



IN LIQUIDATION

SECOND ANNUAL REPORT OF THE LIQUIDATORS OF
CYPRUS AIRWAYS PUBLIC LTD (IN LIQUIDATION)
TO ITS CREDITORS AND SHAREHOLDERS

PERIOD 1ST FEBRUARY 2016 – 31ST JANUARY 2017

Lefkosia

3rd April 2017

Dear Sir/Madam

Cyprus Airways Public Ltd (in liquidation) (“the Company”)

1 Introduction

Further to our appointment as liquidators of the Company on 30th January 2015, we hereby present our second report on the progress of the liquidation for the period from 1st February 2016 to 31st January 2017, pursuant to article 282 of Company Law (CAP113) (“the Law”).

We also attach, as Appendix A, an updated account of receipts and payments for the year as well as accumulated for the first two years, from 30th January 2015 to 31 January 2017.

This report is the second annual report of the liquidators and is an update of the first annual report presented by the liquidators on 18th April 2016.

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 Dunckley, 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 30th 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 for the period 1st Feb 2016 to 31st Jan 2017

We set out below details of all receipts and payments made during the second liquidation period from 1st February 2016 to 31st January 2017.

3.1 Sale of assets

Since the date of the first annual report, the liquidators have realised an additional €205.546 from the sale of various assets, including receipt of the final payment from the sale of aircraft spares, and the sale of certain equipment remaining in the hangar, furniture and IT equipment.

It should be noted that, although a large volume of furniture and IT have been sold, some remain unsold.

3.2 Debtors

Since the date of the last annual report, the liquidators had collected an additional €744.796 from debtors. Efforts for the collection of pending balances are continuing and a debt-collection agency has been appointed to assist in the collection of overseas debts, with very good results to date. In addition, where deemed necessary, legal proceedings have been initiated by the liquidators against non-cooperative debtors.

3.3 Credit card reserves

Since the date of the last annual report, the liquidators have collected a further €2.679.514 from credit card companies (JCC and AmEx). The reserves were created by the credit card companies to cover possible refund claims from customers/passengers in case the Company ceased operations.

4 Expected future realisations

The following table summarises current estimates of anticipated future receipts (post 31st January 2017), by asset category:

<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	€50.000
Shares in Swissport Cyprus Ltd	Further negotiations to be held with Swissport	Uncertain

5 Creditor claims

5.1 Preferential creditors

Up to 31st January 2017, the liquidators have been notified and have registered claims amounting to €33.585.000, which could potentially be classified as preferential claims on the basis of s. 300 of the Law. These can be broadly classified as follows:

- Legal claims by ex-employees alleging improper deductions from salary and other benefits (around 220 pending court cases), totalling approx. €9.400.000
- Claims submitted to the liquidators by ex-employees alleging improper deductions from salary, totalling approx. €12.735.000
- Claims submitted to the liquidators from the Republic of Cyprus of approx. €11.450.000

It should be noted that, following quantitative checking, the total preferential claims have been reduced to €24.000.000. This reduction arose primarily in relation to claims for deductions from salaries.

According to the legal advice obtained, given the nature of the claims from preferential creditors, without a compromise agreement (see paragraph 9.1), 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.

5.2 Ordinary creditors

The liquidators have received claims totalling €139m from non-preferential creditors (“Ordinary Creditors”), including €78m from the Republic.

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

6 Other matters

6.1 The legal challenge to the appointment of the liquidators submitted to the District Court of Nicosia on 9th February 2015 by an ex-pilot of the Company (see section 6.1 of the first annual report dated 18th April 2016) is still ongoing, although an application for a related interim order was rejected by the Court.

6.2 At the time of this report, it is uncertain when this 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 The liquidation expenses include salaries for January 2015 as well as payment of the notice period paid to former employees of the Company following the decision to cease operations.

8 Liquidators' remuneration and expenses

8.1 You will note from the receipts and payments account attached at Appendix A, that the liquidations have, for the period 30th January 2015 to 31st January 2017, drawn €767.102 on account of their fees.

9 Possible scenarios for finalisation of liquidation

As explained in the first annual report dated 18th April 2016, there are two potential exit scenarios from the liquidation:

9.1 The first scenario presumes that the liquidators come to a compromise or settlement agreement with the preferential creditors (former employees and the Republic of Cyprus) in the form of a Scheme of Arrangement pursuant to s. 198 and s. 199 of the Law. This scenario, which is explained in more detail in the next section of this report, would have the following advantages:

- the total amount of Preferential Creditors, and therefore the dividend payable, will be determined sooner, since there will be no need to for all legal cases to be finalised
- significant legal costs will be saved by avoiding trial costs of all the pending cases
- a distribution could be possible earlier, given that the Scheme of Arrangement could be approved and sanctioned within a matter of months as opposed to the time scale which would be required to finalise the legal process for all the pending cases.

