

IN THE FEDERAL COURT OF AUSTRALIA
DISTRICT REGISTRY

No. V621 of 2005

IN THE MATTER OF ANSETT AUSTRALIA LIMITED
(ACN 004 209 410) & ORS (in accordance with the
Schedule attached) (All Subject to a Deed of
Company Arrangement)

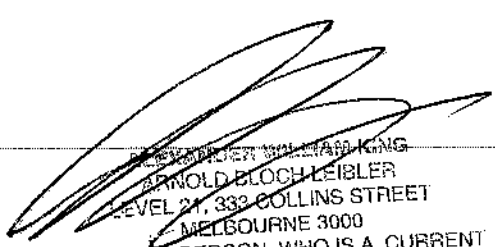
and

MARK ANTHONY KORDA and MARK FRANCIS
XAVIER MENTHA (as Deed Administrators of the
Companies)

CERTIFICATE IDENTIFYING EXHIBIT

This is the exhibit marked "**MAK-11**" produced and shown to **MARK ANTHONY KORDA** at the time of swearing his affidavit dated 12 September 2005.

Before me:



ALEXANDER WILHELM KING
ARNOLD BLOCH LEISLER
LEVEL 21, 333 COLLINS STREET
MELBOURNE 3000
A NATURAL PERSON WHO IS A CURRENT
PRACTITIONER WITHIN THE MEANING OF
THE LEGAL PRACTICE ACT 1996

Exhibit "MAK-11"
Third Report to Creditors

Ansett Group of Companies

Third Report

16 September 2002



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ANSETT GROUP THIRD REPORT

This is our Third Report to the creditors of the Ansett Group. Our First Report was dated 16 January 2002 and our Second Report was dated 15 March 2002. All reports are available on the Deed Administrators' web sites at www.ansett.com.au/administrator and www.abl.com.au/administrator.

Purpose of Report

The purpose of this report is to:

- Provide an update on the administration generally.
- Advise creditors of realisations of assets of the Ansett Group.
- Provide an estimated return to creditors of the Ansett Group on a group basis.
- Advise creditors of the extent of our investigations.

Third Meetings of Creditors

The Third Meetings of Creditors of the Ansett Group has been convened in accordance with the Deeds of Company Arrangement ("DOCAs") and will be held on 25 September 2002 at 11.00 am at the Auditorium, Melbourne Exhibition and Convention Centre, 2 Clarendon Street, Southbank, Melbourne 3006.

The purpose of the Third Meetings of Creditors is to consider the Deed Administrators' Third Report concerning the Ansett Group's business, property, affairs and financial circumstances.

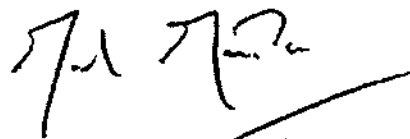
Resolutions to be Proposed

This meeting has been convened in accordance with the DOCAs. There are no resolutions proposed for this meeting. Creditors should note that creditors can only pass a resolution in relation to the variation or termination of the DOCA of which prior notice has been circulated pursuant to Section 445F of the Act.

Dated this 16th day of September 2002.



MARK A KORDA
Deed Administrator



MARK F MENTHA
Deed Administrator



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**ANSETT GROUP (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
THIRD REPORT**

The companies for which this report has been prepared are listed at Appendix 1. Any reference to dollars in this report relates to Australian currency unless indicated otherwise.

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**ANSETT GROUP (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
THIRD REPORT BY DEED ADMINISTRATORS**

1. Executive Summary

1.1. Progress of Administration

Since the Second Report, we have aggressively pursued the realisation of the Ansett Group assets in order to maximise proceeds from those assets. We have realised over \$630m out of a potential \$1b of assets, including the sale of three regional airlines and the sale of major property assets. The sale of the property assets included the domestic terminal leases ("DTLs"), which were extremely complex and difficult transactions.

The next stage of the realisation process is focused on the aircraft and the aircraft spares. Due to the depressed state of the aircraft market and the volume of these assets, it will be extremely challenging to sell these assets in the short term at values acceptable to us. However, our strategies are in place and are progressing.

Costs to date are under budget. The majority of future costs relate to the maintenance of the aircraft. These costs are time dependent and will vary if the timeframe is shortened or extended.

1.2. Return to Creditors

1.2.1. Return to Employees

We are aiming to achieve an average total return to employees of 92 cents for each dollar owed. Ultimately, however, the timing and amount employees will receive largely depends on the realisations of aircraft and aircraft spares.

Whilst difficult to predict, we believe aircraft sales yielding \$150m are reasonably achievable (we have written down aircraft valuations by 50% since our First Report), which would result in an average total return to employees of 88 cents for each dollar owed. If aircraft sales yield an additional \$50m, i.e. \$200m, employees would receive an average 92 cents for each dollar owed. Even if no aircraft are sold, we estimate that employees would receive an average of 74 cents for each dollar owed.

A major risk affecting the timing and amount of return to employees is if the courts find that superannuation shortfalls must be paid prior to employee entitlements. This would mean a reduction in funds to the Ansett Group of up to \$200m and there would be no prospect of any further returns to employees for at least two years.

Employees have so far received entitlements of:

- 100 cents in the dollar for unpaid wages;
- 100 cents in the dollar for annual leave, long service leave, time in lieu and other days;
- 100 cents in the dollar for pay in lieu of notice, and for up to 8 weeks of redundancy.



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For more than 3,600 employees, this means that they have been paid 100% of their entitlements.

Subject to the superannuation proceedings finalising shortly and finding that shortfalls do not rank to priority, we have forecasted the following instalments, to be paid to employees who are owed further monies, over the next six months:

- The first instalment forecasted, to be paid in December 2002, will be 10 cents in the dollar for redundancy greater than 8 weeks. This will represent a total return to employees to date of 58 cents in the dollar of total entitlements.
- The second instalment forecasted, to be paid in March 2003, will be 5 cents in the dollar for redundancy greater than 8 weeks. This will represent a total return to employees to date of 60 cents in the dollar of total entitlements.
- The third instalment forecasted, to be paid in June 2003, will be 5 cents in the dollar for redundancy greater than 8 weeks. This will represent a total return to employees to date of 62 cents in the dollar of total entitlements.

Because of the uncertain state of the global aviation market, we will review progressive asset realisations and pay instalments as soon as practicable after funds become available. Throughout the administration, we will advise creditors every six months of anticipated quarterly instalments.

1.2.2. Return to Unsecured Creditors

It is unlikely there will be a return to unsecured creditors unless realisations from aircraft are considerably greater than expected. It is optimistic to think that this would occur.

1.3. Investigations

Our investigations into the affairs of the Ansett Group have progressed significantly since the Second Report. We have examined and continue to examine potential actions available to the Ansett Group and potential actions available to a liquidator. A detailed and confidential report of over 70 pages has been discussed with the Committees of Creditors. Further investigations are required into a number of areas under consideration. We have finalised our investigations in some areas and recommend that no further action be taken in relation to these potential causes as we have concluded either there is no evidence of a breach or there is no recovery available.

A number of investigations relate to Air New Zealand and its directors. In general, these investigations are continuing and we will assess any potential action once these are finalised in terms of whether it was included in the settlement of \$150m with Air New Zealand in October 2001, the estimated costs of litigation and the chance of success.



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THIRD REPORT BY DEED ADMINISTRATORS**

2. Communication with Stakeholders

2.1. Communication Updates

We established web sites early in the administration to post documents relating to major issues in the administration. Further information will be placed on the web sites when appropriate.

There have been weekly updates provided to the Committees of Creditors which contain detailed information, often of a sensitive nature. A summary of the major issues covered in each update is as follows:

Update	Date	Major Issues
1	31 May 2002	Update on the sales of Ansett International Cargo Handling, Ansett Australia Headquarters, Kendell Airlines, Sydney Airport Terminal, Melbourne Airport Terminal, Brisbane Hangar and Melbourne Jet Base
2	7 June 2002	Update on the sale of Ansett Interests in the Brisbane Airport Terminal Employee Redundancy Update
3	14 June 2002	Update on the sale of Melbourne Jet Base Details regarding Project Management Transition from Andersen to KordaMentha Detailed property update, including freehold property, domestic terminal leases and other leased property
4	21 June 2002	Update on the sales of Kendell, the Brisbane Airport Terminal and ground support equipment to Virgin Blue Update on the Adelaide furniture and equipment auction Detailed report on the aircraft fleet Web site upgrade
5	28 June 2002	Update on the sale of Kendell Staff debt recovery program
6	5 July 2002	Detailed report on the Ansett continuing workforce Update on Ansett Australian Engineering Services Redundancy program and employee entitlements
7	12 July 2002	Ansett redundancy program update Group certificates
8	15 July 2002	Update on the sale of Kendell
9	19 July 2002	Ansett Australia Engineering Services Update on the sale of Kendell Superannuation funds Summary of auctions to date
10	27 July 2002	Update on the sale of Kendell Summary of court actions associated with the administrations
11	1 August 2002	Update on the sale of Kendell Detailed report on continuing legal matters
12	12 August 2002	Detailed summary of auction results for Ansett equipment Update on sale of Ansett Domestic Cargo Terminal



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Update	Date	Major Issues
		Ansett web site
13	16 August 2002	Update on superannuation, trademarks and the third meeting of creditors Update on the sale of rotables, consumables and spares
14	22 August 2002	Update on the sale of spare engines
15	30 August 2002	Update on the sales of AASS, Melbourne Jet Base and Flight Kitchen Timetable for Meetings with Creditors
16	6 September 2002	Update on IT infrastructure downscaling

2.2. Committees of Creditors Meetings

Section 436F of the Act states the function of a Committee of Creditors is to consult with the Administrators about matters relating to the administration and receive and consider reports prepared by the Administrators. The Committee of Creditors cannot give directions to the Administrators, except to require the Administrators to report to the committee on matters relating to the administration as and when reasonably required.

Ten meetings of the Committees of Creditors have been held. The Committees of Creditors have continued to approve our remuneration.



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3. Estimated Return to Creditors

The estimated return to creditors has been prepared on a consolidated basis using valuations, estimates and assumptions, many of which are commercially sensitive at this time, and for this reason have not been detailed in the report. The estimated return is based on currently available information. It is a best estimate only. Events or changes in conditions may materially impact the estimates used in the report.

An estimate of the potential return to creditors on a group basis is as follows:

Estimated Return to Creditors	Section	\$m	Return
Assets (excluding Aircraft & Spares)			
Assets realised to date	3.1	539.4	
Assets sold but not yet settled	3.2	90.6	
Assets still to be realised or collected	3.3	58.6	
Aircraft spares	3.5	100.0	
Total Assets		788.6	
Costs incurred to date & to complete	3.6	(298.6)	
Other Contingencies	3.7	(40.0)	
Total before aircraft realisations		450.0	Total return to employees of up to 74 cents, including 46 cents for redundancy greater than 8 weeks. Total return to employees of up to 88 cents, including 74 cents for redundancy greater than 8 weeks. This additional \$50m increases the total return to employees to 92 cents, including 84 cents for redundancy greater than 8 weeks.
Net realisations from aircraft (last report - \$250m)	3.4	150.0	
Each \$50m of additional net realisations from aircraft if ownership/grouping, valuation and other issues are resolved	3.4	50.0	
Estimated Employee Entitlements	3.8	735.8	
Major Issue Affecting Return			
Claim that shortfalls in the superannuation funds may be a priority creditor up to \$200m.	3.7	Up to (200.0)	
The state of the global aviation market will ultimately determine how much creditors will get and when.			



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We are aiming to achieve an average total return to employees of 92 cents for each dollar owed. Ultimately, however, the timing and amount employees will receive largely depends on the realisations of aircraft and aircraft spares. The global market is extremely depressed in this area and we are largely dependent upon a revival of the aircraft market.

Even if no aircraft are sold, we estimate that employees would receive an average of 74 cents for each dollar owed. However, whilst difficult to predict, we believe aircraft sales yielding \$150m are reasonably achievable (we have written down aircraft valuations by 50% since our First Report), which would result in an average total return to employees of 88 cents for each dollar owed. If aircraft sales yield \$200m, employees would receive an average 92 cents for each dollar owed.

A major risk affecting the timing and amount of return to employees is if the superannuation proceedings find that superannuation shortfalls rank to priority. This will mean there will be no prospect of any returns to employees for at least two years.

