

**Unofficial Translation  
of German Original**

To the creditors of Flightlease AG in  
debt restructuring liquidation

Küsnacht, April 2008      WuK/fee

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**Flightlease AG in debt restructuring liquidation;  
Circular No. 10**

Ladies and Gentlemen

This Circular provides information on the progress of the Flightlease AG debt restructuring liquidation proceedings since April 2007, as well as on the next steps planned in these proceedings over the coming months.

**I. REPORT ON ACTIVITIES AS AT 31 DECEMBER 2007**

Having been acknowledged and approved by the Creditors' Committee on 26 February 2008, the fifth of the Liquidator's reports on activities for 2007 has been submitted to the debt restructuring judge at the district court of Bülach. The report is available for inspection by creditors at the premises of the Liquidator at Goldbach-Center, Seestrasse 39, 8700 Küsnacht, until 9 May 2008. Please make an appointment with Mr Christian 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**

The main focus of the Liquidator's activities during the year just ended was on the pursuit of the actions to contest the schedule of claims that have been lodged by a number of creditors.

Furthermore, enquiries were pursued into responsibility issues in connection with the Flightlease AG annual financial statements as at 31 December 2000. The final report is still pending.

## **2. Activities of the Creditors' Committee**

The Creditors' Committee held two meetings in 2007. At its meetings, the Committee discussed the various proposals submitted by the Liquidator and passed resolutions accordingly.

### **III. REALIZATION OF ASSETS**

#### **1. Overview**

In the course of 2007, the Liquidator collected accounts receivable amounting to around CHF 300,000.

#### **2. Claim of USD 962,000 against Galaxy Airways / Xifias S.A., Athens**

In 1999, Flightlease AG concluded a lease agreement for a Boeing 737-400 with Galaxy Airways, a Greek start-up airline. Flightlease AG's claims from the lease agreement were guaranteed by the Galaxy Airways parent company, Xifias S.A., a family firm listed on the Athens stock exchange.

Financial reasons forced Galaxy Airways to cease operations at the end of 2000. The lease agreement was dissolved with the conclusion of a settlement agreement between Flightlease AG, Galaxy Airways and Xifias S.A. This settlement agreement gave rise to claims of around USD 2.2 million on the part of Flightlease AG against Galaxy Airways / Xifias S.A. USD 1.2 million of this figure was secured by bank guarantees and cash deposits. The realization of this collateral left Flightlease AG with an unsecured claim of around USD 1 million. Neither Galaxy Airways nor Xifias S.A. paid this amount. Attempts have, therefore, been ongoing since the spring of 2002 to enforce Flightlease AG's claims by legal means. In the autumn of 2004, a court in Greece awarded Flightlease AG USD 962,000 in a legally binding ruling. However, the execution of this award ultimately failed because

insolvency proceedings were commenced against Xifias S.A. in Greece in early 2005. Even though Flightlease AG's claims were recognized in these proceedings, the proceeds from the realization of Xifias S.A. assets were not even sufficient to meet in full claims that held privileged status or were secured by a right of lien. Creditors with unsecured and non-privileged claims – including Flightlease AG – therefore lost their entire claim in the Xifias S.A. insolvency proceedings. Collection activities in respect of this claim thus ended without success.

#### **IV. Assertion of responsibility claims**

The respondents' written defences against the claim of around CHF 63 million that Flightlease AG had filed on 11 November 2005 against a number of former directors and officers before the District Court of Bülach (see Circulars No. 5 and 7) were submitted in February 2007. The respondents disputed their responsibility for various reasons, and their defences contained several procedural motions. The court found in favour of Flightlease AG by dismissing these motions. Flightlease AG is currently preparing its own reply to the defence documents.

#### **V. ASSET STATUS OF FLIGHTLEASE AG AS AT 31 DECEMBER 2007**

##### **1. Introductory remark**

Enclosed is a report on the liquidation status of Flightlease AG as at 31 December 2007, containing a statement of the assets of Flightlease AG in debt restructuring liquidation as of that date, according to present information.

##### **2. Assets**

As in the past, as-yet unrealized assets consist primarily of claims against former Swissair group companies, as well as Flightlease AG shareholdings in other companies. Moreover, any responsibility claims are carried pro memoria.

### **3. Debts incurred in the course of the liquidation process**

The accounts payable reported as at 31 December 2007 concern costs which have been incurred during the debt restructuring liquidation.

Of the provision for the first interim payment totalling CHF 39,053,056, CHF 3,957.25 relates to payments for which creditors have not yet submitted their payment instructions to the Liquidator. Meanwhile, CHF 1,311,466.90 relates to interim payments for conditional claims for which the conditions have not yet been met. A further CHF 23,539,836.10 concerns interim payments for claims for which an action to contest the schedule of claims is pending. The remainder of the provision – CHF 14,197,795.75 – is for claims that are still suspended at present. The provision that has been made guarantees the maximum amount of all interim payments for all claims that have not yet been settled.

