

ANSETT GROUP OF COMPANIES

Second Report by Administrators

Pursuant to Section 439A of the Corporations Act

15 March 2002



ANSETT GROUP SECOND REPORT BY ADMINISTRATORS

This is our Second Report to the creditors of the Companies within the Ansett Group. Our First Report was dated 16 January 2002.

As required by the Act, this report addresses the Companies' business, property, affairs and financial circumstances and provides our opinions on the following matters:

- Whether it would be in the creditors' interests for the Companies to execute a Deed of Company Arrangement ("DOCA"),
 - Whether it would be in the creditors' interests for the administration of the Companies to end, and
 - Whether it would be in the creditors' interests for the Companies to be wound up
- and the reasons for those opinions.

Administrators' First Report to Creditors

Our First Report provided an overview of the Ansett Group's operations and our actions. It also outlined that the Second Meetings of Creditors of the Ansett Group companies would be held in two parts:

Date	Purpose of Meetings	To be Referred to as:
<ul style="list-style-type: none">• 29 January 2002	<ul style="list-style-type: none"><input type="checkbox"/> To receive a report on the conduct of the administration to date.<input type="checkbox"/> To approve the sale of the mainline airline to Tesna.<input type="checkbox"/> To extend the date for completion of the Tesna sale.<input type="checkbox"/> To adjourn the meeting for a period of no more than 60 days.	"Part 1 of the Second Meetings"
<ul style="list-style-type: none">• by 30 March 2002	<ul style="list-style-type: none"><input type="checkbox"/> To receive a report on the investigations into the affairs of the Ansett Group.<input type="checkbox"/> To consider how the proceeds of sale be applied.<input type="checkbox"/> To consider and, if appropriate, approve the proposed DOCAs for the various Ansett Group companies.	"Part 2 of the Second Meetings"

Part 1 of the Second Meetings was held on 29 January 2002. The creditors approved the proposed sale to Tesna and adjourned the meeting so that work could proceed on completing the sale and other aspects of the administration. The Tesna sale did not complete.



**ANSETT GROUP OF COMPANIES (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

Separate meetings of creditors under Section 439A of the Act were held on 25 January 2002 for Aeropelican, Skywest Airlines, Skywest Aviation, Skywest Jet Charter and Skywest Holdings ("the excluded companies"). Creditors of the excluded companies have been invited to attend Part 2 of the Second Meetings as observers. There will be no resolutions passed for the excluded companies at Part 2 of the Second Meetings.

Administrators' Second Report to Creditors

In accordance with the Orders of Justice Goldberg on 7 January 2002, notices for Part 2 of the Second Meetings were not mailed to creditors, but a notice of the time, date and place of the meeting was placed on the Administrators' web sites within 48 hours of Part 1 of the Second Meetings and in advertisements placed in newspapers nationally on 4 February 2002. This resulted in a substantial cost saving.

This report relates to the Ansett Companies listed at the conclusion of this report and is provided before Part 2 of the Second Meetings on 27 March 2002 convened under Section 439A of the Act.

It is our opinion that it is in the interests of creditors of the Ansett Group that each of the Companies execute a DOCA.

The purpose of this report is to:

- Outline to creditors the reason for this opinion and provide an outline of the DOCAs.
- Provide an update on the administration generally.
- Advise creditors of the strategy for the realisation of the assets of the Companies.
- Advise creditors of the extent of our investigations to date.

The proposed DOCAs provide a mechanism to enable us to protect and then sell the assets of the Ansett Group in an orderly manner to maximise the return to creditors. The DOCAs provide a general framework for applying the proceeds of the asset sale. However, we intend to convene Third Meetings of Creditors after major sales have been completed. Creditors will make the decision on how proceeds will be distributed and no dividend would be paid to ordinary unsecured creditors until after that meeting. The Third Meetings would also consider whether the assets and liabilities of the companies should be "pooled", that is, treat some or all of the companies as a single entity for the purposes of distributions to creditors. The meetings would also consider whether the Ansett Group should be liquidated.

We intend to provide a further report before the Third Meetings. That report will include an update on our investigations.

Dated this 15th day of March 2002.



MARK A KORDA
Administrator



MARK F MENTHA
Administrator



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

The companies for which this report has been prepared are listed immediately before the Appendices. Any reference to dollars in this report relates to Australian currency unless indicated otherwise.

TABLE OF CONTENTS

1. Executive Summary	1
2. Purpose of Report	4
2.1 Object of Administration	4
2.2 Administration Update	4
2.3 Communication with Stakeholders	4
3. Events Since 29 January 2002	5
3.1 Second Creditors Meetings.....	5
3.2 Continuation of Trading	5
3.3 Benefits of Tesna Sale.....	5
3.4 Application to Court	6
3.5 Potential Rights of Action Arising Out Of Non-Completion of Sale	8
3.6 Ceasing of Operations	8
4. Major Assets to be Sold and Realisation Strategies	9
4.1 Businesses of the Ansett Group	9
4.2 Discussions With Interested Parties.....	9
4.3 Domestic Terminal Leases (DTLs) and Other Leasehold Interests	10
4.4 Freehold Property	12
4.5 Aircraft.....	13
4.6 Aircraft Engines.....	14
4.7 Plant and Equipment	14
4.8 Spares - Consumables and Rotables	15
4.9 Intellectual Property.....	16
4.10 Employees	16
4.11 Proceeds of Ticket Sales.....	16



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

5. Other Business Operations	17
5.1 Show Group	17
5.2 Skywest	17
5.3 Aeropelican	18
5.4 Kendell	18
5.5 Traveland	19
5.6 Engineering	19
5.7 Call Centres	19
5.8 Cargo and Ground Handling	19
5.9 Australian Concession Management	20
5.10 Ansett International	20
5.11 Flight Simulators	20
5.12 Ansett Aircraft Spares and Services	20
6. Investigations	21
6.1 Potential Causes of Action Available to Administrators	21
6.2 Potential Recoveries Available to a Liquidator	21
6.3 Further Reports and Impact of Proposed DOCA	24
6.4 ASIC Investigations	24
7. Proposed Deed of Company Arrangement	26
7.1 Purpose of DOCA	26
7.2 Outline of DOCA	26
7.3 Further Reporting to Creditors	27
7.4 Advantages of DOCA	27
7.5 Disadvantage of DOCA	27
8. Statutory and Legal Matters	28
8.1 Committees of Creditors Meetings	28
8.2 Court Applications	28
9. Estimated Return to Creditors	31
10. Administrators' Opinions	34



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

Appendices

1. *Listing of Ansett Group Companies*
2. *ASIC Media Release 02/69, ASIC'S Ansett Investigation Focuses on Financial Disclosures by Air New Zealand Limited, Friday 1 March 2002*
3. *Outline of Proposed Deeds of Company Arrangement*



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

ABBREVIATIONS USED IN THIS REPORT

Mark Korda and Mark Mentha of Andersen
Allan Watson, Greg Hall and Peter Hedge of
PricewaterhouseCoopers