3.1. Assets Realised to Date

Major assets realised to date are as follows:

Assets Realised to Date	Section	\$m
Property	3.1.1	
Ansett Sydney Airport Terminal		192.0
Ansett Melbourne Airport Terminal		25.0
Melbourne Jet Base		7.5
Other Domestic Terminals		5.1
Other Property		0.2
Businesses	3.1.2	
Aeropelican		6.0
Cargo and Ground Handling		14.6
Kendell (to date only)		6.6
Show Group		0.4
Skywest		1.6
Traveland		0.5
Debtors	3.1.3	107.4
Private Sales and Auctions	3.1.4	
Private Sales		10.6
Auctions		3.0
Settlement with Air New Zealand		147.5
Other – cash at appointment, government grants, interest		11.4
Total Assets Realised to Date		539.4



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3.1.1. Property

Ansett Sydney Airport Terminal

The final agreement for the sale of the Ansett Sydney domestic terminal to SACL was signed on 24 May 2002. Settlement occurred on 2 July 2002. Ansett Australia had occupied premises within Sydney Airport for more than 75 years. The terminal was re-opened in March 2000 after a major redevelopment in preparation for the Sydney 2000 Olympic Games. The 18-gate terminal incorporates 33 walk-through check-ins and ticketing counters, separate departure and arrival levels and an 800-person capacity Golden Wing lounge.

There were a number of difficulties associated with the sale process of the Sydney DTL. These arose from the terms of the lease in general and to the buyback provisions in particular.

The first difficulty with the buyback provisions was that they enabled SACL, as lessor, to acquire the Ansett facilities for "fair market value" on termination of the DTL. We believed that fair market value may have been significantly less than the price which could be achieved in a competitive market environment. We obtained expert advice that confirmed our belief.

The second difficulty with the buyback provisions was that a winding up of Ansett would trigger the buyback provisions. We maintained that a DOCA would not do so. However, shortly before Part 2 of the Second Meetings, SACL submitted that executing the DOCAs would constitute an event that triggered the buyback provisions.

To overcome these difficulties, the following process occurred:

- Prior to executing the DOCAs, an advertisement was placed on 21 March 2002 giving notice of the proposed sale of the Ansett Group's key DTLs. An application was made to the Federal Court to extend the time in which to execute the DOCAs to allow this sale process to occur. On 17 April 2002, the Court extended the time for the execution of the DOCAs by seven days until 24 April 2002, on the basis of drafting and technical difficulties.
- On 17 April 2002, an agreement with SACL was reached to enter into a "status quo agreement" for seven days. The purpose of the status quo agreement was to allow us time to reach agreement with SACL on a sale protocol, which would prescribe a period of time for the sale process of the Sydney DLT to be concluded by 24 May 2002. Between 17 April and 22 April 2002, we were unable to reach agreement with SACL for either an extension of the status quo agreement or agreement to an orderly sale process over a one-month period.
- A second application was therefore made to the Court to extend the time to execute the DOCAs for one further month to allow for the completion of a competitive sale process. As we were unable to reach agreement with SACL, the application was heard by the Court on 23 and 24 April 2002. Justice Goldberg made an order that, pending the



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Court's determination of the application, the time to execute the DOCAs be extended to a date not later than three days after the Court's determination. As Justice Goldberg indicated that it was his intention to deliver his judgment on 29 April 2002, if the application was not successful, the DOCAs would have to be executed on 2 May 2002. This was communicated to the parties that had expressed interest in purchasing one or all of the DTLs. On 29 April 2002, the application was refused and the DOCAs had to be executed on 2 May 2002.

- We continued discussions with SACL and interested parties. On 1 May 2002, we met with SACL and commenced negotiations that continued for many hours. SACL advised that an agreement with SACL would be easy to consummate and would not require any third party consents. However an agreement for the sale with a third party would require SACL's consent. While SACL would not unreasonably withhold it, it would require a due diligence process to be completed before SACL would do so. Agreement was reached with SACL, with the initial interim agreement with SACL being executed at 5 am on 2 May 2002. The sale price was \$197m, including \$192m in cash and \$5m in concessions. Agreement in principle was also reached to allow the assignment of other SACL property.
- An application was also made to Court to approve the sale process of the Sydney DTL to SACL. Included in the application were our confidential commercial reasons for accepting the proposal. Justice Goldberg held that in the circumstances it was appropriate to give a direction that we may give effect to the agreement of the sale of the Sydney DTL to SACL.

Ansett Melbourne Airport Terminal

The sale of Ansett's Melbourne domestic terminal interests to Australian Pacific Airports Melbourne for \$25m was completed on 17 May 2002. The sale included the Ansett-built Concourse B Gates 12 to 14, Ansett's 300-person capacity Golden Wing lounge and part of existing Ansett terminal facilities.

Melbourne Jet Base

The agreement for the sale of the Ansett Melbourne Jet Base in Tullamarine to Virgin Blue for \$7.5m was reached in June 2002. The sale included the Integrated Operations Centre facility, two hangars, two further office buildings and associated tarmac/apron area. An agreement was also reached for numerous rent-free licence agreements for the ongoing storage of Ansett planes and usage of the IOC building.

Other Domestic Terminals

More than \$5m has been realised from the sales of other domestic terminals, including Brisbane, Canberra, Adelaide, Hobart, Coolangatta, Rockhampton, Townsville, Cairns and Proserpine.



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3.1.2. Businesses

Aeropelican

Details regarding the sale of Aeropelican have been provided previously in the Second Report and in reports to the Committees of Creditors.

After advertising the business for sale, expressions of interest were received for the Aeropelican business and assets. After discussions with a number of interested parties, an agreement for the sale of the business and assets of Aeropelican to IAP Group Australia Pty Ltd was executed on 6 March 2002. The sale completed on 24 April 2002.

The Aeropelican creditors approved the execution of a DOCA on 25 January 2002 to effect the sale. The DOCA was executed on 15 February 2002.

The shares in Aeropelican were sold for \$6m and 15 employees continued in their employment. Employee entitlements of approximately \$200,000 will be met by the new owner of Aeropelican.

Sale of the business was by way of a sale of shares in the company. Accordingly, all creditor claims against Aeropelican (apart from employee entitlements) were released upon the DOCA terminating and substituted by claims against the net proceeds. The proceeds from the sale of the shares are held on trust by Bodas for the creditors of Aeropelican.

Ansett International

The business was closed by the Initial Administrators and we were unable to sell it as a going concern. The major assets of Ansett International were landing slot rights in a number of Asian ports, debtors and some minor plant and equipment. The non-utilisation of the landing slots on closure of the business resulted in the landing slots being forfeited. Debtors are being collected and the plant and equipment has been sold.

Australian Concession Management

This business ceased operating on 4 March 2002. We were unable to sell the business without an operating airline in the various airport terminals.

The major assets of the business are debtors and plant and equipment. Debtors are being collected in the normal course and the plant and equipment has been realised by way of tender, public auction or included in the sale of the DTLs.

Cargo and Ground Handling

After the non-completion of the agreement by Tesna, we contacted the parties who previously expressed an interest in International Cargo Handling. An agreement for the sale of the business to Patrick was executed on 26 April 2002 and the sale completed on 29 May 2002. The sale agreement included the assignment of numerous property leases throughout Australia.

The proceeds from the sale were \$14.6m and 60 employees with employee entitlements of approximately \$2m were transferred.



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The Domestic Cargo and Third Party Ground Handling businesses have ceased operating due to the closure of the mainline airline and loss of major customers. The major assets of these businesses are debtors and plant and equipment. Debtors are being collected and the plant and equipment has been sold.

Kendell

After advertising the business for sale, expressions of interest were received for the Kendell business and assets. After discussions with a number of the interested parties, Australiawide Airlines Ltd ("AWL") was announced as the preferred bidder on 7 May 2002 and an agreement for the sale of the business and assets of Kendell to AWL was executed on 28 June 2002. The sale completed on 1 August 2002.

Significant time was spent identifying and qualifying a suitable purchaser for the business. A number of issues were satisfied during the negotiations, including:

- Establishing appropriate agreements with key suppliers to the business, including airports and leasing companies.
- Resolution of outstanding industrial issues and employment terms and conditions.
- Satisfying regulatory requirements.

Further, it was necessary to co-ordinate the sale of Kendell with the simultaneous sale of Hazelton by AWL. There were a number of difficulties in relation to this.

The Kendell business was sold for \$12m and approximately 350 employees continued in their employment. Employee entitlements of approximately \$3m continue to be met by Kendell under its new owner. AWL acquired seven Metro 23 aircraft and three Saab 340A aircraft. Further, leases of seven Saab 340B aircraft were passed to AWL.

This was a very large and complex transaction. A separate detailed report was prepared for the creditors of Kendell (which is available on the Deed Administrators' web sites) and a meeting of creditors was held on 19 July 2002. At that meeting and its subsequent adjournments, the sale of Kendell was considered and approved. Variations to the Kendell DOCA were also approved but were not necessary when the agreement altered from a sale of shares to a sale of business, due to CASA issuing a new AOC to AWL.

Show Group

Details regarding the sale of Show Group have been provided previously in the Second Report and in reports to the Committees of Creditors.

After advertising the business for sale, expressions of interest were received for the Show Group business and assets.



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Following discussions with a number of the interested parties, a sale was made to Avis Services Ltd on 25 October 2001 for \$400,000 cash and the assumption by Avis Services Ltd of employee entitlements of approximately \$3.6m.

The Show Group debtors are being collected in the normal course.

Skywest

Details regarding the sale of Skywest have been provided previously in the Second Report and in reports to the Committees of Creditors.

Expressions of interest were received for the Skywest business and assets. After discussions with a number of the interested parties, an agreement for the sale of Skywest to Airline Investments Limited ("AIL") was executed on 21 February 2002.

The purchase price for the shares in Skywest was \$6.5m. Under the sale agreement, all of the Skywest employees continued in their employment with Skywest and their entitlements of approximately \$2.2m will continue to be met by Skywest. The amount received for Skywest was reduced by:

- The amount of the employee entitlements (not including redundancy and notice amounts) of \$2.2m.
- An allowance for working capital of approximately \$0.9m.
- The assets excluded from the sale are principally debtors and are being collected.

Traveland

Details regarding the sale of Traveland have been provided previously in the Second Report and in reports to the Committees of Creditors.

The Traveland business was sold to Internova Travel Pty Ltd ("Internova"), on 23 September 2001 for \$500,000 and the transmission of employee liabilities. We agreed to the sale solely on the basis that if we did not do so, Traveland would be required to cease trading and all employees would have been terminated.

In order to facilitate the sale of the Traveland business to Internova, we agreed that the Traveland employees would be no worse off than the Ansett employees.

Unfortunately, Internova was placed into liquidation on 21 December 2001. The former employees of Traveland have since been paid their GEERS entitlements by the Government through the liquidators of Internova. In addition and in accordance with our agreement, we, as Administrators of Traveland, have paid the difference between the GEERS and SEESA entitlement, which was approximately \$300,000. There is, however, ongoing legal action on this matter.

We have continued with the collection of the pre and post administration debtors of the company and settled various expenses of the administration.



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3.1.3. Debtors

To date, collections of debtor amounts outstanding as at the date of appointment are \$107.4m. A further \$9.0m is expected to be collected. The Ansett finance team have worked very hard and diligently on the collections, which are substantially above expectations.

3.1.4. Private Sales and Auctions

A summary of realisations from private sales and auctions held so far are as follows:

Private Sales and Auctions (Plant and Equipment) Realised to Date		\$m
Private Sales and Treaties		10.6
Auctions		
465 & 489 Swanston Street Offices	26 February 2002	0.1
Astrojet Centre	9 April 2002	0.1
Melbourne Head Office	21 May 2002	0.2
Adelaide Airport	20 June 2002	0.3
Alice Springs and Ayers Rock Airports	2 July 2002	0.2
Perth Airport	3 July 2002	0.5
Darwin Airport	4 July 2002	0.1
Brisbane and Maroochydore Airports	16 July 2002	0.8
Sydney and Canberra Airports	23 July 2002	1.2
Melbourne Head Office	24 July 2002	0.1
Melbourne Engineering	30 July 2002	0.6
Total Private Sales and Auctions Realised to Date		14.8

Approximately \$14.8m has been realised through the sale of airport ground service equipment, general office contents at airports, administration buildings and travel centres throughout Australia. These sales have occurred either by private sale or by public auctions. Ansett goods and equipment have now been sold from 32 second tier airports in regional centres including Ballina, Coffs Harbour, Gove, Broome, Karratha, Newman, Townsville, Groote Island and Denpasar. A total of 880 major equipment items have been sold by private sale. In some cases, entire airport contents were sold in private negotiations.

