

## **EXHIBIT A**

25 August 2020

TO THE CREDITOR AS ADDRESSED

Dear Sir/Madam

**Virgin Australia Holdings Limited ACN 100 686 226  
and subsidiaries listed in Appendix A  
(all Administrators Appointed)  
(the Virgin Group, Group or Companies)**

We, Vaughan Strawbridge, John Greig, Salvatore Algeri and Richard Hughes, were appointed Joint and Several Administrators to the entities listed in **Appendix A** to the attached report on 20 April 2020, except for Tiger International Number 1 Pty Ltd (Administrators Appointed) where we were appointed on 28 April 2020, pursuant to provisions of section 436A of the *Corporations Act 2001* (Cth).

We were also appointed as Joint and Several Administrators of two additional subsidiaries, VAH Newco No. 2 Pty Ltd (In Liquidation)(Administrators Appointed) and VB Investco Pty Ltd (In Liquidation)(Administrators Appointed) on 3 August 2020.

Please find attached a report for your information that details progress of the administration, information about the Companies' business, property and financial affairs and our opinion of what would be in the best interests of creditors for the future of the Companies, being that creditors approve the deeds of company arrangement as proposed to effect the completion of the sale of the business to BC Hart Aggregator, LP (**Bain**).

The future of the Companies is to be decided by the creditors at a meeting to be held at **10:00am AEST on Friday 4 September 2020**.

To assist creditors, we have provided an executive summary and responses to frequently asked questions (**FAQ**) at pages 6-14 of the report.

Should you have any queries regarding this report or the administration in general, please email us at:  
[virginadmin@deloitte.com.au](mailto:virginadmin@deloitte.com.au).

Yours faithfully



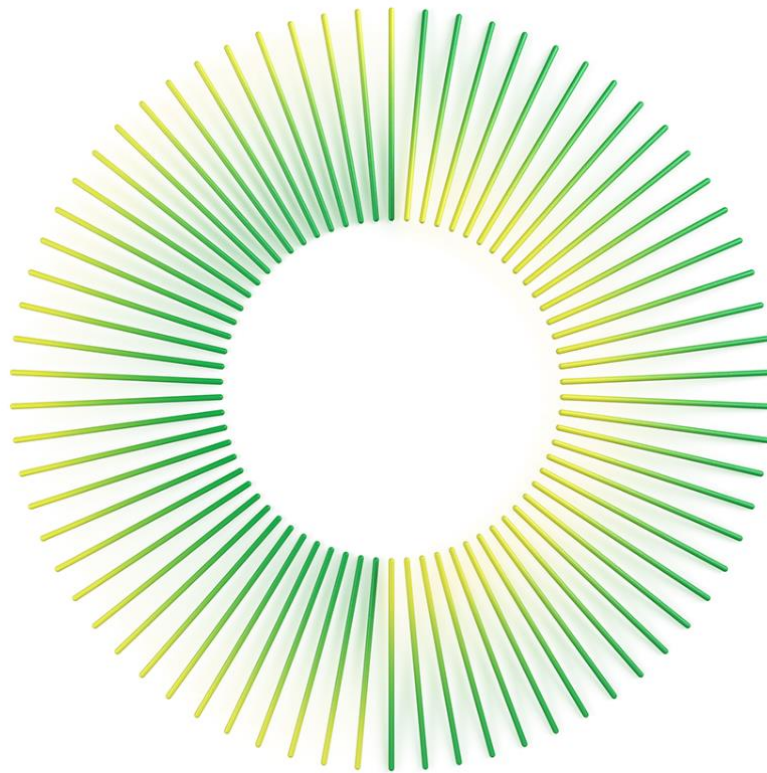
**Vaughan Strawbridge**  
Joint and Several Administrator

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## Report to Creditors pursuant to section 75-225 of the Insolvency Practice Rules (Corporations)

Virgin Australia Holdings Limited ACN 100 686 226  
and subsidiaries listed in Appendix A  
(all Administrators Appointed)

25 August 2020

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## Important notice

In the time available to us, we have undertaken the following to prepare this report and formulate our opinion:

- Communicated with the Companies' Directors, Secretary and Management regarding the status of the Companies and their assets and liabilities.
- Undertaken searches of databases such as ASIC, the PPSR, ASX, Australian Courts, ATO and other statutory agencies.
- Engaged solicitors to assist with the administration as required.
- Engaged advisers to provide assistance on the sale of business and evaluation of offers.
- Reviewed selected books and records including:
  - Consolidated audited financial statements for the period FY17, FY18, FY19 and reviewed interim statements for FY19 and FY20
  - Monthly management accounts from May 2018 to April 2020
  - Board minutes and board papers from 23 July 2019 to 20 April 2020
  - Monthly CEO reports to the board for April 2019 to April 2020
  - Financial agreements and contracts
  - Material supplier, equipment, and real property agreements
  - Employee contracts and information
  - Trade debtors and trade creditors
  - ASX announcements and reports issued by various credit rating agencies.
- Where relevant, communicated with and obtained information from third parties, including creditors, suppliers, lessors, financiers, industry regulators and government bodies.
- Reviewed amounts owed to creditors and used assumptions and commercial judgement to estimate existing, contingent and future debts.
- Reviewed the Reports on Company Activities and Property provided by the Directors on 16 June 2020 and amended forms on 10 July 2020.

Creditors should be aware that we have relied upon the above sources of information in preparing our report. We have done so in good faith in the belief that such statements, records and opinions are not false and misleading. Consequently, the report's accuracy and reliability is dependent on the quality of the information produced by these parties.

While we have endeavoured to verify the accuracy of the records, the financial accounts and other documentation pertaining to the Companies' affairs, in the amount of time available under the Act, we give no warranty as to the accuracy, completeness or reliability of same.

We have not conducted an audit of the books and records, financial accounts and other documentation pertaining to the Companies' affairs. We undertake no responsibility arising in any way whatsoever to any person for errors or omissions however caused by way of this report or accompanying documents.

Whilst we have no reason to doubt any information contained in this report, we reserve the right to alter our conclusions should the underlying data prove to be inaccurate or materially change from the date of this report. After issuing our report, if we become aware of any additional information which may be material to the creditors' decision on how they will vote at the second creditors' meeting, we may provide a further written report and/or table the information at the second meeting.



**Investigations undertaken**

In the time available our investigations of the Companies' affairs have been detailed but are still only preliminary. Our statements and opinions are based on those preliminary investigations of the Companies' affairs, undertaken in a limited timeframe. A liquidator would undertake further investigations if appointed.

Our assessment of potential claims and offences are made on a preliminary basis on information available to us at the date of this report. We reserve our right to alter our assessment if further relevant information is provided after the date of this report or as a result of further investigations in the event any entities within the Group are wound up.

**Return to creditors**

In providing an estimated return (dividend) to creditors, we have made forecasts of asset realisations, trading income and liabilities, Voluntary Administrators' liabilities and the estimated total value of creditors' claims. These forecasts and estimates are based on the information available to us at the time of preparing our estimate and may change as events occur and claims are received from creditors. Whilst the forecasts and estimates are the result of our best assessment in the circumstances, creditors should note that the outcome for creditors may differ from the information provided in this report.

# 1 Executive summary

*It is the opinion of the Voluntary Administrators that it is in the creditors' interests to approve the DOCAs proposed by Bain as detailed in this report as they provide for:*

- *Certainty of the continuation of Virgin as Australia's second airline;*
- *Employee entitlements to be provided for in full;*
- *Continuation of a number of supply and finance arrangements; and*
- *A distribution to unsecured creditors of an estimated \$462 million to \$612 million.*

## 1.1 Appointment

We, Vaughan Strawbridge, John Greig, Salvatore Algeri and Richard Hughes, were appointed as Joint and Several Administrators (**Voluntary Administrators**) to the entities listed in **Appendix A** on 20 April 2020, except for Tiger International Number 1 Pty Ltd where we were appointed on 28 April 2020, pursuant to provisions of section 436A of the Corporations Act 2001 (Cth) (**Act**).

Our appointment as Voluntary Administrators was ratified by creditors at the concurrent first meeting of creditors held on 30 April 2020.

We were also appointed as Joint and Several Administrators on 3 August 2020 to two additional subsidiaries, VAH Newco No. 2 Pty Ltd (In Liquidation)(Administrators Appointed) (**VAH Newco 2**) and VB Investco Pty Ltd (In Liquidation)(Administrators Appointed) (**VB Investco**). Under the orders made by the Federal Court of Australia (**Court**) we were not required to hold the usual first meetings of creditors for these entities.

The entities subject to voluntary administration will be referred to as the **Virgin Group, Group or Companies**.

## 1.2 The role of voluntary administrators and purpose of this report

The purpose of the appointment of voluntary administrators is to allow for independent insolvency practitioners to take control of and investigate the affairs of a company. Creditors' claims are put on hold as at the date of the administrators' appointment and remain so for the duration of the voluntary administration.

The intention of a voluntary administration is to maximise the prospects of a company, or as much as possible of its business, continuing in existence, or, if that is not possible, then to achieve better returns to creditors than what would have been achieved by its immediate liquidation. The voluntary administrator must investigate the company's affairs and report to creditors on the alternative options available to the company. A voluntary administrator has all the powers of a director, including the power to sell the business of the company or individual assets in the lead up to the second meeting of creditors.

At the second meeting creditors can decide to: accept a deed of company arrangement (**DOCA**); return the company to the directors' control; or put the company into liquidation.

The purpose of this report is to provide creditors with information regarding the Virgin Group's business, property, affairs and financial circumstances (including our opinion) to assist creditors to make an informed decision at the second meeting.

### 1.3 Conduct of administration

Upon appointment, we took immediate steps to control the Companies' assets and continued to carry on the Companies' business.

We immediately sought expressions of interest for the sale and or recapitalisation of the Group. In order to provide us with enough time to conduct this process we applied to the Court for an extension of the time in which we needed to hold the second meeting of creditors (**Convening Period**).

Our application was heard on 13 May 2020 and the Court granted orders for an extension of the Convening Period to 18 August 2020. We applied to the Court for a further extension on 7 August 2020 with the orders being granted on 12 August 2020 to further extend the convening period to 31 August 2020. Further details for the reasons and benefits for the extension of the Convening Period are set out in **section 2.9**.

### 1.4 Sale of business

A public sale of business campaign was conducted in three phases over a two-month period commencing immediately after our appointment. After receiving a number of non-binding indicative offers (**NBIO**), we shortlisted four parties to conduct further due diligence during phase two of the NBIO process, which resulted in shortlisting two parties to undertake further detailed due diligence in phase three ahead of submitting a binding offer on 22 June 2020. After careful consideration of the offers received and based on all the information to hand at that time, on 26 June 2020 we exercised our power of sale as Voluntary Administrators and signed binding transaction documents in the form of a sale and implementation deed and other ancillary documents (**Sale Deed**) for the sale of the business to BC Hart Aggregator, LP (**Bain**).

On signing of the Sale Deed, Bain provided \$125m in interim funding for the continued operation of the Group and from 1 July 2020 became responsible for all liabilities incurred by the Group from trading the business. This funding and commitment were necessary for the continued trading of the Group.

The completion of the sale of the Group to Bain can occur by one of two methods and each method has a number of steps:

1. Execution of deeds of company arrangement and transfer of shares in Virgin Australia Holdings Limited (**VAH**) to Bain; or
2. Asset sale agreement (**ASA**) involving the transfer of the business and assets into a new corporate structure and placing the existing Companies into liquidation.

#### 1.4.1 Completion of the sale of business by a DOCA

Bain has proposed to complete the sale by a DOCA structure (**Bain DOCA proposal**) involving 10 separate DOCAs covering all of the entities in voluntary administration. This structure will allow the continued operations of the Virgin Group business with the majority of current employees retaining their employment and the preservation of all their entitlements. The entitlement of employees not being retained will be paid in full without having to claim in the DOCAs.

For the DOCAs to come into effect, the majority of creditors present or attending by proxy at the second meeting of creditors, who also hold the majority in value of total claims will need to pass a resolution voting in favour of the DOCAs at the meeting.

As part of the process, it is proposed that all shares in VAH will be transferred to an entity nominated by Bain and this entity will become the 100% owner of VAH. Shareholders will receive no consideration for the transfer of the shares in VAH. This process will require an application to the Court and the DOCAs cannot be successfully completed until the Court approves that application.

Upon the transfer of all the shares in VAH, the DOCAs will complete and the proposed Creditors' Trust (**Creditors' Trust**) will be created to deal with the claims of and pay a distribution to the Virgin Group creditors.

Bain's preferred option for completing the sale is by a DOCA structure and the amount they will pay for the business will be higher if the sale is completed by a DOCA. We also estimate that the cost of completing the sale of the business by a DOCA structure will be less than an ASA (the return to creditors will be less in the event completion occurs under an ASA). The key elements of the sale, Bain's DOCA proposal and the Creditors' Trust, are set out in **sections 8, 9 and 10** of this report, respectively.

#### 1.4.2 Completion of the sale by an asset sale agreement

Under the terms of the Sale Deed, in the event creditors do not vote in favour of the DOCAs proposed by Bain, the sale of the business and assets of the Group to Bain will be completed under an ASA and the Companies will be placed into liquidation.

Completion of the ASA is dependent upon transfer of the key assets of the business including Air Operators Certificates (AOCs) and Airport Slots (Slots). It will also require the transfer or novation of key agreements into a new corporate structure, including property, supplier, financing and service partnerships. For this reason, the time and cost to complete the sale of the business is expected to be greater than to complete the sale by a DOCA structure.

Bain will pay a lower amount reflective of the increased costs and complexities in the event the sale is completed by an ASA, resulting in a lower return to creditors than under the Bain DOCA proposal. In the event the sale did not complete, and the Companies ceased to trade and the assets sold on a piecemeal basis, there would be a significant shortfall to employees and minimal return to unsecured creditors.

#### 1.4.3 Offer by Broad Peak Investment Advisers Pte. Ltd. and Tor Investment Management (Hong Kong) Ltd.

As previously advised to creditors, on 24 June 2020, we received a recapitalisation proposal (in the form of a deed of company arrangement proposal) as well as an offer of interim funding (which was conditional on acceptance of the recapitalisation proposal) from a group of Bond Holders being Broad Peak Investment Advisers Pte Ltd (for and on behalf of Broad Peak Master Fund II Limited and Broad Peak Asia Credit Opportunities Holdings Pte. Ltd) and Tor Investment Management (Hong Kong) Ltd (BP&T). Although received after the deadline for interested parties to submit a binding offer, we considered this proposal. The proposal was highly conditional and contained no evidence of committed funding to enable a transaction to be completed. In these circumstances, we were unable to take this proposal forward given the lack of certainty and the level of conditionality. BP&T submitted substantially the same proposal again on 20 July 2020 for consideration again by us. At this time and given that it was after the conclusion of the sale process this offer could not be considered. BP&T withdrew all of its proposals on 21 August 2020.

This is further discussed at **section 8.7**.

### 1.5 Estimated return to creditors

Creditors will receive a higher return on their outstanding debts in the event the Bain DOCA proposal is approved by creditors as compared to the alternatives, being:

1. If the completion of the sale to Bain is effected by way of the ASA (in the event the Bain DOCA proposal is not approved by creditors at the second meeting of creditors), we are obligated by the terms of the Sale Deed to adjourn the meeting for 45 business days in order to seek to effect the completion of the ASA. At the re-convened meeting it is likely that the Companies will be placed into liquidation. As it is unlikely all the steps will be finalised by this time to effect the completion of the sale, the completion will likely occur at a time when Companies are in liquidation (**ASA-liquidation**); or
2. If the ASA – liquidation is not effected, there would be no sale of the Group as a going concern and the Companies would cease to trade (**no sale-liquidation**).

A summary of the estimated average returns to unsecured creditors is provided in **Table 1** below.

**Table 1: Summary of estimated average returns to priority and unsecured creditors**

The Group	Liquidation				
	Bain DOCAs		ASA liquidation		No sale-liquidation
		High	Low	High	Low
Creditor Group					
Priority creditors/employees	%	100	100	100	100
Unsecured creditors / average return	%	13	9	7	4
Unsecured creditors – funds available for distribution after costs	\$m	612.8	462.0	310.1	207.2

A detailed comparison of returns to creditors under the Bain DOCA proposal, ASA-liquidation and no sale-liquidation are set out in the estimated statement of position (**ESOP**) at **section 11**.

