

To the creditors of Flightlease AG
in debt restructuring liquidation

Küsnacht, July 2004 Wü/cb/GaM

Flightlease AG in debt restructuring liquidation; Circular no. 2

Ladies and Gentlemen

This Circular provides information on the status of the Flightlease AG debt restructuring proceedings up until 31 December 2003, as well as on the next steps planned in the debt restructuring liquidation process over the coming months.

1. REPORT ON ACTIVITIES AS OF 31 DECEMBER 2003

Although at the end of December 2003 it had still not been a year since the debt restructuring liquidation began on 17 April 2003, the Liquidator produced a report on activities pursuant to Art. 330 of the Swiss Debt Enforcement and Bankruptcy Law (*SchKG*) as of 31 December 2003. Once it had been reviewed and approved by the Creditors' Committee, the Liquidator submitted this report on activities on 27 April 2004 to the debt restructuring judge at the district court (*Bezirksgericht*) of Bülach. The report on activities will be available for inspection by creditors at the Liquidator's offices at Seestrasse 39, Goldbach-Center, 8700 Küsnacht until 30 July 2004. 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.

2. OVERVIEW OF THE LIQUIDATION PROCESS

2.1 Activities of the Liquidator

By the end of December 2003, the Liquidator had prepared and conducted the realisation of assets. Specific tasks to be mentioned in this context are the negotiations with the creditors of Flightlease Holdings (Guernsey) Ltd. and its subsidiaries, as well as with Flightlease (Ireland) Ltd., regarding the initiation of proper liquidation proceedings for these companies. In these negotiations means of dissolving complicated leasing structures had to be found, and although long and drawn-out, these negotiations have since been concluded successfully. Agreements on the liquidation of the Flightlease Guernsey group and Flightlease (Ireland) Ltd. were reached with the creditors of these companies without initiating bankruptcy proceedings. The claims registered by Flightlease AG against Flightlease Holdings (Guernsey) Ltd. and Flightlease (Ireland) Ltd., amounting to around USD 0.4 million and approx. USD 2.7 million respectively, have been recognized by the companies and the creditors concerned.

Working closely with the Creditors' Committee, the Liquidator has instituted measures to clarify potential responsibility claims.

The Liquidator has also begun to draw up the schedule of claims with a view to settling liabilities. Some of the registered claims are based on complex leasing structures and will take quite some time to process.

2.2 Activities of the Creditors' Committee

The Creditors' Committee held a total of five meetings up until the end of December 2003. In constituting itself, the Committee elected Christoph Stäubli, attorney at law, as its Chairman.

Attorney at law Dr. Thomas Sprecher stepped down from the Creditors' Committee in August 2003. At its meeting of 20 August 2003, the Committee elected Dr. Andreas Binder, attorney at law from Baden, as a new member of the Creditors' Committee.

At its meetings, the Creditors' Committee discussed the various applications submitted by the Liquidator and passed resolutions accordingly.

3. REALISATION OF ASSETS

3.1 General

Up until the end of December 2003, the Liquidator took action to collect a variety of minor outstanding accounts receivable. Furthermore, the liquidation of affiliated companies (GATX Flightlease Management GmbH and Flightlease (Netherlands) B.V.) which are no longer actively pursuing business operations was instigated. The most important activities undertaken to liquidate assets are reported in the following.

3.2 Realisation of the four aircraft fuselages pledged as security: HB-IJB, HB-IJF, HB-IJG and HB-IOD

In order to raise funds, Flightlease AG concluded sale-and-lease-back transactions regarding a total of ten aircraft. Altogether, 20 engines were first sold and then leased back. Of the ten associated aircraft fuselages (each aircraft was fitted with two engines), six were sold and then leased back. Four aircraft fuselages remained in the ownership of Flightlease AG, but were encumbered with maximum mortgages in favour of a variety of financial institutions in order to guarantee the obligations arising out of the aforementioned leasing contracts. After the provisional debt restructuring moratorium had been granted on 5 October 2001, Flightlease AG was no longer able to fulfil the said leasing contracts. On 29 January 2002, the leasing companies concerned and the financial institutions behind them registered claims arising from the leasing contracts and totalling around USD 247 million.. The claims were recognized by Flightlease AG. A global solution was negotiated between Flightlease AG, the leasing companies and the financial institutions in order to dissolve the complicated leasing structure and to settle mutual claims. As part of this global solution, it was agreed that the finance and leasing companies concerned would found a new company which would then take over the ten aircraft at a set-off value of USD 20 million per aircraft, or a total of USD 200 million. This means that the claims of the finance and leasing companies against Flightlease AG are reduced by USD 200 million to around USD 47 million, plus maintenance costs. The Creditors' Committee agreed to this transaction. For a variety of technical reasons the transaction has not yet been completed. It should take place over the next few months, however.

