



IN LIQUIDATION

FIRST ANNUAL REPORT OF THE COMPANY'S LIQUIDATORS TO ITS
CREDITORS AND SHAREHOLDERS

30th JANUARY 2015 – 31st JANUARY 2016

Lefkosia
18th April 2016

1 Introduction

Following our appointment as liquidators of Cyprus Airways Public Limited (“the Company”) on 30th January 2015, we hereby present, pursuant to article 282 of CAP113, our report on the progress of the liquidation for the 12 months ended 31st January 2016 and we also attach, as Appendix A, an account of receipts and payments for the same period.

2 Statutory information

2.1 The Company's statutory details are as follows:

Registered number	HE314
Registered office	41-49 Agiou Nicolaou, Nimeli Court, Block C, 2408 Engomi, CYPRUS
Company status	Augoustinos Papathomas and David Dunkley, partners in Grant Thornton (Cyprus) Limited and Grant Thornton UK LLP respectively, were appointed liquidators of Cyprus Airways Public Limited at meetings of the Company's shareholders and creditors which took place on 30 th January 2015. The meetings took place following the decision taken by the Company's Board of Directors on 9 th January 2015 to suspend operations and to initiate the procedure for creditors' voluntary winding up as a result of the adverse decision by the European Commission regarding state aid provided to the Company.

3 Asset realisations to date

Details of all receipts and payments made during the first liquidation period from 30th January 2015 to 31st January 2016 are presented in Appendix A of this report.

3.1 Aircraft

3.1.1. Two specialist sales agents were appointed to handle the marketing and sale of the aircraft, both with many years' experience in the aviation industry.

3.1.2. Details of the aircraft were circulated to ~160 airlines and were also advertised in trade journals and websites, such as Avitrader, Airfax and Myairlease.

3.1.3. A total of 15 offers were received, which were evaluated. Two offers were accepted but both the prospective buyers failed to fulfil their agreed obligations so the transactions were not concluded.

3.1.4. The aircraft was sold “as-is-where-is” to Bulgarian Air Charter Ltd for the amount of US\$2.250.000 and was delivered to the Purchasers on 28th August 2015, following full settlement of the agreed price.

3.1.5. The aircraft was deregistered from the Department of Civil Aviation on 8th September 2015 and departed from Larnaca airport on 17th September 2015.

3.2 *Spares and other equipment*

3.2.1. Spares and GSEs

3.2.1.1. Two specialist sales agents were appointed to handle the marketing and sale of the remainder of the aviation-related equipment, consisting of the spare parts stock (rotable and consumables) and the Ground Support Equipment (“GSEs”). Both agents have many years’ experience in the aviation industry.

3.2.1.2. Details of the equipment were circulated to ~180 companies engaged in related business and were also advertised in industry journals and websites..

3.2.1.3. A total number of 17 offers were received for all or part of the available spares/GSEs. Following evaluation of the offers received, the spares and GSEs were sold to 5 companies for a total value of (equivalent of) €1.515.000.

3.2.1.4. In the case of both the aircraft and the aviation-related equipment and parts, it was considered imperative to sell them as quickly as possible due to the fact that (among other costs) the monthly license fee for the Engineering Unit (the Hangar) was €33.217 plus VAT, (after the liquidators negotiated a discount of 25% as compared to the previous monthly fee).

3.2.2. Motor vehicles

All vehicles were catalogued individually, including details of age and mileage. Following publication of an advert in the local press in March 2015, details of the motor vehicles were advertised on the Company website. A total of 81 vehicles were sold and €181.000 was collected.

3.2.3. Furniture and IT equipment

Following publication of an advert in the local press in March 2015, details of the various furniture and IT equipment were published on the Company website. The liquidators also contacted various companies, private schools, universities and governmental departments to gauge interest. A total of €54.000 was collected. It should be noted that a large volume of furniture remains unsold and alternative options are being investigated.

3.2.4. Catering, Cargo and Mock-up Departments

It should be emphasised that, from the outset of the liquidation, the liquidators were faced with various issues arising from the licensing agreements which the Company signed during 2009-2011 with Hermes Airports Ltd for the use of the premises in the old and new airports. The most significant issue arose from the fact that the Company was placed into liquidation which automatically triggered the ‘Event of Default’ section of the agreement,

whereby the Company lost the right to use (or even sell outright) any “fixtures, alterations, additions, improvements and buildings” that were located in the airport land and premises. Despite this, following negotiations with Hermes, targeted or public tenders (as was deemed appropriate for each case) were issued, through which the equipment at the various airport licenced premises was sold for a total sum of €128.000.