Australian Aviation Engineering Services a division of
Ansett Australia Limited (ACN 004 209 410)
Ansett Aircraft Spares and Services
Aeropelican Air Services Pty Ltd (ACN 000 653 083)
Ansett International Limited (ACN 060 622 460)
Bodas Pty Ltd (ACN 002 158 741)
Kendell Airlines (Aust) Pty Ltd (ACN 000 579 680)
ANST Show Pty Ltd
(Formerly Show Group Pty Ltd) (ACN 002 968 989)
Skywest Airlines Pty Ltd (ACN 008 997 662)
ANST Westsky Aviation Limited
(Formerly Skywest Aviation Limited) (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)
ANST Travel Pty Ltd
(Formerly Traveland Pty Ltd) (ACN 000 240 746)
Aeropelican, Skywest Airlines, Skywest Aviation, Skywest
Jet Charter and Skywest Holdings
All companies listed in Appendix 1 with the exception of the
excluded companies
Michael Humphris of Sims Lockwood as Administrator of:
- 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)
Air New Zealand Group of Companies

Australian Securities and Investments Commission
Canberra International Airport Corporation Pty Ltd
Commonwealth Government of Australia
Corporations Act (2001) Commonwealth
Deed of Company Arrangement
Domestic Terminal Lease
Enterprise Bargaining Agreement
General Employee Entitlement Redundancy Scheme

Abbreviated to:
"the Administrators"
"the Initial Administrators"

"Engineering" or "AAES"

"AASS"
"Aeropelican"
"Ansett International"
"Bodas"
"Kendell"
"Show Group"

"Skywest"
"Skywest Aviation"

"Skywest Jet Charter"

"Skywest Holdings"

"Traveland"

"the excluded companies"

Collectively "the Companies" or
"the Ansett Group"
"the Hazelton Administrator"

**"Air New Zealand" or "the Air New
Zealand Group"**

"ASIC"
"Canberra Airport"
"Commonwealth Government"
"the Act"
"DOCA"
"DTL"
"EBA"
"GEERS"



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

<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
Patrick Corporation Limited (formerly Lang Corporation
Limited)
Singapore International Airlines
Special Employee Entitlement Scheme for Ansett Group
Employees
The Federal Court of Australia
Consortium associated with Mr Lindsay Fox, Mr Solomon
Lew and Tesna Holdings Pty Ltd
Information Technology
Transpacific Enterprises Inc
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

Abbreviated to:
"the Administrators' web sites"

"the First Meeting"

"the Second Meeting"

"Patrick"

"Singapore Airlines"
"SEESA"

"the Court"
"Tesna"

"IT"
"TPE"
"First Report"

"Second Report" or "this report"



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

1. Executive Summary

1.1 Purpose of Report

Our First Report was dated 16 January 2002. This report is an update on matters since then and provides recommendations to creditors for them to consider before Part 2 of their Second Meetings.

1.2 Aim of Administration

The object of the administration legislation is to provide for the business, property and affairs of the Ansett Group to be administered in a way that:

- Maximises the chances of the Ansett Group continuing to exist, or
- If that is not possible, results in a better return for creditors than an immediate winding up.

The sale to Tesna would have achieved both of these objectives. We are now seeking to maximise the proceeds from asset sales by focusing on achieving returns greater than would be achieved in an immediate liquidation or winding up of the Ansett Group.

1.3 Purpose of Meeting

Part 2 of the Second Meetings of the creditors of the Ansett Group will be held on **27 March 2002 at 11.00am at the Melbourne Exhibition and Convention Centre, 2 Clarendon Street, Southbank, Melbourne, 3006**. It will also be webcast on the Administrators' web sites.

The purpose of Part 2 of the Second Meetings is to consider:

- The Administrators' Second Report concerning the company's business, property, affairs and financial circumstances,
- Whether it would be in the creditors' interests for the Companies to execute a DOCA,
- Whether it would be in the creditors' interests for the administration of the Companies to end, and
- Whether it would be in the creditors' interests for the Companies to be wound up.

1.4 Opinions by Administrators

In our opinion, it is in the interests of creditors for the Ansett Group to enter into the proposed DOCAs. If the Ansett Group Companies are liquidated now, the leases on key assets may be terminated and realised for amounts less than the value which can otherwise be achieved.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

In our opinion, the interests of creditors are not best served by the administrations of the Companies ending or the Companies being wound up.

1.5 Resolutions to be Proposed

The resolutions for Part 2 of the Second Meetings are as follows:

"That (the relevant Ansett company) execute a Deed of Company Arrangement in accordance with the outline provided with the Second Report by Administrators dated 15 March 2002"; and

"That the creditors of (the relevant Ansett company) do not require a notice to be sent to each creditor advising of the execution of the Deed of Company Arrangement pursuant to Section 450B of the Corporations Act provided that the Voluntary Administrators advertise the execution of the DOCA and give notice on the administrators' web sites".

The resolutions will be voted on a company-by-company basis. It is for the creditors to decide on the resolutions.

1.6 Asset Realisations

As a result of Tesna's withdrawal from the purchase of the mainline airline assets, we have implemented alternative realisation strategies.

1.7 Investigations

Investigations are under way into potential recoveries that would be available to a liquidator and causes of action that may exist against various parties. These investigations are continuing and will be fully reported to creditors later. Creditors may subsequently determine that the Ansett Group be wound up. Potential recoveries and causes of action will not be prejudiced by the execution of a DOCA.

1.8 Proposed Deeds of Company Arrangement

In order to maximise the return to creditors, the proposed DOCAs provide for the orderly sale of the Ansett assets. The proposed DOCAs provide a moratorium on any action against the Ansett Group.

A further meeting of the creditors will be held once the major assets have been sold to consider whether to place the companies in liquidation or vary the DOCAs. These variations may include whether the assets and claims of creditors of the various companies should be "pooled".

1.9 Benefit of Proposed Deeds of Company Arrangement

If the Ansett companies are immediately wound up, leases on certain key assets - including the airport terminals - may be terminated and lessors may exercise rights of buy-back. These provisions will not be triggered by the proposed DOCAs.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

The ability to pursue any rights of action, including those that would only be available to a liquidator, are not affected by the proposed DOCAs. All of these actions would still be able to be pursued at a later stage. This would include any liquidator's rights, if and when a liquidator was appointed.

1.10 Estimated Returns to Creditors

Based on the above assumptions above, the possible return to priority creditors is up to 100 cents in the dollar with a return to unsecured creditors unlikely. However, many variables can still significantly effect this return. These include:

- Realisation of asset values, particularly aircraft, aircraft engines and spares.
- Costs which unavoidably continue.
- Resolution of contingencies.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

2. Purpose of Report

2.1 Object of Administration

Section 435A of the Act states that the object of administration legislation is to provide for the business, property and affairs of an insolvent company to be administered in a way that:

- Maximises the chances of the company, or as much as possible of its business, continuing in existence.
- If it is not possible for the company or its business to continue in existence, results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

Given the Tesna withdrawal, it was not possible for the Ansett mainline business to remain in existence. The object of the Ansett administration now is to achieve a better return to creditors than would result from an immediate winding-up of the Ansett Group.

2.2 Administration Update

This report is intended as an update to our First Report dated 16 January 2002 and the matters discussed at the Second Meetings on 29 January 2002. Creditors may obtain a copy of our First Report from the Administrators' web sites.

The primary focus of this report is to advise creditors of actions undertaken since the Second Meetings on 29 January 2002 and the proposed steps to now achieve a better return for creditors than from an immediate winding up of the Ansett companies.

We have prepared this report using the information available at the time of writing. In many instances, our views and opinions are preliminary and require further investigation. This is largely due to the size and complexity of the Ansett Group. We stress that this report is not exhaustive. We reserve the right to alter any conclusions reached, on the basis of any changed or additional information that may become available.

2.3 Communication with Stakeholders

We established web sites early in the administration to post documents relating to major issues in the administration. These web sites are www.ansett.com.au/administrator and www.abl.com.au/administrator. Further information will be placed on the web sites when appropriate.



