



KordaMentha

# Ansett Group

**(Subject to Deeds of Company Arrangement)**

**Sixth Report to Creditors**

**31 March 2006**

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## 1 Executive Summary

### 1.1 Introduction

This is the Sixth Report to Creditors of the Ansett Group of Companies, which provides a general update to creditors on the status of the administrations as at 31 December 2005. The Administrators have also issued 76 Committees of Creditors' updates, 40 employee updates and detailed reports to the Commonwealth Government and to representatives of employees.

### 1.2 What has been Achieved?

The Administrators realised \$60.5m of assets during 2005. Over 95% of assets, other than aircraft, have now been realised.

Significantly, the Administrators are now able to increase the net asset realisation estimate by a further \$50.0m from \$590.0m to \$640.0m as a result of:

- higher than budget assets actually realised to date;
- higher than budget future estimated asset realisations;
- lower than budget costs to date; and
- elimination or mitigation of contingent claims.

The Administrators paid a dividend on 12 December 2005 of \$41.1m, being the fourth dividend, as follows:

- \$25.0m to employees, being 12.5% of each employee's outstanding balance after payment of the first, second and third dividends; and
- \$16.1m to the Commonwealth Government.

Employees have now received \$586.3m of the estimated total employee entitlements of \$760.0m.

The Commonwealth Government has now received \$270.8m of the \$384.0m of its total advances.



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### **1.3 Where are we Going?**

This remains a complex group of administrations. Overall, the Administrators expect to achieve total net realisations of at least \$640.0m, which is an increase of \$50.0m on the previous estimate of \$590.0m as at 31 December 2004.

Of \$142.4m in the bank at 31 December 2005, \$118.1m relates to Ansett entities other than AAL (the entity which employed most of the employees). The Administrators have applied to the Court to determine if they can:

- combine all of the assets and liabilities of all the Ansett entities under administration; and
- pay dividends from the combined “pool” of assets and liabilities.

**This process is known as pooling and the Administrators have made an application to the Federal Court in relation to this issue. The Administrators are in the process of preparing supplementary affidavits as requested by the Federal Court so the Federal Court may consider the matter further.**

Future asset realisations other than aircraft are estimated at \$33.6m. Future realisations from aircraft are estimated at \$37.1m. Of the original fleet of 134 aircraft, four remain to be sold, being one A320 aircraft (the aircraft is now on lease), one BAe146-200QT and two BAe146-300's.

Costs to complete the administrations are estimated at \$24.0m. \$8.1m of the total cost to complete the administrations is for external labour requirements.

The Administrators expect a number of legal actions in regard to potential recoveries to be resolved during 2006.

There are large contingencies, both assets and liabilities, which are being resolved on a continuing basis.

### **1.4 Future Dividends**

The Administrators estimate employees will receive a further \$84.2m, to be paid over the next few years. **This means each employee will receive 48% of their current outstanding balance.** Accordingly, the Administrators anticipate total payments of \$670.5m of the \$760.0m of total employee entitlements owed.

The Administrators estimate the Commonwealth Government will ultimately receive \$326.6m of its total advance of \$384.0m.



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No further large dividends can be made until pooling is resolved. If it is determined that pooling can occur, the Administrators can pay a further dividend of **approximately 25%** of the employees' current outstanding balance, together with the relevant amount payable to the Commonwealth Government. The balance of dividends will be paid over the next few years as assets are realised.

It is very important to note the major risks in delivering the estimated returns. These risks are documented in Section 5.3.



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## 2 Communication with Stakeholders

### 2.1 The Administrators' Websites

The Administrators established websites early in the administrations to post documents relating to major issues in the administrations. Further information is placed on the websites when appropriate.

The web addresses are <http://www.ansett.com.au> and <http://www.kordamentha.com>

### 2.2 Committees of Creditors' Updates

The functions of the Ansett Committees of Creditors are to consult with the Administrators about matters relating to the administrations, receive and consider updates and reports prepared by the Administrators and to approve the Administrators' remuneration from time to time.

Updates and reports provided to the Committees of Creditors contain detailed information, often of a sensitive nature. A summary of the major issues covered in each update since the Fifth Report is as follows:

Update	Date	Major Issues Reported
66	18 April 2005	Fifth report to Creditors Sale of AAES Aeroturbine aircraft sales Flight Centre litigation BSP Australia Recovery Project
67	19 May 2005	Aircraft sales Sale of AAES IATA legal proceedings
68	23 June 2005	Aircraft leases and sales AAES update Federal Court pooling application
69	21 July 2005	Aircraft engine sales Federal Court pooling application
70	15 September 2005	AAE compromise
71	29 September 2005	Federal Court pooling application
72	7 October 2005	Federal Court pooling application
73	19 October 2005	Ansett Engineering
	12 December 2005	Dividend Payment (Media Release)



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Update	Date	Major Issues Reported
74	18 January 2006	Aircraft sales Overhead reductions Administrators' remuneration
75	15 February 2006	Aircraft and engine sales Ansett Engineering Simulation Centre Refinancing
76	22 March 2006	Federal Court pooling application

### 2.3 Employee Updates

Employees have also been provided with updates on the Administrators' websites. A summary of the major issues covered in each update since the Fifth Report is as follows:

Update	Date	Major Issues Reported
33	1 April 2005	Fifth Report to Creditors What Has Been Achieved? (in 2004) Where Are We Going? Future Distributions
34	25 May 2005	Aircraft Movements Ansett Engineering Pilots' Court Decision Ansett Superannuation Funds
35	30 June 2005	Pooling Application Process Payment for Further Dividends
36	31 August 2005	Asset Realisations in First Half of 2005 Pooling Application Process - Progress Pooling Application Process - Next Steps
37	24 November 2005	Pooling Application Process - Progress
38	12 December 2005	Payment of Fourth Dividend Pooling Application Process – Progress Employee Queries
39	28 February 2006	Pooling Application Process Payment for Further Dividends Sixth Report Preparation Aircraft Movements
40	22 March 2006	Pooling Application Process - Progress



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**2.4 Key Stakeholder Communications**

Regular meetings have also been held with key stakeholders, including the Commonwealth Government and representatives of the employees. In addition, detailed reports have been provided to the Commonwealth Government and to representatives of the employees.