We estimate that the DOCAs will provide an average return to unsecured creditors between 13% under a high scenario and 9% under a low scenario.

Under both scenarios where the sale of the business to Bain is completed, employees will receive their entitlements in full. The entitlement of continuing employees will be paid in the normal course and those staff who are leaving the Group will be paid their outstanding entitlements in full without having to submit a claim in the DOCA.

There are risks to a completion of the sale of the business under an ASA due to the complexities of transferring business critical assets such as AOC's and associated critical contracts to a new entity. The other benefits of a completion of the sale under the Bain DOCA proposal include certainty of completion and speed to completion.

The timing of a dividend being paid to unsecured creditors has been estimated under the scenarios as follows:

- 6 to 9 months in the event the Bain DOCA proposal is approved by creditors; or
- 18 to 36 months in the event the sale is completed under an ASA, or in the event completion does not occur and asset realisations are made on a piecemeal basis in liquidation.

## 1.6 Investigation, offences, voidable transactions

We have not identified any voidable transactions that would likely be recoverable by a liquidator, however further investigations would be undertaken should a liquidator be appointed. Details of our investigations are in **section 6**.

The investigations we have undertaken have not identified any breaches of directors' duties as outlined in section 180 to 184 of the Act or in respect to the obligations to maintain books and records under section 286 of the Act. The circumstances leading up to the insolvency of the Companies was unique and we have concluded the date of insolvency was due to an immediate and catastrophic reduction in capacity, in response to the announcements that were made by respective state and federal governments (**government**), on restrictions on domestic travel in Australia in response to the 2019 novel coronavirus pandemic (**COVID-19**). The restrictions on travel and reduction in capacity meant that the Virgin Group would likely be unable to pay its debts as and when they fell due. The Directors undertook immediate steps to seek additional funding to avoid the business being placed into voluntary administration, but ultimately were not successful in doing so. When all options for funding were exhausted the Directors resolved to place the Group into voluntary administration.

## 1.7 Voluntary Administrators' opinion

In respect to the entities subject to the Bain DOCA proposal and in accordance with section 75-225(3) of the Insolvency Practice Rules (IPR) we provide the following statement:

- It is our opinion that it is in the creditors' interests to approve the DOCAs proposed by Bain as this will result in a significantly greater return to creditors than would be achieved if the Companies were wound up.
- It is our opinion that it is not in the creditors' interests for the voluntary administration of the Companies to end.
- It is our opinion that it is not in the creditors' interests for the Companies to be wound up.

The reasons for our opinion are contained in **section 11** and **section 12**. The details of the DOCAs proposed by Bain and the Creditors' Trust are contained in **section 9** and **section 10** of this report.

## 1.8 Second meeting of creditors

Pursuant to section 439A of the Act, **the second meeting of creditors** for each of the Companies will be held at **10:00am AEST on Friday 4 September 2020**. The meetings will be held concurrently.

The meeting will be a virtual, online meeting hosted on the Microsoft Teams Live Events platform. Government health guidelines around social distancing means it would be inappropriate to convene a physical meeting. Recent interim amendments to the legislation that governs insolvent administrations provides that meetings of creditors may be held virtually, using technology that will give all persons entitled to attend a reasonable opportunity to participate without being physically present in the same place.

To attend the meeting, please register using the Microsoft Forms link: [VAHregistrationform.deloitte.com.au](https://VAHregistrationform.deloitte.com.au)

Attached at **Appendix B** is the notice of meeting.

Instructions as to how to attend this meeting are contained at **section 14** and **Appendix C** of this report.

## 1.9 Frequently asked questions

Question	Response
1. Why am I receiving this report?	<p>You are receiving this report because you have been identified as being owed money by the Virgin Group. This may include those customers who have paid for a flight but not yet taken it, are holding credits (including Conditional Credits issued during the Voluntary Administration), or who had bookings on cancelled flights where no refund, credit, re-accommodation on another flight, or alternative compensation has currently been provided.</p> <p>The Virgin Group is under a voluntary administration regime and we have been appointed Voluntary Administrators of the Virgin Group. More information on the voluntary administration process can be found on the Australian Securities and Investments (ASIC) website here: <a href="https://asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/voluntary-administration-a-guide-for-creditors/">https://asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/voluntary-administration-a-guide-for-creditors/</a></p>
2. I have a credit for a cancelled flight. What does this mean for me?	<p>You should have received separate communications on how this process affects you. If, not, please refer to information on the Virgin website here: <a href="https://travel.virginaustralia.com/au/coronavirus-update/change-cancel">https://travel.virginaustralia.com/au/coronavirus-update/change-cancel</a></p> <p>Under the sale of the Virgin Group to Bain, at the completion of the sale, Virgin Group will provide you with a new credit for an amount equal to any remaining value on your Conditional Credit (<b>Future Flight credit</b>). Future Flight credits will be available for booking flights up to 31 July 2022 with travel valid until 30 June 2023. Bookings using your credit will be subject to seat availability within the fare class reserved for Future Flight credits on your selected flight and will be subject to its own terms and conditions.</p> <p>If you choose to use the total value of your Conditional Credit prior to completion of the sale to Bain, you will not receive a Future Flight credit.</p> <p>In the event the sale of the business to Bain is unable to be completed, then it is likely the business will be wound down and you may be an unsecured creditor in the liquidation of the Group in respect to your Future Flight Credit. This means that you will be unlikely to receive compensation for the value of your ticket or booking as we presently estimate there will be no return to unsecured creditors in this scenario.</p>
3. Who is in control of the Group?	<p>The Voluntary Administrators are in control of the Group. We are working with Management to manage the operations of the Group. The Directors are providing assistance to the Voluntary Administrators.</p> <p>From 1 July 2020 Bain became responsible for all liabilities incurred by the Group from trading the business. An interim funding agreement was entered into with Bain on 26 June 2020 which provided \$125m in interim funding to the Voluntary Administrators for the purpose of funding the trading of the business from 1 July 2020 to completion of the sale to Bain.</p>
4. When will I get paid the money I am owed?	<p>Under the voluntary administration process described in the ASIC website referred to in question 1, repayment of any money owed to creditors is put on hold until the future of a company can be resolved at the second meeting of creditors.</p> <p>The estimated outcomes for different types of creditors is summarised at <b>section 1.5</b> and explained in more detail at <b>section 11</b>.</p>
5. What is the second meeting of creditors for?	<p>Under the law that governs how voluntary administrations are conducted, after investigating the affairs of the company and forming an opinion on each of the three options available to creditors (below), including an opinion as to which option is in the best interests of creditors, the administrator must call a second creditors' meeting. At this meeting, creditors are given the opportunity to decide the future of the companies in the Virgin Group. Creditors can decide at this meeting to:</p>

Question	Response
	<p>1. Accept a deed of company arrangement; or</p> <p>2. Return the company to the control of the directors; or</p> <p>3. Put the company into liquidation.</p>
6. What is the Voluntary Administrators' opinion on the three options?	<p>It is our opinion that it is in the creditors' interests to approve the DOCAs proposed by Bain as this will result in a significantly greater return to creditors than would be achieved if the Companies were wound up.</p> <p>We have provided our opinion and reasons for our opinion at <b>section 1.7</b> and <b>section 12</b>. We recommend creditors read these sections carefully.</p> <p>Our opinion is that the proposal put forward by Bain is in the best interest of creditors and it provides for the continued trading of the Group and the ongoing employment for the majority of employees.</p>
7. When is the second meeting of creditors?	The second meeting of creditors will be a virtual, online meeting and will be scheduled for 10:00am AEST on Friday 4 September 2020. Further information is contained at <b>section 14</b> .
8. Do I need to attend the meeting?	Attendance at the meeting is not compulsory. You may submit a vote prior to the meeting or arrange for a person to represent you at the meeting by way of a proxy. A proxy is a document containing instructions to the Voluntary Administrators on who you want to represent you at the meeting and how you wish to vote. Instructions on how to submit a proxy are detailed in <b>section 14</b> and <b>Appendix C</b> .
9. What is a DOCA?	<p>A DOCA is a binding arrangement between a company and its creditors governing how the company's affairs will be dealt with, which may be agreed to as a result of the company entering voluntary administration. It provides the agreement and process by which a company will pay all or part of its debts and then be free of those debts. It aims to maximise the chances of the company, or as much as possible of its business, continuing, or to provide a better return for creditors than an immediate winding up of the company, or both. More information on DOCAs can be found on the Australian Securities and Investments website below. The terms of the DOCAs are described in <b>section 9</b>.</p> <p><a href="https://asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/voluntary-administration-a-guide-for-creditors/#deed-of-company-arrangement/">https://asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/voluntary-administration-a-guide-for-creditors/#deed-of-company-arrangement/</a></p>
10. The report refers to secured and unsecured creditors. Which one am I?	<p>The ASIC website referred to in question 1 explains the difference between a secured and unsecured creditor. For example, customers who hold tickets for bookings not honoured by the Virgin Group and creditors who hold notes or bonds are both unsecured creditors.</p> <p>Employees are a special class of unsecured creditor. Under the Corporations Act, employee claims are usually paid in priority to the claims of other unsecured creditors.</p>
11. Why do some creditors get different returns in the DOCAs?	<p>The law governing the voluntary administration process, the Corporations Act, specifies the ranking of different classes of creditors in voluntary administrations and liquidations. These rankings may be amended under a DOCA. If a DOCA is approved by creditors at a meeting of creditors, then unsecured creditors will be bound by the terms of the DOCA.</p> <p>Bain has proposed the terms of the DOCAs, including the amount they are willing to contribute to the different classes of creditors.</p>
12. Why don't creditors get to vote on the other offers received to buy the business?	The Corporations Act sets down how the voluntary administration process works, the powers and obligations of the Voluntary Administrators and the role and rights of creditors. Subject to the overriding obligation to act in the best interests of the company and its creditors, a voluntary administrator has the statutory power to sell a company's business or to sell individual assets in the lead up to the second meeting. At the second meeting, the law specifies the three options available to creditors: end the voluntary administration and return the company to the directors' control; approve a deed of company arrangement; or



Question	Response
	<p>wind up a company and appoint a liquidator. A voluntary administrator must give their opinion as to which of these options is in the creditors' interest.</p> <p>On 26 June 2020 we signed binding transaction documents with Bain to sell, by exercising our power of sale, the business and assets of the Group to Bain. As part of that agreement Bain has provided \$125 million to allow the business to continue to trade from 1 July 2020 to completion of the sale transaction. Based on information available to us and our review of the offers received for the purchase of the Group we concluded that the Bain offer was the best offer received. We are therefore of the opinion that it is in the best interest of the Group and its creditors for the Group to execute the DOCAs proposed by Bain, to be voted on by creditors at the second meeting.</p>
13. What are Bain's plans for the Group?	<p>Bain's plan for the Group is to ensure a stronger, more profitable and competitive Virgin Australia coming out of voluntary administration. Their focus will be on delivering exceptional experiences at great value with the Group's core domestic and short-haul international business flights.</p> <p>Their plan includes resetting the Group to meet lower global and Australian demand and includes the following:</p> <ul style="list-style-type: none"> <li>• Reduction in cost base to meet sector uncertainty and COVID-19 market conditions.</li> <li>• Securing approximately 6,000 jobs when the market recovers with 3,000 roles impacted.</li> <li>• A simplified all-Boeing 737 mainline fleet and the retention of the regional and charter fleet, but removing ATR, Boeing 777, Airbus A330 and Tigerair Airbus A320 aircraft types.</li> <li>• Long-haul international flying is an important part of Bain's plan but is suspended until global travel market recovers.</li> <li>• Tigerair Australia brand is to be discontinued with Air Operator Certificate (AOC) and necessary support maintained to provide for the option of ultra-low-cost operations when the market recovers.</li> <li>• Continued commitment to regional and charter flying.</li> </ul> <p>Under Bain's ownership, the Group will provide customers with the value of travel credits post administration with validity dates extended for bookings made prior to the Voluntary Administration.</p>
14. What happens to the entitlements owed to employees?	<p>Under the Bain DOCA proposal or sale by ASA to Bain, all employee entitlements will be met in full. The entitlements of all continuing employees including all annual, personal and long service leave accrued will be paid in the normal course. Any employees made redundant will be paid all their entitlements in full including annual, personal and long service leave accrued, superannuation and any redundancy entitlements including payment in lieu of notice.</p>
15. How can I vote at the second meeting?	<p>The voting process is described in <b>section 14</b> and <b>Appendix C</b>.</p>
16. Can I vote at the second meeting even though I can't attend?	<p>Yes, you can lodge a vote by submitting a proxy through the Deloitte Halo platform <a href="https://virgin.deloitte-halo.com/">https://virgin.deloitte-halo.com/</a>. You must be registered and have lodged a claim on the Deloitte Halo platform that has been admitted for voting purposes by the Voluntary Administrators in order to be able to submit a proxy through the Deloitte Halo platform. A proxy is a document containing instructions to the Voluntary Administrators on who you want to represent you at the meeting and how you wish to vote. Instructions on how to submit a proxy are detailed in <b>section 14</b> and <b>Appendix C</b>. If you are a Bond Holder, different voting processes may apply depending upon your status and the type of notes you hold. Please see <b>section 14.2</b> for a summary of Bond Holder voting procedures.</p>

Question	Response
17. How does the voting work?	The voting process is described in <b>Appendix C</b> . The ASIC website referred to at question 1 describes how the voting works in normal circumstances. However, interim laws were introduced in May 2020 which change the way how resolutions are passed. The interim laws require that all votes taken at a virtual meeting must be taken on a poll, not a show of hands. This means that, to calculate the outcome of each resolution, the administrator must calculate the number and dollar value of each vote in favour together with the number and dollar value of each vote against. A resolution is taken to have passed if a majority in both number and dollar value have voted in favour.
18. Will I still be bound by the DOCA even if I don't vote in favour of it?	A DOCA binds all unsecured creditors, even if they voted against it. It also binds owners of property, those who lease property to the Companies and secured creditors, if they voted in favour of the DOCA.
19. Why did the company fail?	Our reasons for failure of the Group and the explanation by the Directors is detailed in <b>section 5.6</b> .
20. Have the Voluntary Administrators identified any offences and funds that could be recovered?	The results of our investigations are summarised at <b>section 1.6</b> and explained in detail at <b>section 6</b> .
21. What happens next if the DOCAs are approved at the meeting?	<p>If creditors vote for the proposals that the Companies enter into DOCAs, the Companies must sign the deed within 15 business days of the creditors' meeting, unless the Court allows a longer time. If this doesn't happen, the Companies will automatically go into liquidation, with the voluntary administrator becoming the liquidator.</p> <p>The DOCAs are expected to complete on or before 31 October 2020. The Voluntary Administrators will remain in control of the Group (as Deed Administrators) while it is under the DOCAs. Once the conditions precedent to completion of the DOCAs have been met, the DOCAs will be finalised and control of the Group will be handed to Bain. The claims of eligible creditors who are owed money will be transferred into a Creditors' Trust. It is our intention to pay a distribution to creditors from the Creditors' Trust between six and nine months from the commencement of the Creditors' Trust. Further information on the DOCAs and Creditors' Trust are contained at <b>sections 9 and 10</b>.</p>
22. Is my proof of debt final	<p>No, the proofs of debt loaded on Halo have been assessed for the purpose of the second meeting of creditors only.</p> <p>A formal process of calling for proofs of debt and adjudication on claims will occur before a dividend is declared and paid. This will provide time for creditors to update their proofs of debt if required.</p>

## 2 Introduction

### 2.1 Appointment

We, Vaughan Strawbridge, Salvatore Algeri, John Greig and Richard Hughes, were appointed Joint and Several Administrators of VAH and the subsidiaries listed in **Appendix A** on 20 April 2020, except for Tiger 1, where we were appointed on 28 April 2020. We were appointed under section 436A of the Act by resolutions of the directors in each of the Companies. Our appointment as Voluntary Administrators was ratified by creditors at the First Meetings of Creditors.

We were also appointed on 3 August 2020 to two additional subsidiaries, VAH Newco 2 and VB Investco. These two entities were previously undergoing a solvent liquidation, known as a members' voluntary liquidation, and Richard Hughes was the liquidator. After an application by us, the Court issued orders on 30 July 2020 granting leave for us to be appointed as Voluntary Administrators of these entities under section 436B of the Act and suspending the liquidation. Under the orders made by the Court we were not required to hold the usual first meetings of creditors for these entities. The purpose of appointing us to these entities is further discussed at **section 3.4.2.1**.

