estate	p.m.	p.m.	
Participations	8'000'001	8'000'001	0
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
Total liquidation positions	142'261'640	144'258'832	-1'997'192
TOTAL ASSETS	512'976'435	518'200'589	-5'224'154
LIABILITIES			
Debts of the estate			
Accounts payable to the estate	123'605	310'476	-186'871
Provisions for liquidation costs	10'337'029	19'785'495	-9'448'466
Provisions for outstanding statements	83'120'000	100'000'000	-16'880'000
Total debts of the estate	93'580'634	120'095'971	-26'515'337
TOTAL DISPOSABLE ASSETS	419'395'801	398'104'618	21'291'183

CREDITORS' CLAIMS

Category	Registered	by Swissair		Dividend	
		contested	recognised	min.	max.
Secured by right of lien	650'775	650'775	0	100.0%	
First class	236'863'132	209'886'967	26'976'165	100.0%	100.0%
Second class	1'307'847	848'557	459'290	100.0%	100.0%
Third class	33'888'298'951	30'009'773'514	3'878'525'437	0.5%	10.1%
Total creditors' claims	34'127'120'705	30'221'159'813	3'905'960'892		