Much of the ground service equipment and specific airport equipment (conveyors, push back tractors, jacks, water trucks) has been sold to other airlines, ground handling agent companies and airport operators including Qantas, Patrick and Virgin Blue.

The auctions in particular have been very successful. In many cases, results achieved have exceeded our best estimates. This has been the result of a well organised publicity campaign and ongoing interest in the Ansett failure.



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Significant interest has been expressed in relation to Ansett's aircraft tooling. This engineering equipment is highly sought after, but is currently needed to maintain the Ansett fleet of aircraft.

3.2. Assets Sold but Not Yet Settled

Major assets sold but not yet settled are as follows:

Assets Sold but Not Yet Settled	Section	\$m
Property	3.2.1	
Ansett Australia Headquarters		
Ansett Sydney Domestic Cargo Terminal		
Brisbane Hangar		
Businesses	3.2.2	
Call Centres		
Flight Kitchen		
Total Assets Sold But Not Yet Settled		90.6

3.2.1. Property

Ansett Australia Headquarters

The tender for Ansett Australia Headquarters at the northern end of Melbourne's CBD was concluded on 28 May 2002. The successful sale, for in excess of \$30.2m, includes four buildings and a total land parcel of 7,627 square metres with frontages to Swanston, Therry, Victoria and Franklin Streets. The properties were offered individually or as a package. The purchaser has plans for the site, including office space, retail and residential projects, using existing buildings and some new construction. The sale will settle in November 2002.

Ansett Sydney Domestic Cargo Terminal

The sale of interests in the Sydney domestic cargo terminal to Menzies Aviation Group was completed in August 2002. Menzies Aviation Group has been operating in Australia since 1998 when it opened an 11,000 square metre airside facility at Melbourne Airport. The company now handles some 50,000 tonnes of air cargo per annum through Melbourne. In Sydney, the company established a small off-airport presence three years ago as a short-term solution pending availability of an airside facility.

Brisbane Hangar

Agreement has been reached with Qantas for the sale of the Brisbane Hangar. The formal sale process involved a call for expressions of interest. Two parties lodged expressions of interest. Agreement was reached with Qantas and the sale is expected to settle shortly, once issues with Brisbane Airport have been finalised.



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3.2.2. Businesses

Call Centres

The Sydney, Melbourne, Brisbane, Adelaide, Canberra and Perth call centres ceased operating as they were excess to Ansett's needs and were unable to be sold as a going concern. All employees have been made redundant and the plant and equipment has been sold or is for sale.

The Launceston call centre continued to operate in order to support the regional airlines and was closed shortly after the sale of Kendell completed. All employees have been made redundant and the plant and equipment is in the process of being sold.

Flight Kitchen

Agreement has been reached to sell the assets from the Flight Kitchen business to Alpha Catering. Included in the sale is the assignment of numerous properties around Australia.

3.3. Assets Still to be Realised

Major assets still to be realised are as follows:

Assets Still to be Realised	Section	\$m
Property	3.3.1	
Ansett Perth Domestic Terminal		
Melbourne Garden Drive Property		
Businesses	3.3.2	
Engineering		
Flight Simulators		
Kendell Remaining Assets		
Debtors and Other Assets		
Total Assets Still to be Realised		58.6

3.3.1. Property

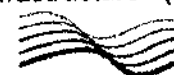
Ansett Perth Domestic Terminal

Discussions are continuing with Westralia Airports Corporation Pty Ltd to finalise the buyback of the Perth domestic terminal. Agreement is expected to be reached shortly.

Garden Drive Site

Ansett's Garden Drive site is a purpose-built, owner-occupied facility incorporating a variety of specialised and conventional style industrial and commercial improvements. These include engineering workshop facilities, warehousing, data centre, a plating shop and a highly specialised flight simulator building. In addition, 30% of the overall site is vacant land.

Critically, the utility of the buildings and their subsequent layout on site is specific to Ansett's airline operations and reflects the fact that the site has been owner-occupied by Ansett for an extended period of time. The current configuration of the site and associated infrastructure (road



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networks, services and position of improvements) is not suitable for multiple tenancies.

Therefore, in determining the most appropriate form of realisation for Garden Drive, various options have been considered. The following factors have contributed to the decision process:

- Return and risks of each option;
- Ansett's ongoing requirement for the various facilities; and
- Anticipated timing of realisation monies for creditors.

In this regard, we have sought advice from a number of parties including town planners, engineers, sale and leasing agents and developers. A process is now under way on the feasibility of the Garden Drive facilities being subdivided by area and services. Based on expert advice, it is envisaged that these superlots and associated facilities can be sold at prices far greater than that which could be achieved by immediate sale as a whole.

3.3.2. Businesses

Engineering

Since our appointment, the operations of Australian Aviation Engineering Services have been maintained in order to seek a going concern sale of the business, preserve the assets of Ansett prior to their realisation and to facilitate the redelivery of aircraft owned by lessors/financiers. The realisation of Ansett's aircraft, engines and other engineering assets is important in maximising the return to creditors of the Ansett Group.

While significant interest has been shown over the last six months in the various businesses within Engineering (being Heavy Engineering, Engine Shop and Components), at this stage a sale has not been achieved. Because of this and reducing workload levels, it has become necessary to reduce AAES staff levels to match current and anticipated workload.

AAES has maintained a core workforce of 99 employees to continue the current needs of the business (being the return of financed aircraft and fulfilling third party contracts in engine overhaul and component repair), supplemented with a variable contract workforce, engaged through a labour hire company with which AAES has contracted.

Discussions are continuing with parties interested in the three businesses. One party is interested in two of the businesses and is expected to advance discussions shortly.

Flight Simulators

This business incorporates seven flight simulators and is continuing to operate on a substantial cash positive basis with customers from a variety of domestic and international airlines, including Qantas and Virgin. A marketing plan for the sale of the business has been prepared and we are



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currently in discussions with a number of parties for the sale of the business.

Kendell

Following the sale of business to AWL, there are further assets to be sold, including aircraft, spares and rotables, which are expected to be realised over the next two years. The four remaining Saab 340A aircraft were leased to AWL and are now in preparation for sale. The spares and rotables in relation to the Metro 23 aircraft and the Saab 340 aircraft are being sold to AWL under a separate agreement.

3.4. Aircraft

The aircraft are the most valuable assets remaining. It is an extremely difficult environment in which to sell the aircraft, as it severely depressed due to the effects of 11 September 2001 on the world aviation market.

3.4.1. Ansett's Fleet

Below is a summary of the number and type of aircraft previously used in various Ansett airlines:

Aircraft Type	Owned	Finance Lease with Equity	Finance Lease with Limited or No Equity	Operating Lease	Total
Airbus A320		2	12	6	20
Boeing B727-200F				1	1
Boeing B737-300			20	4	24
Boeing B747-400				2	2
Boeing B767-200	5	2		2	9
Boeing B767-300				4	4
BAe 146-200	5			2	7
BAe 146-200QT	2				2
BAe 146-300	11				11
Fokker F50	4	5			9
Fokker F27-600	1				1
Fokker F28	4				4
DC-3	1				1
DHC-6	4				4
Metro 23	7				7
Saab 340A	7			1	8
Saab 340B				8	8
CRJ-200ER			12		12
Total Aircraft in Ansett Fleet	51	9	44	30	134



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Aircraft Type	Owned	Finance Lease with Equity	Finance Lease with Limited or No Equity	Operating Lease	Total
Sold or Leased to Date	(24)	(5)	(7)	n/a	(36)
Redelivered to Date	n/a	n/a	(16)	(26)	(42)
Aircraft Yet to be Sold, Novated or Redelivered	27	4	21	4	56

As at the date of our appointment, the Ansett Group (excluding Hazelton) operated 134 aircraft. The fleet comprised many different aircraft types and were located at airports throughout Australia and overseas. Only 51 aircraft were owned outright by the Ansett Group, with the balance being subject to various complex financing arrangements or operating leases.

3.4.2. Sale Process to Date

Activities to date have concentrated on the marketing and sale of owned aircraft and those financed aircraft in which the Ansett Group is expected to have equity. Concurrently, Ansett has focussed on the orderly return of aircraft subject to operating leases that have been disclaimed, or which were financed and in which Ansett does not have any equity. The sale or return of aircraft is a complicated process due to maintenance and regulatory issues. However 78 aircraft have been sold, leased or redelivered to date.

The realisation strategy varies by type of aircraft and by financier, some of whom have appointed external remarketing agents. However the process is targeted to achieve a sale of each aircraft at a realistic market price. To date the following activities have occurred:

- All aircraft have been listed in specialist trade journals and web-sites – Speednews, Airfax, Back Aviation Solutions, Planemart and Boeing and Airbus Aircraft Trading. The Ansett web site also includes the fleet listing and relevant contact details.
- Aircraft specific information has been provided to current and potential operators of types and all have been pursued to gauge the interest.
- Further enquiries are followed up with the supply of detailed technical information (eg engine disk sheets, AD/SB status).

Interested parties are then invited to conduct a technical evaluation inspection of the aircraft and related records.

The Ansett Fleet Trading Team has co-ordinated numerous physical inspections of aircraft and records within Australia at Melbourne, Sydney,



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Brisbane and Townsville and in New Zealand at Auckland, Blenheim and Christchurch.

The initial emphasis on the outright sale of aircraft has been expanded as a result of many enquiries and potential placements stating a preference for leasing. Current marketing activities include discussions of longer-term leases (4-5 years) which are expected to facilitate the ultimate sale of the aircraft to leasing companies or investors.

This expansion in the marketing efforts has widened the range of potential purchasers. However, it has emphasised the preference amongst lessors for obtaining narrow-bodied Airbus and Boeing products.

Alternative strategies are also being considered to enhance the realisation prospects for certain aircraft types (B767-200, BAe 146-200/300), including conversion to other configurations (eg VIP/executive charter, Cargo or Quick Change, or military). Potential users of converted aircraft are being contacted, as are interested parties who have the capability to undertake such conversions, including Australian Aviation Engineering Services. Joint venture participation in a cargo conversion to maximise realisable value from the assets is being evaluated in conjunction with some investors.

Not all marketing activity for the aircraft is being conducted by the dedicated Ansett Fleet Trading Team. Receivers appointed by some financiers have engaged external remarketing agents over nine aircraft in which Ansett expects to have equity. Financiers of four other aircraft have retained an overseas airline to manage and remarket their aircraft. Financiers of seven other aircraft have appointed both external agents and the Ansett Fleet Trading Team to jointly market the aircraft, based on exclusive geographical areas. The Ansett Fleet Trading Team is working co-operatively with each remarketing agent to ensure that enquiries are appropriately followed up in a timely manner.

The Ansett Fleet Trading Team has also received numerous unacceptably low offers, which have been rejected. Some of these have been at 10% of valuation. Such offers have been made in the mistaken belief that Ansett is conducting a "throw-away sale" and that the aircraft are no longer being supported, or are in a poor condition. It is our continued intention to maximise the price achieved from the realisation of the aircraft fleet.

AAES continues to perform necessary idle maintenance and storage requirements on the Ansett aircraft and a dedicated team is progressing with the preparation of the aircraft records for sale. AAES is also available to contract with third parties to perform engineering checks or aircraft reconfigurations, prior to aircraft being sold or redelivered.



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3.4.3. Future Sale Process

The proceeds from the sale of aircraft and realisation of equity are estimated to be \$150m to \$200m. The aircraft available for sale that are owned or have substantial equity are as follows:

Aircraft	Available Ansett Aircraft	Available Aircraft Worldwide
Airbus A320	2	30
Boeing B737-300	11	49
Boeing B767-200	7	43
BAe 146-200	4	15
BAe 146-200QT	2	3
BAe 146-300	11	17
Fokker F50	4	25
Fokker F27-600	1	-
DC-3	1	-
Total	43	182

Airbus A320

The overall market for Airbus aircraft has been greatly influenced by the manufacturer providing attractive purchase, support and financing packages for aircraft to prospective purchasers. This reduced pricing reflects the continuing intense competition between Boeing and Airbus. However, it also specifically impacts the market for older aircraft (including Ansett's), as newer generation aircraft are now available at greatly discounted prices than compared to previously.