3.3 Debtors

3.3.1. The Liquidators issued ~800 passenger and cargo sales invoices for the month of December 2014 and the period to 9th January 2015, for a total amount of ~€2.3m, as this task was not carried out before the Company ceased operations.

3.3.2. As at 31st January 2016, the liquidators had collected a total of €2.561.000 from debtors. The process of debt collection became more difficult and more complicated by the refusal of IATA to allow the Company access and use of its clearing system.

3.3.3. Several payment reminders have been sent to all debtors globally and final warning letters have been sent by our lawyers to those who are not responding. The liquidators are currently evaluating various options for maximising collections from these debtors. The options being considered, depending on the amount involved, the country of the debtor and the chances of success, are (i) to initiate legal proceedings, (ii) to appoint a debt collection agency or (iii) to continue to contact debtors and ask for payment (for low value debts). In each case, the liquidators will follow the option which will produce the highest collections in order to serve the best interest of the Company’s creditors and shareholders.

3.4 Cyprus Airways logo

In December 2014, the Company entered into an agreement with the Republic of Cyprus (“the Republic”) for the sale of its trademarks. The agreed consideration was €1.2m (which was invoiced and paid by the Republic prior to liquidation) plus any additional amount which would result from a new independent valuation of the trademarks. This evaluation was carried out by an external consultant who valued the trademarks at €2.5m. As a result, the Company issued a second invoice to the Republic for the difference (€1.3m plus VAT) prior to entering into liquidation. This invoice was not paid.

Once the company entered into liquidation, the Liquidators demanded settlement of this invoice which in fact was going to be settled via a set-off with the amounts owed by the Company to the Republic.

The liquidators were officially informed by the Republic that the second invoice would not be paid and should be cancelled. The claim of the Republic was based on a legal opinion obtained from the Attorney General which stated that, since the Company entered into liquidation and an alternative buyer was not found, the value of the trademarks was nil and therefore no additional compensation was due (beyond the initial payment of €1.2m).

Following receipt of a separate legal advice, which concluded that the possibility of successfully claiming payment of the second invoice was very small, the liquidators have cancelled the second invoice.

It should be noted that the total amount due from the second invoice, of €1.3m plus VAT of €247.000, was to be set off against the amounts claimed by the Republic as a creditor, and was going to be allocated on a pro-rata basis to the preferential and non-preferential elements of its claim. It was therefore estimated that the likely reduction in the Republic's preferential claim following the above set off would be approximately €200.000. However, the VAT payable by the Company in respect of this invoice €247.000 would rank as a preferential claim in the liquidation.

Therefore, the net impact on the liquidation of cancelling the invoice is small and is reducing the amount that the Government is claiming as preferential. In view of the above, and the legal advice received, the liquidators have taken the decision to cancel the second invoice and not to pursue this claim any further, in order to avoid incurring additional costs for the creditors.

3.5 *Credit card reserves*

3.5.1. Due to the perceived deteriorating financial position of the Company, the credit card companies (JCC, American Express and BNL of Italy) held back amounts from the remittances due to the Company in the period from 2012 to 2015, and built up reserves to cover claims and chargebacks from passengers in the event that the Company entered into liquidation. As of 30th January 2015, when the Company entered into liquidation, these reserves totalled €4.244.000. Since the credit card rules are that claims must be lodged within a specific timeframe, the exposure of the credit card companies is reducing as time goes on and the liquidators have therefore negotiated the release of the majority of the reserves.

3.5.2. Following extensive discussions with the credit card companies, the liquidators have secured a refund of €1.054.271 up to 31st January 2016 (as indicated in the R&P in Appendix A) and a further €2.688.000 (after the deduction of ~€501k in chargebacks from the credit card companies) was received since then. It should be noted that the chargebacks have been verified by the liquidators and numerous invalid ones were successfully challenged.