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### 3 What has been Achieved?

#### 3.1 Assets realised during 2005

The Administrators realised \$60.5m of assets during 2005. The Administrators have now realised over 95% of assets, other than aircraft. Assets other than aircraft realised in 2005 totalled \$31.3m.

The non aircraft assets realised during 2005 are as follows:

Non Aircraft Assets realised during 2005		\$m
Businesses	3.1.1	0.3
Debtors	3.1.2	4.7
Spares, Rotables and Consumables	3.1.3	15.0
Engines	3.1.4	11.3
<b>Total</b>		<b>31.3</b>

##### 3.1.1 Businesses

The Ansett Flight Simulation Centre was sold in October 2004 with vendor finance provided for part of the consideration. During 2005 the purchasers made the payments under the terms of the finance agreement.

Subsequent to 31 December 2005, the Administrators worked with the purchaser in the refinancing of the loan. As a result, on 1 February 2006 the Administrators realised \$4.2 million in repayment of the vendor loan.

##### 3.1.2 Debtors

During 2005, the collection team has recovered a further \$4.7m in pre administration debtors. This has increased total collections to \$137.6m. The recoveries are from in excess of 10,000 separate debtor accounts and over 1,100 BSP Agents.

The amount collected in 2005 includes \$2.9m collected from BSP travel agents who sold pre administration flight tickets on AAL's behalf.

##### 3.1.3 Spares, Rotables and Consumables

During 2005, \$15.0m was realised from the sale of spares, rotables and consumables.

The Administrators' consignment and marketing agreement with AASS for the sale of rotables and consumables has minimum performance standards, which were again met during 2005.



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**3.1.4 Engines**

All of the 17 spare engines listed as available on commencement of the administrations have now been sold. The remaining uncontracted engine at 31 December 2004, being a CFM56-5A (A320 engine), was sold in 2005. This engine was previously on lease with Iberia and was sold upon completion of an overhaul required in order to meet lease return conditions.

During 2005, the Administrators realised \$11.3m from the sale of engines. This included the realisation of the balance of funds for three engines contracted for sale as at 31 December 2004.

**3.2 Aircraft realised during 2005**

As at 31 December 2004, the 14 aircraft remaining to be sold were:

- Two A320 aircraft (currently on lease); and
- The fleet of BAe146 aircraft (one BAe146-200; one BAe146-200QT; ten BAe146-300).

Four of the six Boeing 767's sold to Aeroturbine in September 2004 were still in the Administrators' possession awaiting checks and delivery as per the terms of settlement. The delivery of these aircraft formed a substantial portion of the work requirement in 2005 as expected, with deliveries available on schedule as follows:

- RMG - February 2005;
- RMH – April 2005;
- RML – June 2005; and
- RMF – August 2005.

In addition to the delivery of the 767's, three aircraft were sold and three aircraft were parted during 2005. The aircraft sold were:

- November 2005: Sale to European Skybus of two BAe146-300's; and
- December 2005: Sale of one A320 (MSN 025) to Aeroturbine and novation of the existing lease.

The settlement of the A320 took place in January 2006. \$8.9m was realised being the total sale price less the deposit previously received and maintenance reserves. The lease stream from the two BAe146's continues with those amounts offsetting the final settlement amount.



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As stated in the Fifth Report, while it is the Administrators' clear preference and intention to sell the remaining A320, during 2004 remarketing efforts had not identified any investors making acceptable offers for a non-operating aircraft. The Administrators' remarketing advisors, Pembroke Capital, therefore recommended placing the two (at the time) remaining A320 aircraft on lease to attract potential investors.

Since this time, one A320 has been sold and the other, whilst unsold is attracting interest whilst on lease.

The significant flow on benefits arising from leasing the aircraft include improved market perception of an operating aircraft; generating cash flow to contribute towards the cost of heavy maintenance checks, which accrue through the passage of time, irrespective of usage; and, saving on parking, idle maintenance and insurance costs. In summary, if leased, costs are eliminated and aircraft become more attractive for sale.

In May 2004, the Administrators leased one of the A320 aircraft to an operator based in Tunisia, North Africa for two years. This was the aircraft sold in December 2005 and settled in January 2006.

In June 2004, the Administrators leased the final A320 aircraft in the fleet to an operator in France for a period of four years with a further two year option. This aircraft is still on lease and is the aircraft still available for sale.

This lease to sell approach has also been successful with recent delivery to European Skybus of the two BAe146-300's (NZG and NZJ).

At 31 December 2005, the four aircraft remaining to be sold are:

- One A320 aircraft (currently on lease); and
- Three BAe146 aircraft (one BAe146-200QT and two BAe146-300's) currently in the UK.

The remaining four aircraft held at 31 December 2005 are currently being parted (one BAe146-200 and three BAe146-300's).



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**The Fleet**

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

<b>Aircraft Type</b>	<b>Owned</b>	<b>Financed, with Equity</b>	<b>Financed, with No Equity</b>	<b>Operating Lease</b>	<b>Total</b>
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	7			2	9
Boeing B767-300				4	4
BAe146-200	5			2	7
BAe146-200QT	2				2
BAe146-300	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
<b>Total Aircraft in Ansett Fleet</b>	<b>55</b>	<b>5</b>	<b>44</b>	<b>30</b>	<b>134</b>
Sold/parted to Date	(47)	(5)	N/A	N/A	(52)
Redelivered to Date	N/A	N/A	(44)	(30)	(74)
<b>Aircraft to be Sold/Parted</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8</b>

It is notable that, of the original Ansett Group fleet of 134 aircraft, substantially all of the newer and higher value jet aircraft, including the 12 CRJ aircraft (acquired between 1999 and 2001), 18 of the 20 Airbus A320 aircraft, the four Boeing 767-300 aircraft and the entire fleet of 24 Boeing 737 aircraft were financed or leased. These 74 aircraft were redelivered to the respective lessors or financiers over a two year period, however have not returned any net equity to the Ansett Group.

Of the 60 remaining aircraft that were owned or financed with equity, 22 were smaller aircraft utilised by the regional airlines of the Ansett Group and were disposed of to the purchasers of those businesses. Of the remaining aircraft, 14 have been or are being sold for parts and 16 have been sold on the market.



