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Registered mail

To the creditors of SAirLines
in debt restructuring liquidation

Küsnacht, 17 May 2005 WuK/fee

SAirLines in debt restructuring liquidation;
Circular no. 5

Ladies and Gentlemen

In this letter we will be updating you on the matters of avoidance claims, state liability claims and Avireal AG.

I. AVOIDANCE CLAIMS

1. Introduction

Based on the report from Ernst & Young AG on the Swissair case, payments made by SAirLines from 1 January 2001 to 5 October 2001 (date on which the provisional debt restructuring moratorium was granted) have been examined to establish whether or not they are voidable under Art. 285 ff. of the Swiss Debt Enforcement and Bankruptcy Law (DEBL) and whether or not the payments that have been made can be reclaimed from the recipients in question. The review was conducted as follows:

a) Payments to SAirGroup, Swissair Swiss Air Transport Company Ltd. ("Swissair") and SAirGroup Finance (NL) B.V. were not examined in greater detail, as these companies are also in debt restructuring liquidation or have gone into bankruptcy. In order to safeguard the rights of SAirLines, possible avoidance claims will be registered as creditors' claims or claims against the estate in the

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debt restructuring or bankruptcy proceedings respectively of these companies. The liquidation bodies of SAirGroup and Swissair will then decide whether to accept or reject SAirLines' claims when drawing up the schedule of claims as part of the debt restructuring proceedings. The receiver of SAirGroup Finance (NL) BV ("FinBV") will perform this function in accordance with Dutch rules. An appeal might still be lodged if the claims registered by SAirLines were to be rejected.

b) In early October 2001, SAirLines granted loans to various companies within the Swissair Group (SR Technics, Swissport, Gate Gourmet, Avireal AG and Pro Taxi AG) in order to guarantee their liquidity. These loans have since been repaid (SR Technics, Avireal AG and Pro Taxi AG) or settled in connection with the sale of the companies during the debt restructuring moratorium and as approved by the debt restructuring judge (Swissport and Gate Gourmet). The granting of the loans thus did not result in a reduction in SAirLines' assets. Where repayment in full proved impossible, the loan debtors have been released from their residual obligations by final settlement agreements. The granting of loans was therefore not investigated further with a view to possible avoidance claims.

c) The payments made by SAirLines were divided into the following groups: Payments to LTU companies, payments concerning Air Littoral, payments concerning the restructuring of AOM / Air Liberté, payments concerning the take-over of the Fokker 100 aircraft, guarantee payments, and special cases.

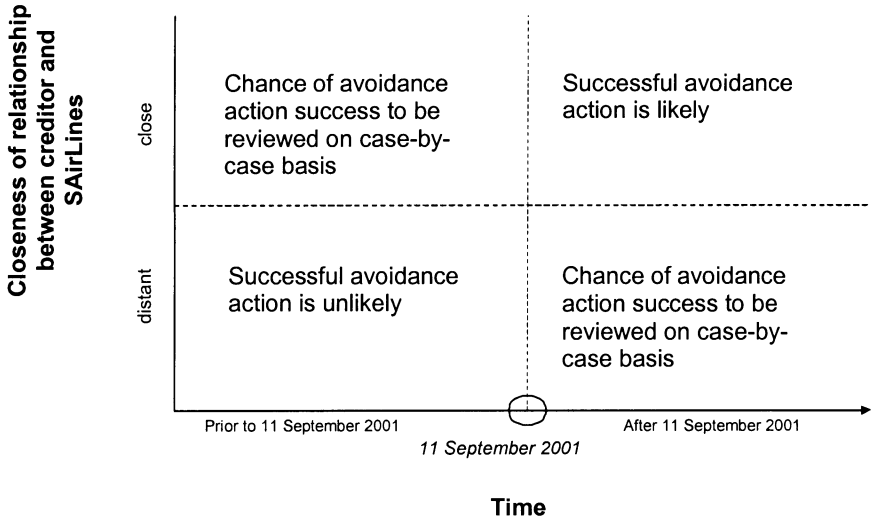
d) The review focused primarily on whether or not the payments made by SAirLines can be challenged on the basis of what is known as voidability for intent (Art. 288 DEBL). By way of exception, in this particular matter, the existence of a voidable gift (Art. 286 DEBL) or the possibility of voidability due to insolvency (Art. 287 DEBL) was also examined where there were the corresponding indications.

e) The following questions were looked into for each payment:

- Were individual or all other creditors put at a disadvantage by the payment?

