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Registered mail

To the creditors of Flightlease AG
in debt restructuring liquidation

Küsnacht, 4 March 2005 WuK/fee

Flightlease AG in debt restructuring liquidation; Circular no. 4

Ladies and Gentlemen

This Circular provides information on the status of the Flightlease AG 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 Liquidator's reports on activities for 2004 has been submitted to the debt restructuring judge at the district court of Bülach on 28 February 2005. The report on activities will be available for inspection by creditors at the 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 Liquidator

Creditors were informed in Circulars no. 2 and 3 about the most important work regarding the liquidation of assets. Drawing up the schedule of claims has been the main focus of the Liquidator's activities

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over the past year. A great deal of progress has already been made. All of the privileged claims registered by former employees of Flightlease AG, as well as those made by various creditors on the basis of complex leasing transactions, have now been assessed. These two areas have been submitted to the Creditors' Committee for decision. It is intended that the schedule of claims should be adjusted, and then approved by the Creditors' Committee by the end of March 2005. The schedule of claims would subsequently be published for inspection by the creditors in May 2005.

2. Activities of the Creditors' Committee

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

III. REALIZATION OF ASSETS

1. General

The Liquidator collected accounts receivable of around CHF 2.3 million during the period under review. It was also possible to sell spare MD-11 parts from the stocks that still exist in the USA.

2. Claims against Flightlease Holdings (Guernsey) Ltd. and Flightlease Ireland Ltd.

Flightlease AG owns all of the share capital of Flightlease Holdings (Guernsey) Ltd. ("FLHG"). FLHG was founded on 10 March 1998, its purpose being the tax-efficient purchase, financing and leasing of aircraft for Swissair Swiss Air Transport Company Ltd. ("Swissair") and third-party airlines, as well as the acquisition of participations in other companies in the aviation business. FLHG went on to establish several wholly-owned subsidiaries. The majority of these subsidiaries are also domiciled in Guernsey. They were set up as "special purpose entities" to handle individual aircraft transactions. The financial situation of the individual companies in the Flightlease Guernsey Group deteriorated following the grant of the debt restructuring moratorium to Flightlease AG and Swissair. FLHG and the Group as a whole have been over-

indebted for quite some time. At the end of November 2003, FLHG was over-indebted with around USD 575 million. FLHG and several of its subsidiaries have been in liquidation since the end of January 2004. Flightlease AG has claims against FLHG in the amount of USD 382,000 for outstanding management fees

Flightlease AG also owns all of the share capital of Flightlease (Ireland) Ltd. ("FL Ireland"). FL Ireland was founded on 21 November 1997 – also in order to handle aircraft leasing transactions in a tax-efficient manner. FL Ireland is party to a number of leasing transactions with airlines based in EU Member States which would levy withholding taxes on leasing transactions with Guernsey companies. The financial situation of FL Ireland also deteriorated after the debt restructuring moratorium was granted to Flightlease AG and Swissair, such that FL Ireland was over-indebted with USD 275 million at the end of 2003. Flightlease AG has claims against FL Ireland in the amount of USD 2,679,000, relating to a security deposit for a leasing transaction.

FLHG's major unsecured creditors are SAirGroup, with claims amounting to around USD 129 million and SAirGroup Finance (NL) BV ("FinBV"), with claims of approximately USD 208 million. Neither company has any claim against FL Ireland, however. Secured creditors, whose claims were secured to a certain extent by security assignments of rights from leasing agreements, rights of lien over aircraft, or by some other means, include banks, export risk guarantee agencies, and aircraft owners.

Negotiations between secured and unsecured creditors about the proper liquidation of FLHG and its subsidiaries, as well as FL Ireland, began in May 2002. The objective was to prevent individual companies being declared insolvent one by one in an uncoordinated manner, resulting in a situation which would have led to losses in value. As part of these negotiations, agreement was reached with each individual secured creditor about the unsecured part of their claims. This necessitated determination of the creditable value of the aircraft encumbered to their benefit or owned by them, as well as their individual claims from the leasing and financing agreements that were to be terminated.