There are approximately 30 aircraft of this type currently listed on the major aircraft web-sites, including Ansett's two aircraft. There has been limited, possibly no, sales activity for this aircraft type in the past 12 months and known market activity is limited to leasing transactions. Due to the relatively large number of currently available aircraft and significant price competition from similar aircraft types (including Boeing 737 aircraft, of which Ansett operated 20), the lease rates being achieved are significantly depressed when compared to pre-September 2001 levels.

The Ansett Fleet Trading Team continues to offer these aircraft for outright sale, or for lease, where the rate and term is considered sufficient to attract a sale with the lease attached. We are not aware of any of the 12 ex-Ansett A320 aircraft that have been redelivered to date being sold by the owners/financiers.



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Boeing B737-300

The market for Boeing B737-300 aircraft faces possibly even greater pricing pressure from manufacturer packages as outlined above, and is further influenced by the number of newer generation B737 models available. In context, the Ansett fleet of aircraft is, on average, 14 years old.

There are approximately 49 Boeing B737-300 aircraft currently listed on the major web sites, including 11 ex-Ansett aircraft. This number may greatly increase as US Airways and United Airlines continue to be restructured. We are only aware of four sales of this model within the past 12 months, at sale prices that were very low.

Receivers have been appointed over five of the remaining aircraft. The receivers have appointed external parties to exclusively remarket the aircraft on their behalf. The financiers of four other aircraft have also appointed an external party to exclusively remarket their aircraft. The remaining aircraft are being jointly remarketed by external agents and the Ansett Fleet Trading Team.

To date, a significant volume of enquiries have been received for these aircraft. Three aircraft have been sold as operating aircraft, one sold for parts and one is being prepared for a long-term lease.

Boeing B767-200

There are approximately 43 of this aircraft type on the market, including the seven Ansett planes. However, 20 aircraft are of the "ER" and "EM" variant, which are more attractive to potential purchasers than the Ansett aircraft due to their extended range and additional features. Although there are many current operators of this fleet type in the world, they are typically not increasing their fleet given the current market environment. Further, it is considered likely that significantly greater numbers of aircraft, and better variants than Ansett's, will be placed on the market as major users, such as Qantas, upgrade their fleet. Accordingly, the target market is primarily second or third tier operators or new operators of this fleet type.

We are not aware of any sales of this aircraft specification worldwide in the past 12 months. However the level of enquiries has greatly increased in recent months. The Ansett Fleet Trading Team is exclusively remarketing these aircraft and finalising a long-term lease for one aircraft (with an option on a second) and negotiating the sale of the aircraft with the lease attached. Given the average age of the Ansett aircraft is approximately 18 years, they are reaching an age and possible valuation range where conversion of the aircraft to cargo planes is considered to be a viable alternative. We are exploring this possibility.

BAe 146-200, BAe 146-200QT and BAe 146-300

Possible wing-corrosion with BAe 146 aircraft has been identified as an issue. This is common to BAe 146 aircraft worldwide and each aircraft must be individually assessed to determine the extent, if any, of the corrosion. A program has been initiated to inspect all the Ansett aircraft,



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which may take a further 12 months. However, until this program is complete, it impacts the ability to sell the aircraft. The results of the wing inspections completed to date have been positive. A further issue impacting the ability to realise the aircraft is confirmation of the status of the Ansett aircraft on the engine manufacturer's maintenance program. This issue has been tied up with certain outstanding issues involving Air New Zealand. However, we expect the issue to be concluded shortly to enable the realisation process for these aircraft to begin in earnest.

The market conditions for BAe 146 aircraft remain very poor and there are currently 15 BAe 146-200 aircraft on the market, including Ansett's four, and 17 BAe 146-300, including eleven from Ansett. This represents a significant proportion of the overall number of aircraft manufactured. Further, these aircraft are no longer in production. These types are also facing significant competition from other aircraft types, including Fokker F100s. Nearly 100 of these have been placed on the market as a result of the recent restructure of US Airways and United Airlines. Given the competing fleet size, future market prices are expected to be extremely depressed.

The aircraft are being exclusively remarketed by the Ansett Fleet Trading Team. This process has been impacted by the possible wing-corrosion and engine issues noted above. However, the sale of one BAe 146-300 is currently being finalised with a European operator. Due to the relatively quiet operating noise of these aircraft, they are ideal for use in areas with noise restrictions. Europe is considered to be a good market for these aircraft. However the cost of converting the aircraft for use in Europe is high and may affect the expected returns from the aircraft.

The two BAe 146-200QT (Quiet Trader) aircraft are cargo aircraft that have attracted a very high level of interest. Discussions are significantly advanced to sell both aircraft, subject to confirmation of the prospective purchaser's financing. Ansett is also continuing to explore the possibility of converting some of the other aircraft to cargo planes, and discussions are advancing with a number of parties to conduct the conversion, including the Ansett engineering facilities, and for the ultimate sale of the converted aircraft.

Fokker F50

A letter of intent for the sale of the four aircraft has been negotiated, but is yet to be signed. The offer provides for the short-term lease of the aircraft, followed by a purchase option which is expected to be exercised.

Fokker F27-600

An offer has been received for the purchase of this aircraft and related spares and is awaiting finalisation of some legal issues prior to settlement.



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3.4.4. Valuation of Aircraft

Following the appointment of the Initial Administrators, an external party was engaged to value the entire fleet of Ansett aircraft. Given the size and extended geographical locations of the fleet at that time, the valuation exercise took a number of months to complete. The valuation process was greatly impacted by the events of 11 September 2001 and its corresponding impact on the global aviation market, when aircraft trading activity was virtually at a standstill. We discounted those independent values by 50% in our First Report and further in our Second Report to reflect expected market conditions. However evidence to date indicates that current market values still remain significantly below expectations and we have further discounted values in this report.

An aircraft industry conference in April 2002 indicated that market values were expected to follow a recovery curve consistent with previous market crashes (eg following the Gulf War), however it was accepted that it would take a number of years to achieve pre-September 2001 levels. Any recovery however will be impacted by continued airline restructures and additional aircraft coming onto the market.

3.5. Engines; Spares Rotables and Consumables; and AASS

3.5.1. Engines

Global market conditions for engine sales remain poor and prices are extremely depressed. Due to the large number of jet aircraft on the market at present (in excess of 1,250), there is a corresponding surplus of engines available for sale or lease. The spare engines currently available for sale by Ansett are some of the most common engine types, including CFM56-3 (for Boeing B737 aircraft) and CFM56-5A (for Airbus A320 aircraft). The value of these engines has been impacted most by the current market surplus.

Our activities to date have concentrated on relocating all financed engines onto the aircraft to which they were originally supplied (and to which the financiers' security attaches). It is common industry practice for operating airlines to swap engines amongst airframes to meet their operational requirements. At the date of the collapse of the Ansett Group, many (if not all) of the aircraft in the fleet did not have their originally supplied engines on-wing.

This program required all aircraft to be physically located in the one place to conduct the necessary engine swaps. Progress with the plan was initially restricted as numerous aircraft were located in remote ports and needed to be prepared for ferry to Melbourne. A shortage of suitably skilled personnel and equipment in remote ports impacted the engine change process. Also, the process was significantly affected by frequent changes in the plan to meet financiers' requirements, in particular, avoiding the cost of double engine changes. As an example of the scale of activity



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required, more than 60 engine changes have been carried out to date on the Boeing B737 fleet alone.

The engine change program is now largely complete and Ansett is progressing with the redelivery of aircraft in which there is no expected equity to financiers and lessors. Due to the number of Ansett-owned spare engines that were on-wing of financed or leased aircraft, it was necessary for the engine change process to be largely complete before commencing the realisation process.

Throughout this process, the engine shop (a division of AAES) has been fully occupied with the maintenance and repair of Ansett-owned and financed engines. The engine shop will continue to carry out this work, assisting with the aircraft redelivery process and enhancing the value of engines and aircraft being sold. Several financiers are currently negotiating to have engines overhauled in the engine shop.

During the course of the engine change program, it was discovered that three CFM56-3 engines were subject to a double charge to financiers due to a clerical oversight in the documentation of past transactions. We worked closely with the relevant financiers in order to reach a commercial settlement on this matter to minimise legal costs and litigation.

The engine types available for sale are as follows:

Engine Type	ALF502	CFM56-5A	CFM56-3	CFM6-80A	Total
Aircraft Type	BAe 146	A320	B737	B767	
Total Engines	93	9	8	20	130
Required on-wing	72	4	-	14	90
Spare engines	21	5	8	6	40
Sold/Under Negotiation	(5)	-	(1)	(4)	(10)
Available	16	5	7	2	30

Due to the number of Ansett-owned spare engines that were on-wing of financed aircraft, or were required to facilitate the engine change process, the start of the spare engine realisation process was delayed.

In relation to the B767 and BAe146 fleets, a project is continuing to borescope and review all of the engines for each fleet type. The aim of this project is to maximise the realisations from both the complete aircraft and the spare engines by matching airframes with engines which have appropriate hours and cycles. Once this project is complete, the spare engines are expected to be realised over the next one to two years.

Notwithstanding, the following engine sales have taken place, or are under negotiation:

- A CFM56-3 engine was leased to a customer while their engine was undergoing an overhaul by AAES. This lease is now complete.
- One CFM56-3 engine is currently leased to an operator in New Zealand.



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- One CFM6-80A engine has been sold to an aircraft lessor for cash and the core of an unserviceable engine, which is likely to be sold for parts.
- One ALF502 engine has been sold to an aircraft lessor in consideration for cash and engine carcasses, which are likely to be sold for parts.
- Two ALF502 engines and one CFM6-80A are likely to be included as spare engines in three separate aircraft sales deals that are currently under negotiation.
- The sale of one CFM6-80A and one CFM56-3 is currently under negotiation (separate deals).

In addition to the above activity, the Ansett Fleet Trading Team has addressed a significant level of enquiries from engine "parting" organisations or brokers whose offers, in general, are significantly below the market value of the engines. It is our continued intention to maximise the value being realised from the spare engines by conducting an orderly sale process.

3.5.2. Spares Rotables and Consumables

Since the date of our appointment, spare parts (around 10 million) have been consolidated from a multitude of locations to three: Melbourne, Los Angeles and London. Concurrently with the spares consolidation program, we have been marketing and selling aircraft spares both directly and through AASS, a 100% wholly-owned Ansett Holdings business. We have also ensured that Ansett spares are used by the Engineering division as part of their ongoing fleet recovery and third party maintenance programs.

It is anticipated that an orderly sale which maximises the value of Ansett's stock of spares may take two to five years and will return realisations to the administration far in excess of that which may be achieved through a bulk sale typical of the current market environment. The difference between the offers we have received to date for the purchase of all Ansett's spares and the prices we are able to achieve through an orderly sale reflect a number of factors that are particular to the realisation of aircraft spares

- The market value ascribed to spares often varies significantly from the carrying value of spares in an airline's records. Spares may sit on the shelf for a number of years before being urgently required for an aircraft "heavy" check. Whilst the book value may be significantly diminished as a result of depreciation, the market value may in fact exceed the original purchase price. An orderly sale over time ensures that market value is realised rather than the depreciated book value.
- The majority of the value in a part lies with its airworthiness certification, supported by detailed history. Where this information is not held, realisation of parts is limited to bulk sales, where the realisations may be as low as 5 cents in the dollar. As Ansett has existing records and spare storage facilities, we are able to pursue an orderly sale process and avoid bulk sale discounting.



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- Highest realisation values for spares are typically achieved when there is an urgent need such as when an aircraft is unable to fly (known as "AOG" or Aircraft on Ground). AASS has existing relationships and industry networks which enables it to rapidly become aware of, and respond to these opportunities.

We will monitor and re-assess the spares realisation strategy regularly and will continue to take advantage of opportunities for packaged "bulk" sales of spares where it is commercially prudent to do so.

3.5.3. AASS

As advised above, AASS is a wholly-owned subsidiary of Ansett Holdings, specialising in spares distribution, inventory management and after-market support. It is operated in the UK by Ansett Airlines Australia Limited and in the USA by Transpacific Enterprises Inc ("TPE").