On 10 June 2020 we were also appointed as liquidators to a New Zealand subsidiary of VAH, Virgin Australia (NZ) Employment and Crewing Limited (In Liquidation). This report does not include information on this entity, which is undergoing a separate legal process under New Zealand law.

We have not been appointed to all the entities that are included in the consolidated group (**Consolidated Group**) for financial reporting purposes, most notably, the entities that operate the Velocity Frequent Flyer business (**Velocity Group**). The effect of our appointment to 41 entities in the Consolidated Group has given us control of the business operated by VAH and its subsidiaries, except for the Velocity Group, which continues to operate on a standalone basis. **Appendix D** contains the corporate structure of VAH and its subsidiaries and identifies the entities over which we are appointed.

### 2.2 Purpose of the appointment and report

The purpose of the appointment of voluntary administrators is to allow for independent insolvency practitioners to take control of and investigate the affairs of a company. Creditors' claims are put on hold as at the date of the administrators' appointment and remain so for the duration of the voluntary administration.

Voluntary Administrators are empowered by the Act to assume control of the company, superseding the powers of the directors and officers, and deal with the company's assets in the interests of creditors.

The intention of a voluntary administration is to maximise the prospects of a company, or as much as possible of its business, continuing in existence (including by a DOCA or sale of the company's business), or, if that is not possible, then to achieve better returns to creditors than what would have been achieved by its immediate liquidation.

Voluntary Administrators are required to provide creditors with enough information and their opinion to assist them in making an informed decision on a company's future.

The purpose of this report is to provide creditors with information regarding the Virgin Group's business, property, affairs and financial circumstances (including our opinion on which of the three alternatives open to creditors as to the future of companies is in their best interests) to assist creditors to make an informed decision on the Companies' future. This report provides information on the following:

- Background information about the Virgin Group.
- The results of our investigations into the affairs of the Virgin Group.
- The estimated returns to creditors.

- Details of the DOCAs proposed by Bain.
- The options available to creditors and our opinion on each of these options.

Although each of the companies under voluntary administration are part of the group of companies that are consolidated for financial reporting purposes, we have considered the position of each entity individually in forming our opinion as to what would be in the best interest of creditors.

The provision of this report is a requirement under section 75-225 of the IPR. The professional body for insolvency practitioners, the Australian Restructuring Insolvency Turnaround Association (**ARITA**), provides guidance on what should be included in this report under Practice Statement Insolvency 4. Due to the size and complexity of the Group we have not included all matters recommended in this guidance. **Appendix E** contains notes these matters.

To assist creditors to understand the voluntary administration process and impact it may have on them, ASIC provides a number of information sheets which can be found on their website here: <https://asic.gov.au/regulatory-resources/insolvency/insolvency-for-creditors/>

## 2.3 First meeting of creditors

On 30 April 2020 a concurrent meeting of all companies within the Virgin Group was held in accordance with section 436E of the Act with the exception of the following:

- the Tiger 1 meeting that was held on 11 May 2020
- under the Court orders made on 30 July 2020, the meeting under section 436E of the Act was not required for VAH Newco 2 and VB Investco.

Minutes of the first meetings of creditors have been lodged with the ASIC and are available on our Virgin Deloitte website here: <https://www2.deloitte.com/au/virgin>.

## 2.4 Committee of Inspection

At the meeting held on 30 April 2020 it was resolved that a committee of inspection (**COI**) be formed.

Pursuant to section 80-35 of the Insolvency Practice Schedule (Corporations) 2016 (**IPS**), the function of the COI is:

- To advise and assist the voluntary administrators of the Virgin Group.
- To give directions to the voluntary administrators of the Virgin Group.
- To monitor the conduct of the voluntary administrators of the Virgin Group.
- Such other functions as are conferred on the committee by the Act.
- To do anything incidental or conducive to the performance of any of the above functions.

On 21 April 2020, creditors were requested to nominate members to be elected for the COI. In determining who was to be represented on the COI, we sought to have representation across all groups of creditors. We received 76 nominations from creditors.

This list was issued to all creditors on 5 May 2020 (except for creditors of the three entities which did not enter administration until after this date) requesting them to vote on the nominations for the COI by Tuesday 12 May 2020. To allow for the efficient and effective management of meetings and equal representation across the creditor groups, we refined the number of representatives to 35 creditors and 1 observer. A full list of the elected members of the committee is below:

Table 2: Committee of inspection

	Company / Creditor being represented	Representative
1.	Airframe Leasing (S) Pte. Ltd	Richard Wolanski
2.	Airline Cleaning Services Pty Ltd	David Baker
3.	Alliance Airlines Pty Limited	Marc Devine
4.	AS Air Lease Holdings (Castlelake)	June Raj
5.	Association of Virgin Australia Group Pilots (VIPA)	John Lyons
6.	Australia Pacific Airports (Melbourne) Pty Ltd	Shane O'Hare
7.	Australian Council of Trade Unions (ACTU)	Michele O'Neil
8.	Australian Federation of Air Pilots (AFAP)	Simon Lutton
9.	Australian Licensed Aircraft Engineers (ALAEA)	Steve Purvinas
10.	Australian Manufacturing Workers Union (AMWU)	Anne Donnellan
11.	Australian Services Union (ASU)	Emeline Gaske
12.	Boeing Training & Flight Services Australia Pty Limited	Edward Gomes
13.	Brisbane Airport Corporation Pty Ltd	Jim Parashos
14.	Canberra Airport Pty Ltd	Stephen Carson
15.	Carlson Wagonlit Travel Australia Pty Ltd	Wai Mun Wong
16.	Commonwealth of Australia represented by the Attorney-General's Department (Fair Entitlements Guarantee Scheme) ( <i>Observer</i> )	Henry Carr
17.	Dayna Field	Dayna Field
18.	Dell Financial Services Pty Ltd	Cassie Douglas
19.	Deputy Commissioner of Taxation	Gary Busby
20.	Electrical Trades Union (ETU)	Matt Murphy
21.	FIIG Securities Limited	Thomas Jacquot
22.	Flight Attendants Association of Australia (FAAA)	Teri O'Toole
23.	Gold Coast Airport Pty Ltd	Adam Rowe
24.	JPA No. 123 Co., Ltd	Jason Opperman
25.	Northern Trust Asset Management	Leah Savageau
26.	Perth Aircraft Leasing (UK) Limited	Noel McCoy
27.	Perth Airport Pty Ltd	Brian Pereira
28.	Sabre GBLB Inc	Tony Troiani
29.	Sargon CT Pty Ltd	Yvonne Kelaher
30.	Skywest Airlines Pilot Association (SALPA)	Paolo Casali
31.	Spotless Facility Services Pty Ltd	Jacob Gunzburg
32.	Sydney Airport Corporation Limited	Dhruv Gupta
33.	The Bank of New York Mellon	Jeremy Hollingsworth
34.	Transport Workers Union of Australia (TWU)	Michael Kaine
35.	Velocity Rewards Pty Limited	Christopher Hill
36.	Wilmington Trust Company (AerCap)	Alexander Wilson

We have convened seven meetings of the COI to date which were held on the following dates to discuss the sale process and to update the COI on the administration generally.

- 21 May 2020
- 10 June 2020
- 1 July 2020
- 9 July 2020
- 31 July 2020
- 10 August 2020
- 14 August 2020.

We would like to take this opportunity to thank the COI member for their attendance at these meetings and their input.

Minutes of the COI meetings have been lodged with the ASIC and are available on our Virgin Deloitte website here:

<https://www2.deloitte.com/au/virgin>.

## 2.5 Noteholder Consultative Committee (NCC)

We also formed a separate representative committee for the group of creditors who invested in bonds issued by VAH (**Bond Holders**) given the quantum of their debt, the number of creditors in this group and the complexity of the structure. The NCC does not have voting powers; its purpose is simply to facilitate communication between the Administrators and the Bond Holders during the Voluntary Administrations.

Our aim was to have a committee that had a representation across all tranches of bonds. We received 63 nominations for the NCC, and 11 members were selected which have a broad range of experience between institutional and retail investors.

We have convened four meetings of the NCC to date, which were held on 28 May 2020, 11 June 2020, 2 July 2020, and 6 August 2020 to provide an update on the voluntary administrations.

## 2.6 Court orders – Australia

Given the size and complexity of managing the voluntary administration of 41 entities, and the added difficulties created by the COVID-19 pandemic, we applied to the Court on 7 occasions for directions and guidance on various aspects of the voluntary administrations. A summary of these orders is set out in the table below:

**Table 3: Court orders obtained**

Date of application	Matter	Order
24 April 2020	Electronic communication	<ul style="list-style-type: none"> <li>• Notice of meetings and other notice to creditors may be sent electronically or published on the Deloitte Virgin Australia website: <a href="https://www.deloitte.com/au/virgin">www.deloitte.com/au/virgin</a>.</li> </ul>
24 April 2020	Virtual meetings	<ul style="list-style-type: none"> <li>• Meetings of creditors to be held electronically due to COVID-19.</li> </ul>
24 April 2020	Proxy form due date	<ul style="list-style-type: none"> <li>• Proxy forms to vote at meetings of creditors are to be lodged no later than two (2) business days prior to any meeting of creditors.</li> </ul>
24 April 2020	COI	<ul style="list-style-type: none"> <li>• A single COI be formed for all entities in voluntary administration.</li> <li>• The members of the COI will be persons proposed by the Voluntary Administrators, based on nominations received.</li> </ul>

Date of application	Matter	Order
		<ul style="list-style-type: none"> <li>Creditors will have the opportunity to approve or reject the proposed COI by a vote within five (5) business days of the proposed COI being sent to creditors.</li> </ul>
24 April 2020	COI meetings	<ul style="list-style-type: none"> <li>Meetings of the COI will be held electronically due to COVID-19.</li> </ul>
24 April 2020	Providing information to creditors and responding to creditor requests	<ul style="list-style-type: none"> <li>The Voluntary Administrators have ten (10) business days to respond to creditor requests pursuant to section 70-1(2)(a) of the IPR.</li> <li>Information, reports or documents may be provided to requesting creditors by means of publication on the Deloitte Virgin Australia website: <a href="http://www.deloitte.com/au/virgin">www.deloitte.com/au/virgin</a>.</li> </ul>
24 April 2020	Limitation of liabilities – leases and section 443B of the Act	<ul style="list-style-type: none"> <li>Orders pursuant to section 447A of the Act, for the personal liability of the Voluntary Administrators under section 443B to commence on 26 May 2020.</li> </ul>
13 May 2020	Tiger 1	<ul style="list-style-type: none"> <li>Tiger 1 was joined to the proceedings and all previous orders made for the 38 entities now apply to Tiger 1.</li> </ul>
13 May 2020	Extension of the Convening Period	<ul style="list-style-type: none"> <li>The period required to call the second meeting of creditors (<b>Convening Period</b>) has been extended to 18 August 2020.</li> <li>The Voluntary Administrators are also entitled to apply for a further extension before 18 August 2020.</li> </ul>
13 May 2020	Limitation of liability – Rio Tinto agreement	<ul style="list-style-type: none"> <li>The Voluntary Administrators' liability be limited to the assets of Virgin Australia Regional Airlines Pty Ltd (Administrators Appointed) in respect of the Rio Tinto agreement.</li> </ul>
13 May 2020	Conditional Credits	<ul style="list-style-type: none"> <li>Voluntary Administrators be permitted to issue Conditional Credits (see <b>section 3.4.5.4</b> for further explanation).</li> <li>Voluntary Administrators' liability in respect of the Conditional Credits is also limited to the assets of the Virgin Group entity that issues the credit.</li> </ul>
15 May 2020	Limitation of liability – Applicable Agreements (incl. Aircraft Protocol)	<ul style="list-style-type: none"> <li>Voluntary Administrators' liability be limited to contracts entered into from 20 April 2020. <ul style="list-style-type: none"> <li>Prior notice must be given to all counterparties about the orders prior to them entering into an agreement.</li> <li>The Voluntary Administrators must keep a schedule noting each applicable agreement entered into.</li> <li>The Voluntary Administrators must provide an update to the COI of each applicable agreement entered into or proposed to be entered into together with an estimate of debt that may be incurred.</li> </ul> </li> </ul>
15 May 2020	Limitation of liability – general	<ul style="list-style-type: none"> <li>Voluntary Administrators' liability be limited in respect of intercompany loans.</li> </ul>
15 May 2020	Report on Company Activities and Property ( <b>ROCAP</b> )	<ul style="list-style-type: none"> <li>One ROCAP to be provided by the entities subject to the deed of cross guarantee covering the Deed of Cross Guarantee dated 18 June 2007 and subsequent assumption deeds (<b>DOCG1</b>), each other entity to provide their own ROCAP.</li> </ul>
15 May 2020	Dispensation of section 80-55 of the IPR for the COI	<ul style="list-style-type: none"> <li>COI may derive a profit or advantage, so long as: <ul style="list-style-type: none"> <li>No gifts or remuneration are provided to members</li> </ul> </li> </ul>

Date of application	Matter	Order
		<ul style="list-style-type: none"> <li>– A schedule of each agreement entered into with COI members is kept by the Voluntary Administrators</li> <li>– The Voluntary Administrators provide the COI with an update on these agreements at each meeting of the COI.</li> </ul>
15 May 2020	Bank accounts	<ul style="list-style-type: none"> <li>• Separate bank accounts are not required to be maintained.</li> </ul>
20 May 2020	JobKeeper	<ul style="list-style-type: none"> <li>• Voluntary Administrators' liability be limited in respect of JobKeeper payments.</li> </ul>
25 May 2020	Limitation of liability – aircraft lease agreements	<ul style="list-style-type: none"> <li>• Voluntary Administrators' liability be limited in respect of any leased aircraft, aircraft engines or other aviation equipment (<b>Aircraft Leased Property</b>) until 16 June 2020 (previously 26 May 2020).</li> </ul>
27 July 2020	Appointment to VAH Newco2 and VB Investco	<ul style="list-style-type: none"> <li>• Vaughan Strawbridge, Salvatore Algeri, John Greig and Richard Hughes be granted leave to be appointed as Voluntary Administrators to VAH Newco 2 and VB Investco.</li> <li>• The liquidations be stayed (halted).</li> <li>• There is no requirement to hold a first meeting of creditors and the second meeting can be held at any time during the convening period.</li> <li>• The timeline of the Voluntary Administrations of these entities is brought in line with the Companies' current Voluntary Administration timetable.</li> <li>• The directors of these entities are not required to lodge a Report on Company, Activities and Property.</li> </ul>
30 July 2020	Proof of debts and voting at meetings – Halo platform	<ul style="list-style-type: none"> <li>• Any creditor who intends to vote at the second meeting (other than Bond Holders of USD denominated notes (<b>USD Noteholders</b>)) must register with the Deloitte Halo platform which is a platform established by the Voluntary Administrators to allow creditors to lodge their claims.</li> <li>• Creditors must lodge claims, proxies and powers of attorney electronically via the Halo platform.</li> <li>• The Voluntary Administrators are permitted to adjudicate on claims for voting purposes at the second meeting based on information submitted by creditors via the Halo platform.</li> <li>• The Voluntary Administrators are permitted to use the Halo platform for communications to creditors in respect of the conduct of the Administration and creditor claims (includes USD Noteholders).</li> </ul>
7 August 2020	Further extension of Convening Period and further Halo orders	<ul style="list-style-type: none"> <li>• Extension of Convening Period to 31 August 2020, requiring the second meeting of creditors to be held on or before 4 September 2020.</li> </ul>

## 2.7 United States Chapter 15 bankruptcy proceedings

On 30 April 2020, we filed petitions under Chapter 15 of the United States Bankruptcy Code for recognition by the United States Bankruptcy Court for the Southern District of New York of the voluntary administration proceedings in Australia under the supervision of the Federal Court of Australia.

The purpose of the petition was to protect ongoing global operations, and to ensure fairness to all creditors and stakeholders, wherever located, by preventing commencement of competing debt recovery or insolvency proceedings in other international jurisdictions while the voluntary administration process was undertaken.



A summary of these orders is set out in the table below.