A solution for the amicable liquidation of the Flightlease Guernsey Group and FL Ireland could be found at the end of 2003, after about a year and a half of negotiations. The global solution that was achieved

encompasses two contractual agreements: one relating to the Flightlease Guernsey Group – the Guernsey Deed – and the other relating to FL Ireland – the Ireland Deed.

Both deeds essentially contain the following provisions:

- A basic moratorium on the enforcement of creditor claims, with the exception of claims for which securities exist;
- The rapid instigation of the liquidation of FLHG and its subsidiaries, as well as of FL Ireland;
- The appointment of a creditors' committee for FLHG, comprising one representative each from FinBV and SAirGroup;
- The grant of limited immunity to the management of the Flightlease Guernsey Group companies concerned and of FL Ireland;
- The waiver by all of the Flightlease Guernsey Group companies concerned of all rights to aircraft not in their ownership;
- Statement of the amount of unsecured claims of the individual creditors concerned;
- A special distribution mechanism for the liquidation dividend of FL Ireland, referred to as "Aircraft by Aircraft Distribution".

Flightlease AG's dividend on its USD 382,000 in recognised claims against FLHG will be approximately 20%. Under the terms of the Ireland Deed, a flat-rate dividend of USD 220,000 has been agreed in respect of its claims of USD 2,679,000 against FL Ireland.

The Creditors' Committees of Flightlease AG and SAirGroup have approved the two agreements concerning the Flightlease Guernsey Group and FL Ireland. Liquidation proceedings have since been instigated in Guernsey and Ireland and are now well advanced. In the case of FLHG, its creditors will soon receive an initial payment on account of 7.5%.

IV. ASSET STATUS OF FLIGHTLEASE AG AS OF 31 DECEMBER 2004

1. Introductory remark

In the Appendix, you will find a report on the liquidation status of Flightlease AG as of 31 December 2004. This status reflects the assets

of Flightlease AG in debt restructuring liquidation as of 31 December 2004 according to present knowledge.

2. Assets

As-yet unrealised assets consist, in the main, of claims against former companies of the Swissair Group, of participations held by Flightlease AG, residual IT equipment and office furnishings, as well as an MD-11 spare parts storage facility in the USA. Furthermore, any responsibility and Pauliana claims are carried pro memoria.

3. Debts of the estate

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

4. Creditors' claims

The Liquidator has largely completed the claim assessments with regard to the schedule of claims. The schedule still has to be approved by the Creditors' Committee, however. The liquidation status report as of 31 December 2004 therefore states the sum of the claims filed by creditors in each class, as well as whether or not these claims have been accepted or contested by the Liquidator at the present time. Changes may still be made before the schedule of claims is published. The following remarks should be made regarding claims secured by rights of lien as well as first-class and third-class claims:

Claims secured by rights of lien: The execution of the agreement regarding the realisation of the four airframes pledged as security – HB-IJB, HB-IJF, HB-IJG and HB-IOD (see Circular No. 3, section. I.2) – resulted in the elimination of all claims secured by rights of lien from the liabilities side of the balance sheet. All in all, this transaction reduced total claims against Flightlease AG by USD 200 million or around CHF 275 million.

First-class claims: The Liquidator recognises CHF 914,233 of the CHF 1,616,406,433.75 originally registered first-class claims. Any decision on those claims registered by the five members of the management of Flightlease AG is to be suspended until it has been established whether or not these persons face any responsibility claims which might be set off against the registered claims.

Third-class claims: A number of registered claims have been settled as part of the process of drawing up the schedule of claims. This ultimately leaves registered claims of CHF 19,062,744,054. Of this figure, the Liquidator recognises claims amounting to CHF 1,837,131,134. The decision on those claims registered by SAirGroup is to be suspended until the situation regarding mutual claims has been clarified.

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 0.4 % and 9 %.