- Did SAirLines or its governing or executive bodies deliberately cause a disadvantage to creditors, or did it at least anticipate that such disadvantage might result?
- In exercising due diligence, could the favoured creditors recognise an intention on the part of SAirLines to cause a disadvantage to creditors?

f) The timing of the payment and the closeness of the creditor's relationship with SAirLines – i.e. their knowledge about the financial situation – are of crucial importance in assessing the subjective elements: the intention to cause injury to creditors and the extent to which this intention might be recognised by the favoured creditors. The events of 11 September 2001 were highly significant in this context, as they had considerable negative financial implications for the whole of the aviation industry. The following grid was used:



The investigations produced the following results for the individual payment groups.

2. Payments to LTU companies

In the summer of 2001, SAirLines paid EUR 33,745,264 to the LTU companies and EUR 108,382,800 to LoMa Beteiligungsgesellschaft mbH:

The SAirLines participations in the LTU companies and in LoMa Beteiligungsgesellschaft mbH were sold by SAirLines in autumn 2001 during the debt restructuring moratorium and with the permission of the debt restructuring judge. Reciprocal claims were settled in the context of the sale. The sale documents contain the corresponding waivers and netting clauses according to which the parties agree not to pursue any further claims. This waiver also applies to any avoidance claims. Therefore, the voidability of the two payments mentioned above cannot be claimed.

3. Payments concerning Air Littoral

In 1999 and 2000, SAirGroup and SAirLines respectively acquired a participation in Air Littoral. On 30 June 2001, SAirLines, SAirGroup, Air Littoral and Marc Dufour concluded an agreement on the sale and restructuring of Air Littoral. SAirLines thus withdrew from its participation in Air Littoral and undertook, together with SAirGroup, to contribute to Air Littoral's capital increase, to subsidise its restructuring and to grant it a loan. The loan was subsequently never paid out by SAirLines owing to a lack of liquidity. In fulfilment of the agreement dated 30 June 2001, however, in July and August 2001 SAirLines did make three payments of EUR 22,867,353 each to Air Littoral for the latter's capital increase as well as one payment of EUR 45,734,705 as a contribution to Air Littoral's restructuring. There was no counterperformance on the part of Air Littoral. The payments resulted in a reduction of the assets of SAirLines; it can therefore be stated objectively that creditors were put at a disadvantage.

The extent to which Air Littoral, its governing and executive bodies and the purchaser of SAirLines' participation, Marc Dufour, were - at the time the payments were made - aware of the poor financial situation of SAirLines is therefore of crucial importance in determining whether or not the payments in question can be challenged. The payments were made in the period from early July until mid-August 2001, thus some time before 11 September 2001. For this reason alone it is difficult to prove that the persons involved at Air Littoral were aware of SAirLines' poor financial situation at the time the payments were made. There are no specific indications that these persons were in possession of such knowledge. Furthermore it has to

be taken into consideration that, on 29 May 2002, Air Littoral obtained a ruling against SAirLines before the Montpelier *Tribunal de Commerce*, a court of first instance, which obliged SAirLines and SAirGroup to pay the loan amount of FRF 100 million, and around EUR 15 million respectively, in accordance with the agreement dated 30 June 2001. The court judged the loan, like the other payments, to be a contribution to the restructuring of Air Littoral. An appeal was lodged against the judgement, but proceedings were later suspended following the initiation of bankruptcy proceedings against Air Littoral. As a result, there is no legally enforceable judgement in this case. The circumstances described above nonetheless make it more difficult to challenge the payments that were made. Air Littoral is now in bankruptcy. Even a successful avoidance action, would yield only that part of the bankruptcy dividend accruing to the claim. Under these circumstances, an avoidance action for the payments to Air Littoral in the name of SAirLines would appear to have little chance of success.