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**3.3 Dividends paid during 2005**

The Administrators paid a dividend on 12 December 2005 of \$41.1m, being the fourth dividend, as follows:

- \$25.0m to employees, being 12.5% of each employee's outstanding balance after payment of the first, second and third dividends; and
- \$16.1m to the Commonwealth Government.

Employees have now received \$586.3m of the estimated total employee entitlements of \$760.0m.

The Commonwealth Government has now received \$270.8m of the \$384.0m of its estimated total advances.

**3.4 Pooling Application made in 2005**

The Pooling application was lodged with the Federal Court of Australia on 21 June 2005. This application is discussed in detail in Section 6.



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## 4 Where are we Going?

This remains a complex group of administrations. Overall, the Administrators expect to achieve total net realisations of at least \$640m. Significantly, the net asset realisations estimate has increased by \$50m from the \$590m previously reported. This is as a result of:

- higher than budget assets actually realised to date;
- higher than budget future estimated asset realisations;
- lower than budget costs to date; and
- elimination or mitigation of contingent claims.

Estimated Realisations	Section	4 <sup>th</sup> Report 31 December 2003 \$m	5 <sup>th</sup> Report 31 December 2004 \$m	6 <sup>th</sup> Report 31 December 2005 \$m
Cash at Bank	4.1	169.7	151.1	142.4
Proceeds from Asset Sales used for entitlements		320.6	413.5	467.5
Assets still to be realised	4.2	102.1	32.0	33.6
Costs to complete (including aircraft costs)	4.4	(59.7)	(42.3)	(24.0)
Contingency reserve	4.5	(12.7)	(25.8)	(16.6)
<b>Total before remaining aircraft realisations</b>		<b>520.0</b>	<b>528.5</b>	<b>602.9</b>
Aircraft still to be realised	4.3	70.0	61.5	37.1
<b>Total Realisations</b>		<b>590.0</b>	<b>590.0</b>	<b>640.0</b>

Ultimately, the Administrators expect the \$640.0m to be distributed as follows:

Estimated Dividends	31 Dec 2003 \$m	31 Dec 2004 \$m	31 Dec 2005 \$m
<b>Dividends to Date</b>			
Employees	162.5	177.7	202.3
SEES	188.7	258.3	272.5
Unsecured creditors	-	-	-
	<b>351.2</b>	<b>436.0</b>	<b>474.8</b>
<b>Amounts To Be Distributed</b>			
Employees	85.1	68.9	84.2
SEES	113.7	45.1	54.0
Unsecured Creditors	40.0	40.0	27.0
	<b>238.8</b>	<b>154.0</b>	<b>165.2</b>
<b>Total Dividends</b>			
Employees	247.6	246.6	286.5
SEES	302.4	303.4	326.5
Unsecured Creditors	40.0	40.0	27.0
	<b>590.0</b>	<b>590.0</b>	<b>640.0</b>



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### **4.1 Cash at Bank - \$142.4m**

Of \$142.4m in the bank on 31 December 2005, \$125.4m was unavailable for distribution as follows:

- \$7.3m is either held in trust for continuing employees or for SEES.
- A further \$118.1m relates to Ansett entities other than AAL (the entity which holds most employees) and cannot be distributed until pooling is resolved.

### **4.2 Assets still to be Realised - \$33.6m**

The Administrators have been able to revalue the remaining assets to give updated net estimated realisations based on the following:

- updated legal advice;
- updated valuations given changing market conditions; and
- increased performance standards for ongoing contracts.

### **Businesses**

The Flight Simulator business was sold in October 2004 to Aviation Training Australasia Pty Limited. The terms of the sale involved vendor finance.

In late 2005, the Administrators worked with the purchaser on refinancing the loan. As a result, \$4.2 million was received on 1 February 2006 in repayment of the vendor loan. The settlement included a reduction of the principal outstanding by \$150,000 in exchange for removing certain contingent liabilities to the purchaser under the original sale contract. The Administrators do, however, retain a limited guarantee for employee entitlements in the event of the ongoing business being unsuccessful.

This was the last significant business asset to realise.

### **Property**

The administrations continue to utilise the Supply Centre, Maintenance Base and other miscellaneous property.

### **Debtors and Travel Agents**

The Administrators are continuing in efforts to recover funds from debtors and Ansett trust funds from BSP travel agents. Anticipated further collections are between \$2.0m to \$4.0m. It is likely that recovery of the anticipated collections will require litigation, mainly through the Magistrates Court.



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There are currently 28 actions before the Magistrates Court and two actions before the County Court. There are further matters pending that make up the balance of the anticipated further collections.

In addition, the Administrators have significant confidential legal actions on foot. We record these assets as we receive the cash proceeds.

### **Spares, Rotables and Consumables**

In September 2004, the Administrators agreed to effectively extend the term of the AASS agreement from three to four years to 30 June 2007. In consideration, AASS's performance standards under the agreement have been increased by US\$10m of gross sales.

As a result of the increased performance standard being consistently met, the Administrators have incorporated the increased performance standard into estimated future realisations.

During 2005, \$15.0m was realised from the sale of spares, rotables and consumables. The Administrators estimate net future realisations from the sale of spare parts of \$21.3m over the next two years. The estimated realisation value is net of costs required to realise the assets. The gross cost required to realise the assets is approximately \$1.7m

AAL is required to maintain a considerable infrastructure, including the warehouse facility at Garden Drive, Tullamarine, AAL's information technology system and personnel to support the continuing sale of remaining spare aircraft parts.

### **Engines**

No spare engines remain to be sold.

Engines from the parted BAe146's will be sold in isolation and this is discussed in Section 4.3.

### **4.3 Aircraft still to be Realised - \$37.1m**

Of the original fleet of 134 aircraft, at 31 December 2005, the four aircraft to be sold are:

- One A320 aircraft (currently on lease); and
- Three BAe146 aircraft (one BAe146-200QT and two BAe146-300's) currently in the UK.

The remaining four BAe146 aircraft held at 31 December 2005 are currently being parted.

These aircraft, plus the remaining realisations from those aircraft sold but not yet settled, are valued at \$37.1m, however, given the uncertain aviation market this figure may need to be written down again.