3. Events Since 29 January 2002

3.1 Second Creditors Meetings

The Second Meetings were held on 29 January 2002. The primary purpose of those meetings was for creditors to approve the sale of the mainline airline to Tesna and to approve the extension of the completion date by up to 30 days. Our First Report provided details of the Tesna sale. Creditors were advised that Tesna required up to a further 30 days to complete the sale.

After taking into account all of the advantages and disadvantages of the Tesna sale, on balance, we recommended to creditors that the sale be approved with an extended completion date. We also informed creditors that there was no certainty that Tesna would complete the purchase and there would be additional costs and losses associated with the extension.

Creditors overwhelmingly approved the sale to Tesna with an extension of the completion date by up to 30 days.

3.2 Continuation of Trading

We informed creditors at the Second Meetings that the continuation of Ansett operations would incur trading losses during February 2002 of approximately \$2.5m per week and IT and other infrastructure and asset protection costs of approximately \$3.5 million per week. The reasons for the increased trading losses were:

- Ticket sales dropped significantly because of the end of the holiday season.
- Uncertainty emerged about the Tesna sale.

Tesna consistently maintained that the mainline airline must be sold to them as a going concern. Therefore, the continuation of Ansett operations was required if a sale to Tesna was to be completed.

3.3 Benefits of Tesna Sale

The Tesna sale was in the interests of all creditors for the following reasons:

- The sale to Tesna provided the best return to all creditors. On a consolidated basis, priority creditors (including employees) would be paid in full, and other unsecured creditors would receive a dividend of approximately 5 cents in the dollar.
- There were no other offers to purchase the mainline airline as a going concern. The only other expression of interest did not involve the continued operation of the mainline airline.
- The Tesna sale provided for the continued employment by Tesna of approximately 3,000 employees which would have saved \$180m in employee priority payments.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

- If the sale to Tesna did not complete, it was unlikely there would be enough funds to pay priority creditors in full and therefore no dividend would be available to other unsecured creditors.

We also formed the view that while there were risks in extending the completion date, there were good prospects of the sale being completed by 28 February 2002. These were some of the facts that helped form this view:

- Tesna had announced its heads of agreement with Airbus for the leasing of \$3bn of aircraft.
- Tesna had already spent millions of dollars on accounting (40+ accountants) and legal services (90+ lawyers) to complete the sale.
- Tesna had employed a Chief Executive Officer, Chief Operating Officer and Chief Financial Officer and up to 20 key Executives.
- Tesna had made offers of employment to approximately 3,000 staff.
- Tesna had completed and subsequently announced its proposed new frequent flyer program and new Golden Wing program.
- Negotiations had been concluded with various unions for a new EBA.
- Tesna had significantly advanced its marketing plans and reserved advertising space.
- Tesna had negotiated an Aircraft Maintenance Services Agreement with the Administrators for the provision of engineering services for a minimum of two years.
- Consents were required from various third parties to transfer certain leases to Tesna. None of the key third parties refused their consent and progress was being made with all third parties.
- The principals of Tesna, Mr Lindsay Fox and Mr Solomon Lew, had repeatedly stated the sale would complete.

3.4 Application to Court

We made an application to the Court for a direction that we could properly and justifiably continue to operate the Ansett mainline business for a further period of up to 30 days pending finalisation of the sale of the mainline airline to Tesna. We did so based on legal advice. We also desired to give all creditors an opportunity to be heard on the issue.

Court documents relating to the application were served on:

- The Committees of Creditors (including financiers, bankers, union and non-union representatives and the Commonwealth Government).
- ASIC.
- Tesna.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

- ACTU.
- Mallesons Stephens Jaques, representing:
 - ❑ G E Capital Aviation Services Limited.
 - ❑ G E Engine Services Inc.
 - ❑ Credit Lyonnais.
 - ❑ Kreditanstalt Für Weideraufbau.
 - ❑ HSBC Bank Plc.
 - ❑ National Australia Bank Limited.
 - ❑ Macquarie Aviation Limited.
 - ❑ Trident Jet (Australia) Pty Ltd.
 - ❑ Perpetual Trustee Company.
 - ❑ Perpetual Trustee Company (Canberra) Limited.
- Representatives of all domestic terminal lease lessors.

The documents were also placed on the Administrators' web sites and the application attracted widespread media coverage.

Notwithstanding the number of creditors who were aware of the application and the widespread media coverage, nobody attended the Court to oppose the decision to continue to trade.

Justice Goldberg declined to make the directions sought because he held that it was a commercial decision for the Administrators. However, in the reasons for his judgment, Justice Goldberg observed:

"The administrators have made a commercial decision to continue operating the Ansett mainline airline business for a period up to 28 February 2002, notwithstanding the fact that during that period the Ansett group will incur losses of the order of \$6m per week comprising \$2.5m in trading losses and \$3.5m in respect of on-going information technology and infrastructure costs. The administrators have made this decision because they believe that it is in the interests of the creditors of the Ansett group that this decision be made.

No issue as to the power of the administrators to make this decision has been raised. It is within their power to make the decision. No issue has been raised as to the propriety or reasonableness of the decision.

...no-one has suggested or complained that the administrators should not have formed the views they have formed and should not have made the decisions they have made...it has not been suggested that the administrators should not continue to operate the Ansett mainline airline business for a further period up to 28 February 2002 for the purpose of enabling the completion of the sale of that business to Tesna. No person appeared at the hearing of the application to put these views."



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

3.5 Potential Rights of Action Arising Out Of Non-Completion of Sale

We are investigating claims that may be made against Tesna (which appears unlikely) and other parties concerning the sale transaction.

3.6 Ceasing of Operations

3.6.1 Mainline Airline

Tesna withdrew from the acquisition of the mainline airline late on 26 February 2002, claiming that, based on legal advice, it did not believe the transaction could be completed by 28 February 2002.

We continued flights until midnight on Monday 4 March 2002 because of high passenger numbers travelling to the Grand Prix in Melbourne, the Mardi Gras in Sydney and the Commonwealth Heads of Government Meeting in Queensland.

Simultaneously, we embarked on a cost reduction program to minimise the ongoing costs incurred in the administration of the Ansett Group. The cost reductions include:

- Disclaiming leased property that was no longer required including:
 - ❑ Real property leases.
 - ❑ Leases of plant and equipment.
 - ❑ IT infrastructure.
 - ❑ Aircraft subject to operating leases or where there was no equity in the financing structures.
- Terminating all staff not required for the realisation of assets.

3.6.2 Other Businesses

The operations of a number of other Ansett businesses were reliant on the continued trading of the mainline airline. These businesses are being closed and their assets realised.

We are continuing to trade the Engineering business to:

- complete existing contracts.
- enable aircraft to be capable of redelivery.
- maximise the realisations from aircraft, engines and spares, and
- maximise the prospect of selling the business as a going concern.