4. Payments concerning the restructuring of AOM / Air Liberté

On 18 September 1998, SAirGroup and the Marine-Wendel and Alpha Group investor groups agreed to jointly take over 100% of the share capital of AOM Participations SA, which - in its capacity as holding company - controlled AOM Minerve SA ("AOM"). On the basis of this agreement, SAirLines acquired a 49.5% participation in AOM Participations SA on 2 February 1999. At the same time, the Marine-Wendel investor group – or rather Taitbout Antibes B.V., which it controlled – took a further 50.01% of the shares in AOM Participation SA. In 2000, AOM Participations also acquired the airline Air Liberté and its parent holding company Participations Aéronautiques SA respectively from British Airways Plc ("British Airways") and Groupe Rivaud.

With judgement of the French commercial court of Créteil/Paris of 27 July 2001, the airlines of AOM and Air Liberté – by then overindebted and subject to creditor protection arrangements –were transferred to Holco SA. The restructuring program presented by Holco SA was approved at the same time. On 31 July/1 August 2001, AOM/Air Liberté, SAirGroup, SAirLines and Holco SA signed a

"protocole transactionnel", which was submitted to the commercial court for review and approved by it. The "protocole transactionnel" set out the terms of the withdrawal of SAirGroup and SAirLines from their participations in AOM/Air Liberté. In compliance with the commercial court ruling, SAirGroup and SAirLines respectively undertook, *inter alia*, to make a contribution totalling FRF 1.3 billion (approx. CHF 325 million) to the restructuring of AOM/Air Liberté. Pursuant to the "protocole transactionnel", between early August and early September 2001 SAirLines made three payments of EUR 45,734,705, EUR 15,244,902 and EUR 91,469,410 to Holco SA, as well as one payment of EUR 7,622,451 in procedural costs to Maitre Baudoin Libert, an "Administrateur Judiciaire" in charge of the correct enforcement of the "plan de cession". The remaining payments provided for by the agreement were subsequently never made owing to a lack of liquidity on the part of SAirLines. These unremitted payments are currently the subject of several pending court cases in France and Switzerland.

In establishing the voidability of the payments made in connection with the withdrawal from the AOM and Air Liberté holdings, the crucial point is whether or not the recipients of the payments or their governing and executive bodies were aware of the poor financial situation at SAirLines at the time the payments were made, and thus whether or not they must at least have been able to discern an intention to put certain creditors at a disadvantage. The first thing to state in this connection is that the payments were all made prior to 11 September 2001. Furthermore, there are no indications that SAirLines' poor financial situation had been recognisable to the persons concerned. The payments were made in accordance with a payment schedule that had been determined in advance. There were no specific collection activities on the part of the beneficiaries which might have led to conclude that they were aware of SAirLines' financial difficulties. An avoidance action in connection with these payments by SAirLines would thus appear to have little prospect of success.

5. Payments concerning the take-over of the Fokker 100 aircraft

In March 1993, the French regional airline TAT European Airlines S.A. ("TAT") concluded a leasing agreement with each of Barclays Bail S.A. ("Barclays") and Crédit Agricole Indosuez ("Crédit Agricole"). The agreements concerned one and two Fokker 100 aircraft respectively (F-GIOI, F-GIOJ and F-GIOK). Ownership of the aircraft remained with Barclays (F-GIOI) and GIE Jet 11-12/Crédit Agricole (F-GIOJ and F-GIOK). British Airways Plc. ("British Airways") guaranteed Barclays and Crédit Agricole the fulfilment of TAT's obligations from these leasing agreements, up to a maximum of USD 16 million (Barclays) and USD 47 million (GIE Jet 11-12/Crédit Agricole). The purchase of Participations Aéronautiques S.A. – which held 60% of TAT – by AOM Participations S.A. in 2000 also gave SAirLines and SAirGroup respectively an indirect holding in TAT. This was the reason why SAirGroup undertook in an agreement dated 7 April 2000, *inter alia,* to indemnify British Airways in the event that recourse be sought to it in connection with one of the listed guarantees. SAirGroup also undertook to ensure that British Airways was released from all of its listed obligations.