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Pembroke Capital, the remarketing agent for the A320 aircraft, is currently marketing the remaining A320 for sale, with the lease attached. Interest has been reasonable to date, however, an important factor is the age of the aircraft (it is one of the earliest built A320 aircraft). In the interim, the lease continues to generate positive cash returns and has also eliminated substantially all holding costs associated with the aircraft.

The BAe146 aircraft are no longer being produced and a reasonable proportion of the total number of these aircraft manufactured are currently available on the market. These aircraft are also facing competition from other aircraft types, including the Fokker F100.

Three of the aircraft (one BAe146-200QT and two BAe146-300's) have been checked and ferried to the UK as the majority of interest in the aircraft has been from European and Eastern European operators. Representatives of AAL have visited a number of parties in Europe to discuss acquisition of the aircraft and the Administrators continue to facilitate inspections.

The remainder of the BAe146 aircraft will be parted in the 2006 year. The parts undergo a certification process upon removal. These parts will then be remarketed as part of the ongoing spares agreement with AASS in the US.

There appears to be a stronger market for the BAe146 ALF engines, as opposed to the market for the aircraft as a whole. As a result of the decision to part the remaining BAe146's, the Administrators have been able to enter into contracts of sale for three of these engines during December 2005 to January 2006. As part of the transactions, the Administrators received three low value swap engines in addition to the cash proceeds. It was necessary to accept a combination of engine carcass and cash due to the historical practices of engine providers in this market. The engines received represented less than 15% of the total consideration and will be salvaged for parts.

These sales were the direct result of contacts gained from the last visit to Europe by representatives of AAL.



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**4.4 Costs to Complete the Administrations - \$24.0m**

**4.4.1 Estimated Costs to Complete**

Costs to complete are estimated at \$24.0m. \$8.1m of the total cost to complete is for external labour.

There are a number of ongoing expenses necessary to maximise realisations of the assets and finalise outstanding matters of the administrations.

The following table summarises the updated estimated costs to complete, by asset type:

<b>Costs to Complete – Asset Analysis</b>	<b>Costs to Complete 31 December 2005 \$m</b>
Aircraft – Note 1	2.3
Engines	0.6
Regionals	0.4
Non Asset Specific Costs – Note 2	20.7
<b>Total</b>	<b>24.0</b>

Note 1. The Aircraft Cost to Complete is **net** of trading revenue generated in completing work for third parties. The gross cost is approximately \$4.3m. These costs are time dependent and will vary if the parting timeframe is shortened or extended.

Note 2. Non Asset Specific Costs include:

- the working capital deficiency (excluding cash) at 31 December 2005 of \$7.3m (this amount includes provisions for trade creditors, deposits, warranty coverage and maintenance reserves);
- shared services costs (clerical and accounting costs, IT, insurance, non asset specific payroll costs) of \$6.9m; and
- administration and legal fees of \$6.5m.

The Administrators have revised these budgeted costs due to the extension of time required to realise the aircraft.

Costs to date have, however, been significantly below budget. Costs for 2005 were approximately \$20.7m, significantly less than the budget of \$27.7m as set out in the Fifth Report for 2005 due to:

- interest received (not budgeted);
- lower than budget administration fees; and
- greater than budget trading revenues in part offset by increased trading costs.



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The following table shows the costs to complete budget from January 2004, forecast to the completion of the administrations and the revised budget on which future reporting will be based:

Costs to Complete – Timetable	5 <sup>th</sup> Report	6 <sup>th</sup> Report
	31 Dec 2004	31 Dec 2005
	\$m	\$m
Working Capital	5.3	7.3
Jan – Jun 05	13.3	
Jul – Dec 05	11.5	
Jan – Jun 06	3.7	7.7
Jul – Dec 06	2.1	3.6
Jan – Jun 07	1.9	2.6
Jul – Dec 07	1.9	2.4
Regionals/Other	2.6	0.4
<b>Total</b>	<b>42.3</b>	<b>24.0</b>

The costs budget for the 2006 calendar year has increased due to the assets taking longer than expected to realise, particularly the aircraft parting. This has been more than offset by the higher than budget receipts for these realisations and lower than budget costs to date.

#### **4.4.2 Administrators' Remuneration**

Costs to date and to complete include Administrators' remuneration. The Committees of Creditors approve Administrators' remuneration each month.

In February 2005, the Administrators prepared a detailed Ansett Administrators' Remuneration Policy Manual (of approximately 23 pages plus attachments), which was provided to the Committees. The manual and subsequent updates provided the Committees with detailed disclosure of the 2004 remuneration, the 2005 remuneration as compared to the 2005 budget and budgeted 2006 remuneration. It also documented in detail, the approval process for remuneration and information on how the remuneration claims are prepared and calculated. At the meetings of Committees of Creditors held on 28 February 2005, the Committees agreed sufficient disclosure of information had been provided to them and also agreed with the approval process as outlined in the manual. This detailed disclosure continued on a monthly basis and is used by the Committees to review each remuneration claim.



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During the 2005 calendar year, the remuneration claims for the Ansett Group as approved by the Committees of Creditors by month were as follows:

<b>Month</b>	<b>Monthly Total \$</b>
January 2005	227,841
February 2005	292,845
March 2005	315,618
April 2005	272,607
May 2005	279,229
June 2005	309,685
July 2005	222,493
August 2005	279,257
September 2005	275,178
October 2005	217,720
November 2005	222,165
December 2005	181,199

As expected, the table shows that the 2005 monthly claims peaked during the preparation of the Pooling application (February to June 2005) and have generally declined during the remainder of the calendar year.



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**4.5 Contingency Reserve - \$16.6m**

There are large contingencies, both assets and liabilities, that are yet to be resolved, but the number of contingencies has been materially reduced during 2004 and 2005. Contingencies that could affect the return to creditors, other than the realisation of assets and aircraft are:

- contingent assets of up to \$20m may be realised, depending on the success of litigation; and
- contingent liabilities of up to \$16.6m may have to be paid (reduced from \$42m in the Fourth Report and from \$31m in the Fifth Report).

These amounts have not been included in the estimated realisations for creditors.

At 31 December 2005 we were more than \$96m over budget realisations (other than aircraft). After the release of a further \$50m, the amount of contingency reserve at 31 December 2005 is \$16.6m.