The sale of Skywest occurred before Tesna's withdrawal. The contract of sale for Aeropelican was executed on 6 March 2002 and is expected to settle on 15 April 2002. Discussions are continuing with parties interested in the sale of Kendell.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

4. Major Assets to be Sold and Realisation Strategies

4.1 Businesses of the Ansett Group

The major businesses within the Ansett Group were:

Business	Nature of Business
<ul style="list-style-type: none">• Mainline Airline	Airline flying between mainly capital city trunk routes
<ul style="list-style-type: none">• Ansett International	International airline flying to selected Asian ports
<ul style="list-style-type: none">• Australian Concession Management	Hospitality services in the Ansett terminals
<ul style="list-style-type: none">• Engineering (AAES)	Line maintenance, heavy engineering of aircraft fleet, repair and restoration of aircraft components and maintenance and overhaul of aircraft engines
<ul style="list-style-type: none">• Skywest	Regional airline (Western Australia)
<ul style="list-style-type: none">• Kendell	Regional airline (Victoria, Tasmania, South Australia)
<ul style="list-style-type: none">• Aeropelican	Regional Airline (Newcastle-Sydney)
<ul style="list-style-type: none">• Show Group	Logistics manager, travel agency and freight forwarder to the film, sports, art and entertainment industries worldwide.
<ul style="list-style-type: none">• Traveland	One of Australia's largest leisure travel operators
<ul style="list-style-type: none">• Flight Simulators	Hire out flight simulators to both internal and external clients
<ul style="list-style-type: none">• Call Centres	Call centres (7) to manage bookings for mainline and regional airlines
<ul style="list-style-type: none">• Third Party Ground Handling	Handling of cargo at airports on behalf of domestic and international customers
<ul style="list-style-type: none">• Cargo	Handling of cargo for domestic and international customers

4.2 Discussions With Interested Parties

We began the process for the sale of the major assets immediately after the withdrawal of the Tesna sale. To date this has included discussions with:

- Patrick.
- Virgin Blue.
- Singapore Airlines.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

- Sydney Airports Corporation.

These discussions are commercially sensitive and confidential. We will continue discussions with these and any other parties who demonstrate their financial capacity to complete a proposed transaction.

4.3 Domestic Terminal Leases (DTLs) and Other Leasehold Interests

4.3.1 Leasehold Interests

The Ansett Group leased more than 350 properties around Australia. The major leasehold properties are as follows:

Location	Location
Domestic Terminal Leases	Domestic Terminal Leases
<ul style="list-style-type: none"> • Sydney Domestic Terminal, Sydney, NSW • Brisbane Ansett Terminal, Brisbane, Queensland • Adelaide Domestic Terminal, Adelaide, SA • Darwin Domestic Terminal, Darwin, NT • Coolangatta Ansett Terminal, Coolangatta, Queensland • Townsville Ansett Terminal • Mackay Ansett Terminal, Mackay, Queensland • Launceston Domestic Terminal, Launceston, Tasmania 	<ul style="list-style-type: none"> • Melbourne Domestic Terminal, Tullamarine, Victoria • Perth Domestic Terminal, Perth WA • Hobart Domestic Terminal, Hobart, Tasmania • Canberra Domestic Terminal, Canberra, ACT • Rockhampton Ansett Terminal, Rockhampton, Queensland • Cairns Ansett Terminal, Cairns, Queensland • Alice Springs Domestic Terminal, Alice Springs, NT
Other	Other
<ul style="list-style-type: none"> • Hangar, Building 20, Sydney Airport, Sydney, NSW • Melbourne Jet Base – South Centre Rd, Tullamarine, Victoria • Astrojet Building, Melbourne Airport, Tullamarine, Victoria • Annandale Road, Tullamarine, Victoria 	<ul style="list-style-type: none"> • Flight Kitchen, Sydney Airport, Sydney, NSW • Melbourne Maintenance Base, Tullamarine, Victoria • Engineering Building, Brisbane Airport, Brisbane, Queensland



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

Location	Location
Other	Other
<ul style="list-style-type: none"> • Flight Kitchen GSE and Cargo, Brisbane, Queensland • Cargo Terminal Building (269), Perth WA • James Schofield Drive, Adelaide Airport, Adelaide, SA • Launceston Reservations Centre, Launceston, Tasmania • GSE Building Darwin, Darwin, NT 	<ul style="list-style-type: none"> • International Cargo Building (279), Perth, WA • Flight Catering Building (294), Perth Airport, Perth WA • Flight Catering Building, Adelaide Airport, Adelaide, SA • Flight Kitchen, Cairns, Queensland • Flight Kitchen, Darwin, NT

The most valuable Ansett properties are the DTLs.

4.3.2 *Buy-Back Mechanism*

The lease agreements for the major DTLs include a "buy-back" mechanism that is triggered if Ansett is wound up. The "buy-back" operates to enable the terminal owner to re-acquire the terminal at "market value". Market value is not defined in the lease agreement. The "market value" may be less on a default.

We have received legal advice that the "buy-back" mechanism is not triggered by the appointment of Administrators or by entering into the proposed DOCA.

4.3.3 *Ability to Sell*

We have also obtained legal advice that:

- We have the power to sell those assets.
- We are not required to operate an airline from the DTLs to maintain Ansett's interest in them.

4.3.4 *Realisation Strategy*

The options available for the sale of the DTLs will be reduced if the Ansett Group companies are placed in liquidation because of the "buy-back" provisions in the leases.

The strategy for the sale of the leasehold properties will include:

- Defining the terms of sale.
- Advertising the properties for sale.
- Holding discussions with parties who have previously expressed interest.
- Preparing an Information Memorandum.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

- Providing potential purchasers with access to the data room for due diligence.
- Receiving tender submissions with details of any conditions and evidence of the ability to complete the transaction.
- Evaluating bids.
- Negotiating with potential purchaser and lessors.
- Drafting and execution of documentation.
- Settling.

We have already begun this process. It is expected to take up to six months.

We have informed interested parties that if they wish to acquire key assets on a faster timetable they may submit an offer to do so at any time. We will also inform all interested parties that we will favour a more certain result over a higher but conditional offer.

4.4 Freehold Property

The freehold properties owned by the Ansett Group are:

Location	Location
<ul style="list-style-type: none">• 501 Swanston Street, Melbourne, Victoria• 465 Swanston Street, Melbourne, Victoria• Garden Drive, Tullamarine, Victoria• 177 Morgan Street, Wagga Wagga, NSW• 8 Miles Street, Mt Isa, Queensland• Lot 400 De Coursey Ave, Paraburdoo, WA• 4 Bates Ave, Newman, WA	<ul style="list-style-type: none">• 489 Swanston Street, Melbourne, Victoria• 20-32 Franklin Street, Melbourne, Victoria• Belmont Airport, Newcastle, NSW• 117-121 Doughan St, Mt Isa, Queensland• Lot 305 Samson Ave, Paraburdoo, WA• 20 Ethel Creek St, Newman, WA

We have continued the sale process for the freehold properties.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

4.5 Aircraft

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

Operator	Owned	Financed		Operating	Total
		Equity	No Equity	Lease	
Mainline Airline	29	20	12	21	82
Kendell	13	1	12	9	35
Skywest	0	0	0	5	5
Aeropelican	4	0	0	0	4
Cargo	3	0	0	1	4
International	0	0	0	3	3
Total Aircraft in Ansett Fleet	49	21	24	39	133
Sold to Date	(4)	0	0	n/a	(4)
Sale Under Negotiation	(5)	(4)	(1)	n/a	(10)
Novated to Date	n/a	n/a	n/a	(5)	(5)
Redelivered to Date	n/a	n/a	n/a	(17)	(17)
Aircraft Yet to be Sold, Novated or Redelivered	40	17	23	17	97

Processes are under way for the:

- Realisation of the aircraft that are owned or subject to finance where there is expected to be equity available to Ansett after the aircraft is sold.
- Return of all aircraft not in use that are subject to operating leases or finance where there is not expected to be any equity available to Ansett after the aircraft is sold.