As the deterioration of TAT's financial situation meant that it was no longer able to fulfil its obligations under the leasing agreements, Barclays and GIE Jet 11-12/Crédit Agricole made guarantee claims against British Airways. For its part, British Airways demanded that it be indemnified by SAirGroup on the basis of the guarantee agreement dated 7 April 2000. To settle the situation and to fulfil the obligation that SAirGroup had assumed to release British Airways from its guarantee obligations, SAirGroup and British Airways concluded a settlement agreement with each of Barclays and GIE Jet 11-12/Crédit Agricole in August 2001. Under the terms of these agreements, SAirGroup acquired the three Fokker 100 aircraft F-GIOI, F-GIOJ and F-GIOK. In return, British Airways was released from its guarantee obligations towards Barclays and GIE Jet 11-12/Crédit Agricole.

On the basis of the above settlement agreements, on 6 August 2001 SAirLines paid EUR 21,128,494 and USD 22,573,916 to Dominique Garnier, Paris, in favour of GIE Jet 11-12/Crédit Agricole, for the two Fokker 100s (F-GIOJ and F-GIOK), followed on 29 August 2001 by a

payment of USD 16,199,669 to Barclays for the Fokker 100 (F-GIOI). Since the aircraft were acquired in return, a certain degree of counterperformance was associated with these payments. This is true regardless of the fact that ownership of the aircraft was transferred to SAirGroup, not SAirLines. Any claims that SAirLines might have against SAirGroup in this connection will be treated as described in section 1.a above. The payments made by SAirLines in connection with the three Fokker 100 thus resulted in a reduction in the assets of SAirLines only to the extent to which the sum paid exceeded the value of the aircraft. The payments were made prior to 11 September 2001. There are no indications that Dominique Garnier, GIE Jet 11-12/Crédit Agricole or Barclays were aware of the financial situation at SAirLines at that time. Although Barclays is a financial institution, its business ties with SAirLines were limited to the transaction concerning the Fokker 100 aircraft. On the basis of these considerations, SAirLines would not have much chance of success if it were to challenge the payments to GIE Jet 11-12/Crédit Agricole and Barclays.

6. Guarantee payments

In addition to the aforementioned guarantees in favour of Barclays and Crédit Agricole, British Airways had entered into further guarantee undertakings in favour of Jet Trading and Leasing Company Limited ("JTLC"), Prop Leasing and Trading Company Limited ("PLTC"), Transregiolise GIE ("Transregiolise") and Aircraft International Renting A.I.R. ("A.I.R.") in respect of TAT obligations arising from a variety of aircraft leasing agreements. In the agreement dated 7 April 2000, SAirGroup further undertook to release British Airways also from these guarantees. On this basis, SAirLines made payments to JTLC of USD 8,113,258 on 6 August 2001 and USD 8,578,002 on 27 August 2001, in addition to USD 1,989,228 to Transregiolise on 31 August 2001, USD 7,202,800 (17 August 2001) and USD 2,099,500 (4 September 2001) to A.I.R., and EUR 1,324,602 (13 September 2001) and USD 3,174,283 (18 September 2001) to PLTC.

There was no counterperformance for these payments. They reduced the assets of SAirLines and resulted in a disadvantage of creditors. Whether or not these payments are voidable depends upon whether the recipients would have been able, when exercising due diligence, to

recognise an intention to cause a disadvantage to other creditors. With the exception of the payments to PLTC, all payments were executed prior to 11 September 2001. There are no indications to suggest that JTLC, Transregiolise and A.I.R. were aware of SAirLines' desperate financial situation when the payments were made and could thus have recognised that they would put creditors at a disadvantage. An avoidance claim by SAirLines in connection with the payments to JTLC, Transregiolise and A.I.R. thus has little chance of success.

The situation is different with regard to PLTC. Unlike the payments to JTLC, Transregiolise and A.I.R., the payments to PLTC were made after 11 September 2001, on 13 September 2001 and 18 September 2001. Given the statements made under section 1.f above, it would be appropriate to investigate further and possibly even pursue avoidance claims in connection with the payments made by SAirLines to PLTC.

7. Special cases

7.1 Swiss Federal Tax Administration (securities trading duties)

On 30 January 2001, SAirLines made a CHF 601,313 payment marked "securities trading duties" ("*Effektenhändlerabgabe*") to the Swiss Federal Tax Administration.

The payment of an outstanding bill for securities trading duties is a payment for which there is no counterpeformance; the tax is owed unconditionally. It is not a gift, however, because there is a statutory obligation to pay. For this reason, an avoidance claim is out of question.