The table below shows the history of asset realisations over budget (before aircraft), the build-up of the contingency and the release of the contingency:

Details	3 <sup>rd</sup> Report 31 Dec 2002 \$m	4 <sup>th</sup> Report 31 Dec 2003 \$m	5 <sup>th</sup> Report 31 Dec 2004 \$m	6 <sup>th</sup> Report 31 Dec 2005 \$m	Total \$m
Contingency at 1 January	0.0	0.0	12.7	25.8	0.0
Assets realised over budget / revalued in calendar year	0.0	42.7	13.1	40.8	96.6
Contingency released		(30.0)		(50.0)	(80.0)
<b>Contingency at 31 December</b>	<b>0.0</b>	<b>12.7</b>	<b>25.8</b>	<b>16.6</b>	<b>16.6</b>



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## 5 Future Dividends

The estimated returns to creditors have been prepared on a consolidated basis and are 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. It is very important to note the major risks in delivering the estimated returns. These risks are documented at Section 5.3.

### 5.1 Return to Employees

The Administrators estimate employees will ultimately receive a further \$84.2m. Accordingly, the Administrators anticipate total payments of \$670.5m of the \$760.0m total entitlements owed, being 88.2% of total entitlements. For individual employees, this means that the Administrators estimate each will receive 48% of their current outstanding balance (following payment of the fourth dividend). Note that this estimate has increased significantly from that in the Fifth Report of anticipated total payments of \$633.0m of the \$760.0m total entitlements owed, being 83.3% of total entitlements.

The following table illustrates by example, dividends paid and expected to be paid to the total group of employees.

	Time	Total Owed to Employees \$m
<b>Total Outstanding</b>		
Includes Estimated Future Amounts Owed to Government		760.0
<b>First Dividend</b>		
SEES funded - 100% of unpaid wages, annual leave, long service leave, time in lieu, pay in lieu of notice and redundancy up to 8 weeks	When employee became redundant	(384.0)
Administrator funded - 100% of unpaid wages, annual leave, long service leave, time in lieu, pay in lieu of notice and redundancy up to 8 weeks		(13.9)
Total of Redundancy >8 Weeks Owing		362.1
<b>Special Dividend</b>		
Amounts Varied Between Employees	10-Dec-03	(67.0)
Balance of Redundancy >8 Weeks Owing		295.1
<b>Second Dividend</b> - Calculated as % of Balance Owed	27.5%	10-Dec-03
Balance of Redundancy >8 Weeks Owing		214.8
<b>Third Dividend</b> - Calculated as % of Balance Owed	7.5%	15-Dec-04
Balance of Redundancy >8 Weeks Owing		198.7
<b>Fourth Dividend</b> - Calculated as % of Balance Owed	12.5%	12-Dec-05
<b>Balance Now Outstanding</b>		173.7
<b>Future Dividends Estimated</b>	48.0%	(84.2)
Estimated Shortfall		89.5
Total Amount Estimated to be Distributed		670.5



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**5.2 Return to Commonwealth Government**

The Administrators estimate SEES will ultimately receive \$326.6m of the total SEES advance of \$384.0m.

**5.3 Major Risks and Assumptions**

It is important to note the major risks in delivering the estimated returns:

- Resolution of pooling of individual companies as set out in Section 6. The outcome of the process will determine the proportion of funds available to employees;
- Aircraft values. Realisations of aircraft will depend on the state of the world aviation market. This may give rise to further adjustments to aircraft values;
- Costs to Complete. Costs are largely driven by the shutdown date for the Tullamarine facility, which in turn is dependent on meeting commitments to purchasers of AAL assets as well as an assessment of the expected realisations from assets compared to the costs to maintain the assets;
- Resolution of contingent liabilities and resolution of unforeseen claims on title and warranties provided;
- Realisation of contingent assets;
- Realisation of consumables and rotables. These assets are contracted for sale on a commission basis with the realisable value dependent on the state of the aviation spares market;
- Exchange rate variations; and
- Resolution of litigation and disputes.



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## 6 Pooling

### 6.1 Pooling Application made in 2005

The Pooling application was lodged with the Federal Court of Australia on 21 June 2005 (Victorian District Registry VID621 of 2005).

The application and consultation processes are outlined below.

Further to the application, six affidavits have been sworn together with 84 exhibits to those affidavits. All documents lodged are available on the websites for further review under “Creditor Information” and by clicking on “Pooling Application”. A full transcript of each of the Federal Court hearings is also on the websites.

The application seeks orders or directions from the Court that:

- The Deed Administrators may properly cause each of the Ansett Group Companies to vote in favour of Pooling, to the extent each Ansett Group Company is entitled to vote as a Deed Creditor at any meeting of creditors of that Ansett Group Company, or further or alternatively, in the capacity as Deed Administrator of each Ansett Group Company, the Administrators may properly and justifiably exercise a casting vote, as chairman of the Pooling Meeting, in favour of Pooling;
- The Court approve the compromises documented in the deed entitled “AAE Pooling Compromise Deed” made 29 August 2005, or further or alternatively, in the capacity as Deed Administrators the Administrators may properly perform and give effect to the AAE Pooling Deed; and
- Notice of each Pooling Meeting is to be given by posting on the Ansett Websites notice of those meetings and causing details of the said websites and meetings to be published in a national newspaper, or in each jurisdiction in which the Ansett Group carries or carried on business, in a daily newspaper that circulates generally in that jurisdiction.

The AAE Pooling Compromise Deed is posted on and may be downloaded from the websites (see exhibit MAK 5 of Mark Korda’s affidavit sworn 12 September 2005). The reasons we believe that the compromises documented in the AAE Pooling Compromise Deed are in the best interests of the Ansett Group as a whole are set out in paragraphs 212 to 217 of Mark Korda’s affidavit sworn 12 September 2005 and paragraphs 8 to 16 of Mark Korda’s affidavit sworn 30 September 2005.

The affidavits sworn have been:

- First Affidavit of Mark Anthony Korda, sworn 21 June 2005;
- Second Affidavit of Mark Anthony Korda, sworn 12 September 2005;



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- First Affidavit of Alexander William King, sworn 23 September 2005;
- Third Affidavit of Mark Anthony Korda, sworn 30 September 2005;
- Fourth Affidavit of Mark Anthony Korda, sworn 13 October 2005; and
- Second Affidavit of Alexander William King, sworn 18 October 2005.