V. WAIVER OF DISPUTED CLAIMS

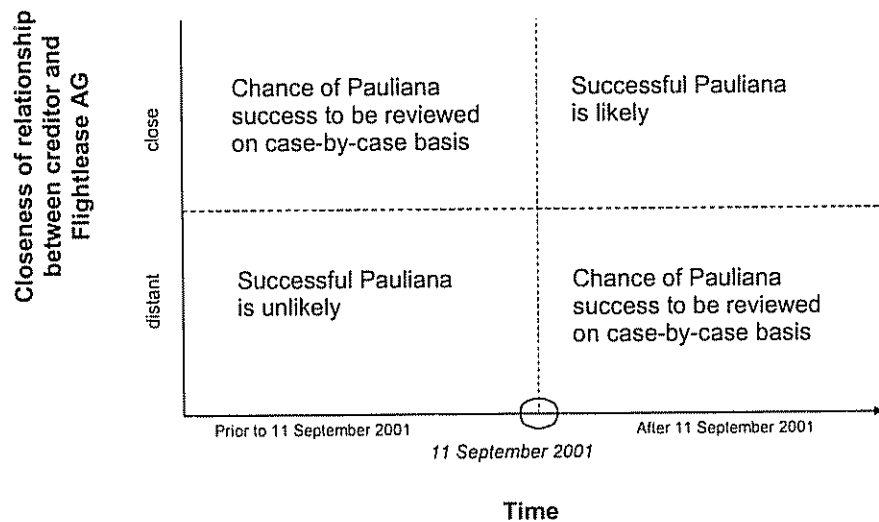
1. Pauliana claims

1.1 Introduction

Based on the report from Ernst & Young AG on the Swissair case, Flightlease AG payments 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, SAirLines and Swissair Swiss Air Transport Company Ltd ("Swissair") were not examined in greater detail. These three companies are also in debt restructuring liquidation. In order to safeguard the rights of Flightlease AG, possible Pauliana claims will be registered as creditors' claims in the debt restructuring proceedings of these companies. The liquidation bodies of the companies concerned will then decide in the debt restructuring proceedings whether to admit or reject Flightlease AG's claims. Should the claims registered by Flightlease AG be rejected, it will still be possible to contest the schedule of claims.

- b) Flightlease AG payments were broken down into the following categories: Value-added and other taxes, foreign exchange and interest rate swap transactions, leasing instalments, and special cases.
- c) The review focused primarily on whether or not the payments made by Flightlease AG are subject to a Pauliana action on the basis of what is known as voidability for intent (Art. 288 DEBL). By way of exception, in a 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.
- d) The following questions were examined for each payment:
- Were individual or all other creditors affected by the payment?
 - Did Flightlease AG or its governing or executive bodies deliberately cause damage to creditors, or did it at least anticipate that such damage might result?
 - In exercising due diligence, would the favoured creditors recognise an intention on the part of Flightlease AG to cause damage to creditors?
- e) The timing of the payment and the closeness of relationship of the creditors to Flightlease AG – i.e. their knowledge about the financial situation – are of crucial importance in assessing the subjective elements of the transaction, the intention to cause damage to creditors and the extent to which this intention might be recognised by the favoured creditors. The following grid was used:



The investigations produced the findings presented below for the individual payment categories.

1.2 Value-added and other taxes

Up to 30 August 2001, Flightlease AG paid a number of value-added tax bills to the Swiss Federal Tax Administration.

The payment instalments made on outstanding value-added tax bills were payments for which there was no service in return; the tax is owed unconditionally. The amounts concerned are not classified as gifts, however, because their payment is a statutory obligation. The voidability of a gift (Art. 286 DEBL) thus cannot be invoked.

For payments to the Swiss Federal Tax Administration to be contestable in the sense of voidability for intent, there would have to be evidence that the Swiss Federal Tax Administration was able to recognise prior to 1 September 2001 that Flightlease AG wished to favour the Administration or place other creditors at a disadvantage. There are no indications of this. Consequently, this group of payments fails to fulfil all of the criteria necessary for a Pauliana action for the payments made to the Swiss Federal Tax Administration.