**Table 4: Orders in United States Chapter 15 bankruptcy proceedings**

Date of application or order	Matter	Order
30 April 2020	Recognition of Voluntary Administration appointment in US	<ul style="list-style-type: none"> <li>The Virgin Group's voluntary administration is recognised as a Chapter 15 Bankruptcy Proceeding in the US Bankruptcy Court.</li> </ul>
30 April 2020	Acknowledgement of Order made by the Federal Court of Australia (refer to <b>section 2.6</b> of this Report)	<ul style="list-style-type: none"> <li>The US Bankruptcy Court acknowledged that all prior Orders made by the Federal Court of Australia in the matter of Virgin Australia Holdings Limited (Administrators Appointed) ACN 100 686 226 &amp; Others (Matter No. NSD 464 of 2020) shall apply in the US Chapter 15 Bankruptcy Proceedings.</li> </ul>
13 August 2020	Recognition of Voluntary Administration appointment in US of VAH Newco2 and VB Investco	<ul style="list-style-type: none"> <li>An application was made that the voluntary administration of VAH Newco2 and VB Investco be recognised as a Chapter 15 Bankruptcy Proceeding in the US Bankruptcy Court.</li> <li>Orders on the Chapter 15 Petitions filed on behalf of VAH Newco2 and VB Investco are expected on or about 3 September 2020 once the required notice period has expired.</li> </ul>

The filing of the petitions triggered the application of the automatic stay under the United States Bankruptcy Code, which prohibits actions by creditors against any assets that the Virgin Group have or may have in the US. The automatic stay also prohibits any attempts to collect on claims and prohibits the commencement of any proceedings against the Companies' in the US.

## 2.8 Japan recognition proceedings

On 28 July 2020, we filed and obtained recognition orders and administration orders from the Tokyo District Court in respect of each of VAH, VAIA and Tiger. The purpose of the recognition orders was to enable the voluntary administration in Australia to be recognised in Japan, while the administration orders permitted us to represent and act on behalf of VAH, VAIA and Tiger in Japan in respect of the certain assets of the Virgin Group that are located in Japan.

## 2.9 Extension of convening period

Voluntary Administrators are required by the Act to convene a second meeting of creditors within 20 business days of the date of their appointment, and to hold this meeting within five business days either side of the end of this convening period. Given the size, complexity and nature of the Virgin Group's business and our objective to maximise the prospects of the business to continue as a going concern, this period was considered too short.

Accordingly, we applied to the Court on 11 May 2020 for orders extending the length of the Convening Period to 18 August 2020. On 13 May 2020, the Court granted orders extending the Convening Period to 18 August 2020 and creditors were notified of this outcome on 14 May 2020. A copy of these orders is available at [www.deloitte.com/au/virgin](http://www.deloitte.com/au/virgin).

We applied to the Court for a further extension on 7 August 2020 with the orders being granted on 12 August 2020. The orders granted a further extension of 13 days to 31 August 2020 to provide further time to prepare the report and allow creditors additional time to consider our report and lodge their claims in the Deloitte Halo platform ahead of the second meeting of creditors on 4 September 2020. This short extension was also to allow negotiations to restructure the business to continue, particularly with financiers, lessors and key operating counterparties in respect of future arrangements.

## 2.10 Electronic communication

Section 600G of the Act allows administrators to make communications and notifications available for creditors to access electronically, such as via a creditors' portal. The administrators must notify creditors when information is made available electronically and provide instructions on how it can be accessed.

As detailed in the table above, the Court granted an order on 13 May 2020, allowing all notices of meetings and other notices to creditors to be sent electronically or published on <https://www2.deloitte.com/au/virgin>.

We have established the following mechanisms for communicating with creditors:

- Provision of information including circulars, copies of court orders and reports, via the Deloitte Virgin website: <https://www2.deloitte.com/au/virgin>
- Lodgement of claims and proxy forms, via the Deloitte Halo website: <https://virgin.deloitte-halo.com/>.

## 2.11 Second meeting of creditors

Pursuant to section 439A(3) of the Act and section 75-225 of the IPR, attached is a notice convening the concurrent second meeting of creditors to be held on **Friday 4 September 2020 at 10:00am AEST**. The notice of meeting is enclosed at **Appendix A**.

Government health guidelines around social distancing means it would be inappropriate to convene a physical meeting. Recent interim amendments to the legislation that governs insolvent administrations provides that meetings of creditors may be held virtually, using technology that will give all persons entitled to attend a reasonable opportunity to participate without being physically present in the same place. To this end, the meeting will be held using the Microsoft Teams Live Events platform.

On 23 April 2020, we made an application to the Court, to seek among other things, that the Voluntary Administrators hold meetings of creditors exclusively by video-link or telephone (and not in person) and to be able to issue any notices under sections 75-225(1) and 75-15 of the Insolvency Practice Rules (Corporations) 2016 (Cth) by:

- issuing the notice to a creditors email address;
- publishing on the Deloitte Virgin website: <http://www.deloitte.com/au/virgin>; and
- causing the Notice to be published on the Australian Securities and Investments Commission (ASIC) published notices website at <https://insolvencyntices.asic.gov.au/>,

due to the COVID-19 pandemic which has had restrictions on the movement and behaviour of people, and the cost of issuing such notices to the Voluntary Administrations, due to the significant amount of creditors.

On 24 April 2020, the Court made such orders as it would fulfil the objective of notifying as many creditors of the Virgin Companies as quickly and cheaply as possible, conserving the assets of the Virgin companies for the benefit of creditors, and ensure that the Australian community and economy are supported during the COVID-19 pandemic.

At this meeting creditors will be asked to resolve whether:

- The Companies execute a DOCA; or
- The administrations end; or
- The Companies be wound up.

We will also be seeking resolutions regarding the formation of a joint committee of inspection in the DOCAs and Creditors' Trust, or liquidation, based on the resolutions passed by creditors. It is proposed that creditors vote to approve the existing members of the COI to continue in any COI established in the DOCA, Creditors' Trust or liquidation.

We have consulted with the members and at the time of writing this report, all existing members (listed at **section 2.4**) have consented to being nominated for future COI's. Creditors will be invited to consider whether a COI should be formed, and if so, if the existing members should be appointed.

Further information for creditors who wish to attend the meeting and vote is contained at **section 14** of this report.

## 2.12 Voluntary Administrators' independence, relationships and indemnities

In accordance with section 436DA of the Act, a Declaration of Independence, Relevant Relationships and Indemnities (DIRRI) was provided with the first report to creditors dated 21 April 2020 and was also tabled at the first meeting of creditors. The DIRRI disclosed information regarding our independence, prior personal or professional relationships with the Group and any indemnities received in relation to these appointments (in this case there were none).

We conduct ongoing assessments as to whether any potential conflict of interest issues develop during the voluntary administration. Our initial DIRRI was dated 20 April 2020. Since this date the following changes to circumstances have occurred:

- On 28 April 2020, we were appointed as administrators of Tiger 1.
- On 3 August 2020, we were appointed Voluntary Administrators of VAH Newco 2 and VB Investco.

For the reasons outlined in our updated DIRRI attached as **Appendix F**, we do not consider that these changes cause a real or potential risk to our independence.

There have been no other changes to circumstances or new information identified that cause a real or potential risk to our professional independence that requires us to update our DIRRI dated 21 August 2020 and attached as **Appendix F**.

## 3 Background information

### 3.1 History of the Companies

Below is a brief summary of the background of the Virgin Group. More information can be found on the Virgin website: [www.virginaustralia.com](http://www.virginaustralia.com).

#### 3.1.1 Operations of the Companies

VAH was incorporated in 2002 and listed on the Australian Securities Exchange (**ASX**) on 8 December 2003. It is the listed holding company and parent of 49 local and overseas wholly-owned subsidiaries plus five trusts (save for Airline Samoa Ltd which is ultimately owned 49% by the Consolidated Group) as detailed in the Consolidated Group structure contained in **Appendix D**. Collectively these entities will be referred to as **the Consolidated Group** for the purposes of this report, whereas **the Virgin Group** will refer to just those entities under voluntary administration.

Virgin Group's head office is in Bowen Hills, Queensland and there are satellite offices and other operational sites across Australia and overseas. The Virgin Group is Australia's second largest airline, operating a domestic and international passenger airline business, as well as cargo and charter services, and an accompanying Velocity loyalty program. Prior to COVID-19 restrictions on travel, the Virgin Group operated flights to destinations within Australia and a range of international destinations including New Zealand, Indonesia, the South Pacific, Hong Kong and the United States.

#### 3.1.2 History of the Companies

A brief history of the Consolidated Group is summarised below.

**Table 5: Timeline of key milestones**

Year	Key Milestones
2000	<ul style="list-style-type: none"><li>Virgin Blue's first flight, from Brisbane to Sydney, on 31 August 2000. The airline had one route, two aircraft, and 200 employees.</li></ul>
2003	<ul style="list-style-type: none"><li>Launch of Blue Holidays.</li><li>ASX Listing December 2003.</li></ul>
2004	<ul style="list-style-type: none"><li>Launch of Pacific Blue – a New Zealand based international airline servicing flights between Australia, New Zealand and the South Pacific.</li></ul>
2005	<ul style="list-style-type: none"><li>Launch of Polynesian Blue in partnership with the government of Samoa.</li><li>Launch of Velocity Rewards.</li><li>Patrick Corporation Ltd (later acquired by Toll Holdings Ltd) increases its majority shareholding to 62.4%.</li></ul>
2008	<ul style="list-style-type: none"><li>Toll Holdings Ltd divests its controlling stake resulting in Richard Branson's Virgin Group the largest single shareholder with 25.5% at the time (refer <b>section 3.2</b> for current ownership).</li></ul>
2009	<ul style="list-style-type: none"><li><i>V Australia's</i> inaugural long-haul flights from Sydney and Brisbane to Los Angeles.</li></ul>
2011	<ul style="list-style-type: none"><li>Rebranding to "Virgin Australia".</li><li>"Game Change Program" designed to transform into an airline group servicing every segment of the market.</li><li>New Velocity frequent flyer program is launched.</li></ul>
2013	<ul style="list-style-type: none"><li>Complete acquisition of 100% of Skywest Airlines Ltd and 60% of Tiger Airways Australia Pty Ltd.</li></ul>
2014	<ul style="list-style-type: none"><li>Affinity Equity Partners acquires 35% of the Velocity Group.</li></ul>
2015	<ul style="list-style-type: none"><li>Virgin Australia Cargo is launched for domestic and short-haul international cargo market.</li><li>The Consolidated Group acquires full ownership of Tiger Airways Australia Pty Ltd.</li></ul>

Year	Key Milestones
2019	<ul style="list-style-type: none"> <li>Formulation and commencement of strategic review of operations (May onwards).</li> <li>Raises USD\$425m in unsecured bonds and \$325m in ASX listed bonds (October-November).</li> <li>The Consolidation Group acquires remaining 35% of the Velocity Group (October-November).</li> </ul>
2020	<ul style="list-style-type: none"> <li>Focus commences on responding to the impact of COVID-19 on forecast earnings and liquidity (February).</li> <li>COVID-19 impact accelerates; 90% reduction in capacity.</li> <li>Sought government and major shareholder support (March).</li> <li>Voluntary Administrators appointed on 20 April 2020, 28 April 2020 and 3 August 2020.</li> </ul>

Source: [www.virginaustralia.com](http://www.virginaustralia.com), [www.asx.com.au](http://www.asx.com.au)

### 3.2 Group structure

The corporate structure for the Consolidated Group is as follows:

- The listed ultimate parent company VAH, which is in administration.
- 49 controlled entities, 18 of which are controlled by two deeds of cross-guarantee, further described in **section 3.4.2.1** below.
- A New Zealand subsidiary, Virgin Australia (NZ) Employment and Crewing Limited, which was placed into liquidation on 10 June 2020.
- A Singapore registered company, TA Holdco (Singapore) Pte Ltd.
- 40 controlled companies which, together with VAH, are in voluntary administration. Of this number there are four main trading entities and 9 special purpose companies used for holding and financing aircraft assets.
- 9 entities not in administration and five trusts.

The Consolidated Group reported upon four business segments:

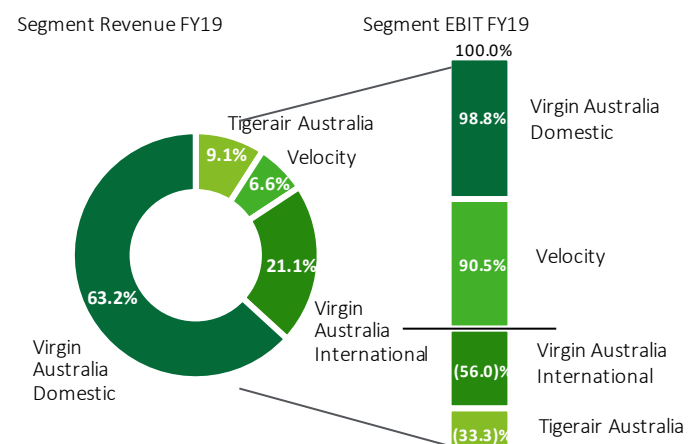
- Virgin Australia International
- Velocity
- Virgin Australia Domestic
- Tigerair Australia.

A summary of the Consolidated Group structure is outlined below. Creditors should note that this is a functional business structure summary and accordingly, not all intermediate legal parent/subsidiary relationships have been included. A detailed corporate structure of the Consolidated Group is included at **Appendix D**.

With the exception of the Velocity Group, discussed below, the Consolidated Group was operated and managed on a group basis. In particular, there was a central shared head office administration function, and Consolidated Group (except Velocity) funds were pooled via a central treasury function and swept regularly to central bank accounts.

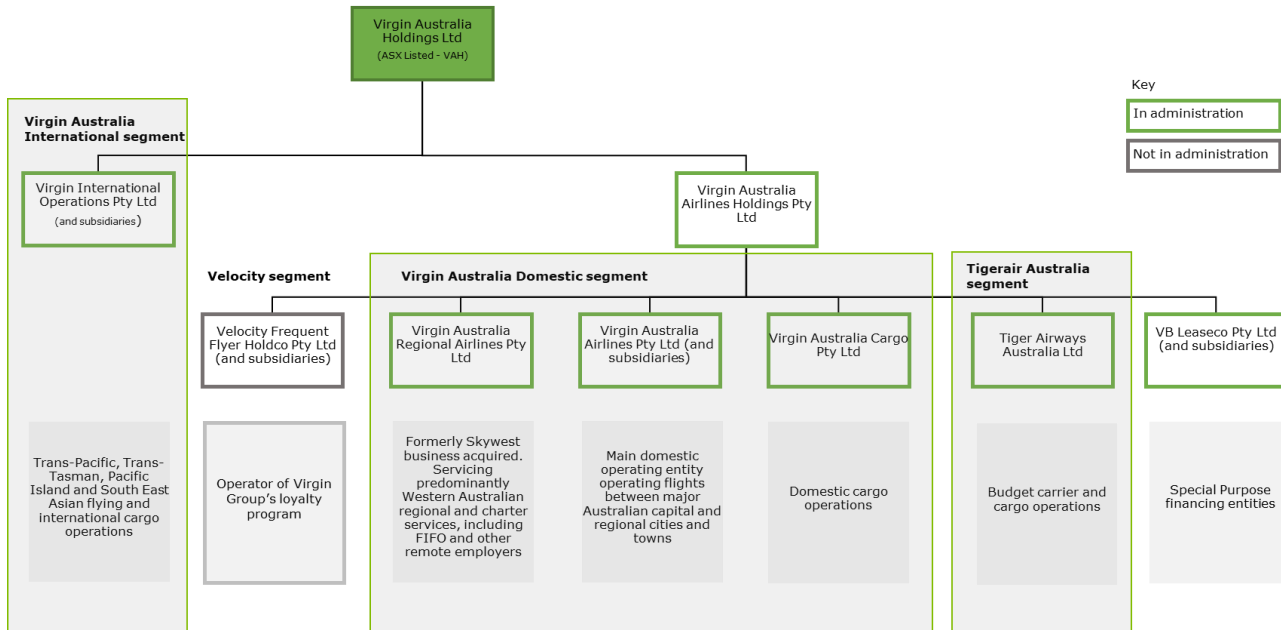
Some entities within the Virgin Group were Special Purpose Vehicles (SPV) and totally reliant upon other companies within the Consolidated Group for financial support. The Consolidated Group reported its financial results on a consolidated basis.

**Figure 1: Segment revenue and EBIT FY19**



Note: Segment corporate and elimination amounts are excluded  
Source: Audited financial accounts

Figure 2: Indicative corporate structure



### 3.2.1 Velocity

A key business segment for the Consolidated Group is the Velocity business which is not in voluntary administration.