To date, sales through AASS have been restricted due to bankruptcy proceedings commenced against TPE in the USA. TPE was placed into US bankruptcy shortly after the Ansett Group entered into administration. We have recently concluded protracted negotiations with TPE creditors and have agreed, in principle, to a plan which will remove TPE from bankruptcy. The plan, once implemented, will realise significant proceeds.

Key elements of the plan are as follows:

- Finalise the removal of TPE from bankruptcy.
- Enter into agreement for the sale of the business of AASS – a purchaser has been identified and discussions commenced.
- Resolve banking issues to improve equity position in the A320 aircraft. A German bank is owed \$32m by the USA operations, which can be repaid once TPE is removed from bankruptcy. On the repayment of the amount owing, the two A320 aircraft and three engines will be released from the charge held by the German bank and they will be unencumbered, improving Ansett's equity position.

It is anticipated that TPE's bankruptcy issues will be resolved shortly. Since this agreement was reached, AASS sales have recovered rapidly.



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3.6. Costs of the Administration

3.6.1. Costs Incurred to Date and to Complete

Costs Incurred to Date and to Complete	\$m	\$m
Receipts from trading		371.2
Trading Expenditure	(258.0)	
Employee Costs	(94.7)	
Property, Utility and IT Costs	(78.6)	
Fuel, Air Navigation and Landing Charges	(53.6)	
Administrators' Fees	(32.5)	
Aircraft Leasing	(26.2)	
Insurance	(20.4)	
Legal Fees	(15.6)	
Future	(90.2)	(669.8)
Costs Incurred to Date and to Complete		(298.6)

There are a number of ongoing expenses that are necessary in order to maximise the realisations of the assets and finalise outstanding matters of the administration. Costs to date are under budget.

Costs being incurred to maximise the realisation of assets include the following:

- Trading expenditure relates mainly to the continuation of the mainline business. However, costs continue to be incurred in relation to the Engineering business, which provides maintenance to aircraft as they are sold, leased or returned. The Engineering workforce has been greatly reduced to match current and anticipated workload.
- The majority of the employee costs relate to the mainline business. These costs continue to reduce as the Ansett workforce reduces in size. However, continuation of key Ansett employees, such as the Ansett Fleet Trading Team and the debtors realisation team, is necessary in order to realise assets in the most effective manner.
- The IT infrastructure is required to provide aircraft maintenance systems, finance and other information. However, expenditure on the IT infrastructure has been greatly reduced, from \$20m per month prior to the administration to approximately \$450,000 per month. This amount is continually being reduced as assets are disposed and IT requirements reduced.
- We have budgeted future costs, with the majority of the costs relating to the maintenance of the aircraft. These costs are time dependent and will vary if the timeframe is shortened or extended.



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3.6.2. Administrators' Fees

Administrators' fees to date have amounted to \$32.5m, which are on budget. These fees have been paid to the following firms:

- Andersen/Ernst & Young - \$27.4m;
- KordaMentha- \$2.9m;
- PricewaterhouseCoopers - \$1.8m
- Other firms - \$0.4m

When considering these costs, creditors should take into account:

- The size of the administration, which in many respects is the biggest and most complex in Australian history;
- We have so far have realised assets of more than \$630m from a potential \$1b;
- We have taken every opportunity to make savings. For example, \$20m per report has been saved by deciding not to post each report to creditors.
- We have applied professional fee rates at significantly reduced amounts, as agreed at the beginning of the administration. This is shown by a comparison of the rates charged by the partners on other large administrations, shown by the table below:

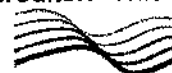
	Partner Rates
Current Ansett Rates	\$359 per hour
PricewaterhouseCoopers Initial Administrators Rates	\$420 per hour
Large Melbourne public company administration	\$450 per hour
Large accounting firm standard rate	\$550 per hour

3.7. Contingencies

Contingencies that could affect the return to creditors, other than the realisation of aircraft assets, are:

- Employee entitlements may increase up to \$20m due to a number of employee claims that have been and continue to be lodged with the Deed Administrators.
- Contingent assets of up to \$25m may be realised, depending on successful litigation with a number of debtors.
- Contingent liabilities of up to \$47m may have to be paid.
- Pooling of companies may result in a reduction in funds to the Ansett Group of up to \$60m.

The major issue that could affect the amount and timing of return to creditors is the claim that shortfalls in the superannuation funds may be a priority creditor. This may



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result in a reduction in funds to the Ansett Group of up to \$200m. This would mean there would be no returns to employees for at least two years.

3.7.1. Employee Entitlements

Total employee entitlements of \$735.8m compares to \$720.0m in the Second Report. However we have received notice of \$69.9m of claims and adjustments being sought by employees, including over 1,100 "requests for review", additional claims for pay in lieu of notice over 4-5 weeks, part-time adjustment claims, and other various claims. The amounts involved in these claims are considerable and verification of the claims is itself a significant resource requirement. We have reduced the amount of contingent claims to less than \$20m through the efforts of our team.

3.7.2. Contingent Assets

There are a number of contingent assets that we are currently pursuing. They relate mainly to the recovery of debtors and monies held in trust by travel agents. The recovery of these amounts is largely dependent on the success of litigation proceedings and, at this point, we are unable to estimate the potential recoveries.

We have successfully settled with a travel agent in relation to monies held in trust by travel agents. The settlement of \$1.3m realised over 85% of the amount held in trust. Admissions were also made, which will assist further recovery actions against other travel agents.

In relation to the IATA set-off systems, we have made claims on 12 airlines who owe Ansett money.

3.7.3. Contingent Liabilities

In the Second Report, we noted contingencies of \$59m in relation to expenses, such as group tax and payroll tax. Our estimates have decreased to \$47m and we intend to shortly enter into discussions with the relevant parties to address these issues.

3.7.4. Pooling

The above estimated return to creditors has been calculated on a consolidated basis on the assumption that when the creditors are asked to vote on whether to pool the assets and liabilities of the Ansett Group, that they will vote in favour of it.

However, if some companies do not vote in favour of pooling, this may affect the amount available for distribution. Specifically:

- If the creditors of a company vote against pooling the assets and liabilities of that company with the assets and liabilities of the Ansett Group, and that company has assets available for distribution, then this will reduce the amount available in the consolidated position. There are up to eight companies that may cause a reduction in the amount available to creditors on a consolidation basis if they do not vote in favour of pooling. The reduction in the pool could be up to \$60m.



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- The consolidated basis has been calculated without allocating the distribution of the \$150m received from Air New Zealand pursuant to the MOU on a company by company basis. If it was determined that a company was entitled to a portion of the \$150m and that company was not in the Ansett pool, then this may reduce the amount available to employees on a consolidated basis.

3.7.5. Superannuation Shortfall Funding

The Trustees of the Ansett Ground Staff Superannuation Plan ("the Ground Staff Plan") have taken action in the Supreme Court seeking the Court's determination of three key issues, namely:

- Have employees been retrenched within the meaning of the deed of the Ground Staff Plan;
- Is Ansett liable to pay any shortfall to the Ground Staff Plan; and
- If Ansett is, would those payments be a priority payment if the Ansett Group is liquidated.

The Supreme Court proceeding commenced on 16 July 2002 and was heard before Justice Warren, concluding on 28 August 2002. At the time of writing this report, the judgement had not been handed down.

The shortfall is currently estimated to be up to \$200m. Creditors previously voted at the Second Meetings on DOCAs that provide for any superannuation shortfall to rank as ordinary unsecured debt. If the Trustees of the Ground Staff Plan are successful in the Supreme Court, they will then have to pursue a claim in the Federal Court that the DOCAs are unfairly prejudicial and should be varied.

3.8. Estimated Return to Employees

We are aiming to achieve an average total return to employees of 92 cents for each dollar owed. Ultimately, however, the timing and amount of returns to employees largely depend on the realisations of aircraft and aircraft spares.

Even if no aircraft are sold, we estimate that employees would receive an average of 74 cents for each dollar owed. However, whilst difficult to predict, we believe aircraft sales yielding \$150m are reasonably achievable (we have written down aircraft valuations by 50% since our First Report), which would result in an average total return to employees of 88 cents for each dollar owed. If aircraft sales yield an additional \$50m i.e. \$200m, employees would receive an average 92 cents for each dollar owed.

A major risk affecting the timing and amount of return to employees is if the superannuation proceedings find that superannuation shortfalls rank to priority. This would mean a reduction in funds to the Ansett Group of up to \$200m and there would be no prospect of any returns to employees for at least two years.

Employees have so far received entitlements of:

- 100 cents in the dollar for unpaid wages;



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- 100 cents in the dollar for annual leave, long service leave, time in lieu and other days;
- 100 cents in the dollar for pay in lieu of notice and for up to 8 weeks of redundancy.

For more than 3,600 employees, this means that they have been paid 100% of their entitlements.

Subject to the superannuation proceedings being finalised shortly and finding that the shortfall does not rank to priority, we have forecasted the following instalments to be paid to employees who are owed further monies, over the next six months:

- The first instalment forecasted, to be paid in December 2002, will be 10 cents in the dollar for redundancy greater than 8 weeks. This will represent a total return to employees to date of 58 cents in the dollar of total entitlements.
- The second instalment forecasted, to be paid in March 2003, will be 5 cents in the dollar for redundancy greater than 8 weeks. This will represent a total return to employees to date of 60 cents in the dollar of total entitlements.
- The third instalment forecasted, to be paid in June 2003, will be 5 cents in the dollar for redundancy greater than 8 weeks. This will represent a total return to employees to date of 62 cents in the dollar of total entitlements.

Because of the uncertain state of the global aviation market, we will review progressive asset realisations and pay instalments as soon as practicable after funds become available. Throughout the administration, we will advise creditors every six months of anticipated quarterly instalments.

3.8.1. Estimated Employee Entitlements

Our latest update, as at 24 August 2002, is as follows:

Gross Entitlements for 13,315 redundancies	\$721.0m
Gross Entitlements for 258 current employees	\$14.8m
Total	\$735.8m

The magnitude and complexity of the Ansett administration is unequalled in relation to size of redundant workforce and entitlement liabilities. Employee entitlements are proving to be very difficult to manage and forecast, and there are many contingencies as individuals and groups of employees continue to lodge reviews of quotes and/or new claims to receive greater entitlements (see Contingencies 3.7). These processes have absorbed much of our manpower and time during the administration.

3.8.2. Redundancy Program

To date the continuing Ansett redundancy program has paid some 12,376 former staff \$370.4m in initial redundancy payments. This has involved more than 25,000 audited transactions, 250 separate bank files and a multi-faceted audit and reconciliation programme.



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Complicating the task was the challenge of working with Ansett company records and databases which were, in many cases, not integrated, required updating, and regularly produced anomalies.

Such was the volume of processing required, a significant investment was first required to build greenfield IT-based systems fundamental to verification, auditing and reconciliation. No such systems were available within the Ansett infrastructure.

During September and October 2001, specialist accounting and IT staff were retained to work solely on the development of the necessary computer models and templates. This group initially managed the task of designing, building and implementing necessary IT databases and processes required to facilitate the volume of redundancies to come. Systems were designed for data collection, auditing and correspondence processing, bank files management, maintaining redundancy data and cross referencing with master Ansett data files.

A Staff Helpline was installed to support the redundancy program. In the early stages of the administration, the help line was staffed by up to 20 Ansett employees. Today it is staffed by two Ansett employees.

As redundancy applications are received, each is verified with payroll records and contracts or awards before individual redundancy calculations are mailed to staff members. Records are also maintained on staff debt, equipment and other assets to be returned to Ansett.

3.8.3. SEESA

The Federal Government and its agent SEES Pty Limited ("the Federal Government") have worked closely with us to establish efficient and timely audit and payment processes.

Tranches of claims (up to several thousand at a time) are lodged with the Government SEESA program as per the established processes. Thirteen tranches of claims had been lodged. The Federal Government and its auditors then provide a responsive and detailed audit of the tranches, before advancing funds. As the Federal Government advances SEESA funds to the administration, we aim to transfer funds to individuals within 48 hours.

To date the Federal Government has provided \$328.7m to pay annual leave, long service leave, payment in lieu of notice and up to eight weeks redundancy. From the administration cash reserves, we have paid \$41.7m, bringing the total amount paid to employees to date to \$370.4m.