The sale or return of leased aircraft is a complicated process due to maintenance and regulatory requirements. The hand-back process is expected to take up to two years to complete in order to maximise value.

Given the depressed state of the global airline industry and reduction in value of aviation assets due to events of 11 September 2001, the sale of aircraft could also take up to two years to complete. Arrangements will be made with aircraft financiers regarding appropriate sharing of costs where there is equity expected to be realised from an aircraft.

So far, receivers have been appointed by various financiers to eight of the above aircraft. None of these aircraft were expected to have any equity available to Ansett after their sale.



ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS

Nine of the financed aircraft are owned by an Ansett subsidiary that is not currently under administration. Receivers and Managers were appointed to this subsidiary on 14 September 2001 and are currently in control of the sale process for these aircraft. While we believe there is equity for Ansett in these nine aircraft, control of realisations is in the hands of the Receivers and Managers.

4.6 Aircraft Engines

Engines may be either owned or leased by Ansett and used with the aircraft mentioned above.

Processes are under way for the:

- Return of all aircraft engines not in use or that are subject to operating leases or finance leases, where there is not expected to be any equity available to Ansett after the engines are sold.
- Realisation of the aircraft engines that are owned or subject to a finance lease where there is expected to be equity available to Ansett after the engines are sold.

The sale or return of aircraft engines is a complicated process due to maintenance and regulatory requirements and the requirement that leased aircraft engines are refitted to the original aircraft before redelivery. Therefore, the redelivery of aircraft engines will occur simultaneously with the redelivery of aircraft.

Arrangements will be made with lessors regarding appropriate sharing of costs where there is equity expected to be realised from an aircraft engine.

4.7 Plant and Equipment

Plant and equipment can be categorised as relating to:

- Aircraft
 - ❑ Ground support equipment (GSE).
 - ❑ Ramp and ramp cleaners equipment.
 - ❑ Rotable parts and other spares.
 - ❑ Unit load devices (ULDs).
 - ❑ Cargo handling equipment.
- Terminals
 - ❑ Passenger accommodation furniture and furnishings.
 - ❑ Flight information display system.
 - ❑ Passenger booking, ticketing, and travel document IT equipment.
 - ❑ Baggage handling conveyor and weighing systems.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

- Engineering
 - ❑ Line maintenance equipment.
 - ❑ Heavy engineering equipment.
 - ❑ Aircraft and other tooling.
 - ❑ Engine overhaul equipment.
 - ❑ Engine test cell.
 - ❑ Stores and supply equipment.
- Properties.
- Motor vehicles.
- Office equipment.
- IT equipment.
- IT and communications equipment.
- Flight Simulators.
- Emergency procedures training equipment.

A detailed inventory of all of the items of plant and equipment has been prepared.

The major items of plant relating to aircraft and terminals may be offered for sale by public tender. If the amounts offered are not acceptable, then the items will be sold at public auction.

All owned motor vehicles, office equipment and IT equipment will be sold either by private treaty or at public auctions.

Details of these tenders and auctions will be advertised nationally when preparations are complete.

4.8 Spares - Consumables and Rotables

Ansett has more than 10 million items of spares. The process to identify all items and verify the spares records is continuing.

Once the items have been identified satisfactorily, an international marketing campaign will begin to realise all items surplus to the Engineering business needs. This campaign is expected to include discussions with:

- Aircraft and spares manufacturers and brokers.
- Aircraft operators.
- Major aircraft engineering and maintenance businesses.

Meanwhile, spares and rotables are being used in the work being done by the Engineering business and accordingly maximum realisable value is being obtained for these parts. We are also negotiating with parties who have expressed interest in specific surplus spares.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

4.9 Intellectual Property

Ansett owns a number of brand names, trademarks and internally developed software. It is not likely these assets have any significant realisable value.

4.10 Employees

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

	Number
<ul style="list-style-type: none">Employees transferred with the sale of businesses to date.	1,029
<ul style="list-style-type: none">Employees expected to be transferred with the sale of businesses yet to be completed.	538
Total Employees Expected to be Transferred	1,567
<ul style="list-style-type: none">Employees terminated or advised of their impending termination.	12,906
<ul style="list-style-type: none">Employees continuing to assist in asset realisations.	522
Total Employees Expected to be Terminated	13,428
Total Employees	14,995

Total employee entitlements are outlined in Section 9 below. Total payments of employee entitlements to date are approximately \$180m.

The Commonwealth Government has recently announced that it will pay all employees their SEESA payments within five business days of receiving appropriate data from us.

4.11 Proceeds of Ticket Sales

Approximately \$9m of tickets were sold for flights on the mainline airline after the closedown on 4 March 2002. Funds relating to these tickets are held in a separate account and will be refunded in full.



5. Other Business Operations

5.1 Show Group

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

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 to the value of approximately \$3.6m.

The Show Group debtors will be collected by us in the normal course.

5.2 Skywest

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 most efficient mechanism for the sale of the Skywest business was a sale of the shares in Skywest to AIL. To enable this to occur, a DOCA for Skywest was approved by its creditors on 25 January 2002. The DOCA was executed on 15 February 2002.

The mechanism for the sale was as follows:

- Execution of the sale agreement.
- Immediate termination of the Skywest DOCA with all liabilities released (apart from employee entitlements) and substituted by claims against the net proceeds.
- The proceeds from the sale of shares and assets not required by AIL were transferred to Bodas to be held on trust for the non-employee creditors of Skywest.

The purchase price for the shares in Skywest was \$6.475m. Under the sale agreement, all of the Skywest employees continue in their employment with Skywest and their entitlements of approximately \$2.19m 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 \$2.19m.
- An allowance for working capital of approximately \$0.9m.

Under the sale agreement, Ansett is committed to providing certain shared services to AIL for at least 30 days to enable it to continue to trade whilst it establishes its own systems and processes. These include:

- Reservation and ticketing system.
- Payment facilities.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

- Ground handling and other passenger arrival and departure services in Perth.
- Office IT support.

AIL have been advised that as a result of the withdrawal of the offer for the mainline airline, these services will only be provided until 31 March 2002.

The assets excluded from the sale are principally debtors which will be collected in due course.

5.3 Aeropelican

After advertising the business for sale, expressions of interest were received for the Aeropelican business and assets. After discussions with a number of the 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 is to complete on 15 April 2002.

The Aeropelican sale is structured in a similar way as for Skywest. The Aeropelican creditors approved the execution of a DOCA on 25 January 2002. The DOCA was executed on 15 February 2002.

The shares in Aeropelican will be sold for \$6m and at least 15 employees will continue in their employment. Employee entitlements of approximately \$200,000 will continue to be met by Aeropelican under its new owner.

As with Skywest, all creditor claims against Aeropelican (apart from employee entitlements) will be released upon the DOCA terminating and substituted by claims against the net proceeds. The proceeds from the sale of the shares will be held on trust by Bodas for the creditors of Aeropelican.

The remaining debtors will be collected by us.

5.4 Kendell

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

Discussions have continued since that time with a number of the interested parties and a variety of operating models have been considered. To date none of the indicative offers have been capable of acceptance because either the amount of the offer was inadequate or the potential purchaser was unable to prove their financial capabilities. Discussions with the interested parties will continue. A sale of the Kendell business is likely to take the same structure as the sale of the Skywest and Aeropelican businesses.

Discussions are also underway with the Commonwealth Government for additional funding for Kendell so that regional areas of New South Wales, Victoria and Tasmania are not left without competitive airline services.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

5.5 Traveland

The Traveland business was sold to Internova Travel Pty Ltd ("Internova"), on 23 September 2001 for \$500,000 and the transmission of employee liabilities.