The avoidability of a payment to the Swiss Federal Tax Administration in the sense of voidability for intent would require proof that the Swiss Federal Tax Administration would have been able to recognise as early as 30 January 2001 that SAirLines intended to favour the Administration or place other creditors at a disadvantage. There is no evidence for this. Consequently, not all of the conditions for a voidability claim in connection with the payment to the Swiss Federal Tax Administration are fulfilled.

7.2 CSFB Credit Suisse First Boston

Following the investment in Sabena in 1995, a strategy was formulated for a step by step full takeover of Sabena by the Swissair

Group. This strategy was drawn up in connection with the further integration between the Swissair companies and Sabena that was planned for a second stage in 1999 and 2000. Credit Suisse First Boston ("CSFB"), London, was involved in this project in an advisory capacity. On 18 October 2000, it submitted an invoice of EUR 2,029,385.80 to SAirLines for the related charges and services rendered during the period of 1 October 1999 to 1 October 2000. SAirLines paid this sum on 9 January 2001.

Given the very early date of payment, which was long before the debt restructuring moratorium was granted on 5 October 2001, it is virtually impossible to prove that CSFB knew about the desperate financial situation at SAirLines when the payment was made. The fact that, as a bank, CSFB can be assumed to have had more detailed information about SAirLines' financial circumstances has no bearing here. In January 2001, it could still not have been expected that the Swissair Group would collapse. Consequently, the conditions for an avoidance action in connection with the payment to CSFB are not fulfilled.

7.3 Vincenzo Soddu

On 19 January 2001, SAirLines transferred CHF 5 million to Vincenzo Soddu. This payment was made in connection with the participation in the Volare Group and was based on an agreement dated 5 July 2000, in which SAirLines had undertaken to pay Vincenzo Soddu a total of CHF 5 million. Of this figure, CHF 2.5 million was understood to be a bonus for the successful merger of the two airlines Volare and Air Europe under the Volare Holding umbrella. The remaining CHF 2.5 million was to be paid to Vincenzo Soddu as remuneration, provided he remained CEO of Volare Holding for at least three years. Under the terms of the agreement, this second tranche was to be paid at the same time as the first. In the event that he ceased to be CEO of Volare Holding before the end of the three-year period, Vincenzo Soddu would have to repay the second tranche to SAirLines. Vincenzo Soddu undertook to furnish a bank guarantee of CHF 2.5 million as security for this repayment. He did not fulfil this obligation, however.

A successful avoidance action in connection with the CHF 5 million payment rests on proof that Vincenzo Soddu must have been able to

recognise SAirLines' financial difficulties when the payment was made. There are no indications that Vincenzo Soddu had any knowledge on 19 January 2001 of SAirLines' financial situation, such that he would have been able to recognise any intention on the company's part to favour specific creditors. The timing of the payment was relatively long before the debt restructuring moratorium was granted on 5 October 2001. There would thus appear to be little prospect of a successful avoidance action in connection with the payment to Vincenzo Soddu. Whether or not SAirLines can make a contractual claim from the agreement with Vincenzo Soddu will be examined separately.

7.4 Homburger law firm

On 4 October 2001 and 5 October 2001, SAirLines made two payments of CHF 500,000 each, marked "retainer for future work" to the Zurich law firm Homburger. These payments were based on correspondence/invoices for advance payments to the Homburger law firm which were dated 30 September 2001 and 5 October 2001.

Following granting of the debt restructuring moratorium by the single judge of the district court of Zurich on 5 October 2001, the Homburger law firm acted on behalf of SAirLines during the debt restructuring moratorium and has continued to do so since debt restructuring liquidation proceedings began. In particular, it has been involved in the sales of the Gate Gourmet Group, the Swissport Group, Avireal AG and the Nuance Group. The payments of 4 and 5 October 2001 to the Homburger law firm were set off against services provided after 5 October 2001. SAirLines thus received the corresponding counterperformance for its payments and the payments can therefore not be challenged.

