

**Unofficial Translation
of German Original**

To the creditors of SAirLines
in debt restructuring liquidation

Küsnacht, March 2005 WuK/fee

**SAirLines in debt restructuring liquidation;
Circular no. 4**

Ladies and Gentlemen

This Circular provides information on the status of the SAirLines debt restructuring proceedings since the beginning of December 2004, as well as on the next steps planned in these proceedings over the coming months.

I. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2004

Having been acknowledged and approved by the Creditors' Committee, the second of the Liquidators' reports on activities for 2004 has been submitted to the debt restructuring judge at the district court of Zurich on 28 February 2005. The report on activities will be available for inspection by creditors at the Co-Liquidator's offices at Seestrasse 39, Goldbach-Center, 8700 Küsnacht until 24 March 2005. Appointments must be made in advance with Ch. Rysler, telephone +41 43 222 38 00.

The following is a summary of the content of the report on activities.

II. OVERVIEW OF THE LIQUIDATION PROCESS

1. Activities of the Liquidators

The Liquidators' activities in recent months have concentrated on the process of selling Avireal AG. Thanks to the fact that there were several potential buyers, it was possible to hold an auction. This process ultimately led to the conclusion of a purchase agreement with Burgring

Immobilien AG in January 2005. The purchase price for the shares, the "Avireal" brand and the loans from SAirGroup and SAirLines amounts to around CHF 262 million. The transaction still has to be approved by the Creditors' Committees of SAirLines and SAirGroup. The sale can then be completed.

2. Activities of the Creditors' Committee

The Creditors' Committee held a total of five meetings during 2004. At its meetings, the Creditors' Committee discussed the various applications submitted by the Liquidators and passed resolutions accordingly.

III. REALISATION OF ASSETS

1. General

The Liquidators continued to collect accounts receivable in Switzerland and abroad during the period under review. Around CHF 3 million were received.

2. SALE OF THE SWISSÔTEL CHAIN; SETTLEMENT OF OUTSTANDING ISSUES WITH THE BUYER, RAFFLES HOLDINGS LIMITED

S Air Relations AG (absorbed by SAirLines by a merger in June 2001) sold the Swissôtel chain to Raffles Holdings Limited ("Raffles") in the spring of 2001. The greater part of the contractually agreed purchase price of around CHF 400 million was received by the seller prior to the grant of the (provisional) debt restructuring moratorium. It was agreed in the purchase agreement that this sale price would change if there were to be certain developments in one direction or another. After the start of the debt restructuring moratorium, it proved necessary to settle certain issues in the execution process of the purchase agreement that had been deliberately left open between the parties when the contract was concluded, other aspects for which there were no evident, unequivocal provisions as well as issues that arose due to the financial collapse of the Swissair Group. With the approval of the Administrators, SAirLines reached a global settlement with Raffles on 19 August 2002. The global settlement was concluded subject to its subsequent ratification by the Creditors' Committee.

The global settlement governs the following points that had been left open for discussion between the parties:

- Raffles will assume the risks attached to complex legal proceedings between Swissôtel Management Inc., New York and Host Marriott relating to the cancellation of management agreements, and will indemnify SAirLines against any liabilities arising from these proceedings.
- An escrow account containing CHF 10 million, which is connected to the aforementioned court case, will be closed. Upon closure, SAirLines will receive the sum of CHF 5.75 million, plus accrued interest.
- SAirLines will receive further payments totalling CHF 11,310,250 from Raffles in connection with Casino Montreux, as soon as a variety of conditions are met. The most important of these conditions is the relevant authorities' refusal to grant a casino licence (A licence) to a competitor close by Lausanne before the end of February 2005. This condition has now been met.
- A number of claims against SAirLines that had been registered by Raffles in connection with the Swissôtel transaction have been declared settled and withdrawn by Raffles. The liquidation bodies are free to decide whether or not the remainder of the claims that have been registered by Raffles should be accepted or rejected.

The Creditors' Committee has approved this global settlement, which has already yielded CHF 5,788,238.02 to SAirLines. Raffles has amended its registered claims against SAirLines in line with the global settlement. These registered claims will be assessed as part of the work to draw up a schedule of claims. The other conditions of the global settlement were fulfilled at the end of February 2005. It may therefore be assumed that, in March 2005, SAirLines will receive the remaining CHF 11,310,250 due to it under the terms of the global settlement.

IV. ASSESSMENT OF LIABILITIES

Work on the schedule of claims is already far advanced and it has been possible to make assessments that are important from a legal viewpoint. In particular, the legal situation concerning the implications of the

merger of SAirLines with S Air Logistics AG, S Air Relations AG and S Air Services AG in June 2001 has been clarified. Under the terms of Art. 748 section 5 of the Swiss Code of Obligations, which applied at the time, the assets of S Air Logistics AG, S Air Relations AG and S Air Services AG are to be used first and foremost to satisfy claims against these companies. Any surplus would then fall into the disposable assets of SAirLines. Should the assets of any of the companies named above be insufficient to cover the claims against it, the claims in question will participate in the distribution of the disposable assets of SAirLines. The schedule of claims will be structured accordingly. It is intended that the schedule of claims should be adjusted, and then approved by the Creditors' Committee by mid-2005. The schedule of claims would subsequently be published for inspection by the creditors in the second half of 2005.