Velocity operates much like other customer loyalty programs whereby reward points are earned by members through flights flown or by purchasing goods and services from third party suppliers (e.g. credit card purchases, hire cars, hotels etc.) who pay fees to the Velocity business to be part of the program. Upon the redemption of points by members for flights the Virgin Group receives cash payments, by way of consideration for providing the flight.

Virgin Group holds a 100% interest in the profits and net assets of Velocity and in this regard the Virgin Group receives distributions from time to time from the Velocity Group. Historically, the Velocity Group has been a successful business, with consistent full year revenue growth since FY15 (when Velocity Frequent Flyer was established) and segment profit (EBIT) margins in excess of 29%. The Consolidated Group had in November 2019 acquired the remaining 35% minority stake in Velocity from Affinity Equity Partners.

Velocity operates on a stand-alone basis from the broader Consolidated Group. Velocity maintains its own bank accounts that are not incorporated with the Consolidated Group's broader treasury function. The Director of the head entity of the Velocity Group is not a director of any other of the Consolidated Group entities.

Velocity provided financial support to the Virgin Group by way of a revolving \$460m secured loan facility from VRPL as trustee for The Loyalty Trust to VAA (**Velocity Group Loan**). The loan facility was first entered into on 27 August 2014. The books and records of the Group indicates that \$150.6m (including interest) is outstanding under this facility. The purpose of the loan was to provide working capital funding for the Consolidated Group.

## 3.3 Statutory information

The following statutory information in respect to each of the Virgin Group companies is contained at **Appendix H**:

- Registration date
- Officers

- Shareholders
- Security interests.

### 3.4 Creditors

#### 3.4.1 Overview

The creditor body for the Virgin Group is large and complex with different creditor groups having different rights and priorities under the Act and legal agreements.

We have grouped the creditors as summarised in the table below and make the following general comments regarding the number and estimated value of their claims:

- Unless otherwise specified in **section 5.3**, the estimated value is derived from the Report on Company Activities and Property (ROCAs) submitted by the Directors.
- We have used a slightly different exchange rate compared to the ROCAs to calculate outstanding balances in foreign currencies. We have converted foreign currency amounts in the ROCAs into Australian dollars using the opening carded on demand airmail buying rate from the Commonwealth Bank of Australia as at 20 April 2020, in accordance with section 554C of the Act.
- The full value of any remaining term under agreements and contracts has been included, for example, leases. These amounts or a portion of them will be paid in the normal course if these contracts and agreements continue under the sale of the business to Bain. These amounts, therefore, could be regarded as contingent claims.
- We have included customers in respect of amounts paid for flights not yet taken and credits. These are considered to be a contingent liability that would only crystallise in the event the Group is unable to fulfil its future obligations to its customers. This is further discussed in **section 3.4.5.4**.
- These amounts are prior to any detailed review and adjudication that is required prior to admitting claims for voting purposes at the second meeting of creditors. This adjudication process is ongoing leading up to the second meeting of creditors. The amounts do not allow for other contingent liabilities that may arise from the restructuring of the business.

**Table 6: Summary of creditors**

Creditor Group \$m	Notes	Priority	Estimated number	ROCAP estimated value (unless noted)
<b>Financial creditors</b>				
Bank facilities				
Aeronautic loan facilities	3.4.3.1	Secured creditors	6	(1,057.2)
Other	3.4.3.2	Secured creditors & unsecured	3	(309.7)
Leases				
Aeronautic facilities				
Finance leases & JOLCOs	3.4.3.1	Secured creditors	15	(459.9)
Operating leases	3.4.3.1	Secured creditors	51	(1,894.4)
Other	3.4.3.3	Secured with exceptions	25	(17.5)
Bond Holders <i>(including no. of estimated underlying beneficial holders)</i>	3.4.3.4	Unsecured creditors	6,500	(1,929.1)
Derivative financial instrument counterparties	3.4.3.5	Unsecured creditors	10	(191.6)
<b>Employees</b>	3.4.4	Priority unsecured creditors	9,022	(128.9)

Creditor Group \$m	Notes	Priority	Estimated number	ROCAP estimated value (unless noted)
<b>Other creditor groups</b>				
General creditors	3.4.5.1	Unsecured creditors with some exceptions	1,437	(237.2)
Landlords	3.4.5.2	Unsecured creditors	63	(301.6)
Statutory creditors	3.4.5.3	Unsecured creditors	10	(19.3)
Customers	3.4.5.4	Unsecured creditors	1,600,000	(600.0)
<b>Total unrelated creditors</b>			<b>1,617,142</b>	<b>(7,146.4)</b>
<b>Related party</b>				
Inter-company exc. Velocity	3.4.5.6	Unsecured creditors	21	(6,432.9)
Velocity Group		Secured	1	(153.8)
Other related party		Unsecured creditors with some exceptions	18	(263.4)
<b>Total</b>			<b>1,617,182</b>	<b>(13,996.6)</b>

Source: Companies' ROCAPs, Company books and records

### 3.4.2 Creditor priorities and rights

There are a number of legal arrangements in place that affect a creditor's ability to:

1. Claim against another entity; which is different to the entity that owes the debt to the creditor. These are known as guarantees and are discussed further in **section 3.4.2.1** below.
2. Be paid in priority to other creditors. The Act sets out the priority rankings of different creditor groups in the event a company becomes insolvent and is placed under a form of external administration. This is discussed at **section 3.4.2.2** below.

#### 3.4.2.1 Guarantees

There are two pro forma deeds of cross guarantee in place across the Consolidated Group in accordance with the ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. The first was entered into on 18 June 2007 (**DOCG1**) and the second was entered into on 18 June 2012 (**DOCG2**). By entry into **DOCG1** and **DOCG2** and lodgement of those deeds with ASIC, the group companies which are parties to those deeds became entitled to prepare and lodge consolidated financial statements.

All of the main trading entities are parties to either **DOCG1** or **DOCG2**. The companies which are parties to each of **DOCG1** and **DOCG2** are listed in **Appendix G** and can also be identified based on the corporate structure chart set out at **Appendix D**.

Pursuant to **DOCG1** and **DOCG2** (which are in the same form), each group company has guaranteed payment of the debts of all the other group companies. This affects how creditors of the companies within **DOCG1** and **DOCG2** will vote at the second meetings.

Further instructions on voting at the second meetings of creditors are contained at **section 14** and **Appendix C**.

After our appointment to the Group, it was identified that VAH Newco 2 and VB Investco, which had previously been placed into a solvent liquidation process on 26 April 2019, were subject to the **DOCG1**. VAH Newco 2 was also a guarantor entity for the issued bonds discussed further at **section 3.4.3.4**. Having regard to their status as guarantors we were of the opinion that these entities were insolvent and the liquidations could no longer proceed as a solvent winding up process. We therefore applied to Court for leave to become the Voluntary Administrators of these entities. As stated above, orders were made by the Court on 30 July 2020 and we became the Voluntary Administrators on 3 August 2020.



In addition to the two deeds of cross guarantee a number of creditors who have provided financing facilities to the individual companies within the Consolidated Group also have guarantees provided by other entities in the Consolidated Group. This includes Bond Holders (discussed further at **section 3.4.3.4**), and financiers who have provided aircraft financing, aircraft leasing and other leases.

#### 3.4.2.2 Priority

There are generally two categories of creditors: secured and unsecured creditors.

A secured creditor is generally a bank or other asset-based lender who holds a security interest, such as a mortgage, in some or all the company's assets, to secure a debt owed by the company. Lenders usually require a security interest in company assets when they provide a loan. Security interests over assets other than land are generally registered on the Personal Property Securities Register (**PPSR**). In the event of a company becoming insolvent, creditors with valid security interests receive a priority ahead of unsecured creditors in respect to any payment of their outstanding debt.

Plant and equipment lessors and creditors supplying goods and inventory may also have registrations on the PPSR which gives them a priority ahead of unsecured creditors in respect to any payment of their outstanding debt. Usually their ability to rank ahead of unsecured creditors is limited to the value of the asset they have supplied to the company. Any shortfall after realisation of this asset becomes an unsecured claim.

**Appendix H** summarises the results of the searches we conducted on the PPSR on our appointment. There are approximately 3,463 registrations across the Virgin Group made by approximately 190 unrelated parties. The registrations cover a range of collateral classes as can be seen at **Appendix H**. We are currently reviewing the registers and the validity of the registrations. Given the large number of registrations this process remains ongoing.

Unsecured creditors are those creditors who do not hold a security interest in assets of a company and generally include trade creditors and suppliers.

Employees are a type of unsecured creditor that are paid in priority to other unsecured creditors. Employees are discussed further in **section 3.4.4**.

#### 3.4.3 Financial creditors

The Group financed its operations through a combination of bank loans, letters of credit (**LCs**), bank guarantee facilities, aircraft finance and operating leases and unsecured bonds. It managed the impact of fluctuations in fuel prices and foreign exchange rates through derivative financial instruments or hedges. Further information on the Groups' capital structure is detailed in its FY19 Financial Statements. It also had agreements in place with a number of financiers for merchant facilities.

Given the size of the Consolidated Group, its capital structure is complex and subject to a large number of agreements with in excess of 80 individual financial parties excluding Bond Holders.

##### 3.4.3.1 Aeronautical facilities

The Virgin Group's fleet of 144 aircraft consisted of 44 owned and 100 leased or financed aircraft. The owned aircraft are predominantly funded via secured bank loans with six secured parties. Three of these secured parties act as the security trustee on behalf of a wider syndicate of financiers and three have bilateral agreements with the Group. These parties have registered security in respect of these finance agreements and also have guarantees across a number of companies within the Virgin Group.

In addition to the 100 leased aircraft, there were also 17 engines under lease on our appointment. The leases are predominantly operating leases, which means there is no transfer of ownership of the asset.

Of the Virgin Group leased aircraft eight aircraft were under finance leases and 12 aircraft which were financed under a Japanese Operating Lease with Call Option (**JOLCO**) structure. Under these lease types, there is a transfer of ownership of the asset to the lessee upon certain criteria being met and the call option, which allows Virgin Group to purchase aircraft, being exercised.

All aircraft and engine leasing and financing facilities are secured against the underlying aircraft asset being financed. The security interests in these assets are registered on the PPSR and/or are registered on the International Registry established under the Cape Town Convention on International Interests in Mobile Equipment. We are currently reviewing the validity of these registrations. Some of the agreements are also guaranteed by certain companies within the Group.

The amounts in **Table 6** above reflect the full amount outstanding under the agreements but excludes any termination payments or end of life payments in respect of the leasing agreements.

As part of the restructure of the business, working together with Management and Bain, we have assessed the current and estimated future requirement and cost of aircraft and other equipment assets held by the Group. Based on this assessment, we have elected not to continue certain leases previously maintained by the Group relating to several aircraft and engines as well as certain service contracts and property leases. As announced on 5 August 2020 to the ASX, the Group will be removing the ATR, Boeing 777, Airbus A330 and Tigerair Airbus A320 aircraft types. These lessors have been advised that their aircraft are not being retained by the Virgin Group and we are working with them regarding the collection of their assets in accordance with the agreed terms of the aircraft protocol agreements that were executed with them.

One of the three aircraft lessors who had not executed an aircraft protocol agreement, Wells Fargo Trust Company, National Association (as owner trustee) and Willis Lease Finance Corporation (**Willis**) commenced proceedings in the Federal Court of Australia on 30 June 2020 (proceedings number NSD714/2020) against VB Leaseco, VAA, Tiger and the Voluntary Administrators, seeking orders pursuant to the Cape Town Convention in respect of the return of four engines and associated property and records (**Property**). The dispute in the proceedings relates to the interpretation of Article XI.2 of the protocol to the Cape Town Convention and the validity of the Voluntary Administrators' notice pursuant to section 443B of the Act.

The proceedings were set down for an expedited final hearing in Court, which took place on 31 July 2020. At the time of preparing this report, judgment has not yet been delivered. Based on the indications from the Court as to the outcome of the proceedings, we anticipate that judgment will be in favour of Willis. Should the judgment be as anticipated, we intend to seek an expedited appeal.

Details of the proceedings, including all documents filed in the proceedings, are available on the Court website:

<https://www.fedcourt.gov.au/services/access-to-files-and-transcripts/online-files/virgin-australia#wells>

#### 3.4.3.2 Other facilities

The Group had Multi-Option Facility Agreements (**MOFA**) with two financiers. These facilities provided bank guarantees, security deposit and maintenance related LCs in favour of both aircraft and non-aircraft stakeholders of the Group.

In addition to VAH's guarantee, these facilities were secured by a combination of leasehold properties, cash hold deposits, aircraft and engines. One of the financiers has exercised rights under their facility agreements to set off their liability with cash from other deposit accounts and in-the-money hedge positions held by the Group.

As at 20 April 2020, \$260.7m of the \$355.9m combined facility limit was utilised. This utilised portion of the facility was a contingent liability at the date of appointment as no facility beneficiaries had called on the guarantees or line of credit available to them but had the potential to do so subject to meeting certain criteria under the facility agreements.

As at the time of writing this report, \$160.7m in LCs have been called on since our appointment and the balance of uncalled LCs issued of \$100.0m remains an ongoing contingent exposure.

The Group also had a receivable purchasing agreement with a bank with a \$37m limit to provide funds by purchasing debtors of the Group. As at the date of our appointment, the outstanding amount of this secured facility was c. \$22.4m which has since been fully repaid from debtors collections during the administration.

In addition to the MOFA facilities, the Group also had an agreement with QBE Insurance (Australia) Limited (**QBE**) to provide funding to VAH and VAA for workers compensation bonds and aircraft lease bonds. The bonds issued by QBE are unsecured.

In respect to the workers compensation bonds, the Group pays QBE an annual fee to provide a surety bond on a number of bank guarantees. The Virgin Group self-insures in respect to potential workers compensation claims and the government requires a bank guarantee to be in place in the event the Group is unable to pay claims. If called, the bank guarantee would be released to cover outstanding claims and QBE would then have a claim against the Group. There are currently two bank guarantees on issue in respect to workers compensation, totalling \$22.9m. As these bank guarantees have not been called, they are considered to be a contingent liability and are not included in the table above.

On appointment, there were two aircraft bonds issued under the QBE facility totalling \$24.9m in respect to bank guarantees provided for aircraft maintenance requirements. As at the time of writing this report, both aircraft bonds issued under this facility have been called on since our appointment.

The amounts in the table under this category of financial creditors above reflect the utilised portion of the two MOFA facilities, the QBE bonds and the receivables financing facility and any outstanding fees payable as at the date of the appointment. To be consistent with the other amounts in the table, we have included the potential full exposure of these liabilities, not just the amounts crystallised at the date of writing this report. These amounts were not included in the ROCAPs for the reasons detailed in **section 5.3**.

#### 3.4.3.3 Other leases

In addition to the aircraft leases, there are a number of finance, operating and rental agreements in place in respect to telecommunications equipment, ground equipment, motor vehicles, property and office equipment leases. The full value of the lease terms has been estimated.

#### 3.4.3.4 Bond Holders

A significant portion of the Consolidated Group's financial debt was in the form of unsecured bonds or notes. Below is a summary of the different tranches of bonds issued by the Consolidated Group:

**Table 7: Summary of Bond Holders**

Bond issued by VAH	Trustee/Issuing agent	Coupon rate	Issuance date	Principal (\$m)	Maturity date	Outstanding liability (\$m)
Listed AUD denominated notes	Sargon CT Pty Ltd	8.000%	26 Nov 19	325.0	26 Nov 24	335.5
Unlisted AUD denominated notes	BTA Institutional Services Australia Limited	8.250%	30 May 18	150.0	30 May 23	154.8
	BTA Institutional Services Australia Limited	8.075%	5 Mar 19	250.0	5 Mar 24	252.8
USD denominated notes	Bank of New York Mellon	7.875%	17 Oct 16	552.3	15 Oct 21	525.2
	Bank of New York Mellon	8.125%	7 Nov 19	670.7	15 Nov 24	660.7
<b>Total</b>						<b>1,929.1</b>

Source: Companies' ROCAPs (with USD amounts converted at the dated of appointment by reference to the opening carded on demand airmail buying rate from the Commonwealth Bank of Australia Limited) and books and records

Although the bonds are unsecured, they are supported by guarantees from certain members of the Consolidated Group under the respective legal agreements entered into at the time of the bond issues.