Subsequent to the lodgement of the First Affidavit of Mark Anthony Korda, we:

- provided copies of the affidavit to the Commonwealth, ASIC and the three bank creditors of AAE;
- placed copies of the affidavit and all the relevant court documents on the Ansett websites;
- wrote to 126 of the creditors of six companies or entities that the Administrators believe may be worse off by \$10,000 or more, if pooling goes through;
- wrote to the three non AAL employees that the Administrators believe may be worse off by \$10,000 or more, if pooling goes through;
- placed an advertisement in “The Australian” on 21 September 2005;
- circulated Update 70 to the Committees of Creditors providing an explanation of the reasons for the AAE compromise; and
- held meetings or discussions with ASIC, the Commonwealth, unions and possible contradictors.

The Administrators also advised the Court (within the further affidavits) that the responses received to the various steps above were as follows:

- a letter from ASIC which raised a number of questions and the Administrators had meetings with ASIC to discuss those issues;
- three responses to the letters sent to 126 creditors;
- no responses to the advertisement; and
- WTH Pty Ltd agreed to act as a contradictor to the proceeding. Note that Justice Goldberg expressly requested the Administrators find a party to act as a contradictor.

As a result of the responses and questions from various parties, the Administrators filed details (within the further affidavits) in relation to:

- confidential and privileged legal advice and commercial reasons for the AAE Pooling Deed and associated compromises;



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- the discussions with the three responders to the 126 letters to disaffected creditors;
- the ASIC letter and subsequent discussions, additional and supplementary Dividend Tables, further to Dividend Table 3 in the Second Affidavit of Mark Anthony Korda, showing the likely dividends to Deed Creditors if Pooling were to occur without approval of the AAE Pooling Deed (referred to as Scenario 3) or if the Ansett Group companies were to continue to be separately administered without Pooling and without approval of the AAE Compromise (referred to as Scenario 4);
- the ASIC letter and subsequent discussions, estimates of the likely costs of resolving the issues posed if Pooling does not occur and the Ansett Group companies continue to be separately administered, and the likely costs of holding the proposed creditor meetings to consider Pooling outlining two further scenarios (to those provided in the First Affidavit of Mark Anthony Korda) dealing with pooling or no pooling;
- the current and potential litigation in which various Ansett Group companies are or may become involved;
- the Administrators' communications with other stakeholders (such as the ACTU and other Unions); and
- a table showing the proportion of proposed Ansett Group intercompany votes as a percentage of total possible creditor votes in the asset holding Ansett Group companies and entities.

The matter was heard on 24 October 2005 before Justice Goldberg.

On 22 March 2006, Justice Goldberg handed down written reasons for judgement. At this stage, His Honour has not made any specific orders. The reasons for judgement are also available on the websites. We are to return to court for directions shortly.

The Court has indicated that it requires further evidence about the position of disadvantaged creditors generally, and the effect on the potential return to those creditors of the additional administration costs if the Ansett Group is not pooled before it can determine whether to give the voting direction sought by the Administrators.

This information is currently being prepared in the form of supplementary affidavits.

In relation to the AAE Deed of Compromise, the Court is disposed to approve the deed, on the basis that it provides benefits and advantages for AAE and its creditors generally which would not otherwise be obtainable. There are two conditions precedent to the operation of the deed. The first is satisfied by the Court's approval of it. The second depends on the outcome of the meeting of creditors of AAE.



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### **6.2 Further Dividends**

No further large dividends can be paid until pooling is resolved. Of the \$118.1m cash in the bank at 31 December 2005 that relates to non AAL Group entities, the Administrators estimated (in December 2005) that should pooling be resolved, approximately \$73m could be distributed to the employees and SEES and \$27m may be distributed to financiers with the benefit of guarantees by AAL.

If the Ansett Group is not pooled, up to \$60m may not be available to be distributed as dividends to SEES and employees.

### **6.3 Pooling Issues**

Issues affecting whether or not the companies ought to pool, include:

- Memorandum of Understanding between Air New Zealand, the Administrators and other parties to the agreement;
- set off of related Ansett companies' bank accounts by the Ansett Group's pre-appointment banker;
- class orders;
- ownership of property issues;
- related company use of Ansett Group assets, e.g. the use of cash, brand, intellectual property and the sharing of employees across companies;
- allocation of costs across the Ansett Group;
- charge back issues;
- tax and tax losses issues; and
- issues within individual companies eg Traveland trust money dispute, use of AAL assets by Kendell, intercompany loan balances, etc.

The Administrators have prepared detailed reports on pooling in the form of the affidavits as sworn by Mark Korda for the Pooling application as described in Section 6.1. There are many complex issues relating to the Ansett Group as a whole and to individual companies which are covered in detail in these reports.



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### **6.4 Resolution of Pooling**

Further to the provision of the supplementary affidavits currently being prepared as referred to in Section 6.1, the following is an example of the events that would need to take place (at a minimum) before the Administrators could be in a position to pay a further dividend:

- The Federal Court approves each of the three parts to the Pooling application as previously set out, or variations thereof as the court sees fit;
- the Administrators give the appropriate notice (minimum of one week) to priority and non-priority creditors of the Ansett Group of Companies of meetings of the Creditors of the Ansett Group of Companies;
- the Administrators make publicly available the proposed Pooling resolutions to be put to meetings of the Creditors of the Ansett Group of Companies together with the proposed amendments to the Deeds of Company Arrangement and the AAE Pooling Compromise Deed;
- the Administrators hold properly constituted meetings of the Creditors of the Ansett Group of Companies;
- a quorum of Creditors vote in favour of all of the aforementioned Pooling resolutions;
- the Administrators allow an appropriate length of time for objections to the above process to be lodged; and
- payment is arranged.

At a minimum, the above process could take two months from the receipt of the orders from the Federal Court given the required notice periods and statutory reporting obligations.