### **4. Creditors' claims**

Please refer to the overview of the schedule of claims for Flightlease AG (enclosed) for information on progress in settling the related claims. Actions to contest the schedule of claims are still pending from five third-class creditors holding claims with a total nominal value of CHF 1,941,593,444.45. When assessing the actions to contest the schedule of claims that are still pending, it must be remembered that three cases, totalling around CHF 1.8 billion, concern claims for damages arising from lease agreements for various aircraft that Flightlease AG ceased to fulfil. These claims overlap to some extent. Furthermore, the damages concerned have been reduced since 1 April 2002 by the proceeds from the onward leasing of the aircraft in question to other airlines. However, even in a worst-case scenario in which Flightlease AG should lose the actions to contest the schedule of claims, the claims that must be recognized will not exceed CHF 800 million. This fact has been taken into account in calculating the minimum dividend (see Section 5 below). Legal proceedings are in progress.

**5. Estimated dividend**

The realisation of assets is largely completed. The liquidation status of Flightlease AG as at 31 December 2007 provides information on current disposable assets. The successful enforcement of responsibility claims is now the only means of bringing about a significant improvement on the asset side. However, the complex relationships involved in the prospective responsibility claims mean that their financial outcome is impossible to predict at the present time.

The disposable assets reported in the liquidation status give a maximum dividend of 9.3%, providing all of the still pending actions to contest the schedule of claims are unsuccessful and suspended claims are rejected. Should all of the actions be admitted and the suspended claims have to be recognized, however, the minimum dividend would be 5.9%. In calculating the minimum dividend, the reduction of around CHF 1 billion in the claims that are still pending the outcome of actions to contest the schedule of claims have been taken into account in accordance with Section 4 above. Of this, 2.5% has already been paid out in an initial interim payment. The remaining dividend that may be expected is therefore between 3.4% and 6.8%.

**VI. PLANNED NEXT STEPS IN THE PROCEEDINGS**

The next phase of proceedings will involve finalizing the schedule of claims and liquidating the last remaining assets. The liquidation bodies will focus on pursuing responsibility claims. It is not possible at present to estimate how long it will take before this issue is settled. Creditors will be provided with further information in a Circular that is planned for the autumn of 2008.

Yours sincerely

Flightlease AG in debt restructuring liquidation

The Liquidator

Karl Wüthrich

- Encs:
- Liquidation status of Flightlease AG in debt restructuring liquidation, as at 31 December 2007
  - Overview of the schedule of claims relating to Flightlease AG

**[www.liquidator-swissair.ch](http://www.liquidator-swissair.ch)**

**Hotline**

**Flightlease AG in debt restructuring liquidation**

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**LIQUIDATION STATUS AS OF 31 DECEMBER 2007**

	<b>31.12.2007</b>	<b>31.12.2006</b>	<b>Change</b>
	<b>CHF</b>	<b>CHF</b>	<b>CHF</b>
<b>ASSETS</b>			
<b>Liquid funds</b>			
UBS CHF 803.530.01B	777'575	3'326'274	-2'548'699
UBS USD 803.530.60M	720'963	7'016'051	-6'295'088
ZKB CHF 1100-0974.031	847'595	206'373	641'222
Credit Suisse CHF 818720-81	526'099	68'165	457'934
Cash deposits <sup>1)</sup>	123'000'000	115'000'000	8'000'000
<b>Total liquid funds</b>	<b>125'872'232</b>	<b>125'616'863</b>	<b>255'369</b>
<b>Liquidation positions:</b>			
Accounts receivable	621'562	299'735	321'827
Receivables from third parties	2'196'379	1'803'142	393'237
Shareholdings	3	4	-1
Furnishings, spare parts	1	1	0
Responsibility claims	p.m.	p.m.	
Pauliana claims	0	0	
<b>Total liquidation positions</b>	<b>2'817'945</b>	<b>2'102'882</b>	<b>715'063</b>
<b>TOTAL ASSETS</b>	<b>128'690'177</b>	<b>127'719'745</b>	<b>970'432</b>
<b>LIABILITIES</b>			
<b>Debts of the estate</b>			
Accounts payable	48'998	103'539	-54'541
Provision, 1st interim payment	39'053'056	65'386'469	-26'333'413
Provisions for liquidation costs	2'000'000	2'000'000	0
<b>Total debts of the estate</b>	<b>41'102'054</b>	<b>67'490'008</b>	<b>-26'387'954</b>
<b>TOTAL DISPOSABLE ASSETS</b>	<b>87'588'123</b>	<b>60'229'737</b>	<b>27'358'386</b>

## Overview of the schedule of claims relating to Flightlease AG

Category	Registered	Schedule of claims				Dividend			
		Recognised	Appeal lodged	Decision suspended	Rejected finally	1st interim payment	Future dividend		Total
	CHF	CHF	CHF	CHF	CHF	min.	max	min.	max.
Secured by right of lien	-	-	-	-	-	-	-	-	-
First class	97'919'713.91	1'258'541.66	-	1'350'389.68	95'310'782.57	100%	-	100%	100%
Second class	16'003.45	16'003.45	-	-	-	100%	-	100%	100%
Third class	18'776'586'367.25	1'837'134'156.54	1'941'593'444.45	513'896'242.11	14'499'161'937.00	2.50%	3.4%	6.8%	5.9%
<b>Total creditors' claim</b>	<b>18'874'522'084.61</b>	<b>1'838'408'701.65</b>	<b>1'941'593'444.45</b>	<b>515'246'631.79</b>	<b>14'594'472'719.57</b>				<b>9.3%</b>

<sup>1</sup> In calculating the minimum dividend it has been taken into account that the pending claims for damages arising from lease agreements have been reduced by the payments of around CHF 1 billion received by the plaintiff creditor until the end of 2007 for the onward leasing of the aircraft in question.