7.5 Bär & Karrer law firm

On 5 October 2001, SAirLines paid CHF 200,000 to the Zurich law firm Bär & Karrer. Bär & Karrer had been instructed in an engagement letter dated 2 May 2001 to conduct a variety of investigations into potential liability claims under corporate law. On this basis, Bär & Karrer provided the corresponding services in the period from May to September 2001. The CHF 200,000 payment on 5 October 2001 had probably been requested as an advance. The amount was used to pay outstanding invoices for services rendered prior to 5 October 2001,

however. The outstanding invoices as at 5 October were CHF 195,906.75, dated 24 August 2001, CHF 31,881.90, dated 25 September 2001 and CHF 28,065.85, dated 28 September 2001. In addition to these invoices, a fee note for CHF 23,214.90 dated 15 January 2002 was submitted at a later date. This fee note also invoiced services provided prior to 5 October 2001. The Bär & Karrer law firm registered a claim of CHF 79,069.40 in the SAirLines debt restructuring proceedings. It can be inferred from the invoices that were submitted that the CHF 200,000 was applied as full payment of the invoice for CHF 195,906.75 and partial payment of the invoice dated 25 September 2001. It is therefore clear that there were no subsequent services on the part of the Bär & Karrer law firm in return for the 5 October 2001 payment. Consequently, the creditors of SAirLines were put at a disadvantage by this payment. Given the circumstances on 5 October 2001, SAirLines's intention and acceptance of putting creditors at a disadvantage were obvious. The Bär & Karrer law firm would also have been able to recognise this intention on 5 October 2001. The prospects for an avoidance action in connection with this payment are therefore promising, and SAirLines will be pursuing this claim.

7.6 Andreas Meinhold

Up to 6 June 2001, Andreas Meinhold was CEO of Swissôtel Management Ltd., a subsidiary of S Air Relations AG. S Air Relations AG was absorbed by merger into SAirLines as at the end of June 2001, with the transaction retroactively becoming effective as per 1 January 2001. A settlement agreement regarding Andreas Meinhold's severance package was concluded between S Air Relations AG and Andreas Meinhold on 25 June 2001 as part of the sale of Swissôtel Management Ltd. to Raffles Holding. Under the terms of the settlement agreement, S Air Relations AG undertook to pay Andreas Meinhold USD 2,979,683 in connection with his employment contract and a further USD 2,830,000 relating to a retention agreement concluded on 7 October 2000. SAirGroup (not S Air Relations AG or SAirLines) made the payments of USD 2,830,000 (value date 6 July 2001) and USD 2,979,682 (value date 9 July 2001). The sums in question were nonetheless reimbursed to SAirGroup from an S Air Relations AG account as of value date 18 September 2001. Ultimately, the

payments to Andreas Meinhold were made by S Air Relations AG. As a result of the merger with SAirLines, however, this had the effect of reducing the assets of SAirLines.

The claims fulfilled by the payments to Andreas Meinhold were based on his contractual agreements with S Air Relations AG. S Air Relations AG was not overindebted at the time the payments were made on 6 and 9 July 2001. Rather, the insolvency of S Air Relations AG is a result of its merger with SAirLines. This cannot be held against Andreas Meinhold, however. A successful avoidance action against the claims would revive Andreas Meinhold's underlying claims against S Air Relations AG. According to Art. 748 cif. 2 of the old Swiss Code of Obligations that was in force at the time, in the case of a merger the assets of the company that is to be dissolved – S Air Relations AG in this case – are to be managed separately until its creditors are satisfied or their claims secured. Art. 748 cif. 5 of the old Code of Obligations states that if the merged company – here SAirLines – is bankrupt or enters into debt restructuring liquidation, the assets of the dissolved company are to be handled separately. They are to be used, as far as necessary, exclusively to satisfy the creditors of the dissolved company. According to present knowledge, the disposable assets of S Air Relations AG are sufficient to meet all of the known claims against S Air Relations AG, including those of Andreas Meinhold, should they be revived. The creditors of S Air Relations AG were thus not put at a disadvantage by the payments to Andreas Meinhold. Under the given circumstances, the pursuit of an avoidance claim on behalf of SAirLines against Andreas Meinhold has little chance of success.