In order to facilitate the sale of the Traveland business to Internova, we agreed that the Traveland employees would be no worse off than any other Ansett employees. The Traveland employees will be paid their GEERS entitlements by the liquidators of Internova and we will pay the Traveland employees any difference between GEERS and SEESA, estimated to be approximately \$200,000.

5.6 Engineering

The sale of the Engineering business is more likely if it operates as an independent maintenance and repair organisation. Accordingly, we have begun to separate the Engineering business from the mainline airline. The Engineering business now trades as AAES.

Engineering has a considerable amount of work from existing third party contracts as well as work available from lessors of Ansett aircraft that require maintenance work before the aircraft are capable of redelivery. Engineering management are continuing to seek new work for Engineering.

The sale process to date has involved the preparation of an Information Memorandum, communication with a number of major independent aircraft and engine repair and maintenance organisations and facilitating due diligence by potential purchasers. The potential purchasers are predominantly located overseas and a number have visited the Melbourne maintenance base as part of their due diligence. The sale process is continuing and we have contacted each of these interested parties since the withdrawal of the Tesna offer. Some still wish to pursue the purchase of Engineering and are continuing their diligence of Engineering.

5.7 Call Centres

The Sydney, Melbourne, Brisbane, Adelaide, Canberra and Perth call centres were unable to be sold and have been closed. All employees have been made redundant and the plant and equipment has either been sold or is in the process of being sold.

The Launceston call centre is continuing to operate in order to support the regional airlines and the winding down of the mainline business. We are in discussions with a number of parties for the sale of this call centre.

5.8 Cargo and Ground Handling

Expressions of interest were received for the Cargo business and assets and a number of parties completed due diligence immediately following our appointment. Two indicative offers were received but did not proceed.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

Tesna was to acquire the domestic cargo "same-day" business and the International Cargo Handling business and would have also acquired the Third Party Ground Handling business subject to the return of a major customer.

After the withdrawal by Tesna, we contacted the parties who previously expressed an interest in International Cargo Handling. A number of parties are undertaking due diligence.

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 will be collected by us and the plant and equipment sold.

5.9 Australian Concession Management

This business ceased operating on 4 March 2002 because of the closure of the mainline airline. The business is unable to be sold without an operating airline in the various airport terminals.

The major assets of the Australian Concession Management business are debtors and plant and equipment. Debtors will be collected in the normal course and the plant and equipment realised by way of tender or public auction.

5.10 Ansett International

The major assets of Ansett International were landing slots in a number of Asian ports, debtors and some minor plant and equipment. The closing of the business resulted in the landing slots being forfeited. Debtors will be collected by us and the plant and equipment sold.

5.11 Flight Simulators

This business incorporates seven flight simulators and is continuing to operate with customers from a variety of domestic and international airlines. We have prepared a marketing plan for the sale of the business and will advertise for expressions of interest shortly. A number of parties expressed interest when the business was first advertised immediately after our appointment.

5.12 Ansett Aircraft Spares and Services

AASS is the trading name of Ansett Airlines Australia Limited (a UK company) and Transpacific Enterprises Incorporated (or TPE, a US company). AASS is a broker of surplus spares to many companies in the global aviation industry. TPE has filed for Chapter 11 bankruptcy protection in the United States. Both TPE and Ansett Airlines Australia Limited continue to trade. They may play an important role in maximising realisations of the Ansett spares and rotables.



6. Investigations

As Administrators, we are required to investigate the affairs of the Ansett Group. Investigations have progressed since our First Report. The withdrawal of the Tesna offer and the wind-down of the mainline airline meant that we had to focus resources on asset realisation and cost minimisation. Further work is required before conclusions can be reached about the matters being investigated.

6.1 Potential Causes of Action Available to Administrators

The actions of a number of parties are being considered as part of our investigations into possible causes of action. These include:

- Potential breaches by directors and officers of the Ansett Group of Companies duties in relation to:
 - ❑ Payment of bonuses in August 2001.
 - ❑ Accounting policies.
 - ❑ Sale and leaseback of fleet
- Potential claims against Air New Zealand in relation to:
 - ❑ Alleged asset stripping.
 - ❑ Centralisation of treasury function and sweeping of bank accounts.
 - ❑ Methods of recording of intercompany loan accounts.
 - ❑ Alleged inappropriate charging of fuel and other operating costs.
- Potential claims against other parties:
 - ❑ Advisors and other officers.
 - ❑ Actions under the Trade Practices Act.
 - ❑ Set-off of funds held in bank accounts.

6.2 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 are:

- Trading whilst insolvent.
- Holding company liability for debts of an insolvent subsidiary.
- Unfair preference payments.
- Uncommercial transactions.
- Unfair loans.



ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS

It should be noted that claims can be difficult to prove, are time-consuming and expensive to pursue. Also, recoveries can be uncertain. A broad outline of each of these categories is described below.

6.2.1 *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 a point in time the Company was insolvent.

6.2.2 *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, and
- 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 are grounds for so suspecting

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



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

6.2.3 *Unfair Preference Payments*

An unfair preference is a transaction, generally within the six months before the appointment of the Administrator, 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, 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.

6.2.4 *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 (ie. the appointment of the Initial Administrators), and
- 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.

6.2.5 *Unfair Loans*

An unfair loan is a loan where, upon analysis, the interests 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.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

6.3 Further Reports and Impact of Proposed DOCAs

We intend to convene a further meeting of the creditors of the Ansett Group following the sale of the major assets. A report outlining the results of the sale process and our investigations will be prepared before that meeting.

Under the proposed DOCAs, all of Ansett's rights of action are unaffected.

Further, should the creditors vote subsequently to place Ansett in liquidation, all of the potential causes of action available to a liquidator would be able to be pursued. The liquidator's ability to pursue the potential causes of action is not affected by the proposed DOCA.

6.4 ASIC Investigations

6.4.1 Investigations to Date

ASIC announced its investigation into the affairs of the Ansett Group on 14 September 2001. When announcing the investigation, ASIC said in Media Release 01/326:

"the investigation will focus on possible breaches of director duties under the Corporations Act. This will include investigating compliance with the insolvent trading provisions of the Act and the potential liability of Ansett's holding company, Air New Zealand, under those provisions."

ASIC served a number of notices upon us for the production of Ansett Group documents to assist their investigations. We have fully co-operated with ASIC in its enquiries, and will continue to do so.

On 1 March 2002 ASIC announced:

"...extensive enquiries have been conducted in Australia, New Zealand and Singapore involving a comprehensive review of company records and examinations of directors and other officers. Legal advice has been provided by Counsel on a variety of issues.

ASIC has now reached the view that, based on the evidence currently available, 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.

The factors contributing to this conclusion include the steps taken by the Ansett directors to obtain financial support from their parent company, Air New Zealand Limited (AIZ), including a letter of comfort for \$400 million for working capital commitments in August 2001.

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.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

ASIC's attention is now focused on the adequacy of disclosures made to the market by AIZ regarding its financial position in the period prior to 12 September 2001."

ASIC hopes to conclude its investigations by 31 May 2002. A copy of ASIC's full release is attached at Appendix 2. We will co-operate where ever possible with ASIC in its investigation, however, we will continue with our own independent investigation and report to creditors in our next report.

6.4.2 Reports to ASIC by Administrators

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

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

We have not lodged a report with ASIC and will await the outcome of our investigations to determine whether to lodge such a report.