3.8.4. Continuing Ansett Workforce

A summary of the status of the Ansett Group employees as at 31 August is as follows:



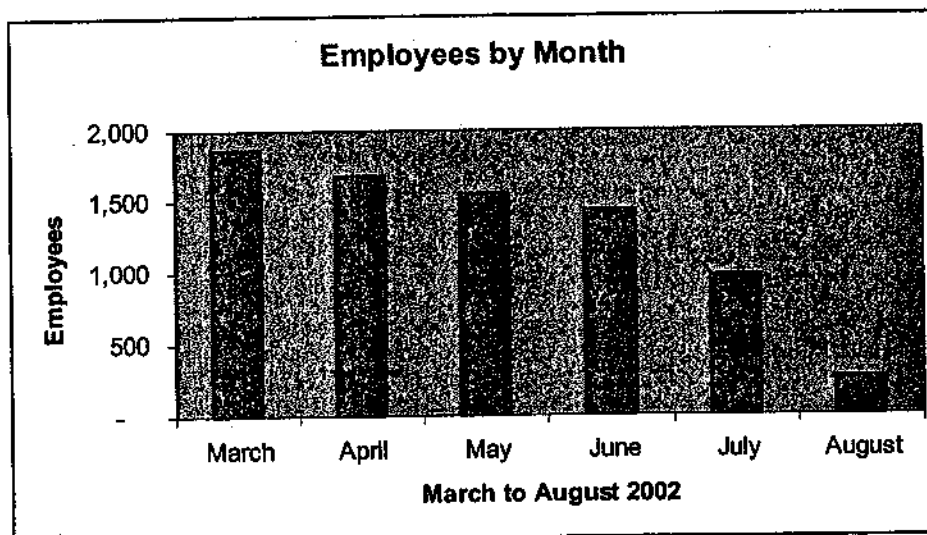
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	Number
Employees transferred with the sale of businesses to date	1,422
Employees terminated or advised of their impending termination	13,315
Employees continuing to assist in asset realisations	258
Total Employees	14,995

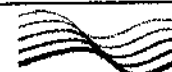
A key to maximising the administration outcomes is the retention of Ansett managers and staff who possess specialist knowledge of the businesses, the aviation industry, compliance issues and the ongoing operation of going concerns. As the administration continues and asset realisation and business sales are achieved, workforce requirements are continually reviewed and reduced according to requirements.

A summary of how the reduction of Ansett administration workforce has been managed since the withdrawal of the Tesna offer is as follows:



A summary of the break-up of the current Ansett administration workforce is as follows:

Current Workforce	Employees	Function
Heavy Maintenance	15	Performs maintenance checks on aircraft
Components	6	Sales and administration of aircraft parts
Aircraft Recovery	14	Responsible for redelivery of aircraft
Engine Overhaul	28	Aircraft engine repair and servicing
Quality Assurance	5	
Supply	5	Responsible for selling spare parts and rotables
Tech Services	2	Administering paperwork for Ansett aircraft



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Current Workforce	Employees	Function
Engineering Admin	30	General administration
Simulator	21	Simulator Centre ongoing and profitable
Kendell	35	Assisting with sale of business
Operations	5	Safety and security of assets
Airports	7	Assistance with sale of ground service equipment
Asset Sales	3	Aircraft Fleet Trading Team
Regional Support	14	Supporting post settlement issues in relation to Kendell.
Corporate Services	6	Engineering services
Payroll and HR	12	Payroll, superannuation and employee entitlement payments
Finance	38	Accounting, debt collection
IT	8	Support systems
Records	4	Records management
Total	258	

3.9. Estimated Return to Unsecured Creditors

The potential claims by unsecured creditors are estimated at more than \$2,000m. As the claims are affected substantially by a number of factors, such as the realisations for aircraft and the potential shortfall in superannuation, further analysis has not been performed at this stage.



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4. Investigations

Our Second Report included an outline of issues to be investigated. These matters have now been investigated and legal advice sought and obtained. Some areas of our investigations have been limited by the information available. However, we have been given access by Air New Zealand to the information it provided to ASIC and are in discussions with them about the provision of further information.

A detailed confidential and privileged report has been prepared for the Committees of Creditors on our findings to date and recommendations. Due to the confidential and privileged advice contained within the report, the Committees of Creditors will not retain the report in their possession. A general outline only of these matters is set out below.

4.1. Air New Zealand Investigations

As indicated in our Second Report, ASIC announced an investigation into the affairs of the Ansett Group shortly after the appointment of the Initial Administrators. ASIC interviewed and obtained documents from a large number of stakeholders including directors, Air New Zealand, financiers and suppliers to the Ansett Group.

On 1 March 2002, ASIC announced:

"...there is no realistic prospect for successfully prosecuting the directors of Ansett for breach of their general duties of care under the Corporations Act or for insolvent trading. This view is confirmed by Senior Counsel.

It is considered unlikely that evidence exists which would cause these conclusions to be reconsidered but ASIC will reserve its position until all aspects of the investigation are concluded."

ASIC did however advise that they intended to review the adequacy of disclosures made to the market by Air New Zealand regarding its financial position in the period prior to 12 September 2001.

On 11 July 2002, ASIC announced it had closed its investigation into the collapse of the Ansett Group. More specifically,

"...ASIC has given a high priority to evaluating the prospects of successfully litigating against Air New Zealand on behalf of former shareholders and creditors..."

Moreover, Counsel have advised that owing to the differing positions of individual creditors, it would not be possible for ASIC to pursue creditor claims by way of a single group proceeding or class action...

In those circumstances, the Commission has determined that the public interest would not be served by incurring the cost and risk of commencing proceedings against Air New Zealand. "

A copy of ASIC's full release (media and information release 02/247) is attached at Appendix 3. As discussed above, we have also conducted and are continuing with our own independent investigation into the collapse of the Ansett Group.



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4.2. Potential Causes of Action Available to Companies

The actions of a number of parties are being considered as part of our investigations into possible causes of action. Some of these are each discussed below.

4.2.1. Potential breaches of duties by directors and officers of the Ansett Group

Sale & Leaseback of Fleet

Ansett had undertaken in the period after its acquisition by Air New Zealand to raise funds via the sale and leaseback of aircraft and the sale of owned aircraft.

There were three major transactions surrounding aircraft subject to sale and leaseback and/or refinancing arrangements during the review period:

- Boeing B737-300s in November and December 2000;
- Airbus A320-200s in June 2001; and
- Airbus A320-200s in July 2001.

It appears that some of the proceeds from the sale and leaseback of aircraft were used to reduce the intercompany debt owed by Ansett to Air New Zealand.

Based on information available to date, we recommend that:

- No further action be taken regarding the November and December 2000 transaction, given it appears to be a debt raising exercise with ownership of the relevant aircraft remaining with AAL and there is no evidence that directors acted in breach of their duties.
- No further action be taken regarding the June 2001 sale and leaseback transaction as, on balance, it appears the aircraft were sold at or in excess of market valuations and there is no evidence that directors acted in breach of their duties.

Purchase of Hazelton Airline

The purchase of Hazelton was completed by Ansett in April 2001 for \$25m. The acquisition was completed less than six months prior to the appointment of the Initial Administrators.

We have considered whether in undertaking the transaction the directors of Ansett exercised their duties in good faith, for a proper purpose and with due care and diligence.

In relation to the question as to whether the directors of Ansett exercised the degree of care and diligence as required by the Act in the acquisition of Hazelton, the directors must have:

- Made the judgment in good faith for a proper purpose;
- No material personal interest in the subject matter of the judgment;



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- Inform themselves about the subject matter of the judgment to the extent they reasonably believe to be appropriate; and
- Rationally believed that the judgment is in the best interests of the corporation.

Whilst the purchase consideration paid for Hazelton appears high compared to the tangible assets obtained, there were other strategic benefits available to Ansett from the acquisition. These had potentially far reaching implications for Ansett.

The purchase of Hazelton was at a premium of \$9m above an Independent Expert's Report high valuation commissioned by the directors of Hazelton, which excluded the strategic and synergistic benefits obtainable through the purchase. This premium, in addition to the strategic benefit of restricting Qantas' expansion, was driven by the benefits that Ansett believed it could obtain.

As a result, it appears the directors made the acquisition for a proper purpose after informing themselves of the benefits of the acquisition and believed it was in the best interest of Ansett. We have no evidence that any of the directors obtained any personal benefit from the transaction or were reckless in their considerations.

Payment of Management Bonuses

In August 2001, bonuses totalling approximately \$3.3m were paid to various Ansett employees relating to the year ended 30 June 2001. Air New Zealand claims that these payments were made in good faith.

We are continuing our investigations.

4.2.2. Potential claims against Air New Zealand

Asset Stripping

Shortly after the appointment of the Initial Administrators, allegations were made that Air New Zealand had engaged in 'asset stripping' for the benefit of Air New Zealand.

In response to these claims we have sought to ascertain whether there is evidence of any asset stripping, and if so, whether the assets could be recovered.

Based on available information, there is no evidence of asset stripping by Air New Zealand.

We have also considered whether the movement of assets between Ansett and Air New Zealand with no formal asset movement process or register was appropriate or could constitute a breach of the various directors' duties. Ansett and Air New Zealand operated as one group with the main businesses of both Air New Zealand and Ansett being similar with similar assets being used in each business. It is therefore not unusual that there was movement of assets between the companies.



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We have also been successful in retrieving Ansett's assets that we have identified. We are continuing our investigations.

Derivative Policies

Following Air New Zealand's full acquisition of Ansett, the vast majority of Ansett's treasury functions were centralised at Air New Zealand's offices in Auckland. We have sought to assess the various treasury activities that related to Ansett to determine if there were any potential breaches of directors' duties. In particular, we considered Air New Zealand's policies relating to foreign exchange and interest rate risk.

Whilst some non-compliance with Air New Zealand Treasury policy may have occurred due to the largely non-prescriptive nature of the policy and unclear definition of terms, we have found no evidence to suggest that by doing so, the directors breached their duties. Accordingly, we believe no further action should be taken against Air New Zealand and/or its directors with respect to the treasury policies for foreign exchange and interest rate risk management.

Our investigations found no evidence to suggest that the speculative activity had been engaged in or that suggests that the directors have acted in a reckless manner, nor acted without due diligence and care.

Inappropriate Payment of Expenses

Shortly after the collapse of Ansett, various parties made allegations that there had been inappropriate payment of expenses by the Ansett Group where Air New Zealand received the benefit. The major expenditure items claimed were fuel, air navigation charges and IT expenditure.

A large verification process was carried out on a large sample of invoices to determine the source of the cost incurred and which company received the benefit.

Based on the review, there is no evidence to support the allegations that Ansett was paying expenses on behalf of Air New Zealand in relation to fuel and air navigation charges. Where services have been provided jointly to Ansett and Air New Zealand, such as IT services, evidence to date indicates these expenses were recharged to Air New Zealand through the intercompany loan account. No further investigations will be made.

Movements in Intercompany Loan Account

A key part of the centralised treasury function was the daily consolidation of funds held within the combined Ansett/Air New Zealand group. We have sought to determine whether any claims exist against Air New Zealand as a result of the daily consolidation of funds.

The movements in the intercompany advance account represent the overall transactions between Air New Zealand and Ansett during each month, including the effect of the daily consolidation of funds and the provision of goods or services between the groups.



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Due to Air New Zealand initiating all transactions within the AAHL bank account and controlling the information underlying each transaction in the intercompany account, we have not been able to confirm whether the transactions in the intercompany loan account were appropriately recorded.

In entering into the Air New Zealand MOU, we relied on the representations and warranties of Air New Zealand as to the balance of the intercompany loan account. However, we are yet to verify that the representations and warranties are correct.

We have requested Air New Zealand to provide documentation to support the transactions in the intercompany advance account. This information is currently being prepared by Air New Zealand. This will enable us to ascertain whether the consolidation of funds was accurately recorded and the balance of the intercompany loan account was not materially different.

We will continue to seek information from Air New Zealand.

4.2.3. Potential claims against other parties

Advisors and other officers

Our investigation involved the review of work performed by consultants and advisors to the Ansett Group for the period from July 2000 to September 2001, in order to determine whether the services performed were valid and appropriate.

Based on currently available information, there is no evidence to suggest that any claims exist against advisors to the Ansett Group for negligence or any other breaches of duties owed to Ansett.

Actions against Messrs Lew and Fox

We entered into an agreement on 8 November 2001 for the sale of the Ansett mainline business to Tesna, the nominee of Mr Solomon Lew and Mr Lindsay Fox. They did not complete this agreement.