7.7 Credit Suisse Group and UBS Ltd ("Phoenix transactionl")

Under the terms of the Phoenix plan, on 30 September 2001 Credit Suisse Group ("CSG") and UBS Ltd ("UBS") acquired SAirLines' approximately 70% block of shares in Crossair Ltd at a price of CHF 258 million. The agreement between CSG and UBS states that SAirLines was to use the purchase price to maintain the airline-related ancillary operations of SR Technics, Swissport, Gate Gourmet and Atraxis, as well as to continue Swissair flight operations up to 3 October 2001. Using the purchase price in this way was primarily in the interest of Crossair Ltd and thus also its shareholders, CSG and

UBS. It was planned at that time that Crossair Ltd would take over a part of the flight operations of Swissair and continue these operations after the end of October 2001. Maintaining airline-related ancillary operations and the cessation of Swissair flight operations in an orderly manner were therefore crucial to the success of the Phoenix project.

Under the terms of the agreement with CSG and UBS, from the proceeds of the Crossair sale SAirLines paid out around CHF 207 million in loans to then-subsidiaries in the period 3-5 October 2001. The recipients of these loans included Swissair, SR Technics, Swissport and Gate Gourmet. A portion of these loans can no longer be repaid by the recipients. The assets of SAirLines were therefore diminished by the granting of these loans. It must be borne in mind, however, that the granting of these loans also helped SAirLines to preserve the value of the subsidiaries – which could later be sold. Further investigation is therefore required to establish whether or not SAirLines actually suffered a loss out of the Phoenix deal, and whether or not SAirLines intended to put its creditors at a disadvantage.

CSG and UBS were favoured indirectly by the use of the Crossair purchase price as described above. Under certain circumstances, this type of indirect benefit can also be challenged and reclaimed. For an avoidance action to be successful, however, CSG and UBS would have had to be able to recognise an intention on the part of SAirLines to cause a disadvantage to creditors in early October 2001. On 30 September 2001, both banks were very familiar with the financial situation of SAirLines. If SAirLines had intended to cause a disadvantage to its creditors, this would have been evident to CSG and UBS.

A summary examination of the Phoenix deal revealed that it is not possible at this time to conclusively assess the opportunities and risks attached to an avoidance action against CSG and UBS. The possibility of SAirLines making avoidance claims at this point in time should nonetheless be looked into in greater detail and such claims pursued if appropriate.

8. Conclusion

In the light of the above assessment, the Liquidators and the Creditors' Committee will generally refrain from pursuing avoidance claims, with the exception of the following claims:

a) avoidance claims against SAirGroup and Swissair in debt restructuring liquidation;

b) avoidance claims against the following third-party creditors which have received payments from SAirLines:

- SAirGroup Finance (NL) B.V.: Payment of USD 9,480,905, value-dated 29 June 2001
- Prop Leasing and Trading Company Limited (PLTC): Payments of EUR 1,324.602, value-dated 13 September 2001, and USD 3,174,283, value-dated 18 September 2001
- Bär & Karrer law firm: Payment of CHF 200,000, value-dated 5 October 2001

c) avoidance claims against Credit Suisse Group and UBS Ltd relating to the use of funds resulting from the sale of the Crossair participation, as agreed in connection with the Phoenix transaction.

The avoidance claims with which the Liquidators and the Creditors' Committee wish to proceed are being further pursued by SAirLines itself.

II. State liability action against the Swiss Confederation on grounds of failure to fulfil supervisory obligations

To prevent the statute of limitations coming into effect, on 19 September 2003, SAirLines in debt restructuring liquidation, together with SAirGroup in debt restructuring liquidation, Flightlease AG in debt restructuring liquidation and Swissair Swiss Air Transport Company Ltd in debt restructuring liquidation ("Swissair") made a submission to the Swiss Federal Department of Finance petitioning for damages of CHF 1 billion against the Swiss Confederation. The grounds for the petition was the allegation that the Federal Office for Civil Aviation ("FOCA") had neglected its supervisory obligations in respect of Swissair and SAirGroup respectively.

The Swissair companies requested that the Federal Department of Finance suspend the action for an initial period so that the legal situation could be examined before proceedings were pursued. On 27 October 2003, the Federal Department of Finance ruled that proceedings be suspended as requested.