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## 7 Statutory and Legal Matters

### 7.1 Court Applications

The Administrators have made and are continuing a number of applications to various courts. Those made since the Fifth Report include:

- pooling application as detailed in Section 6;
- applications concerning recovery of trade receivables; and
- four (further) applications to Recover Trust Funds from Travel Agents.

Applications made previously (including those made by other parties) and which have continued or been resolved since the Fifth Report are as follows:

- application to Recover Trust Funds from Travel Agents;
- applications regarding monies due to AAL under Global Rewards Participation Agreements and under a Master Merchant Agreement from Diners Club Australia;
- application regarding IATA; and
- applications regarding Trade Debtors.

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

Below is a brief summary of the above applications and their current status or outcome since the Fifth Report in so far as they are material. Applications that are not material or in which no substantive claims are made on behalf of or against the Ansett Group or the Administrators are not included.

#### **7.1.1 Application to recover Trust Funds from Travel Agents (Proceeding No. 2097 of 2003)**

In the Fifth Report, the Administrators advised that AAL commenced proceedings in the Supreme Court of Victoria to recover \$4m held in trust by travel agents within the Flight Centre Group of companies. On 11 March 2005, the parties participated in the Court ordered mediation. The Administrators are pleased to advise that the parties have resolved the dispute on confidential terms satisfactory to AAL.

The status of recovery of Trust Funds from Travel Agents and actions currently before the courts is presented in Section 4.2 "Debtors and Travel Agents".



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### **7.1.2 Applications regarding Global Rewards**

The Administrators have previously reported that AAL has successfully settled claims, on confidential terms, against certain participants of the Global Rewards program and have recovered in total \$10.4m (proceeding number 2073 of 2002).

In the Fifth Report, the Administrators also outlined two applications made by AAL against Diners Club Australia (“Diners”). In summary those applications are as follows:

- On 3 November 2004, AAL issued an application in the Commercial List in the Supreme Court of Victoria at Melbourne against Diners (proceeding number 2071 of 2004). The statement of claim alleges that Diners is indebted to AAL for monies due under a Global Reward Participation Agreement. The statement of claim particularises claims by AAL in the amount of \$9,632,793 together with interest and costs. Diners filed its amended defence and counterclaim on 25 October 2005 denying any liability and claiming from AAL for a number of defences (including set off defences) to Ansett’s claim.

The Court’s interlocutory proceedings are still in progress, however His Honour Justice Hargrave has set a trial date and fixed the hearing for 1 August 2006 following a court ordered mediation. The trial has an estimated duration of 10 days.

- In addition, and in the same proceeding, AAL made a separate claim against Diners under a Master Merchant Agreement whereby customers of AAL settled their account through the provision of a Diners Credit Card facility. Pursuant to the claim, AAL alleges that Diners was indebted to AAL for \$20.5m, together with interest and costs (however the quantum will be reduced if Diners can substantiate valid credit card charge backs which are currently subject to discussions between the parties). The parties have agreed that this particular claim be referred to Arbitration in New York in accordance with the terms of the Master Merchant Agreement. By further agreement between the parties this proceeding will not be commenced until the Global Rewards Application detailed above is completed.

### **7.1.3 Applications regarding IATA (Proceeding Nos. 8792 of 2002 and 6455 of 2003)**

The Administrators have previously reported that on 23 December 2002, IATA commenced proceedings in the Victorian Supreme Court against AAHL seeking declarations that the IATA Clearing House regulations continued to apply to AAHL notwithstanding AAHL’s entry into voluntary administration. IATA operates a Clearing House for the netting and settlement of transactions between participating members and other organisations that are international air transport enterprises and members of IATA. AAHL was a member of the IATA Clearing House at the time of the appointment of Voluntary Administrators.



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AAHL defended the claims brought by IATA and counter claimed seeking orders including that the Clearing House regulations ceased to apply to AAHL upon its entry into voluntary administration. AAHL claimed that the Clearing House Regulations did not apply to AAHL's credits and debits that were not cleared as at 12 September 2001, but rather those debits and credits must be dealt with in the administration of AAHL pursuant to, and in accordance with, the provisions of the Deed of Company Arrangement.

IATA's and AAHL's proceedings were heard together with His Honour Justice Mandie, presided during 2 February 2005 to 7 February 2005. The key issue raised in the proceedings was whether the Regulations continued to apply to AAHL, notwithstanding AAHL's execution of the Deed of Company Arrangement.

Justice Mandie delivered his judgement on 22 April 2005. Contrary to AAHL's defence and counterclaim, Justice Mandie accepted IATA's submissions that by virtue of the Regulations that the only "property" that AAHL could ever be entitled to in relation to services provided to IATA Clearing House members by AAHL, was a debt owed to it by the Clearing House.

AAHL filed a notice of appeal to the Supreme Court of Appeal on 20 June 2005. AAHL's decision to appeal occurred only after carefully considering the decision of Justice Mandie and following receipt of advice from the Administrators' lawyers. The decision to appeal was also made with regard to the costs of an appeal and the potential ability of AAHL, in subsequent proceedings, to recover substantial amounts of money from net debtor airlines in the event of a successful appeal.

Details of the potential recoveries from Clearing House members in the event of a successful appeal by AAHL were outlined in 6.1.3 of the Fifth Report.

The Administrators anticipate the Appeal to be heard in the second half of 2006.