7. Proposed Deed of Company Arrangement

7.1 Purpose of DOCA

Where a company is unable to continue in existence, the object of the administration legislation is to administer the affairs of the insolvent company in a way that results in a better return for creditors than an immediate winding up.

Given the nature of the major assets of the Ansett Group, it is possible with a DOCA to create a flexible framework to maximise asset realisations.

The purpose of the DOCA therefore is to:

- Provide for the orderly sale of the assets of the Ansett Group.
- Preserve the assets of the Ansett Group pending their sale.
- Provide a moratorium on unsecured creditors taking action against the Ansett companies.
- Preserve any potential rights of action against third parties and any recovery actions that may be available to a Liquidator.
- Enable a further meeting of creditors to be called after the major assets are realised to consider the pooling of the assets and liabilities of the various Ansett Group companies or determine whether to place the Ansett companies in liquidation.

An outline of the proposed DOCA is attached at Appendix 3. Below is a brief overview of some aspects of the DOCA. We recommend that creditors read the proposed DOCA carefully.

7.2 Outline of DOCA

7.2.1 Role of Deed Administrator

The role of the Deed Administrators will be to:

- Control the Ansett Group companies.
- Carry on the businesses of the Ansett Group companies as required.
- Sell the businesses or assets of the Ansett Group companies.

The Deed Administrators would have the powers necessary to carry out their function.

7.2.2 Moratorium

During the period of the DOCA:

- Unsecured creditors will be restrained from taking or proceeding with any action against the Ansett Group companies.
- Nothing in the DOCA will affect the rights of secured creditors.
- Creditor claims are not released under the DOCA.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

These provisions will enable the orderly sale of the Ansett assets without disruption by legal proceedings initiated by creditors.

7.2.3 Committee of Creditors

The Committees of Creditors appointed during the Administration period would continue during the period of the DOCA.

7.3 Further Reporting to Creditors

After the major assets have been realised, a further report will be prepared outlining the outcome of the asset realisations and details of the investigations conducted. A recommendation would also be made whether all of the assets and liabilities of the companies should be pooled.

Creditors will vote at a meeting of creditors whether to place the companies in liquidation or vary the DOCA to take into account the pooling of assets and the inclusion of mechanisms for distributions to creditors.

7.4 Advantages of DOCA

The advantages for creditors generally of the proposed DOCA 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 DTLs, Kendell and Engineering during the DOCA period.
- Significant savings because of mechanisms to realise 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.
- Ability to preserve particular assets within an Ansett company.

7.5 Disadvantage of DOCA

The disadvantage of the proposed DOCA is:

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



8. Statutory and Legal Matters

8.1 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.

Six meetings of the Committees of Creditors were held before the release of our First Report. One further meeting has been held on 27 February 2002 to provide an update on the sale process and the reasons for the withdrawal of Tesna's offer.

A further meeting has been convened for 21 March 2002 to:

- Obtain an update on administration matters generally.
- Obtain an update of the strategy for the sale of assets.
- Discuss any matters relating to our Second Report and proceedings for Part 2 of the Second Meetings.
- Approve the Administrators' remuneration.

Under the proposed DOCAs, the Committees of Creditors will continue.

8.2 Court Applications

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

- Application Regarding Administrators Continuing to Trade.
- Application Regarding Owners of Property.
- Application for Approval of Sale to Tesna.

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 by Canberra Airport to retake possession of the Canberra DTL.

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

Below is a brief summary of the above applications, the reasons why they were made and their current status or their outcome.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

**8.2.1 Application Regarding Administrators Continuing to Trade
(Proceeding no. V3015 of 2002)**

We made an application to the Court for directions that we could properly and justifiably continue to operate the Ansett mainline business for a further period of time ending no later than 28 February 2002, pending resolution of the sale of the Ansett mainline to Tesna.

Justice Goldberg declined to make the directions sought as he held that continuing to trade was a commercial decision for the Administrators to make. Justice Goldberg observed:

"The administrators have made a commercial decision to continue operating the Ansett mainline airline business for a period up to 28 February 2002, notwithstanding the fact that during that period the Ansett group will incur losses of the order of \$6m per week comprising \$2.5m in trading losses and \$3.5m in respect of on-going information technology and infrastructure costs. The administrators have made this decision because they believe that it is in the interests of the creditors of the Ansett group that this decision be made.

No issue as to the power of the administrators to make this decision has been raised. It is within their power to make the decision. No issue has been raised as to the propriety or reasonableness of the decision, nor has any issue been raised which requires the Court to make a judgment on a legal issue."

No creditors challenged the decision to continue to trade.

**8.2.2 Application for Approval of Sale to Tesna
(Proceeding no. V3010 of 2002)**

It was a condition precedent to the Tesna sale that the Court approve the terms of the sale.

In anticipation of completion on 31 January, an application was filed on 25 January 2002 to obtain the Court's approval of the Tesna sale.

A number of directions hearings occurred in the application.

Given the withdrawal by Tesna, the application will not proceed.

**8.2.3 Application by Hazelton Administrator for Apportionment
(Proceeding no. V3051 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.

A dispute has arisen between the Hazelton Administrator and the Administrators as to what proportion of the \$150m recovered from the Air New Zealand Group should be paid to the Hazelton Administrator.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

The Ansett Administrators have paid the Hazelton Administrator \$1.545m on the basis that the Hazelton Administrator cannot be personally liable to repay that sum. The dispute is ongoing and will be determined by the Court unless the parties can reach agreement.

The matter has been adjourned until 2 April 2002.

8.2.4 *Application re Superannuation*
(Proceeding no. V3075 of 2001)

The Ansett Group has a number of separate superannuation schemes for its employees ("the Superannuation Plans"). The Superannuation Plans are able to pay ordinary retirement benefits in full.

However, the Trustees advise that some of the Superannuation Plans provide that if an employee is retrenched, that employee is entitled to a special benefit on termination. The entitlement to the special benefit is dependent upon a declaration being made by the employer that the member has been retrenched. We have made an application to the Court to determine the declaration of retrenchment question and related issues.

The Trustees have commenced a separate proceeding in the Supreme Court of Victoria seeking various declarations regarding whether the Ansett Group is liable for the shortfall in the Superannuation Plans and whether any shortfall would be afforded a statutory priority of repayment. We have been advised it will not. The Superannuation Plans are claiming there is a shortfall in excess of \$100m.

For the avoidance of doubt, the proposed DOCA provides that if a debt is due by Ansett to the Trustees it will be treated as an ordinary unsecured debt.

8.2.5 *Application by Canberra Airport*
(Proceeding no. V3026 of 2002)

Canberra Airport has commenced proceedings seeking to take possession of the Canberra DTL. We are opposing the application because one of the key interested parties has expressed preliminary interest in obtaining an assignment of the lease for the Canberra DTL.

8.2.6 *Potential Further Applications*

Further applications to the Court may be made:

- to avoid sending a notice to all 3 million creditors that the Companies have executed a DOCA.
- if it is necessary to "clean up" an Ansett company by transferring its assets and novating its liabilities to another company in the Ansett Group.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

9. Estimated Return to Creditors

The Ansett Group comprises of a large number of businesses and companies with many inter-relationships. This leads to significant complexities when estimating the possible return that may be available 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 this report. This includes property, aircraft and plant and equipment valuations, some of which have been prepared by independent experts.

