

CIVIL AND PENAL COURT OF VICENZA

-BANKRUPTCY DIVISION-

Assessment Report on value of aircraft

CESSNA Citation 560 XLS

marche 9H-VMK

Bankruptcy FINCOPTER SRL- in liquidation

Bankruptcy File No. 106/2017

Bankruptcy Judge Dr. Giulio Sorella

Officer Receiver Dr. Nicola Falde

Assessor appointed to assess the movable asset under reference: Mr. Alberto Folchini (Engineer), member of the National Registry of Engineers in Milan under no. 10227, as well as the National Registry of Technical Consultants of the Civil Court of Milan filed under no. 5427, and owner of the studio in Angera (Varese) via Arturo, Merzagora, no. 23.

--0--0-

In the year 2017, on the twentieth day at 11.00 hours, I, the undersigned Mr. **Alberto Folchini** and the Officer Receiver Mr. Nicola Falde went to the airport hangar of Bolzano where the aircraft in question had been deposited.

Mr. Stefano Maronato, authorised technician of the Maltese aircraft control body (**TM-CAD** Transport Malta – Civil Aviation Directorate, where the aircraft has been regularly registered, was appointed for the on-the-spot-check. In order to fully understand the reason for his presence, it is deemed essential in briefly outlining the procedures relating to the management of any aircraft operating under the **EASA** (European Aviation Safety Agency) viz. the European Aeronautic Association which deals with the safety of all aircraft transport. In fact, the European Community, when creating this body in 2002, had intended not only to protect the users of this means of air transport, but also all those who could be involved in any probable accident. In order to achieve the above-mentioned result, EASA has introduced a group of norms, on the one hand devoted to construction processes in the maintenance of such vehicles and on the other on the mode of use. And for the precise purpose of respecting the procedures connected to the responsibility of the person who has the authorisation to “touch” an aircraft (not only the pilot himself, but also simply opening the aircraft doors, either to inspect or to test the light-switches, instruments so forth and so on) for this reason it was deemed necessary to call the afore-mentioned Mr. Maronato. As he himself possesses specific aeronautical qualifications, he was appointed and authorised to act on behalf of Luxwing Company, which had agreed to take on the responsibility by contract with Fincopter (owner of the vehicle under question) towards TM-CAD (and in turn towards EASA as well as

the community) and pledged to deal with the “air-worthiness” or better, its flying safety. In fact, Luxwing, is one of the companies that have been authorised by TM-CAD to operate as CAMO (Continuing Airworthiness Management Organisation) on a certain type of aircraft such as the CESSNA Citation 560 XLS in question.

Said due reasons shall serve to explain why some of the economic ratings made are not linked to the actual condition of the aircraft itself but rather on the passing of time, something which is not always taken into consideration when assessing movable and/or immovable assets.

Description of the Aircraft

The aircraft falls under the category of “business jet “ equipped with two turbo-fan engines Pratt & Whitney (PW545B) of about 18 kN reverse thrust and auxiliary engine (APU-Auxiliary Power Unit (Honeywell RE 100) service fuselage, instrument Flying certificate (IFR-Instrument Flying Rules) maximum 9 passengers , two pilots (luggage included) MTOW (Maximum Take- off Weight) of about 80 kN.

CESSNA began the construction of Citation 560XL in 1998 and has since then built and sold many. The aircraft in question is the XLS version (an improved version as compared to the 2004 one) and obtained its first ARC (similar to an automobile logbook) on 2 January 2007 bearing the serial no. 5674.

The aircraft presently possesses a n ARC valid until 2 February 2018 (encl.1) even though it cannot be used as some on calendar maintenance operations still need to be carried out.

Since its first flight till now the aircraft has accumulated about 4.800 hours and a number of cycles (take-offs and landings) totalling 3.600. Last flight was executed on 29 October 2016 from Malta to the base in Bolzano. It has since then flown an average of one hour per day.

Externally, the fuselage of the aircraft is in good condition (see photo 1) even though it has for some time been left out in the open, initially on the service area of the airport of Bolzano, then on the lawn before being finally parked in the hangar (following the intervention of the Officer Receiver). Hence, it does necessitate a thorough wash and polish. The interior of the aircraft is in good condition, flying equipment and passenger fittings in normal condition as congruent to registered use (see photos 2-3-4-5-6 some of which lack the luminosity as they were taken inside the hangar.)