We are investigating whether we have any claims against Tesna as the nominee of Mr Solomon Lew and Mr Lindsay Fox arising out of their failure to complete the purchase of the Ansett mainline business. Our investigations are continuing.

Set-off of funds held in bank accounts

At the close of business on 12 September 2001, there was approximately \$43m in credit funds held by the Ansett Group in various bank accounts. After the appointment of the Initial Administrators, the bank set off these funds against other debts owing to the bank by Ansett companies.

Further, approximately \$7m was paid directly into the same bank accounts of the Ansett Group shortly after the appointment of the Initial Administrators. These funds were paid into the account by debtors who had established direct debit facilities to the Ansett bank accounts. These funds were also set off by the bank against other debts owing.



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We are investigating whether the set off of these funds is valid and enforceable.

4.2.4. Potential Recoveries Available to a Liquidator

In addition, there may be transactions where money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act if the companies are placed into liquidation. The main transactions being considered as part of the investigations include:

Trading Whilst Insolvent

Under the Act, a director is personally liable to the company if the director fails to prevent a company from incurring a debt when, at the time of incurring that debt, the company is insolvent or becomes insolvent by incurring the debt.

This claim must be proven by a liquidator against each individual director. In the event that a liquidator does not pursue the directors, a creditor may seek to recover against the directors.

Directors have several defences available to them. To successfully defend a claim for insolvent trading, a director must prove one of the following:

- That when the debt was incurred, the director had reasonable grounds to expect that the company was solvent and would remain solvent even if the debt was incurred.
- That when the debt was incurred, the director had reasonable grounds to believe, and did believe, that a subordinate was competent and responsible for providing adequate information about the company's solvency and the director expected, on the basis of this information, that the company was solvent and would remain solvent.
- That when the debt was incurred, the director, because of illness or for some other good reasons, did not take part in the management of the company at that time.
- That the director took all reasonable steps to stop the company from incurring the debt.

It must first be shown that at the relevant time, Ansett was insolvent.

Considerable investigation has been undertaken into the financial position of the Ansett Group in the 14 months prior to the appointment of the Initial Administrators.

Our investigations are continuing.

Holding Company Liable for Debts of an Insolvent Subsidiary

Where it can be shown:

- a subsidiary company was insolvent at the time of the incurring of a debt, or became insolvent as a result of incurring a debt;



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- at that time there were reasonable grounds for suspecting the company was insolvent; and
- the holding company or its directors were aware, or ought to be aware, that there were grounds for so suspecting;

the holding company may be held liable for the debts incurred by the subsidiary.

The ultimate ownership and management control of the Ansett Group was with Air New Zealand and its board of directors. Accordingly, Air New Zealand was the holding company for all of the Ansett companies for the purposes of considering whether Air New Zealand is potentially liable for the debts of the Ansett Group as insolvent subsidiaries.

Our investigations are continuing.

Unfair Preference Payments

An unfair preference is a transaction, generally within the six months before the appointment of the Initial Administrators, to which a company and a creditor are parties, which results in the creditor receiving more than it would receive in respect of its debt if the transaction had been set aside and the creditor had to prove for the debt in the winding up of the company. If proven to be an unfair preference, the creditor would have to return the benefit they received to the liquidator.

To prove a creditor received an unfair preference payment, the liquidator must first show the company was insolvent at the time of the payment, that is, it was unable to pay its debts as and when they fell due.

The creditor has a defence to a claim by a liquidator that a transaction is an unfair preference if it proves that it entered into the transaction in good faith and, at the time the benefit was received, the creditor had no reasonable grounds for suspecting that the company was insolvent or would become insolvent through entering into the transaction and valuable consideration was given and a reasonable person in the creditor's circumstances would have no such ground for suspecting.

Unfair preferences can be difficult to prove and recover, and the exercise is often time-consuming and expensive.

Our investigations included the testing of round amounts paid or unusual payments above \$10,000. The nature of the payment was then investigated to determine if the transaction was commercial by way of vouching to supporting documentation and discussions with relevant Ansett employees.

Our investigations have not provided any evidence of any unfair preference payments by the Ansett Group. Accordingly, no further investigations will be made.



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Uncommercial Transactions

A transaction of a company is an uncommercial transaction if the following elements are established by a liquidator:

- The transaction was entered into or given effect to within two years of the commencement of the winding up of the company (i.e. the appointment of the Initial Administrators);
- At the time the transaction was entered into, or when given effect to, the company was insolvent or became insolvent as a result of the transaction; and
- A reasonable person in the company's circumstances would not have entered into the transaction, having regard to the benefits and detriments to the company of entering into the transaction and the respective benefits to other parties.

The defences available to a party involved in an uncommercial transaction claim are, in effect, the same as those for an unfair preference.

From our investigations to date, including the purchase of Hazelton Airlines and the sale and leaseback of aircraft transactions discussed above, we have seen no evidence of any unfair uncommercial transactions being entered into by the Ansett Group.

Unfair Loans

An unfair loan is a loan where, upon analysis, the interest or charges with respect to the loan were extortionate. Unfair loans any time before the appointment of the Initial Administrators may potentially be overturned by a liquidator appointed subsequently.

During our investigations, a review was performed to determine whether the interest charged on amounts owing to Air New Zealand may be potentially classed as an unfair loan. Based on the information available, it is not conclusive as to how the interest was calculated or the reasonableness of the monthly charge in relation to the amounts owing. To progress our investigation, further information has been requested from Air New Zealand, which are still to be provided.

Accordingly, we are not able to conclude on whether the amounts owing were an unfair loan and whether any further action should be taken.

Our investigations are continuing.

4.2.5. Reports to ASIC by Deed Administrators

As Administrators, we are also required to complete and lodge a report with ASIC (section 438D of the Act) if we hold an opinion that:

- A past or present officer, or member of the company may have been guilty of an offence in relation to the company;
- If a person who has taken part in the formation, promotion, administration, management or winding up of the company;



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- May have misappropriated money or property of the company; or
- May be guilty of negligence, default, breach of duty or breach of trust in relation to the company.

To date, we have not lodged a report with ASIC. We will conclude our investigations and then consider this further.



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5. Benefits of DOCA

5.1. Advantages of Continuation of DOCAs

The advantages for creditors generally of the DOCAs are:

- Enhancement of the ability to maximise the proceeds from the sale of major assets.
- Preservation of any rights of action or claims that can be pursued only by a liquidator.
- Greater flexibility for the trading and sale of Engineering during the DOCA period.
- Significant savings because of simplification of procedural requirements. For example, not having to distribute creditor reports except on the Deed Administrators' web sites creates savings in excess of \$20m per report.
- Significant savings because of mechanisms to resolve retention of title disputes.
- Savings of millions of dollars through mechanisms to manage non-cost effective dividend payments.
- Enhancement of debtor recoveries.
- Clarification of the claims of superannuation creditors.
- Preservation of creditors' rights to "pool" assets and liabilities of the Ansett Group.

To date, a number of these advantages have been realised, such as maximisation of the proceeds from the sale of major assets, and other advantages will continue to be realised during the course of the administration.

5.2. Disadvantages of Continuation of DOCAs

The disadvantage of the DOCAs is:

- Possible delays in the commencement of potential recovery proceedings (if any) by a liquidator.



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6. Statutory and Legal Matters

6.1. Court Applications

We have made a number of applications to the Court. Those made since our Second Report include:

- Application Regarding Extension of Time to Execute DOCAs.
- Application Regarding Further Extension of Time to Execute DOCAs.
- Application Regarding Notification of Execution of DOCAs.
- Application Regarding Approval of Sale of Sydney Terminal.

Applications that were made previously (including those made by other parties) but have continued since 29 January 2002 are:

- Application by Hazelton Administrator for Apportionment of the Funds Received from the Settlement with Air New Zealand.
- Application regarding Superannuation.
- Application regarding Indemnity in Traveland Sale.

Detailed information on a number of the applications made during the administration can be obtained from the Deed Administrators' web sites.

Below is a brief summary of the above applications (excluding the application regarding Superannuation, which was discussed previously), the reasons why they were made and their current status or their outcome.

6.1.1. Application Regarding Extension of Time to Execute DOCAs (Proceeding No. V3062 of 2002)

An application was made to the Court to extend the time in which we were required to execute the DOCAs approved at the Second Meetings of Creditors on 27 March 2002 for a period of seven days. The application was opposed by SACL and Canberra Airport.

After the application was heard, but before orders were made, it transpired that there were a number of outstanding drafting issues relating to the DOCAs which required further time to resolve. In the circumstances, SACL and Canberra Airport withdrew their opposition to the application and the Court made orders granting a seven day extension of time to execute the DOCAs to enable us to resolve drafting issues with various parties relating to the DOCAs.

6.1.2. Application Regarding Further Extension of Time to Execute DOCAs (Proceeding No. V3065 of 2002)

Before the expiry of the seven day extension granted by the Court in the first application, we applied to the Court for a further extension of time to execute the DOCAs. The purpose of the application was to preserve the status quo for a period of time to enable us to dispose of the DTLs in an orderly fashion.



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SACL and other DTL lessors maintained that the "buy-back" provisions in the DTLs, which were the Ansett Group's most valuable assets, would be triggered by executing the DOCAs. The "buy-back" provisions enabled the DTL lessors to "buy-back" the DTLs at "fair market value" which would be significantly less than the amount which could be obtained in a competitive market. By extending the time to execute the DOCAs to enable us to sell the DTLs, we would avoid the dispute arising.

On 29 April 2002, the Court dismissed the application on the basis that it was not an appropriate exercise of discretion to extend the time to execute the DOCAs for the purpose of prolonging the administration in order to avoid a result which execution of the DOCAs may bring about. However, an interlocutory order made on 24 April 2002 had the result of extending the time by which the Companies must execute the DOCAs for a further period after judgment was delivered until 2 May 2002. Within that time, we were able to sell the Sydney DTL.

**6.1.3. Application Regarding Notification of Execution of DOCAs
(Proceeding No. V3063 of 2002)**

An application was made to the Court for an order to allow us to dispense with the requirement to send to each creditor notice of execution of the DOCAs. Compliance with the requirement would have cost the administrations approximately \$1.35m in printing and postage.

On 24 April 2002, the Court consented that we need not send to each creditor written notice of execution of the DOCAs provided that notice was published in newspapers nationally and posted on the Deed Administrators' websites and that we maintained a telephone hotline, thereby reducing the costs of the administration by in excess of \$1m.

**6.1.4. Application Regarding Approval of Sale of Sydney Terminal
(Proceeding No. V3075 of 2002)**

In order to avoid a dispute as to whether execution of the DOCAs triggered the "buy-back" provisions under Sydney DTL, we negotiated the sale of the Sydney DTL to SACL prior to expiration of the time to execute the DOCAs (as extended by the Court in the first and second extension applications). It was a commercial decision made by us in order to maximise the return to creditors from the disposition of the Sydney DTL. In our view, the sale of the Sydney DTL to SACL in a competitive market would have yielded more than under the "buy-back" provisions of the Sydney DTL.

The sale was negotiated at breakneck speed. We did not comply with the sale process for the sale of the Sydney DTL with which we had previously announced we would comply. In addition, SACL had submitted in the second extension application that it was inappropriate for us to sell the assets prior to the execution of the DOCAs where there had been a resolution of the creditors that the DOCAs be executed and where a principal objective or purpose of the DOCAs was to enable the sale of the assets. In these circumstances, we made an application to the Court for approval of the sale of the Sydney DTL.



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Justice Goldberg held that in all the circumstances it was appropriate to give a direction that we may properly perform and give effect to the agreement of the sale of the Sydney DTL. Although our decision was a commercial decision, the issues raised by SACL in the second extension application went to its propriety.

6.1.5. Application by Hazelton Administrator for Apportionment (Proceeding No. V3051 of 2001 and V3060 of 2001)

The Hazelton Companies, as controlled entities of the Ansett Group, were required to settle their various claims against the Air New Zealand Group for an amount to be determined either by agreement or by Court Order.

The Hazelton Administrator applied to the Court seeking a direction as to the manner of apportionment between the Ansett Group and the Hazelton Companies of the \$150m recovered from Air New Zealand pursuant to the MOU. We have paid to the Hazelton Administrator \$2.45m on account of the entitlement of Hazelton Administrator to be paid a portion of the \$150m received from Air New Zealand pursuant to the MOU without prejudice to the ultimate determination of the Court dispute and on the basis that the Hazelton Administrator cannot be personally liable to repay the \$2.45m. We contend that this litigation was resolved at the time that Kendell and Hazelton were sold to AWL. The Hazelton Administrator denies this. The proceeding is listed for hearing in October 2002.