The summary assumes all of the assets and liabilities of the Ansett Group are consolidated. There are likely to be varying returns for creditors of different companies if each company is treated separately. The summary also assumes that creditors will vote in favour of a DOCA.

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 this report.

In our First Report we indicated that if the sale to Tesna did complete, and if all of the assets and liabilities of the Ansett Group companies were consolidated, a dividend to unsecured creditors of approximately 5 cents in the dollar was possible. We also indicated that if the sale did not complete, it was likely that there would be a shortfall in meeting priority payments and there may be no return to the unsecured creditors. This is now the expected outcome.

A broad estimate of the potential return to creditors is as follows:

	\$m
Estimated Realisations	
Debtors, Other Receivables and Air New Zealand Settlement	265
Property Assets, Regional Airlines (Business and Aircraft), Engineering and other assets	400
Ansett Aircraft – Owned and Finance Leases with Equity	890
Spare Aircraft Engines, Rotables and Consumables	100
Total Estimated Realisations	1,655
Estimated Payments	
Payouts on Finance Leases with Equity	(640)
Asset Management and Wind Down Costs	(75)
Back Office, Overheads and IT costs	(75)
Mainline and Regionals' Trading Losses	(25)



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

	\$m
Estimated Payments contd...	
Costs incurred after 28 February 2002	(65)
Valuation, Consulting, Legal, Administrators' Fees and Expenses	(55)
Total Estimated Payments	(935)
Surplus before Employee Entitlements	720
Employee Entitlements	
Total Employee Entitlements	760
Less – Transfers on Sale of Regionals, Engineering and Other Businesses	(40)
Total Employee Entitlements	720
Possible Return to Employees before Contingencies	100c/\$
Less – Contingencies (for averaging of employee entitlements, number of transferring employees, possible taxes on employee entitlements and other issues)	(59)
Possible Return to Employees after Contingencies	92c/\$
Estimated Return to Unsecured Creditors (\$2,057m)	0c/\$

The potential claims by unsecured creditors are summarised as follows:

	\$m
Unsecured Creditors	
Trade Creditors	300
Revenue Paid in Advance	270
Banks	
- Loans and Overdrafts	115
- Bank Guarantees	25
- Hedge Losses	27
Global Rewards	140
Lease Creditors	27
Taxes	
- ATO (Revised Assessments)	66
- GST & other taxes	4



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

	\$m
Unsecured Creditors contd...	
Inter-company Loans (Companies Not in Administration)	20
Other Creditors	208
Possible Superannuation Plan Shortfalls	80
Amounts Claimed as Owing by Air New Zealand	310
Less: Amounts Agreed Not to Claim	(310)
Total Creditors (Before Aircraft Creditors)	1,282
Aircraft Creditors	
- Aircraft Finance Leases Without Equity	230
- Operating Lease Liabilities (total payable approx. \$1.1b)	350
- Other Aircraft Lease/Loan Guarantees	195
Total Aircraft Creditors	775
Total Potential Unsecured Creditors	2,057

The total of all potential creditors of the Ansett Group are summarised below:

	\$m
All Potential Creditors	
Employee and Other Entitlements	779
Unsecured Creditors, excluding Aircraft	1,282
Payments on Finance Leases with Equity	640
Aircraft Creditors	775
Total All Potential Creditors	3,476

Summary

Based on the above assumptions above, the possible return to priority creditors is up to 100 cents in the dollar with a return to ordinary unsecured creditors unlikely. However, many variables can still significantly effect this return. These include:

- Realisation of asset values, particularly aircraft, aircraft engines and spares.
- Costs which unavoidably continue.
- Resolution of contingencies.



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

10. Administrators' Opinions

We, Mark Korda and Mark Mentha, as Administrators of the Ansett Group, have formed the opinion, having regard to the information available to us, that it would be in the interests of creditors of the Ansett Group to execute a DOCA as outlined in the attached outline prepared pursuant to Section 439A(4)(c) of the Act.

The object of Part 5.3A is now to provide a better return to creditors than would result from an immediate winding up of the Ansett Group. The advantages of the proposed DOCA over an immediate liquidation are as follows:

- Enhance the ability to maximise the proceeds from the sale of major assets.
- Preservation of rights of action or claims that could only be pursued by a liquidator.
- Greater flexibility for the trading and sale of DTLs, Kendell and Engineering during the DOCA period.
- Significant savings because of mechanisms to realise 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.
- Ability to preserve particular assets within an Ansett company.

The disadvantage of the proposed DOCA is that it may delay a liquidator's commencement of proceedings, if any.

Therefore, it is our opinion that it would not be in the interests of creditors for the administrations to end. If the administrations end, the Companies would be returned to the control of the Directors in circumstances where they are insolvent.

Further, it is our opinion that it would not be in the interests of creditors for the companies to be wound up at Part 2 of the Second Meetings. Our opinion is that the appointment of a liquidator may cause rights of the Ansett Group to be terminated and restrict our ability to realise some of the major assets of the Ansett Group. A winding-up may also be more costly than a DOCA. Our investigations are continuing to better determine whether there are any claims available only to a liquidator that may justify the winding-up. Creditors may vote at Third Meetings to wind up the Ansett Group companies if our investigations conclude it would be in their interests.

Dated this 15th day of March 2002.



MARK A KORDA
Administrator



MARK F MENTHA
Administrator



**ANSETT GROUP (ADMINISTRATORS APPOINTED)
SECOND REPORT BY ADMINISTRATORS**

LISTING OF COMPANIES FOR WHICH THIS REPORT HAS BEEN PREPARED

501 Swanston Street Pty Ltd (ACN 005 477 618)	Northern Airlines Limited (ACN 009 607 069)
Airport Terminals Pty Ltd (ACN 053 976 444)	Northern Territory Aerial Work Pty Ltd (ACN 009 611 321)
Aldong Services Pty Ltd (ACN 000 258 113)	Rock-It-Cargo (Aust) Pty Ltd (ACN 003 004 126)
Ansett Aircraft Finance Limited (ACN 008 643 276)	ANST Show Pty Ltd (Formerly Show Group Pty Ltd) (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) (ACN 000 240 746)
Ansett Australia Holdings Limited (ACN 004 216 291)	ANST Travel International Pty Ltd (Formerly Traveland International Pty Ltd) (ACN 000 598 452)
Ansett Carts Pty Ltd (ACN 055 181 215)	Traveland International (Aust) Pty Ltd (ACN 000 275 936)
Ansett Equipment Finance Limited (ACN 006 827 989)	Traveland New Staff Pty Ltd (ACN 080 739 037)
Ansett Finance Limited (ACN 006 555 166)	Walgali Pty Ltd (ACN 055 258 921)
Ansett Holdings Limited (ACN 065 117 535)	Westintech Limited (ACN 009 084 039)
Ansett International Limited (ACN 060 622 460)	Westintech Nominees Pty Ltd (ACN 009 302 158)
Bodas Pty Ltd (ACN 002 158 741)	Whitsunday Affairs Pty Ltd (ACN 009 694 553)
Brazson Pty Ltd (ACN 055 259 008)	Whitsunday Harbour Pty Ltd (ACN 010 375 470)
Eastwest Airlines (Operations) Limited (ACN 000 259 469)	Wridgways (Vic) Pty Ltd (ACN 004 153 413)
Eastwest Airlines Limited (ACN 000 063 972)	Wridgways Holdings Limited (ACN 004 449 085)
Kendell Airlines (Aust) Pty Ltd (ACN 000 579 680)	(All Administrators Appointed)
Morael Pty Ltd (ACN 003 286 440)	