The same considerations also apply *mutatis mutandis* to the payment of a cantonal and municipal tax bill to the Kloten municipal treasury on 29 June 2001.

1.3 Interest rate swap transactions

On 6 March 2001, Flightlease AG paid USD 805,512.50 to UBS AG, London branch ("UBS"), followed on 12 June 2001 by another payment of USD 1,047,453.82 and on 6 September 2001 of USD 1,477,645. Swap agreements formed the legal basis for these payments. The swap agreements hedged the interest rate risk on interest-bearing leasing debts. Flightlease AG undertook to pay UBS interest on defined principal sums at fixed interest rates. In return, UBS undertook to pay to Flightlease AG interest at market rates on the same principal amounts. The two claims would be set off against each other on the relevant maturity date, with only the surplus of the credit or debit of Flightlease AG being settled by means of payment by or to UBS. The balance on each of the dates stated above was to the debit of Flightlease AG, because the fixed interest rate was higher than the one which was adjusted in line with the market.

Non-payment of the final balance would have resulted in the cancellation of the swap agreement, meaning that, in future, Flightlease AG would have had no hedge against interest rate fluctuations that were to its detriment.

The chances of a successful Pauliana action against the payments made to UBS under the terms of the swap agreements are therefore not high. The payments in question were always balanced by market-standard return services on the part of UBS. This return service consisted of the continuing hedge against interest rate risks.

1.4 Leasing instalments

Between 1 January 2001 and 5 October 2001, Flightlease AG paid regular leasing instalments for aircraft which it made available to Swissair and third-party airlines under the terms of subleasing agreements. The payments were made to the contracting parties of the leasing agreements in question.

The payment of the leasing instalments concerned was the return service to the grant of rights of use for the aircraft according to the agreements. This return service was fulfilled by the lessors until the leasing agreements were cancelled as a result of the cessation of Swissair flight operations and the grant of a debt restructuring

moratorium to Flightlease AG. Any failure to pay the leasing instalments that were owed by Flightlease AG to the lessors would have resulted in the early termination of the leasing agreements. Flightlease AG would thus no longer have been able to fulfil its obligations arising from the subleasing agreements with Swissair and the third-party airlines. As a result, it would not only have ceased to receive payments under the subleasing agreements, but would also have become liable to pay damages to the lessors, to Swissair and to the third-party airlines. Rather than increasing the liquidation estate, failure to pay the leasing instalments would have reduced it. The body of creditors therefore did not sustain any loss from the payment of the leasing instalments.

1.5 *Special cases*

Payment to Balair/CTA Leisure AG: This relates to a payment of USD 815,000 that was made by Flightlease AG on 24 August 2001 to Balair/CTA Leisure AG. Insolvency proceedings against Balair/CTA Leisure AG commenced on 27 November 2001. Due to cost reasons it was therefore decided not to examine the voidability of the aforementioned payment. Furthermore, a successful contest would have resulted in counter-claims being lodged by Balair/CTA Leisure AG.

Payment of fees to Baker & McKenzie, Zurich: This refers to a payment on 16 January 2001 of CHF 1,043,099.80 (fee for legal services) to the Zurich-based law firm Baker & McKenzie. In this case, an appeal was judged to be futile because the payment was made well over eight months before the debt restructuring term was granted. There are no indications that Baker & McKenzie could have been aware of any possible damage to creditors at the time the payment was made.

1.6 *Conclusion*

In light of the above assessment, the Liquidator and the Creditors' Committee will generally refrain from enforcing Pauliana claims, with the exception of claims against SAirGroup, SAirLines and Swissair.