V. ASSET STATUS OF SAIRLINES AS OF 31 DECEMBER 2004

1. Introductory remark

In the Appendix, you will find a report on the liquidation status of SAirLines as of 31 December 2004, containing a statement of the assets of SAirLines in debt restructuring liquidation as of that date, according to present knowledge.

2. Assets

Open apportionment of proceeds from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance: It was not possible in 2004 to apportion the proceeds of the sales of the Swissport Group, Restorama AG, RailGourmet, the Gate Gourmet Group and the Nuance Group. The complexities have largely been resolved, however, and this should make it possible to deal with these outstanding issues during the current year.

As-yet unrealised assets: As in the past, this category consists primarily of claims against former Swissair group companies and of participations and securities held by SAirLines. Moreover, any responsibility and Pauliana claims are carried pro memoria.

3. Debts of the estate

Accounts payable: The accounts payable reported as of 31 December 2004 relate to costs incurred during the debt restructuring liquidation.

Provision for portion of salary costs for Close-Down Team: To date, during the original debt restructuring moratorium and during the debt restructuring liquidation, SAirGroup has borne the costs of services from which SAirLines has also benefited. An agreement on the allocation of these costs will be concluded between the companies concerned within the next few months and then presented to the Creditors' Committees for approval. The approximate portion of these costs that SAirLines will have to pay is reflected in a provision of CHF 1.5 million in the liquidation status report as of 31 December 2004.

4. Creditors' claims

The process of assessing registered 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 2004 therefore states the sum of the claims filed by the creditors in each class, as well as whether or not these claims have been accepted or contested by SAirLines. There has been only one change compared to the status as of 31 December 2003, a brief explanation of which is given below.

Third-class claims: A number of registered claims have been adjusted as part of the process of drawing up the schedule of claims. This ultimately leaves registered claims of CHF 66,249,346,668. Of this figure, the company has recognised CHF 1,240,415,964.

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 0.8 % and 50.3 %.

V. PLANNED NEXT STEPS IN THE PROCESS

Investigations are currently underway into whether actions of SAirLines prior to the grant of the provisional debt restructuring moratorium can

be declared void. Creditors will be informed of the findings of these investigations in another circular in April 2005.

The schedule of claims should be drawn up by mid-2005 and then presented to the Creditors' Committee for approval. The schedule of claims would subsequently be published for inspection by the creditors in the second half of 2005.

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

Encs: Liquidation status of SAirLines in debt restructuring liquidation, as of 31 December 2004

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in debt restructuring liquidation**

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LIQUIDATION STATUS AS OF 31 DECEMBER 2004

	31.12.04 CHF	31.12.03 CHF	Change CHF
ASSETS			
Liquid funds			
Cash	3	3	0
UBS AG CHF	222'616'558	222'550'919	65'639
UBS AG USD	1'631'010	1'010'663	620'347
UBS AG EUR	25'243	18'890	6'353
ZKB CHF	1'036'400	1'035'527	873
Total liquid funds	225'309'214	224'616'002	693'212
Liquidation positions			
Accounts receivable	310'321	863'644	-553'323
Advance on legal costs	364'153		364'153
Open apportionment of proceeds and escrow accounts from the sale of Swissport, Restorama, RailGourmet, Gate Gourmet and Nuance	65'000'000	65'000'000	0
Receivables from third parties	33'364'278	24'929'810	8'434'468
Shareholdings, securities	309'903'358	309'039'359	863'999
Responsibility claims	p.m.	p.m.	
Pauliana claims	p.m.	p.m.	
Total liquidation positions	408'942'110	399'832'813	9'109'297
TOTAL ASSETS	634'251'324	624'448'815	9'802'509
LIABILITIES			
Debts of the estate			
Accounts payable	955'338	654'615	300'723
Provision for portion of salary costs for Close-Down Team	1'500'000	1'000'000	500'000
Provisions for liquidation costs	6'232'500	10'000'000	-3'767'500
Total debts of the estate	8'687'838	11'654'615	-2'966'777
TOTAL DISPOSABLE ASSETS	625'563'486	612'794'200	12'769'286

CREDITORS' CLAIMS

Category	Registered	by SAirLines		Dividend	
		contested	recognised	min.	max.
Secured by right of lien	-	-	-		
First class	196'796	196'796	-	100.00%	
First class, Swissair employees	93'466'560	93'466'560	-	100.00%	
Second class	3'082	3'082	-	100.00%	
Third class	66'249'346'668	65'008'930'704	1'240'415'964	0.80%	50.40%
Total creditors' claims	66'343'013'106	65'102'597'142	1'240'415'964		