The guarantor entities vary depending on the bond tranches. A list of guarantors by the bond tranches is listed below and also identified in **Appendix G**:

Table 8: Summary of corporate guarantees for bonds

Guarantor entities by note tranche entities	Listed AUD notes	Unlisted AUD notes	USD notes
VAAH	Yes	Yes	Yes
VAA	Yes	Yes	Yes
ACN 098 904 262	Yes	Yes	Yes
VARA	Yes	Yes	Yes
VAH Newco 1	Yes	Yes	Yes
Tiger	Yes	Yes	Yes
VB Leaseco	Yes	Yes	Yes
Tiger Airways Australia SPV Pty Ltd (Deregistered)	No	Yes*	Yes**
VAH Newco No.2 Pty Ltd	No	Yes	Yes**
Tiger 1	Yes	Yes	Yes
VAIH	Yes	Yes	Yes
VAIA	Yes	Yes	Yes
VSEA	Yes	Yes	Yes
<b>Total entities</b>	<b>11</b>	<b>12</b>	<b>11</b>

\* Tiger Airways Australia SPV Pty Ltd (ACN 164 438 537) (Deregistered) was not a guarantor of the Unlisted AUD Notes issued 5 March 2019 as it was in the process of being liquidated but is a guarantor of the earlier issue dated 30 May 2018.

\*\* Tiger Airways Australia SPV Pty Ltd (ACN 164 438 537) (Deregistered) and VAH Newco No.2 Pty Ltd (ACN 160 881 354) were not guarantors of the USD denominated notes issued on 7 November 2019, but are guarantors to the earlier USD note issue dated 17 October 2016.

Source: Note Trust Deed; Deed Poll of Guarantee and 2016/2019 Indenture documents

We note that there was an inadvertent error in the beneficial owner ballot circulated to USD Noteholders on 18 August 2020, which incorrectly specified that Virgin Australia International Operations Pty Ltd was both a party to DOCG1 and a guarantor of the USD Notes. Neither of those facts are correct and the USD Noteholders are not creditors of Virgin Australia International Operations Pty Ltd.

The listed corporate bonds issued in November 2019 (**Listed AUD Notes**) are unsecured creditors whose rights and obligations are represented by trustee, Sargon CT Pty Ltd under a trust deed. The register for the Listed AUD Notes records 3,992 Bond Holders, although it is noted these parties may be acting as custodians, brokers or managers for a number of underlying beneficial holders. There are 17 registered holders on the register for the unlisted corporate bonds (**Unlisted AUD Notes**) issued in two tranches on 30 May 2018 and 5 March 2019. In most cases we expect that these registered holders represent the rights of their underlying beneficial holders. The corporate bonds issued in the United States (**USD Noteholders**) in two tranches on 17 October 2016 (**USD Noteholders 2016**) and 7 November 2019 (**USD Noteholders 2019**) are represented by a number of custodians. There is no single register recording the underlying beneficial holders of these notes. In total there is estimated to be approximately 6,500 underlying beneficial holders of notes.

### 3.4.3.5 Derivative financial instruments

The Group had a number of fuel and foreign currency hedges in place with VAA across ten counter-party creditors. The use of derivative financial instruments is described in detail in Note E7 to the FY19 Financial Statements. On our appointment the counterparties terminated the agreements, resulting in an estimated net loss of \$191.6m. In the weeks leading up to the termination of the hedging facilities by the counterparties there were dramatic market fluctuations in both fuel prices and exchange rates. From the beginning of March 2020, both fuel prices and the Australian dollar depreciated markedly, resulting in mark-to-market losses on the Companies' energy hedge positions and mark-to-market gains on the Companies' currency hedges. It is important to note that these hedges were entered into as risk mitigating tools and under normal operating circumstances the mark-to-market gains and losses may have been offset by savings in

operating costs - e.g., losses in fuel hedges would (assuming normal fuel usage) have been offset by benefits associated with lower fuel costs for the operating fleet.

The amounts listed above were the net position from the ROCAP and take into account offsets of \$48.0m made by certain counterparties against funds held to cover the exposure and in the money hedge amounts of \$40.9m retained by financiers who exercised set-off rights available under their facility agreements to reduce their overall exposure to the Group.

#### 3.4.4 Employees

The claims of the employees represent a priority claim pursuant to section 556 of the Act. This means employees have the right to be paid their outstanding entitlements in priority to other unsecured creditors. They also have a priority over secured creditors in respect to any realisations of certain types of assets known as circulating assets. Circulating assets are assets that a Company is able to use, dispose and deal with in the ordinary course of business, such as debtors and inventory.

It is noted that all employees are employed by entities within DOCG1.

As at the date of our appointment, there were 9,022 employees, consisting of 6,681 full-time, 2,153 part-time, 31 casual and 157 job share employees.

Since our appointment, we have reviewed the entitlements owed to current employees. Our estimates of the outstanding employee entitlements as at 20 April 2020 (which do not include any amounts for redundancies which are made after our appointment) are as follows:

**Table 9: Estimate of employee entitlements as at 20 April 2020**

Employee entitlements (\$'000)	DOCG1				
	VARA	VAA	Tiger	VT	Total
Wages	-	-	-	-	-
Annual leave	(5,948.3)	(43,674.7)	(1,796.4)	(5,282.7)	<b>(56,702.1)</b>
Long service leave	(7,435.1)	(50,775.8)	(448.8)	(7,851.8)	<b>(66,511.5)</b>
Days in lieu	(302.5)	(973.8)	-	-	<b>(1,276.3)</b>
Purchased annual leave	(5.5)	(132.2)	(5.8)	(2.8)	<b>(146.3)</b>
Pay in lieu of notice	-	(127.9)	(71.6)	-	<b>(199.5)</b>
Redundancy	(165.4)	(1,053.2)	(171.2)	(33.5)	<b>(1,423.3)</b>
Superannuation	-	-	-	-	-
Other	(13.0)	(2,607.0)	(30.0)	-	<b>(2,650.0)</b>
<b>Total</b>	<b>(13,869.9)</b>	<b>(99,344.6)</b>	<b>(2,523.8)</b>	<b>(13,170.7)</b>	<b>(128,909.0)</b>

Source: Payroll records, enterprise agreements and employment contracts

The amounts owing for wages have been subsequently paid during the voluntary administration as part of the normal payroll cycle. The majority of the pre-appointment redundancies have also been paid. All post-appointment wages, superannuation and annual leave incurred in the normal course of trading have also continued to be paid and/or accrued by us.

The workforce structure is complex with different enterprise agreements, employment contracts and state-based legislations. The stand-down of a large portion of the workforce since 25 March 2020 and the rapid implementation of the JobKeeper program has added further complexity to the review and assessment of outstanding entitlements.

In the table below we have estimated the amount that would have been payable to employees if the Companies had ceased trading on our appointment. This includes redundancy payments, pay in lieu of notice and the crystallisations of long service leave entitlements.

**Table 10: Estimated employee entitlements if cessation of Group on 20 April 2020**

Employee entitlements (\$'000)	DOCG1				Total
	VARA	VAA	Tiger	VT	
Wages	-	-	-	-	-
Annual leave	(5,948.3)	(43,674.7)	(1,796.4)	(5,282.7)	<b>(56,702.1)</b>
Long service leave	(7,405.4)	(63,643.8)	(482.0)	(8,660.4)	<b>(80,191.6)</b>
Days in lieu	(302.5)	(973.8)	-	-	<b>(1,276.3)</b>
Purchased annual leave	(5.5)	(132.2)	(5.8)	(2.8)	<b>(146.3)</b>
Pay in lieu of notice	(8,132.4)	(87,213.0)	(3,240.3)	(6,479.7)	<b>(105,065.4)</b>
Redundancy	(20,950.2)	(150,776.3)	(2,841.1)	(17,463.2)	<b>(192,030.8)</b>
Superannuation	(868.1)	(8,416.0)	(307.8)	(615.6)	<b>(10,207.5)</b>
Other	(13.0)	(2,607.0)	(30.0)	-	<b>(2,650.0)</b>
<b>Total</b>	<b>(43,625.4)</b>	<b>(357,436.9)</b>	<b>(8,703.5)</b>	<b>(38,504.3)</b>	<b>(448,270.1)</b>

Source: Payroll records, enterprise agreements and employment contracts

As announced on 5 August 2020 to the ASX, the sale of the business will secure approximately 6,000 positions, with an estimated 3,000 roles being lost. We are currently working through this restructure with management, staff and other stakeholders.

Under the Bain DOCA proposal or sale of the business by an ASA, all employee entitlements will either be adopted for continuing employees or paid in full for those employees made redundant.

In the event the DOCA's are not approved or the sale to Bain by ASA is not completed there would be a significant shortfall to employees. This would mean that the only avenue available to employees to receive money for any unpaid entitlements would be through an application to the Federal Government under the Fair Entitlements Guarantee Scheme (FEG). FEG is a government scheme of last resort that provides financial assistance for certain unpaid employee entitlements when a company is insolvent and there are no other sources of funds to pay entitlements of employees made redundant. We note that FEG will reimburse up to 13 weeks in unpaid wages; unpaid annual leave and long service leave; up to five weeks pay in lieu of notice; and up to 4 weeks per year of service for redundancy pay. There are conditions that need to be met to be eligible under the FEG scheme.

There were outstanding entitlements for employees of Virgin Australia (NZ) Employment and Crewing Ltd (a New Zealand registered subsidiary which was subsequently wound up) as at the date of our appointment. Whilst this company is not one of the entities in voluntary administration, the amounts owed to these employees have been included in the table above as VAA was traditionally responsible for paying the wages of these employees and the New Zealand operations form part of the sale process that we are currently undertaking. The amount owed is estimated to be relatively immaterial at \$700k.

#### 3.4.4.1 Excluded employees

Excluded employees are Directors or relatives of Directors of the Companies (collectively **Excluded Employees**). In total there are three Excluded Employees, all of whom are either current Directors of the employing entity or Directors who have retired within the previous 12 months.

The priority claims for excluded employees are capped at different amounts for different classes of entitlements pursuant to section 556 of the Act, with the balance being classed as an unsecured claim against the relevant Companies. The

maximum amount an excluded employee can receive via a distribution to priority creditors is \$3.5k each. This is made up of a capped amount of \$2.0k for wages and superannuation and \$1.5k for annual leave and long service leave, with the balance of claims ranking as an unsecured claim against the relevant Company.

All outstanding entitlements owed to excluded employees lie within VAA. After deducting the priority claims each excluded employee is entitled to, the balance of their employee entitlements claims, totalling \$2.1m, is classed as an unsecured claim against VAA.

### 3.4.5 Other creditor groups

#### 3.4.5.1 General creditors

There are about 1,400 individual creditors owed an estimated \$237.2m as at 31 March 2020 for goods and services provided to the Group. A small number (c. 20) have registered security in respect to their debt on the PPSR. We are in the process of assessing the validity of these registrations.

As discussed in **section 3.4.2** above, creditors that are owed money by a Virgin Group company in either the DOCG1 or DOCG2 will have the ability to claim against the other Virgin Group companies within that DOCG.

#### 3.4.5.2 Landlords

There are 53 landlords, which are predominantly airport landlords. The amounts outstanding to these landlords has been estimated as unpaid variable passenger charges as at 31 March 2020, and any amounts outstanding at the date of our appointment plus the full value of the amounts that would be owed under the remaining lease term as at 30 April 2020, less any deposits held. The amount outstanding does not take into account any payments made during the voluntary administration nor any future lease payments.

We have been advised that landlord payments were generally up to date as at February 2020. In or around March and April 2020 arrangements had been discussed with a number of landlords to defer payments. As part of the restructure of the Virgin Group, and in consultation with Bain, an assessment was made of the ongoing requirements under existing leases. We have been in discussions with a number of landlords regarding exiting leases or reducing existing space. These discussions remain ongoing.

#### 3.4.5.3 Statutory creditors

The books and records disclose liabilities of \$14.7m owed to the Australian Taxation Office (**ATO**) with respect to outstanding goods and services tax (**GST**) and fringe benefits tax for VAA, and \$4.4m with respect to outstanding payroll tax for VAA. The only other Company that has statutory debts is VAIA with a debt amount of \$16,645, owing \$13,648 to Revenue NSW and \$2,997 to the ATO.

On 27 April 2020, the ATO lodged proofs of debt (**PODs**) claiming \$14.5m against every Company in the Virgin Group (except for VSEA, VAIA, VAIH and Tiger 1). The Consolidated Group operated under a number of GST groups and had in place Indirect Tax Sharing Agreements (**ITSA**) which protected the Companies from being joint and severally liable for any outstanding GST liabilities from another member of the GST Group. We are liaising with the ATO to request updated PODs to be lodged. We have been advised by Management there will be refunds due under the April 2020 BAS that is currently being prepared and this will significantly reduce any amounts owed to the ATO.

#### 3.4.5.4 Customers

In the normal course of trading, airlines hold significant money from customers who had paid for but not yet taken their flight. There would also be customers who may be holding credits or awaiting a refund for flights that were not taken or cancelled. Until the customer took the flight or received a refund, any credits or funds held would be recorded as a liability on the airline's balance sheet, called unearned revenue. This liability, like amounts owed to other types of creditors, is put on hold during the voluntary administration process.

On 13 May 2020, we obtained orders from the Court allowing us to implement a policy (**Conditional Credit Policy**) whereby we could offer eligible customers the opportunity to use the value of their original pre-administration booking



(the amount paid for the original ticket including ancillaries and taxes, but excluding fees) rather than submitting a claim as an unsecured creditor in the voluntary administration.

Under the terms of the Bain DOCA proposal, Bain has agreed to provide customers with a new Future Flight credit for an amount equal to any remaining value their Conditional Credit. Future Flight credits will be available for booking flights up to 31 July 2022 with travel valid until 30 June 2023. Bookings using the credit will be subject to seat availability within the fare class reserved for Future Flight credits on the selected flight and will be subject its own terms and conditions.

For customers with pre-administration bookings for flight scheduled to occur after the Administration period, should your flight be cancelled the terms of the Bain DOCA proposal will entitle you to receive a Future Flight credit to the equivalent value of your current ticket (less any non-refundable fees and taxes).

Based on the information available to us from the books and records of the Group, we estimate the customer liability position is between \$550m and \$650m. The number of customers and value is changing constantly as the Virgin Group continues to operate, albeit at reduced capacity.

#### 3.4.5.5 Related parties

As stated in **section 3.2**, the Consolidated Group operated as one business and some entities within the Consolidated Group were reliant on other entities for continued trading. The balance of inter-company balances with the Virgin Group as at 31 March 2020 was \$6.4 billion. **Section 4.5** contains a further breakdown of these figures however it should be noted that this amount includes sub-leasing arrangements between the Virgin Group SPV's that held the aircraft leasing agreements and the operating entities of VAA, Tiger and VAIA. When consolidated for financial reporting purposes these inter-company transactions would be eliminated so there would be no double-counting of liabilities owed to external third parties. There was also a further \$153.8m owed to the Velocity Group, predominantly in respect of the secured Velocity Group Loan discussed in **section 3.2.1** above.

Note G4 of the FY19 Financial Statements provides commentary on transactions with related entities outside of the Consolidated Group. Amounts owed to related parties outside the Consolidated Group are estimated to be \$263.4m as at 31 March 2020.

This includes \$207.3m owed in respect of the remaining term of 5 secured aircraft operating leases and \$56.1m owed to a number of related parties in respect of various operational services and agreements and license fees.

These amounts are before any amounts owed by related parties. See **section 4.5** for further information.

### 3.5 Outstanding winding up applications

We are not aware of any winding up applications outstanding as at the date of our appointment.



## 4 Historical financial performance

### 4.1 Overview

As mentioned previously, the Consolidated Group is a public company listed on the ASX. Its financial performance was reported on the ASX through audited annual financial statements and reviewed half-yearly (interim) financial statements. The Consolidated Group was subject to credit ratings and analysis from credit rating agencies, and ratings and reports from Moody's, S&P Global Ratings (**S&P**) and FitchRatings were reported on the ASX.

Summarised below are the Consolidated Group's audited statement of profit and loss, balance sheet and statement of cash flows for FY18 and FY19, and reviewed half-yearly accounts for 1H FY19 and 1H FY20. We have also included internal management accounts for year to date for the second half of FY20 (2H FY20 YTD) for the Virgin Group, excluding the Velocity Group. Caution should be taken when comparing these to the published audited financial statements and reviewed interim statements due to the unaudited nature of the accounts and the differing purposes of the reports. Given their purpose as internal management documents, they have not been prepared to meet the reporting requirements applicable to general purpose financial reports prepared in accordance with the Act.