4 Expected future realisations

The following table summarises the asset categories where the liquidators anticipate future receipts post 31st January 2016. Where possible, and where the amount is not commercially sensitive, the level of future recoveries, based on current estimates, is also included:

<i>Asset</i>	<i>Actions being taken</i>	<i>Expected further proceeds</i>
Debtors	Continue to chase up debtors, reply to their queries, instigate legal actions against non-cooperative debtors and appointment of debt collection agencies, mainly for overseas debtors	€500.000
Shares in Swissport Cyprus Ltd	Negotiations to be held with Swissport	Uncertain
Remaining furniture, IT equipment and other assets	Tenders, sale from website and direct contact with interested parties	€75.000
Credit card reserves	Received post 31 January 2016	€2.688.000
Overseas banks	Main balance remaining in Greece, which has been delayed due to capital controls	€80.000

5 Creditor claims

5.1 According to CAP113, there are two classes of creditors: secured creditors and unsecured creditors, the latter being split between preferential creditors and non-preferential creditors. For the purposes of this report, non-preferential unsecured creditors are referred to as Ordinary Creditors.

5.2 Secured creditors

The Company had no secured creditors at the time of the liquidation.

On 24 April 2015, the Republic of Cyprus paid an amount of €15.948.409 to Hellenic Bank in final settlement of the outstanding amount on a loan which the Republic had guaranteed in May 2007.

5.3 Preferential creditors

Section 300(1) of CAP113 defines the principal categories of preferential creditors as:

- The following amounts due in respect of rates and taxes:
 - all local rates due from the company at the relevant date, and having become due and payable within twelve months next before that date;
 - all Government taxes and duties due from the company at the relevant date and having become due and payable within twelve months before that date and, in the case of assessed taxes, not exceeding in the whole one year's assessment.

- The following amounts due in respect of employment:
 - any salary owed to an employee and any sum withheld by the employer from the employee's salary for the payment of any obligations of the employee or otherwise, that the employer has not paid; and
 - any other sum or benefit of the employee that arises as a result of an agreement or employment relationship, including any sum owed to a recognized union that arises from the employment relationship between the employer and the employee or otherwise, that the employer has not paid.
 - Every amount due to the employee concerning the leave which he is entitled to from his employment in the company for an employment period of only one year.

To date, the liquidators have been notified and have registered potential preferential claims amounting to €31.171.000. These can be broadly classified as follows:

- Employee legal claims for deductions from salary and other claims (230 pending court cases), totalling approx. €9.366.000
- Employee claims for deductions from salary submitted to liquidator, totalling approx. €12.735.000
- Government preferential claims, totalling approx. €9.070.000

Following extensive quantitative checking, the total preferential claims have been reduced to €24.000.000. The reduction arose primarily in relation to the pending legal cases.

Following investigation carried out by the liquidation team and legal advice received, the majority of these claims are not yet accepted.

According to the legal advice obtained, given the nature of the claims from preferential creditors, without a compromise agreement (see paragraph 10.1.1), the dividend prospect for the preferential creditors will not become clear until all legal cases have been decided or settled. This process could take many years.

5.4 Ordinary creditors

The liquidators have received claims totalling €139m from Ordinary Creditors, including €86m from the Republic.

The liquidators currently estimate that there will be no dividend paid to Ordinary Creditors. Therefore, the liquidators have not incurred the costs of formally agreeing/proving these claims.

6 Other matters

6.1 A legal challenge to the appointment of the liquidators was submitted to the District Court of Nicosia on 9th February 2015 by an ex-pilot of the Company. The application challenges the validity of the appointment and requests, inter alia, the following remedies:

6.1.1. Court order declaring as void and/or cancelling the decisions of the Extraordinary General Meeting of the Members and the General Meeting of the creditors held on 30th January 2015, by which the Company entered into voluntary winding-up and by the which the liquidators were appointed and

6.1.2. Court order ordering the winding-up of the Company under section 209, 211(f), 212(a) and (c), 213(2) and 214 of CAP113.

6.2 The liquidators have lodged an objection to the above application and the matter is pending.

6.3 At the time of this report, it is uncertain when the matter will be resolved.

7 Liquidation realisation costs and expenses

7.1 All liquidation and realisation costs and expenses are presented in Appendix A.

7.2 Liquidation costs include the January 2015 salaries and termination payments for the notice period for all employees of the Company made redundant following the decision to close down the Company.