9.2 The second scenario will come about in case the above-mentioned Scheme of Arrangement is not successful. In such a case, amongst others, the following will apply:

- The liquidators will have to wait for the legal process in connection with the above-referenced court cases to conclude so that the amount of preferential and non-preferential creditors is finally determined
- As a result, the dividend to creditors will not be determined until the finalisation of all court cases
- Liquidation expenses will increase substantially, mainly due to additional legal fees and other costs

10 Scheme of Arrangement

10.1 The process for a Scheme of Arrangement, as set out in s.198 and s.199 of the Law may be summarised as follows:

10.1.1. The liquidators draw up a proposal for an arrangement whereby the creditors are split into separate classes and an offer of settlement/compromise is made to each class which would include the amount of the claim which the liquidators would be willing to be admitted into the liquidation in settlement of their claim

10.1.2. The liquidators apply to the Court for an order to summon meetings of the classes, at which the terms of the Scheme of Arrangement and its effect are presented in detail

10.1.3. At the meetings, the terms of the Scheme of Arrangement are put to separate votes of the various classes. If a majority in value of the members of a class which are present and voting approve the scheme, and providing the Scheme is then sanctioned by Court, its terms are binding on all the creditors or the class of creditors as the case may be, as well as on the company and the liquidators.

10.2 If the Scheme of Arrangement is successful – in other words, the required majority is achieved and it receives the Court’s sanction – it would expedite the determination of the amounts to be admitted and would make an interim distribution possible within approx. 3 months from the Court approval.

10.3 However, as stated in the first annual report of the liquidators, a condition for the successful finalisation of such a Scheme of Arrangement is that the case against the liquidators referred to in 6 above must be finalised.

11 Estimated outcome

Assuming that there are no adverse developments in the liquidation, the liquidators estimate that the two exit scenarios described above will result in funds available for distribution to preferential creditors ranging from €10,5m (for scenario 9.1) to €8m for scenario 9.2, the difference being mainly the extra legal and related costs which will be incurred.

12 Meeting of members and creditors

12.1 Pursuant to article 282 of the Law, the liquidators have called for meetings of the Company's members and creditors, to be held on 8th April 2017 at 10:00am and 11:00am respectively, at the premises of the University of Cyprus grounds in Aglantzia.

12.2 It should be noted that the meetings are of an informative nature, during which the liquidators will present an overview of the matters covered in this report. It is not envisaged that any matters will be put to the vote.

Yours sincerely,

Augoustinos Papathomas / David Dunckley
Liquidators

Appendix A - abstract from liquidators' receipts and payments

RECEIPTS	For the period 1 Feb 2016 to 31 Jan 2017 (€)	For the period 30 Jan 2015 to 31 Jan 2016 (€)	Cumulative, for the period 30 Jan 2015 to 31 Jan 2017 (€)	Statement of affairs at 30 Jan 2015 (€)
Cash received/transferred from various local and overseas banks	84.606	8.287.552	8.372.158	7.895.000
Sale of Assets				
Aircraft	0	1.989.922	1.989.922	1.720.000
Aircraft spares and other equipment	205.546	1.877.511	2.083.057	2.000.000
Receipts from Debtors				
Trade debtors	744.796	2.561.000	3.305.796	2.745.814
Invoice for sale of logo	0	0	0	1.547.000
Credit card reserves	2.679.514	1.054.271	3.733.785	2.700.000
CO₂ Emissions sale	0	315.846	315.846	300.000
Other Receipts	90.159	507.687	597.846	118.794
Bank Interest Net	143.581	44.237	187.818	0
TOTAL RECEIPTS	3.948.202	16.638.026	20.586.228	19.026.608

PAYMENTS		For the period 1 Feb 2016 to 31 Jan 2017 (€)	For the period 30 Jan 2015 to 31 Jan 2016 (€)	Cumulative, for the period 30 Jan 2015 to 31 Jan 2017 (€)
Realisation costs				
	Salaries costs and termination payments	99.947	4.935.022	5.034.969
	Various fees and duties payable	58.616	66.285	124.901
	Property, storage and rental costs	157.984	417.613	575.597
	Insurance	-12.859	212.294	199.435
	Professional Fees - Purchased services (incl commission)	59.686	127.401	187.087
	Software Licences	190	212.983	213.173
	Other expenses	71.213	119.482	190.695
	VAT control	85.576	90.222	175.798
Liquidation expenses				
	Legal Fees	164.952	133.233	298.185
	Liquidators fees	403.114	363.988	767.102
	Liquidator expenses	4.330	11.352	15.682
TOTAL PAYMENTS		1.092.749	6.689.875	7.782.624