Preliminary analysis and commentary is provided below at **section 4.4** and further at **section 6** as part of our findings from our investigations into the affairs of the Companies.

### 4.2 Consolidated Group financial statements

The Consolidated Group's audited statement of profit and loss, balance sheet and statement of cash flows for FY18 and FY19, and reviewed accounts for 1H FY19 and 1H FY20 are summarised in **sections 4.2.1** to **4.2.3** below.

Creditors should be aware that these accounts are for the Consolidated Group include the Velocity Group, which is not in voluntary administration. Caution should also be taken when comparing figures across each of the periods in the tables below, due to the difference in time periods and changes in accounting standards. In particular, commencing 1 July 2019, accounting standard AASB16 was introduced and this had a material effect on the Consolidated Group's balance sheet.

By way of simple explanation, AASB16 requires operating leases, which were not previously recorded on the balance sheet to now be so recorded, and therefore can result in an increase in liabilities by the quantum of the future obligation for lease payments. This recognition of liabilities is partly matched by Right of Use (**ROU**) assets, representing an entity's right to use leased assets. The introduction and adoption of AASB16 is complex and creditors should refer to the Consolidated Group's published financial reports for greater detail on how AASB16 has been specifically adopted and its impact. As AASB16 is a change in accounting treatment, its impact does not necessarily reflect changes to underlying business sustainability.

#### 4.2.1 Consolidated Group profit & loss

**Table 11: Consolidated Group profit & loss**

	Annual Report		Interim Report	
	FY18	FY19	1H FY19	1H FY20
	12 months		6 months	
<b>\$m</b>				
Revenue and income				
Airline passenger revenue	4,981.7	5,317.7	2,805.6	2,850.9
Freight revenue	105.2	125.6	66.6	62.8
Loyalty program revenue	330.3	383.8	197.3	202.6
Other income	3.5	-	1.5	1.9
Total revenue and income	5,420.7	5,827.1	3,071.0	3,118.2

	Annual Report		Interim Report	
	FY18	FY19	1HFY19	1HFY20
	12 months		6 months	
<b>\$m</b>				
Operating expenditure				
Aircraft operating lease expenses	(389.0)	(383.1)	(190.7)	(5.8)
Airport charges, navigation and station operations	(1,060.7)	(1,107.5)	(569.3)	(591.9)
Contract and other maintenance expenses	(246.4)	(246.0)	(123.6)	(120.3)
Commissions and other marketing and reservations expenses	(467.4)	(533.4)	(254.9)	(251.0)
Fuel and oil	(985.5)	(1,178.5)	(605.4)	(645.4)
Labour and staff related expenses	(1,246.7)	(1,346.0)	(668.3)	(710.7)
Impairment losses on cash-generating units	(120.8)	(152.6)	-	-
Impairment losses on other assets	(47.8)	-	-	-
Write off Property, Plant & Equipment	-	-	-	(31.6)
Onerous contract expenses	(58.5)	(47.4)	-	-
Other expenses from ordinary activities	(512.9)	(592.9)	(313.5)	(337.0)
Depreciation and amortisation	(337.3)	(373.4)	(178.1)	(317.3)
Ineffectiveness on cash flow hedges	-	(0.9)	-	(2.0)
Net operating expenditure	(5,473.0)	(5,961.7)	(2,903.8)	(3,013.0)
Share of net profit of equity-accounted investee	3.5	-	-	-
<b>Profit/Loss before net finance costs and tax</b>	<b>(48.8)</b>	<b>(134.6)</b>	<b>167.2</b>	<b>105.2</b>
Finance income	19.2	28.5	11.8	11.8
Finance costs	(171.8)	(189.2)	(91.3)	(205.6)
Net finance costs	(152.6)	(160.7)	(79.5)	(193.8)
<b>Profit/Loss before tax</b>	<b>(201.4)</b>	<b>(295.3)</b>	<b>87.7</b>	<b>(88.6)</b>
Income tax expense	(451.9)	(20.1)	(13.9)	-
<b>Profit/Loss</b>	<b>(653.3)</b>	<b>(315.4)</b>	<b>73.8</b>	<b>(88.6)</b>
<b>Attributable to:</b>				
Owners of the Company	(681.0)	(349.1)	54.8	(97.3)
Non-controlling interests	27.7	33.7	19.0	8.7
	<b>(653.3)</b>	<b>(315.4)</b>	<b>73.8</b>	<b>(88.6)</b>

Source: Audited annual financial accounts and reviewed half-year financial accounts.

The Consolidated Group reports earnings results for their reportable segments, which are determined based on the key business activities of the Consolidated Group - Virgin Australia Domestic, Virgin Australia International, Velocity and Tigerair Australia. Segment information reported by the Consolidated Group excludes the impact of AASB 16.

A summary of the Consolidated Group's segment earnings for FY18, FY19, 1HFY19 and 1HFY20 is provided below:

Figure 3: Segment Revenue FY18 and FY19

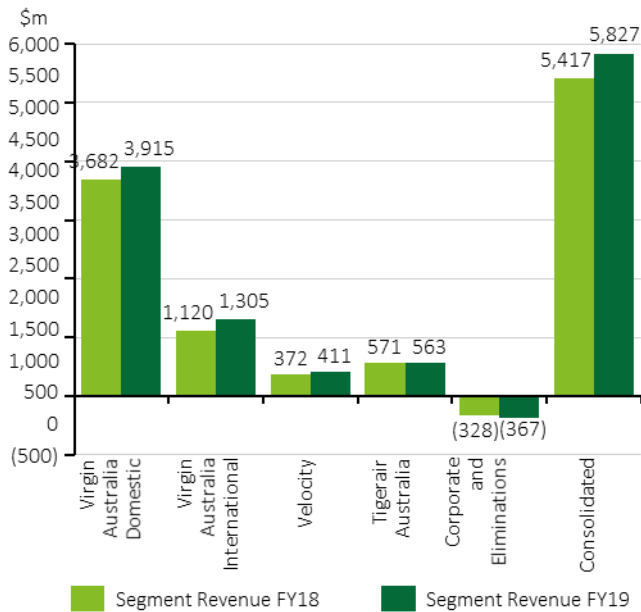
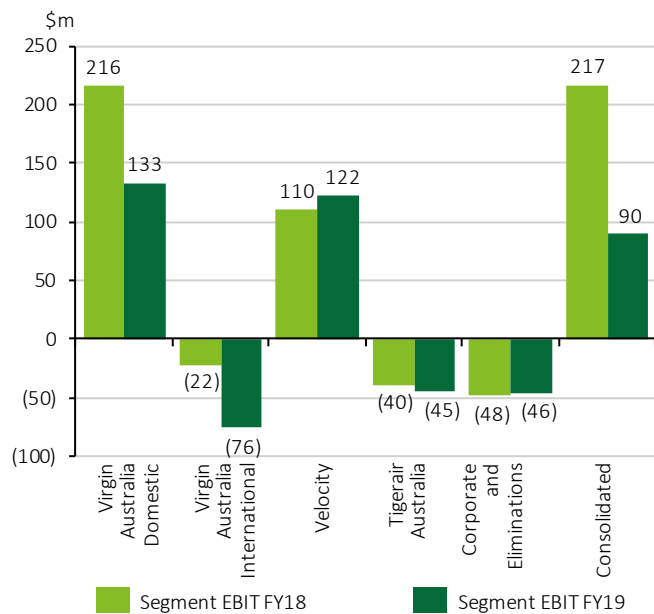


Figure 4: Segment EBIT FY18 and FY19



#### 4.2.2 Consolidated Group balance sheet

Table 12: Consolidated Group balance sheet

\$m	Annual Report		Interim Report	
	FY18	FY19	1HFY19	1HFY20
	12 months		6 months	
<b>Current assets</b>				
Cash and cash equivalents	1,415.5	1,740.0	1,251.5	1,107.6
Receivables	281.6	268.7	270.2	224.0
Inventories	47.6	51.3	50.0	54.7
Derivative financial instruments	220.0	71.5	97.3	34.0
Other financial assets	12.1	31.2	20.5	64.6
Other	2.7	2.6	2.6	-
<b>Total current assets</b>	<b>1,979.5</b>	<b>2,165.3</b>	<b>1,692.1</b>	<b>1,484.9</b>
<b>Non-current assets</b>				
Receivables	191.6	182.6	177.7	130.4
Derivative financial instruments	64.0	13.6	21.6	5.2
Other financial assets	284.2	255.7	283.9	199.7
Investment accounted for using the equity method	8.2	-	8.2	-
Deferred tax assets	-	57.8	54.9	66.2
Property, plant and equipment	3,031.0	3,202.1	3,179.5	4,323.3
Intangible assets	617.0	580.7	621.3	572.7
Other	12.9	10.4	11.6	-
<b>Total non-current assets</b>	<b>4,208.9</b>	<b>4,302.9</b>	<b>4,358.7</b>	<b>5,297.5</b>
<b>Total assets</b>	<b>6,188.4</b>	<b>6,468.2</b>	<b>6,050.8</b>	<b>6,782.4</b>

\$m	Annual Report		Interim Report	
	FY18	FY19	1HFY19	1HFY20
	12 months		6 months	
Current liabilities				
Payables	(807.5)	(929.1)	(792.3)	(700.3)
Interest-bearing liabilities	(295.1)	(771.9)	(768.7)	(542.2)
Derivative financial instruments	(6.6)	(14.8)	(29.0)	(21.2)
Provisions	(269.0)	(255.5)	(253.4)	(313.4)
Unearned revenue	(1,142.1)	(1,262.7)	(1,100.0)	(1,187.0)
Other	(3.6)	(2.9)	(2.9)	(2.7)
Total current liabilities	(2,523.9)	(3,236.9)	(2,946.3)	(2,766.8)
Non-current liabilities				
Payables	(5.6)	(2.7)	(5.0)	(2.5)
Interest-bearing liabilities	(2,273.0)	(2,256.9)	(1,792.3)	(4,812.4)
Derivative financial instruments	(0.2)	(2.8)	(12.9)	(35.6)
Provisions	(277.6)	(339.8)	(289.2)	(760.6)
Other	(13.1)	(10.2)	(11.6)	(4.1)
Total non-current liabilities	(2,569.5)	(2,612.4)	(2,111.0)	(5,615.2)
<b>Total liabilities</b>	<b>(5,093.4)</b>	<b>(5,849.3)</b>	<b>(5,057.3)</b>	<b>(8,382.0)</b>
<b>Net assets</b>	<b>1,095.0</b>	<b>618.9</b>	<b>993.5</b>	<b>(1,599.6)</b>
Equity				
Share capital	2,238.9	2,238.5	2,238.3	2,238.5
Reserves	268.3	117.6	121.2	(617.7)
Retained earnings	(1,415.8)	(1,766.4)	(1,371.5)	(3,220.4)
<b>Equity attributable to the owners of the Company</b>	<b>1,091.4</b>	<b>589.7</b>	<b>988.0</b>	<b>(1,599.6)</b>
Non-controlling interests	3.6	29.2	5.5	-
<b>Total equity</b>	<b>1,095.0</b>	<b>618.9</b>	<b>993.5</b>	<b>(1,599.6)</b>

Source: Audited annual financial accounts and reviewed half-year financial accounts.

## 4.2.3 Consolidated Group cash flow

Table 13: Consolidated Group statement of cash flows

\$m	Annual Report		Interim Report	
	FY18	FY19	1HFY19	1HFY20
	12 months		6 months	6 months
<b>Cash flows from operating activities</b>				
Cash receipts from customers	6,099.7	6,530.1	3,337.0	3,358.8
Cash payments to suppliers and employees	(5,366.0)	(5,888.8)	(3,060.6)	(3,097.3)
Cash generated from operating activities	733.7	641.3	276.4	261.5
Cash payments for business restructuring expenses	(44.8)	(46.5)	(13.4)	(62.4)
Finance income received	19.2	28.5	11.8	11.8
Finance costs paid	(137.7)	(153.3)	(81.1)	(172.1)
<b>Net cash from operating activities</b>	<b>570.4</b>	<b>470.0</b>	<b>193.7</b>	<b>38.8</b>
<b>Cash flows from investing activities</b>				
Acquisition of property, plant and equipment	(546.5)	(486.3)	(242.2)	(274.4)
Proceeds on disposal of property, plant and equipment	7.7	2.7	2.6	131.8
Acquisition of intangible assets	(44.4)	(61.0)	(29.1)	(19.1)
Payments for other deposits	(56.8)	(40.7)	(16.8)	(22.4)
Proceeds from other deposits	77.0	65.3	21.9	61.4
Dividends from equity-accounted investee	-	8.2	-	-
<b>Net cash used in investing activities (excluding aircraft operating lease refinancing)</b>	<b>(563.0)</b>	<b>(511.8)</b>	<b>(263.6)</b>	<b>(122.7)</b>
Aircraft operating lease refinancing	(5.7)	-	-	-
<b>Net cash used in investing activities</b>	<b>(568.7)</b>	<b>(511.8)</b>	<b>(263.6)</b>	<b>(122.7)</b>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	356.9	798.5	169.8	1,298.2
Repayment of borrowings	(307.1)	(429.4)	(265.5)	(1,063.0)
Payments of transaction costs related to borrowings	(6.0)	(9.2)	(3.9)	(26.3)
Acquisition of non-controlling interests	-	-	-	(711.1)
Net payment for share buy-back	(5.3)	(0.7)	(0.7)	-
Equity distributions paid to non-controlling interests	(47.1)	(29.1)	(29.1)	(46.0)
<b>Net cash from/(used in) financing activities</b>	<b>(8.6)</b>	<b>330.1</b>	<b>(129.4)</b>	<b>(548.2)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(6.9)</b>	<b>288.3</b>	<b>(199.3)</b>	<b>(632.1)</b>
Cash and cash equivalents at 1 July	1,396.1	1,415.5	1,415.5	1,740.0
Effect of exchange rate fluctuations on cash and cash equivalents	26.3	36.2	35.3	(0.3)
<b>Cash and cash equivalents at the end of the financial year</b>	<b>1,415.5</b>	<b>1,740.0</b>	<b>1,251.5</b>	<b>1,107.6</b>

Source: Audited annual financial accounts and reviewed half-year financial accounts.

### 4.3 Virgin Group (excluding Velocity Group) internal management accounts

#### 4.3.1 Virgin Group (excluding Velocity) profit & loss

Table 14: Virgin Group profit & loss 2HFY20 YTD

\$m	2HFY20 YTD
Total revenue and income	1,152.8
Net operating expenditure	(1,771.0)
<b>Profit/Loss before net finance costs and tax</b>	<b>(618.2)</b>
Net finance costs	(145.3)
<b>Profit/Loss before tax</b>	<b>(763.5)</b>
Income tax expense	-
<b>Profit/Loss</b>	<b>(763.5)</b>

Source: Unaudited management information

#### 4.3.2 Virgin Group (excluding Velocity Group) balance sheet

Table 15: Virgin Group balance sheet 2HFY20 YTD

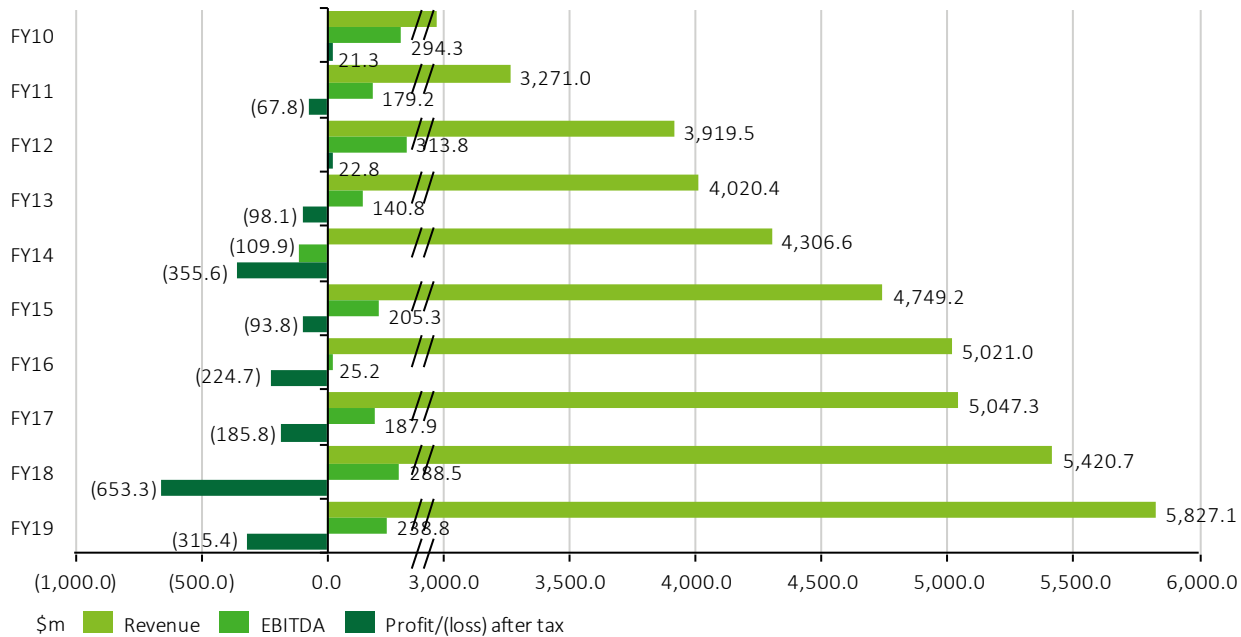
\$m	2HFY20 YTD
Current assets	665.2
Non-current assets	5,109.5
<b>Total assets</b>	<b>5,774.7</b>
Current liabilities	(2,199.2)
Non-current liabilities	(5,941.5)
<b>Total liabilities</b>	<b>(8,140.7)</b>
<b>Net assets</b>	<b>(2,366.0)</b>
<b>Total equity</b>	<b>(2,366.0)</b>

Source: Unaudited management information

### 4.4 Commentary

The Consolidated Group had initially been profitable with consistent year on year net profit after tax (NPAT) from FY02 to FY08. From FY09 the Consolidated Group was only profitable in FY10 (NPAT \$22m) and FY12 (NPAT \$23m) and in the period FY09 to 1HFY20 had cumulative net loss after tax of \$2,200m.