2. **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 Flightlease AG, together with SAirGroup in debt restructuring liquidation, SAirLines in debt restructuring liquidation and

Swissair in debt restructuring liquidation 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 were 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. The legal opinion was submitted to the Liquidator 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 and a licence to operate certain air routes from the Federal Department of Environment, Transport, Energy and Communications ("DETEC"), respectively. Supervision on the part of the Confederation was therefore limited to Swissair. According to the legal opinion, SAirGroup, SAirLines and Flightlease AG, which were not subject to supervision by the Confederation, are not eligible to charge the Confederation with any breach of its supervisory obligations whatsoever. There was thus never any corresponding liability towards Flightlease AG and its creditors respectively. Even if Flightlease AG had been subject to federal supervision, the legal 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 Flightlease AG and its governing and executive bodies, respectively.

On the basis of the opinion produced by Prof. Dr. Tobias Jaag and Dr. Markus Rüssli, the Liquidator and the Creditors' Committee will not pursue the state liability claim on behalf of Flightlease AG.

3. Assignment requests by individual creditors

Each creditor is entitled to request the assignment of the right to take legal action in respect of those legal claims which are being waived by the Liquidator and the Creditors' Committee (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 Flightlease AG. 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 costs and his individual costs.

In the present case, the above relates to the right to enforce any Pauliana claims that Flightlease AG may hold (see section V.1 above) and to the right to pursue the state liability action against the Swiss Confederation on grounds of a breach of supervisory obligation (see section V.2 above). With regard to the Pauliana claims the creditors are informed that first legal steps to preserve their rights would have to be taken until 17 April 2005.

Requests for assignment according to Art. 260 DEBL may be lodged with the undersigned Liquidator **in writing by 21 March 2005 at the latest** (date of postmark of a Swiss post office). The right to request assignment will be deemed to be **forfeited** if this deadline is not met.

VI. PLANNED NEXT STEPS IN THE PROCESS

The schedule of claims is to be published for inspection by the creditors in May 2005 (see section II.1 above). Creditors will be informed about the publication in a circular. Further information for creditors, again in the form of a circular, is planned for the autumn of 2005.

Yours sincerely

Flightlease AG in debt restructuring liquidation

The Liquidator

Karl Wüthrich

Encs: Liquidation status of Flightlease AG 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	Remarks
ASSETS				
Liquid funds				
UBS CHF 803.530.01B	161'669'859	161'156'766	513'093	
UBS USD 803.530.60M	1'023'464	828'268	195'196	
Total liquid funds	162'693'323	161'985'034	708'289	
Liquidation positions				
Accounts receivable	194'533	156'528	38'005	
Receivables from third parties	6'166'821	8'702'036	-2'535'215	
Shareholdings	5	5	0	
Aircraft	0	92'400'000	-92'400'000	pledged
Furnishings, spare parts	2	2	0	
Responsibility claims	p.m.	p.m.		
Pauliana claims	p.m.	p.m.		
Total liquidation positions	6'361'361	101'258'571	-94'897'210	
TOTAL ASSETS	169'054'684	263'243'605	-94'188'921	
LIABILITIES				
Debts of the estate				
Accounts payable	34'083	91'287	-57'204	
Provisions for liquidation costs	2'000'000	2'000'000	0	
Total debts of the estate	2'034'083	2'091'287	-57'204	
TOTAL DISPOSABLE ASSETS	167'020'601	261'152'318	-94'131'717	

CREDITORS' CLAIMS

Category	Registered	by Liquidator			Dividend	
		recognised	rejected	decision suspended	min.	max.
Secured by right of lien	-	-	-	-	-	-
First class	4'537'692	914'233	1'468'666	2'154'793	100.0%	100.0%
First class, Swissair emp.	93'714'575	-	93'714'575	-	100.0%	-
Second class	1'289	2'654	-1'365	-	100.0%	100.0%
Third class	19'062'744'054	1'837'131'134	16'711'713'261	513'899'659	0.4%	9.0%
Total creditors' claims	19'160'997'610	1'838'048'021	16'806'895'137	516'054'452		