4. ASSET STATUS OF FLIGHTLEASE AG AS OF 31 DECEMBER 2003

4.1 Introductory remark

In the Appendix, you will find a report on the liquidation status of Flightlease AG as of 31 December 2003 containing a statement of the currently known assets of Flightlease AG in debt restructuring liquidation as of 31 December 2003.

4.2 Assets

As-yet unrealised assets consist, in the main, of claims against former companies of the Swissair Group, of share positions held by Flightlease AG, residual IT equipment and office furnishings, as well as an MD-11 spare parts storage facility in the USA. Moreover, any responsibility and Pauliana claims are carried pro memoria. The four pledged aircraft fuselages for which an agreement on realisation has been reached with the creditors holding rights of lien (see section 3.2 above) are still included in the status report because the agreement has not yet been executed.

4.3 Debts of the estate

The *accounts payable* of the estate reported as of 31 December 2003 relate to costs incurred during the debt restructuring moratorium and the debt restructuring liquidation.

4.4 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 5 below). The liquidation status report as of 31 December 2003 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 Flightlease AG. It should be noted in this connection that, in deciding whether to recognise or reject claims, the liquidation bodies are not bound by Flightlease AG's assessment of the registered claims. Regarding first-class claims and claims secured by rights of lien the following remarks should be made:

Claims secured by rights of lien: Flightlease AG has concluded an agreement on the realisation of the pledged aircraft fuselages with all creditors holding rights of lien (see section 3.2 above). Preparations are currently under way for the execution of this agreement. All claims secured by rights of lien will be withdrawn as part of the execution process of this agreement.

First-class claims (former Swissair employees): claims of former Swissair employees in the total amount of CHF 93,466,560 are still registered with Flightlease AG as well. It will be possible to satisfy all privileged claims in full from the debt restructuring liquidation of Swissair, so Flightlease AG is no longer exposed to any risk that payments will have to be made to former Swissair employees.

4.5 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 0.3 % and 5.4 %.

5. PLANNED NEXT STEPS IN THE PROCESS

To settle the liabilities side, decisions on the acceptance or rejection of registered creditors' claims and their allocation to individual classes will be made in the process of drawing up the schedule of claims. It is envisaged that the schedule of claims will be drawn up in the course of this year and submitted to creditors for inspection at the end of 2004.

Furthermore, the necessary action will be taken in order to realise the remaining assets. In particular, the investigations into responsibility and Pauliana claims will progress sufficiently for a decision to be reached before end-2004 on what steps to take next.

Further information for creditors, in the form of a circular, is planned for the autumn of 2004.

Yours sincerely

Flightlease AG in debt restructuring liquidation

Liquidator



Karl Wüthrich

Encs: Liquidation status of Flightlease AG in debt restructuring liquidation, as of 31 December 2003

**Hotline Flightlease AG
in debt restructuring liquidation**

Deutsch: +41-43-222-38-30

Français: +41-43-222-38-40

English: +41-43-222-38-50

LIQUIDATION STATUS AS OF 31 DECEMBER 2003

	31.12.2003 CHF	31.12.2002 CHF	Change CHF	Remarks
ASSETS				
Liquid funds				
Cash	0	9'937	-9'937	
UBS CHF 803.530.01B	161'156'766	1'545'910	159'610'856	
UBS USD 803.530.60M	828'268	39'170	789'098	
Fixed-term deposits	0	150'739'725	-150'739'725	
Total liquid funds	161'985'034	152'334'742	9'650'292	
Liquidation positions				
Accounts receivable	156'528	192'691	-36'163	
Receivables from third parties	8'702'034	12'059'312	-3'357'278	
Shareholdings	5	5	0	
Aircraft	92'400'000	92'400'000	0	pledged
Furnishings, spare parts	2	2	0	
Responsibility claims	p.m.	p.m.		
Appeal claims	p.m.	p.m.		
Total liquidation positions	101'258'569	104'652'010	-3'393'441	
TOTAL ASSETS	263'243'603	256'986'752	6'256'851	
LIABILITIES				
Debts of the estate				
Accounts payable	91'287	228'530	-137'243	
Provisions for liquidation costs	2'000'000	2'000'000	0	
Total debts of the estate	2'091'287	2'228'530	-137'243	
TOTAL DISPOSABLE ASSETS	261'152'316	254'758'222	6'394'094	

CREDITORS' CLAIMS

Category	Registered	by Flightlease		Dividend	
		contested	recognised	min.	max.
Secured by right of lien	118'670'764	44'533'786	74'136'978	77.9%	100.0%
First class	3'634'629	1'623'879	2'010'750	100.0%	100.0%
First class, Swissair employees	93'466'561	93'466'561	0	100.0%	
Second class	2'654	0	2'654	100.0%	100.0%
Third class	22'601'103'200	19'506'554'957	3'094'548'243	0.3%	5.4%
Total creditors' claims	22'816'877'808	19'646'179'183	3'170'698'625		