6.1.6. Application Regarding Indemnity in Traveland Sale (Proceeding No. V3061 of 2002)

We have sought directions about the operation of an indemnity in relation to employee entitlements provided by us as part of a sale of business and assets to Internova on or about 23 September 2001. If the sale from Traveland to Internova had not occurred, all Traveland employees would have lost their jobs immediately and made claims for SEESA payments.

The indemnity was given to ensure that any Traveland employees who would be ineligible to make a SEESA claim because they had accepted jobs with Internova would not be disadvantaged if Internova went into liquidation before 23 September 2002, which it did.

GEERS payments were made to those former Traveland employees and Ansett provided an amount representing the difference between was paid under GEERS and what they would have been paid under SEESA. This ensured the former Traveland employees received the equivalent of SEESA entitlements. The liquidators of Internova claim an amount equivalent to the amount of the GEERS payment from Traveland and the Deed Administrators personally.

6.1.7. Application to Recover Trust Funds from Agents (Proceeding No. 2031 of 2002)

We have continued to progress the recovery of travel agency monies held in trust for Ansett in respect of issued Ansett tickets or transportation orders for the period 27 August 2001 and 13 September 2001. On 10 April 2002,



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we commenced proceedings on behalf of Ansett against one such agent, CW Travel Australia Pty Ltd ("CWT") and Darryl George Lavery, a director of CWT, in the Commercial List of the Supreme Court of Victoria. Through a Supreme Court ordered mediation, Ansett and CWT reached agreement whereby a substantial portion of the monies which we maintained were held in trust for Ansett were remitted to Ansett by CWT.

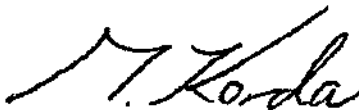
Subsequent to the settlement of the above action, we have instructed Arnold Bloch Leibler to send a Letter of Demand to remaining agents holding agency trust funds on behalf of Ansett. The letter included considered responses to all substantive queries raised by agents. In the event that any agent does not pay the outstanding trust funds, legal action may be taken without further notice. Such legal action would include demand for interest and costs.



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Dated this 16th day of September 2002.



MARK A KORDA
Deed Administrator



MARK F MENTHA
Deed Administrator



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**ANSETT GROUP (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
APPENDIX 1 TO THIRD REPORT**

LISTING OF COMPANIES FOR WHICH THIS REPORT HAS BEEN PREPARED

501 Swanston Street Pty Ltd (ACN 005 477 618)	Northern Territory Aerial Work Pty Ltd (ACN 009 611 321)
Airport Terminals Pty Ltd (ACN 053 976 444)	Rock-It-Cargo (Aust) Pty Ltd (ACN 003 004 126)
Aldong Services Pty Ltd (ACN 000 258 113)	ANST Show Pty Ltd (Formerly Show Group Pty Ltd)
Ansett Aircraft Finance Limited (ACN 008 643 276)	(ACN 002 968 989)
Ansett Aviation Equipment Pty Ltd (ACN 008 559 733)	South Centre Maintenance Pty Ltd (ACN 007 286 660)
Ansett Australia Limited (ACN 004 209 410)	Spaca Pty Ltd (ACN 006 773 593)
Ansett Australia and Air New Zealand Engineering Services Limited (ACN 089 520 696)	ANST Travel Pty Ltd (Formerly Traveland Pty Ltd)
Ansett Australia Holdings Limited (ACN 004 216 291)	(ACN 000 240 746)
Ansett Carts Pty Ltd (ACN 055 181 215)	ANST Travel International Pty Ltd (Formerly Traveland International Pty Ltd)
Ansett Equipment Finance Limited (ACN 006 827 989)	(ACN 000 598 452)
Ansett Finance Limited (ACN 006 555 166)	Traveland International (Aust) Pty Ltd (ACN 000 275 936)
Ansett Holdings Limited (ACN 065 117 535)	Traveland New Staff Pty Ltd (ACN 080 739 037)
Ansett International Limited (ACN 060 622 460)	Walgali Pty Ltd (ACN 055 258 921)
Bodas Pty Ltd (including in its capacity as trustee of the Westsky Trust and the Pelican Trust) (ACN 002 158 741)	Westintech Limited (ACN 009 084 039)
Brazson Pty Ltd (ACN 055 259 008)	Westintech Nominees Pty Ltd (ACN 009 302 158)
Eastwest Airlines (Operations) Limited (ACN 000 259 469)	Whitsunday Affairs Pty Ltd (ACN 009 694 553)
Eastwest Airlines Limited (ACN 000 063 972)	Whitsunday Harbour Pty Ltd (ACN 010 375 470)
ANST Lednek Airlines (Aust) Pty Ltd (Formerly Kendell Airlines (Aust) Pty Ltd) (ACN 000 579 680)	Wridgways (Vic) Pty Ltd (ACN 004 153 413)
Morael Pty Ltd (ACN 003 286 440)	Wridgways Holdings Limited (ACN 004 449 085)
Northern Airlines Limited (ACN 009 607 069)	ANST Westsky Aviation Pty Ltd (Formerly Skywest Aviation Pty Ltd) (ACN 004 444 866)
	ANST Westsky Jet Charter Pty Ltd (Formerly Skywest Jet Charter Pty Ltd) (ACN 008 800 155)
	ANST Westsky Holdings Pty Ltd (Formerly Skywest Holdings Pty Ltd) (ACN 008 905 646)
	(All Deed Administrators Appointed)



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**ANSETT GROUP (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
APPENDIX 2 TO THIRD REPORT**

ABBREVIATIONS USED IN THIS REPORT

"the Administrators" or "the Deed Administrators"	Mark Korda and Mark Mentha of KordaMentha
"the Initial Administrators"	Allan Watson, Greg Hall and Peter Hedge of PricewaterhouseCoopers
"the Hazelton Administrator"	Michael Humphris of Sims Lockwood as Administrator of: <ul style="list-style-type: none">- Hazelton Air Charter Pty Ltd (ACN 065 221 356)- Hazelton Air Services Pty Ltd (ACN 000 242 928)- Hazelton Airlines Limited (ACN 061 965 642)
"Engineering" or "AAES"	Australian Aviation Engineering Services a division of Ansett Australia Limited (ACN 004 209 410)
"AASS"	Ansett Aircraft Spares and Services
"AAL"	Ansett Australia Limited (ACN 004 209 410)
"AAHL"	Ansett Australia Holding Limited (ACN 004 216 291)
"Aeropelican"	Aeropelican Air Services Pty Ltd (ACN 000 653 083)
"Ansett International"	Ansett International Limited (ACN 060 622 460)
"Bodas"	Bodas Pty Ltd (ACN 002 158 741)
"Kendell"	ANST Lednek Airlines (Aust) Pty Ltd (Formerly Kendell Airlines (Aust) Pty Ltd) (ACN 000 579 680)
"Show Group"	ANST Show Pty Ltd (Formerly Show Group Pty Ltd) (ACN 002 968 989)
"Skywest"	Skywest Airlines Pty Ltd (ACN 008 997 662)
"Skywest Aviation"	ANST Westsky Aviation Limited (Formerly Skywest Aviation Limited) (ACN 004 444 866)
"Skywest Jet Charter"	ANST Westsky Jet Charter Pty Ltd (Formerly Skywest Jet Charter Pty Ltd) (ACN 008 800 155)
"Skywest Holdings"	ANST Westsky Holdings Pty Ltd (Formerly Skywest Holdings Pty Ltd) (ACN 008 905 646)
"Traveland"	ANST Travel Pty Ltd (Formerly Traveland Pty Ltd) (ACN 000 240 746)
"TPE"	Transpacific Enterprises Inc
Collectively "the Companies" or "the Ansett Group"	All companies listed in Appendix 1
"Air New Zealand" or "the Air New Zealand Group"	Air New Zealand Group of Companies
Memorandum of Understanding	Settlement agreement between Air New Zealand and the Deed Administrators
"Tesna"	Consortium associated with Mr Lindsay Fox, Mr Solomon Lew and Tesna Holdings Pty Ltd
"Canberra Airport"	Canberra International Airport Corporation Pty Ltd
"SACL"	Sydney Airports Corporation Limited
"Patrick"	Patrick Corporation Limited (formerly Lang Corporation)



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"Singapore Airlines"

"DTL"

"ASIC"

"Commonwealth Government"

"EBA"

"GEERS"

"SEESA"

"the Act"

"the Court"

"DOCA"

"the Deed Administrators' web sites"

"the First Meeting"

"the Second Meeting"

"the Third Meeting" or "this meeting"

"First Report"

"Second Report"

"Third Report" or "this report"

Limited)

Singapore International Airlines

Domestic Terminal Lease

Australian Securities and Investments Commission

Commonwealth Government of Australia

Enterprise Bargaining Agreement

General Employee Entitlement Redundancy Scheme

Special Employee Entitlement Scheme for Ansett

Group Employees

Corporations Act (2001) Commonwealth

The Federal Court of Australia

Deed of Company Arrangement

<http://www.ansett.com.au/administrator> and

<http://www.abl.com.au/administrator>

Meeting of creditors called pursuant to Section 436E of the Act

Meeting of creditors called pursuant to Section 439A of the Act

Meeting of creditors called pursuant to Clause 18.5 of the DOCAs

First Report by Administrators of the Ansett Group dated 16 January 2002

Second Report by Administrators to the Creditors of the Ansett Group dated 15 March 2002

Third Report by Deed Administrators to the Creditors of the Ansett Group dated 16 September 2002



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**ANSETT GROUP (SUBJECT TO DEED OF COMPANY ARRANGEMENT)
APPENDIX 3 TO THIRD REPORT**

**ASIC MEDIA RELEASE 02/247
ASIC closes Ansett and Air NZ investigations
Thursday 11 July 2002**

The Australian Securities and Investments Commission (ASIC) today announced that it had closed its investigation into the collapse of the Ansett Holding Ltd group (Ansett).

On 1 March 2002, ASIC advised that while no action would be commenced against Ansett or its former directors, consideration would be given to commencing a representative action for damages against Air New Zealand Limited (AIZ) in relation to the level of its financial disclosures during 2001.

ASIC's March statement made it clear that several complex issues would require additional investigation and assessment before ASIC could finally decide on the merits of commencing proceedings against AIZ.

Over the intervening four months, ASIC has given a high priority to evaluating the prospects of successfully litigating against AIZ on behalf of former shareholders or creditors. The investigation has included interviewing more than 350 parties who say they suffered financial loss as a result of Ansett's failure; consultation with market and other experts; and obtaining legal advice from external counsel on a range of legal issues.

On the basis of the advice received, ASIC is unable to dismiss the possibility that AIZ's level of disclosure concerning its own and/or Ansett's forecast losses for the 2000-2001 financial year may have been, at certain times during that year, misleading and deceptive within the meaning of the Trade Practices Act.

However, after considering the evidence compiled by ASIC since March, Counsel, including Senior Counsel, have concluded that only a minority of purchasers of shares are likely to be in a position to prove that they relied directly on AIZ's conduct and suffered financial loss.

Moreover, Counsel have advised that owing to the differing positions of individual creditors, it would not be possible for ASIC to pursue creditor claims by way of a single group proceeding or class action. Instead, ASIC would be required to bring each claim as a separate proceeding or, at best, as a number of proceedings on behalf of different groups of plaintiffs.

In those circumstances, the Commission has determined that the public interest would not be served by incurring the cost and risk of commencing proceedings against AIZ.

'The decision to close this investigation has been reached only after exhaustive assessment of opportunities to assist former shareholders, creditors and employees of Ansett', said ASIC Chairman Mr David Knott.

'It has become clear that the legal and logistical obstacles confronting ASIC are such that only a handful of those who suffered loss would be likely to benefit from the commencement of proceedings.

'Importantly, any action by ASIC would be of no assistance to former employees of Ansett or to the general body of small creditors (including frequent flyers). In those circumstances, ASIC has decided to close its file on this matter', Mr Knott said.

ASIC acknowledges that AIZ has cooperated fully with ASIC throughout the course of the investigation.



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