Dated this 31<sup>st</sup> day of March 2006



MARK A KORDA  
Deed Administrator



MARK F MENTHA  
Deed Administrator



## Appendix 1 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) (ACN 002 968 989)
Ansett Aircraft Finance Limited (ACN 008 643 276)	South Centre Maintenance Pty Ltd (ACN 007 286 660)
Ansett Aviation Equipment Pty Ltd (ACN 008 559 733)	Spaca Pty Ltd (ACN 006 773 593)
Ansett Australia Limited (ACN 004 209 410)	ANST Travel Pty Ltd (Formerly Traveland Pty Ltd) (ACN 000 240 746)
Ansett Australia and Air New Zealand Engineering Services Limited (ACN 089 520 696)	ANST Travel International Pty Ltd (Formerly Traveland International Pty Ltd) (ACN 000 598 452)
Ansett Australia Holdings Limited (ACN 004 216 291)	Traveland International (Aust) Pty Ltd (ACN 000 275 936)
Ansett Carts Pty Ltd (ACN 055 181 215)	Traveland New Staff Pty Ltd (ACN 080 739 037)
Ansett Equipment Finance Limited (ACN 006 827 989)	Walgali Pty Ltd (ACN 055 258 921)
Ansett Finance Limited (ACN 006 555 166)	Westintech Limited (ACN 009 084 039)
Ansett Holdings Limited (ACN 065 117 535)	Westintech Nominees Pty Ltd (ACN 009 302 158)
Ansett International Limited (ACN 060 622 460)	Whitsunday Affairs Pty Ltd (ACN 009 694 553)
Bodas Pty Ltd (including in its capacity as trustee of the Westsky Trust and the Pelican Trust) (ACN 002 158 741)	Whitsunday Harbour Pty Ltd (ACN 010 375 470)
Brazson Pty Ltd (ACN 055 259 008)	Wridgways (Vic) Pty Ltd (ACN 004 153 413)
Eastwest Airlines (Operations) Limited (ACN 000 259 469)	Wridgways Holdings Limited (ACN 004 449 085)
Eastwest Airlines Limited (ACN 000 063 972)	ANST Westsky Aviation Pty Ltd (Formerly Skywest Aviation Pty Ltd) (ACN 004 444 866)
ANST Lednek Airlines (Aust) Pty Ltd (Formerly Kendell Airlines (Aust) Pty Ltd) (ACN 000 579 680)	ANST Westsky Jet Charter Pty Ltd (Formerly Skywest Jet Charter Pty Ltd) (ACN 008 800 155)
Moraël Pty Ltd (ACN 003 286 440)	ANST Westsky Holdings Pty Ltd (Formerly Skywest Holdings Pty Ltd) (ACN 008 905 646)
Northern Airlines Limited (ACN 009 607 069)	(All Deed Administrators Appointed)



## Appendix 2 Abbreviations used in this Report

<b>"the Administrators" or "the Deed Administrators"</b>	Mark Korda and Mark Mentha of KordaMentha
<b>"Engineering" or "AAES"</b>	Australian Aviation Engineering Services a division of Ansett Australia Limited (ACN 004 209 410)
<b>"AASS"</b>	Ansett Aircraft Spares and Services
<b>"AAL"</b>	Ansett Australia Limited (ACN 004 209 410)
<b>"AAHL"</b>	Ansett Australia Holding Limited (ACN 004 216 291)
<b>"AAE"</b>	Ansett Aviation Equipment Pty Ltd (ACN 008 559 733)
<b>"Aeropelican"</b>	Aeropelican Air Services Pty Ltd (ACN 000 653 083)
<b>"Ansett International"</b>	Ansett International Limited (ACN 060 622 460)
<b>"Bodas"</b>	Bodas Pty Ltd (ACN 002 158 741)
<b>"Kendell"</b>	ANST Lednek Airlines (Aust) Pty Ltd (Formerly Kendell Airlines (Aust) Pty Ltd) (ACN 000 579 680)
<b>"Show Group"</b>	ANST Show Pty Ltd (Formerly Show Group Pty Ltd) (ACN 002 968 989)
<b>"Skywest"</b>	Skywest Airlines Pty Ltd (ACN 008 997 662)
<b>"Skywest Aviation"</b>	ANST Westsky Aviation Limited (Formerly Skywest Aviation Limited) (ACN 004 444 866)
<b>"Skywest Jet Charter"</b>	ANST Westsky Jet Charter Pty Ltd (Formerly Skywest Jet Charter Pty Ltd) (ACN 008 800 155)
<b>"Skywest Holdings"</b>	ANST Westsky Holdings Pty Ltd (Formerly Skywest Holdings Pty Ltd) (ACN 008 905 646)
<b>"Traveland"</b>	ANST Travel Pty Ltd (Formerly Traveland Pty Ltd) (ACN 000 240 746)
<b>Collectively "the Companies" or "the Ansett Group"</b>	All companies listed in Appendix 1
<b>"non AAL Group Entities"</b>	All companies listed in Appendix 1, except for Ansett Australia Limited
<b>"Air New Zealand" or "the Air New Zealand Group"</b>	Air New Zealand Group of Companies
<b>Memorandum of Understanding</b>	Settlement agreement between Air New Zealand and the Administrators
<b>"JTS"</b>	Jet Turbine Services
<b>"IATA"</b>	The International Air Transport Authority
<b>"BSP"</b>	The Billing and Settlement Plan established by IATA
<b>"Diners"</b>	Diners Club Pty Limited
<b>"ASIC"</b>	Australian Securities and Investments Commission
<b>"Commonwealth Government"</b>	Commonwealth Government of Australia
<b>"EBA"</b>	Enterprise Bargaining Agreement
<b>"SEES"</b>	The body administering the Special Employee Entitlement Scheme for Ansett Group Employees
<b>"SEESA"</b>	Special Employee Entitlement Scheme for Ansett Group Employees



<b>"the Act"</b>	Corporations Act (2001) Commonwealth
<b>"the Court"</b>	The Federal Court of Australia
<b>"DOCA"</b>	Deed of Company Arrangement
<b>"the Administrators' websites" or "websites"</b>	<a href="http://www.kordamentha.com/national/creditor.aspx">http://www.kordamentha.com/national/creditor.aspx</a> and <a href="http://www.ansett.com.au">http://www.ansett.com.au</a>
<b>"the First Meeting"</b>	Meeting of creditors called pursuant to Section 436E of the Act
<b>"the Second Meeting"</b>	Meeting of creditors called pursuant to Section 439A of the Act
<b>"the Third Meeting" or "this meeting"</b>	Meeting of creditors called pursuant to Clause 18.5 of the DOCAs
<b>"First Report"</b>	First Report by Administrators of the Ansett Group dated 16 January 2002
<b>"Second Report"</b>	Second Report by Administrators to the Creditors of the Ansett Group dated 15 March 2002
<b>"Third Report"</b>	Third Report by Administrators to the Creditors of the Ansett Group dated 16 September 2002
<b>"Fourth Report"</b>	Fourth Report by Administrators to the Creditors of the Ansett Group dated 31 March 2004
<b>"Fifth Report"</b>	Fifth Report by Administrators to the Creditors of the Ansett Group dated 31 March 2005