As afore-mentioned, the aircraft possesses not only complete digital electronic instruments (so-called “Glass Cockpit”- Citation 560XLS aircrafts possess them in series) which permit them to fly in IFR, but also particular instruments , which are not compulsory, but that make the aircraft more comfortable and safe (photo 7-8-9) and in particular:

- Weather Radar Honeywell Primus 880 digital weather radar
- EGPWS Mark V Honeywell control and detection system obstacle proximity on soil
- TCAS ACSS anti-collision warning system
- SATCOM AirCell ST3100 satellite communication device
- SSFDR Honeywell Flight Data Recorder in a solid state
- CVR FA 2100 Cabin Voice Recorder

The afore-going equipment has enabled the aircraft to obtain the certification for single-pilot flying.(see encl.2)

.....the documentation on board is well-kept and up to date as per EASA regulations afore-mentioned by the Luxwing Company Ltd (based in Malta, Susan Court Block A, Anate Rigord Street), which has regularly used the aircraft for passenger transport up till October 2016, hence ensuring its airworthiness as per CAMO and reporting to the Maltese aeronautical authorities (TM-CAD) and as in agreement to commercial contract provisions stipulated with the owning company Fincopter (encl.3).

The aircraft had been purchased in December 2014 by Fincopter for the price of 3.900.000 US \$ (encl.4) and same typology aircrafts today are quoted on international markets at a running price estimated around 3.000.000 - 3.500.000 US \$.

The aircraft in question could be quoted for the same value if it had all the required calendar maintenance operations as according to the maintenance programme approved by TM-CAD especially if the engines still possessed a conspicuous number of flying hours. In fact, at a certain stage of their life-cycle, all engines, in particular aircraft ones, need to undergo revision. Once aircraft engines reach the end of their life-cycle (established according to the effective number of hours carried out), need to be landed for a complete overhaul and undergo complete revision to be carried out by a specialized workshops. There are only two or three such companies in Europe that deal with the revision of engines P&W that this Citation 560 XLS is equipped with.

As afore-mentioned, the aircraft engines under question possess by now only some hundred flying hours before having completed this revision, the cost, which will not be indifferent, is estimated to be approximately 800.000/900.000 US \$ each plus dismantling costs to be added as well as transport to and from the specialized workshop and following overhaul (estimated at about 50.000 US \$). Normally, in order to avoid an impact on the budget of a single year, a form of advanced yearly payment behind insurance is foreseen, as carried out by Luxwing to JSSI on behalf of Fincopter up until April 2017. The negative side to these insurance-based contracts is the risk of losing all premiums that have been paid on agreed instalments should the payments be interrupted. And this seems to be the case under question (see mail from JSSI – encl.5).

Hence, given the current situation of insolvency of the contract, the market value of the aircraft is to be estimated only at 1.800.000 US \$.

It is probable that if a suitable and proper negotiation process with the company JSSI had to be undertaken in no time, the new potential purchaser could recover the capital that has been paid.

Just to outline the fact that an aircraft rapidly loses market value, it would be worthwhile bearing in mind that said value can only refer to an aircraft that can be said to be "airworthy", in other words if it had to be kept under continual maintenance as in accordance to CAMO requirements, which obviously has costs. Therefore, in order to be able to determine an immediate value, it would be deemed proper to give an assessment of maintenance costs to be carried out by CAMO and to be borne up until the date of its sale.

In this regard and more precisely, in order to conserve the value of the aircraft as long as possible in time, the Officer Receiver has rightly drawn up a suitable agreement with the afore-mentioned Luxwing company which provides for the "freezing" of the current state of the aircraft and to continue to manage the same for the time required, at least those deemed urgent and imperative as far as TMCAD is concerned. The costs set forth by said agreement are to be included in the end selling price of the asset.

In conclusion, as to date, the effective commercial value of the aircraft can be assessed to be at 1.800.000 US \$ but, if a fair reduction had to be applied in the event of a bankruptcy sale (in view of the absence of a guarantee for vices of an asset which is subject to forced sale), it is deemed possible to assess the value at 1.500.000 US \$ for the aircraft in question, in view of a clearance auction sale.

In faith,

dott . Ing. Alberto Folchini (Engineer)

Angera, January 8th , 2018

Encl.:

- photo 1 The aircraft in the hangar in Bolzano
- photo 2 Internal cabin from passenger angle
- photo 3 Internal cabin entrance ramp compartment
- photo 4 Front landing gear
- photo 5 Principle landing gear
- photo 6 Turbo-jet left P&W with the correct protection
- photo 7 Left piloting place
- photo 8 Right piloting place
- photo 9 Front compartment

- encl. 1 ARC – valid Airworthiness Review Certificate
- encl. 2 Aircraft Compliance Check list
- encl. 3 Leasing Contract between Luxwing and Fincopter
- encl. 4 Aircraft Purchase Contract
- encl.5 JSSI Contract Situation

The present document has an illustrative purpose and provides an unofficial translation of the original document in the Italian language.

In case of any misunderstanding related to the interpretation of the present document, please refer to the official Italian language version.