7.3 Amongst other costs incurred, the liquidators have taken over a large quantity of documents, books and records of the Company which were situated in various locations (head-office building, call centre building, several buildings in the old and new airports and 2 warehouses in Nicosia). It should be noted that the liquidators were unable to trace any proper index for this documentation. The liquidators have kept all the books and records which came into their possession and have collected them in 3 locations - the call centre office, a warehouse in Larnaca and one warehouse in Nicosia.

8 Liquidators' remuneration and expenses

8.1 At the meeting of creditors held on 30th January 2015 and pursuant to article 278(1) of CAP113, the creditors resolved that a Committee of Inspection ("Col") be formed.

8.2 Pursuant to the above-mentioned decision and article 279(1) of CAP113, the basis of the liquidation fees has been agreed with the Col and is based on hourly charges, which are capped at an amount equal to an aggregate of 4% of the assets sold and/or credited to the account of the liquidator plus 2% of the amounts distributed. Time costs incurred in dealing with certain items, including defending the legal challenge to the liquidators' appointment, are excluded from this cap.

8.3 You will note from the receipts and payments account attached at Appendix A, that the liquidations have, as of 31st January 2016, drawn €364.000 on account of their time costs.

9 Meeting of members and creditors

9.1 Pursuant to article 282 of CAP113, the liquidators have called for meetings of members and creditors, to be held on 25th April 2016 at 10:00am and 11:00am respectively, at the Conference Center Philoxenia in Nicosia.

9.2 It should be noted that the meetings are of an informative nature and no votes are envisaged. The liquidators will present an overview of the matters covered in this report.

10 Concluding remarks

10.1 There are two potential exit scenarios from the liquidation:

10.1.1. The first scenario is dependent on a settlement with the Preferential Creditors and specifically the employees, which would result from a negotiation and agreement between the liquidators and the employees for the amount to be admitted for each employee or class of employees. Such an agreement would expedite the determination of the amounts to be admitted and would allow an interim distribution within the next 6 months. However, it must be stressed that in order to negotiate a settlement, the main case against the liquidators will need to be finalised.

10.1.2. The second scenario is one where there is no negotiated settlement with the Preferential Creditors. In such a case, the following would apply:

- It will not be possible to determine the total of Preferential Creditors, and therefore the dividend payable, until all legal cases are finalised
- the costs of the liquidation will be significantly higher, mainly due to additional legal fees which will be incurred
- no distribution will be possible until such time as the legal process in relation to the legal cases has concluded.

Assuming that there are no adverse developments in the liquidation, and having made an estimate of the extra legal costs of scenario 10.1.2, the liquidators estimate that the two exit scenarios described above will result in funds available for distribution to preferential creditors ranging from €8m (for scenario 10.1.2) to €11m (for scenario 10.1.1).

10.2 The liquidators have already commenced the necessary procedures and are investigating the prospect of a negotiated settlement and hope to be in a position to provide more details at a forthcoming meeting of members and creditors.

Augoustinos Papatomas
Liquidator

David Dunckley
Liquidator

Appendix A - abstract of the liquidators' receipts and payments

RECEIPTS		For the period 30/1/2015 to 31/01/2016 (€)	Statement of affairs (€)
	Cash received/transferred from various local and overseas banks	8.287.552	7.895.000
	Sale of Assets		
	Aircraft	1.989.922	1.720.000
	Aircraft spares and other equipment	1.877.511	2.000.000
	Receipts from Debtors		
	Trade debtors	2.561.000	2.745.814
	Invoice for sale of logo	0	1.547.000
	Credit card reserves	1.054.271	2.700.000
	CO₂ Emissions sale	315.846	300.000
	Other Receipts	507.687	118.794
	Bank Interest Net	44.237	
	TOTAL RECEIPTS	16.638.026	19.026.608

PAYMENTS		For the period 30/1/2015 to 31/01/2016 (€)
<i>Realisation costs</i>		
	Salaries costs and termination payments	4.935.022
	Various fees and duties payable	66.285
	Property, storage and rental costs	417.613
	Insurance	212.294
	Professional Fees -Purchased services (incl commission)	127.401
	Software Licences	212.983
	Other expenses	119.482
	VAT control	90.222
<i>Liquidation expenses</i>		
	Legal Fees	133.233
	Liquidators fees	363.988
	Liquidator expenses	11.352
TOTAL PAYMENTS		6.689.875