In January 2004, Prof. Dr. Tobias Jaag and Dr. Markus Rüssli, of the law firm Umbricht, Attorneys at Law, were engaged to provide a legal opinion on the Swissair companies' entitlement to take action against the Swiss Confederation. The legal opinion was submitted to the Liquidators in April 2004. The opinion first points out that, of the four Swissair companies, only Swissair was dedicated to the commercial transportation of persons and goods and that only this company held an operating licence from the FOCA or a licence to operate certain air routes from the Federal Department of Environment, Transport, Energy and Communications ("DETEC"). Supervision on the part of the Confederation was therefore limited to Swissair. According to the opinion, SAirLines, SAirGroup and Flightlease AG, which were not subject to supervision by the Confederation, cannot charge the Confederation with any breach of its supervisory obligations whatsoever. There was thus never any corresponding liability to SAirLines and its creditors. Even if SAirLines had been subject to federal supervision, the opinion states that the criteria for liability on the part of the Swiss Confederation would not have been fulfilled. The protection of the financial interests of the creditors of a company or of the company itself is not one of the direct objectives of federal supervision of civil aviation. Furthermore, liability would also have been ruled out owing to the high degree of fault on the part of SAirLines and its governing and executive bodies.

On the basis of the opinion provided by Prof. Dr. Tobias Jaag and Dr. Markus Rüssli, the Liquidators and the Creditors' Committee will not pursue the state liability claim on behalf of SAirLines.

III. WAIVER OF DISPUTED CLAIMS

1. General

Each creditor is entitled to request the assignment of the right to take legal action in respect of those legal claims for which the Liquidators

and the Creditor's Committee decide not to further pursue them (Art. 325 in conjunction with Art. 260 DEBL). A creditor who requests assignment is entitled to assert the legal claim at his own risk and expense. In the event that he should win the legal action, he is entitled to use any award to cover both the costs incurred and his claims against SAirLines. Any excess amount would have to be surrendered to the liquidation assets. If the creditor should lose the action, he is liable for any court and legal fees.

2. Assignment requests by individual creditors

Creditors are hereby offered the option of being assigned the right to raise an action in respect of any avoidance claims by SAirLines which the liquidation bodies have declined to assert (see I.8 above) and in pursuance of the state liability action against the Swiss Confederation for breach of duty of supervision (see II above). As far as avoidance claims are concerned, creditors' attention is drawn to the fact that in order to safeguard their rights they should take initial legal steps by 26 June 2005. Each creditor can obtain from the Co-Liquidator Karl Wüthrich a CD-Rom containing a list of possible claims arising from voidable acts, for which an assignment of the right to pursue an action is offered, as well as the relevant documents. These documents can also be inspected at the office of the Co-Liquidator. Orders can be placed by telephone on +41 43 222 38 30 (German), +41 43 222 38 40 (French) and +41 43 222 38 50 (English).

Requests for assignment within the meaning of Art. 260 DEBL may be lodged with the undersigned Liquidator Karl Wüthrich **in writing by 10 June 2005 at the latest** (date of postmark of a Swiss post office). The right to request assignment will be deemed to have be **forfeited** if this deadline is not met.

IV. AVIREAL AG

In Circular no. 4 we were able to announce to creditors that a sale and purchase agreement for the takeover of Avireal AG by Burgring Immobilien AG had been concluded in January 2005. The deal has since been approved by the Creditors' Committees of SAirLines and SAirGroup and the sale went through at the end of April 2005.

The purchase price for the shares, the "Avireal" brand and the loans from SAirLines and SAirGroup was CHF 269,018,199.38. It will be divided as follows between SAirLines and SAirGroup:

SAirLines:

Repayment of loan:	CHF	12,600,000.00
Shares in Avireal AG:	CHF	160,054,438.90

SAirGroup:

Repayment of loan, following set-off of counter-claims by Avireal AG:	CHF	95,763,760.48
"Avireal" brand and building lease for Oberhau:	CHF	600,000.00

Reciprocal claims between the Avireal companies, SAirLines and SAirGroup have also been settled as part of the sale of Avireal AG.

Further information for creditors, again in the form of a circular, is planned for the autumn of 2005.

Yours sincerely

SAirLines in debt restructuring liquidation

The Liquidators

Karl Wüthrich Dr. Roger Giroud

Hotline SAirLines
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