Figure 5: Consolidated Group performance FY10 to FY19



Source: Management information

The Consolidated Group had a prominent public profile and there has been widespread commentary on the reasons for the historical financial performance. It was generally held to be underperforming from a financial performance perspective for a significant period compared to its peers, usually Qantas, with the common and interrelated themes as follows:

- Misconceived business strategy to change its business model from a low-cost carrier to a full-service airline. This ultimately resulted in Virgin increasing its capacity on certain routes. Qantas responded by taking action to protect its routes, market share, customer base and ultimately, its business model. Qantas was able to significantly reduce its cost base but Virgin did not have the size and financial strength to sustain this capacity increase without suffering significant losses.
- Higher cost base compared to competitors, including Qantas. One of the common measures used in the aviation industry is cost of available seat kilometre (CASK). This is the unit cost, expressed as cents, to operate each seat for every available seat kilometre. Controlling CASK is critical given the aviation industry is subject to high revenue volatility from a range of external factors including local and global economic conditions, exchange rate movements, fuel price movements and competitor pricing.
- Network strategy and decisions including the continued operation of loss-making services, routes and business segments.
- Operational inefficiencies including high labour costs and the number of different plane types.
- History of under-delivering on turnaround strategies.

A review of the Companies' records and ASX announcements in the 18 months prior to our appointment indicate it had been focussed on strategies to reduce costs and financial leverage and improve liquidity and profitability. In February 2019, on announcement of 1HFY19 results, the Consolidated Group refers to Better Business, its cost transformation program which was directed at improving cash flow and reducing financial leverage to deliver sustainable profitability.

In March 2019, Paul Scurrah became the new CEO and the Consolidated Group commenced a strategic review of its business designed to simplify the business and return it to profitability.

In FY19, the Consolidated Group suffered a net loss before tax of \$295.3m, a deterioration of \$93.9m relative to FY18. The Consolidated Group reported that this result was driven by subdued trading conditions, adverse fuel costs and exchange rates and increased operational costs.

Following the release in August 2019 of disappointing financial results in FY19, the CEO announced a number of business improvement measures to strengthen the financial performance including:

- Simplified organisational structure.
- Corporate headcount reduction of 750 roles to generate an estimated \$75m in savings by end of FY20.
- Fleet, capacity and network review to improve revenue performance and management of costs.
- Supplier review targeting \$50m in yearly savings.

In February 2020, the Consolidated Group reported its 1HFY20 financial results, which was a net loss before tax of \$88.6m which equated to \$99.0m loss on a pre-AASB16 basis. This was a significant deterioration relative to the prior year period of \$87.7m net profit before tax in 1HFY19. Announcements made on the ASX stated the results were due to the impact of higher costs for fuel (\$40m), enterprise agreement labour (\$12.5m), airports (\$22.6m), and depreciation and rental costs (\$32.3m). In addition, there were one-off costs of \$113.1m associated with Velocity acquisition costs, write-off of assets no longer in use and workforce reductions.

Announcements were made regarding further actions being undertaken to improve profitability and cashflow, including:

- Continuing the initiatives announced in August 2019.
- Further fleet simplification, bringing the number of announced aircraft exits to 12, a further 7 on the 5 announced in November 2019.
- Changes to routes and frequencies, resulting in a capacity reduction of 3% by the end of FY20.
- Withdrawal of the Sydney to Hong Kong route as a result of ongoing losses and further reductions in demand.

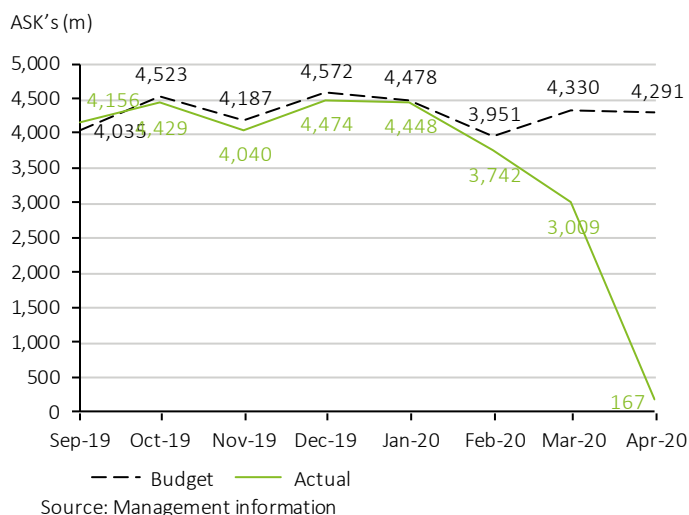
On 28 February 2020, following the announcement of the 1HFY20 results, S&P revised its outlook on the Consolidated Group from stable to negative. They also affirmed the 'B+' long-term issuer credit rating on the company and 'B' issue credit rating on the company's debt. They forecasted challenging industry conditions over the coming six months which would put pressure on the Consolidated Group's earnings profile.

Whilst market analysts generally approved the measures the Consolidated Group were putting in place to address its underperformance there was a general expectation the benefits and impact on financial performance would not be seen until at least 2HFY20. Facing the same economic conditions, Qantas posted a statutory profit before tax of \$648m, down 6.2% on the previous period.

As the impact of COVID-19 on the aviation industry worsened as a result of firstly international and then domestic travel restrictions, the Consolidated Group made further announcements to the ASX on the impact on capacity and the measures taken to reduce costs. As the ratings agencies revised their assessments of the impact of COVID-19 and the Consolidated Group's ability to respond, further downgrades to credit ratings were issued in March and April.

The management accounts presented above show the steep decline in revenue and earnings from February 2020, predominantly as a result of the impact of bushfires and COVID-19. Virgin Group (excluding Velocity Group) suffered an overall loss before tax of \$763.5m in just the four months January 20 to April 20.

Figure 6: Actual versus budget available seat kilometres





As stated above, the Virgin Group instituted a number of measures to reduce cash outflows however it was unable to reduce costs by the same proportion of the reduction in revenue, resulting in unsustainable 'cash burn' rates and ongoing losses as seen above. Of the cash held on its balance sheet, approximately 30% was restricted cash, held as collateral under finance agreements with financiers and merchant providers. Based on the information available to them, including assumptions on the ongoing impact of COVID-19, Management forecast they would have insufficient cash to continue operations past 30 June 2020.

It is noted the financial results above include the full month of April, which would have included 10 days of the Virgin Group being under voluntary administration. As a result of the voluntary administration, financiers terminated fuel and foreign exchange derivative agreements. This has resulted in the crystallisation of gains and losses on these agreements which is reflected in the April figures above.

Further commentary on the events leading to our appointment as Voluntary Administrators is discussed at **sections 5.6 and 6**.

## 4.5 Related parties

### 4.5.1 Velocity

As stated above, Velocity was a profitable business segment for the Consolidated Group. The Consolidated Group had in November 2019 acquired the remaining 35% minority stake in the Velocity from Affinity Equity Partners for c. \$700m, funded by the issue of notes as referred to in **section 3.4.3.4**. This contributed \$711.1m to the net liability position. The Replacement Prospectus dated 5 November 2019 for the issue of the Listed AUD Notes, stated the consideration implied an enterprise value of \$2.1 billion for the Velocity Group, representing a 16.1 times multiple of the Velocity Group's EBITDA. In the accounts of the Consolidated Group the acquisition was accounted for as a transaction with owners recognised directly in equity with the net assets and liabilities of the Velocity Group continuing to be measured at their historical cost rather than being restated to fair value at the date of acquisition.

### 4.5.2 Transactions with related parties

Note G4 of the FY19 Financial Statements provides information on related parties, which includes entities and individuals that are not included in the Consolidated Group. It is stated in the FY19 Financial Statements that transactions with these entities are made on terms equivalent to those that prevail in arm's length transactions or on a cost plus margin basis, and there had been no loans made, guaranteed or outstanding to any related entities outside of the Consolidated Group or to key management personnel, including Directors.

The 1HFY20 Financial Statements noted that there had been no significant changes to related arrangements since 30 June 2019, other than the Velocity acquisition mentioned above. We are not aware of any significant changes since the 1HFY20 Financial statements were issued.

The outstanding balances of related parties, outside of the Consolidated Group entities as at 31 March 2020 are as follows:

**Table 16: Related parties balances – entities outside Consolidated Group as at 31 March 2020**

\$m	DOCG1 entities	DOCG2 entities	Other entities in administration	Velocity Group	TOTAL
<b>Receivables</b>					
Tiger Airways Holdings Pte Ltd					-
Virgin Enterprises Limited					-
Entities controlled by related party shareholders	2.7				2.7
<b>Total</b>	<b>2.7</b>	-	-	-	<b>2.7</b>

\$m	DOCG1 entities	DOCG2 entities	Other entities in administration	Velocity Group	TOTAL
<b>Payables</b>					
Tiger Airways Holdings Pte Ltd	(4.0)				(4.0)
Virgin Enterprises Limited	(0.7)				(0.7)
Entities controlled by related party shareholders	(271.1)				(271.1)
<b>Total</b>	<b>(275.8)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(275.8)</b>

Source: Companies' ROCAPs

Below is a summary of the inter-company receivables and liabilities within the Consolidated Group as at 31 March 2020.

**Table 17: Related Parties balances - intercompany balances within Consolidated Group as at 31 March 2020**

\$m	DOCG1 entities	DOCG2 entities	VA (NZ)	Other entities in administra- tion	Velocity Group	Total
<b>Receivables</b>						
DOCG1		761.2	8.1	1,349.2	153.8	2,272.3
DOCG2	2,713.6			11.8		2,725.4
VA (NZ)	0.1	0.2				0.3
Other entities in administration	22.9	2.0				24.9
Velocity Group	6.2	2.8				9.0
<b>Total</b>	<b>2,742.8</b>	<b>766.2</b>	<b>8.1</b>	<b>1,361.0</b>	<b>153.8</b>	<b>5,031.9</b>
Add Interco-loans within DOCG2		1,563.9				1,563.9
<b>Total</b>	<b>2,742.8</b>	<b>2,330.1</b>	<b>8.1</b>	<b>1,361.0</b>	<b>153.8</b>	<b>6,595.8</b>
<b>Payables</b>						
DOCG1		(2,713.6)	(0.1)	(22.9)	(6.2)	(2,742.8)
DOCG2	(761.3)		(0.2)	(1.9)	(2.8)	(766.2)
VA (NZ)	(8.1)					(8.1)
Other entities in administration	(1,349.2)	(11.8)				(1,361.0)
Velocity Group	(153.8)					(153.8)
<b>Total</b>	<b>(2,272.3)</b>	<b>(2,725.4)</b>	<b>(0.3)</b>	<b>(24.8)</b>	<b>(9.0)</b>	<b>(5,031.9)</b>
Add Interco-loans within DOCG2		(1,563.9)				(1,563.9)
<b>Total</b>	<b>(2,272.3)</b>	<b>(4,289.4)</b>	<b>(0.3)</b>	<b>(24.8)</b>	<b>(9.0)</b>	<b>(6,595.8)</b>

Source: Companies' ROCAPs

As stated in **section 3.2** the Consolidated Group operated as one business and some entities within the Consolidated Group were reliant on other entities for continued trading. Inter-company balances would be eliminated when the financial statements are prepared on a consolidated basis. The balances above reflect trading in the normal course of operations.

## 5 Directors' report on company activities and property

### 5.1 Summary

Under section 438B of the Act, directors are required to provide a Report on Company Activities and Property (**ROCAP**) to voluntary administrators within five business days of receipt of the request from the administrators or such longer period as the administrators allow.

As advised in **section 2.6**, orders were obtained from the Court on 15 May 2020 allowing for a single ROCAP to be lodged for the Companies under DOCG1 (**DOCG1 ROCAP**). This enabled the thirteen affected Companies to be treated as one entity for the purpose of submitting a ROCAP. The Companies consolidated on this ROCAP are:

- Virgin Australia Holdings Ltd
- Virgin Australia International Operations Pty Ltd
- Virgin Australia Airlines Holdings Pty Ltd
- VAH Newco No.1 Pty Ltd
- Tiger Airways Australia Pty Limited
- Virgin Australia Airlines Pty Ltd
- A.C.N. 098 904 262 Pty Ltd
- Virgin Australia Regional Airlines Pty Ltd
- Virgin Australia Holidays Pty Ltd
- VB Ventures Pty Ltd
- Virgin Australia Cargo Pty Ltd
- VB Leaseco Pty Ltd
- Virgin Tech Pty Ltd.

We note that, while included in the Court order, VAIO was subsequently found to not be a member of DOCG1. The Directors requested two extensions of time for the submission of the ROCAPs pursuant to section 438B(2) of the Act. Both extensions were granted.

On 16 June 2020, the Directors submitted the DOCG1 ROCAP along with ROCAPs for each of the remaining Companies in Administration (prepared on a standalone basis). After redacting sensitive information disclosed in the ROCAPs on the basis of commercial confidentiality, all ROCAPs were lodged with ASIC on 23 June 2020.

Two errors were identified after the ROCAPs were lodged. It was identified that schedules attached to the ROCAP for SH20141 belonged to a different company. Management have confirmed SH20141 is a dormant entity and provided the amended ROCAP on 10 July 2020 which was lodged with ASIC on 17 July 2020. It was also identified that the DOCG1 ROCAP did not record the Velocity Group as an asset owned by VAH. Management have provided updated schedule of assets to include this information. The tables below reflect the updated ROCAPs.

Creditors may inspect the redacted version of Part A of the ROCAPs for each of the Companies by emailing [virginadmin@deloitte.com.au](mailto:virginadmin@deloitte.com.au).

The ROCAPs represent the Directors' views of the Companies' asset and liability positions as at the date of our appointment as Voluntary Administrators. All of the amounts below are in Australian dollars with foreign currency

amounts converted using the last traded price before market closure at 5:00pm New York time on 20 April 2020 reported by [www.reuters.com/markets/currencies](http://www.reuters.com/markets/currencies).

Below is a summary of the information provided in Part A of the ROCAPs, noting that amounts redacted in the ROCAP lodgements have also been withheld in our summary.

**Table 18: Summary of ROCAPs**

ROCAP question \$m	Note	Other entities in administration	DOCG1	Total
A4 Do the companies owe money to their employees?	5.2	-	(127.4)	(127.4)
A5 Do the companies owe money, goods or services to others (other than employees)?	5.3			
Secured				
Aircraft leases		(311.4)	(1,903.0)	(2,214.4)
Debt and interest		(1,063.6)	(463.9)	(1,527.5)
Unsecured				
Debt and interest		-	(1,991.6)	(1,991.6)
Hedge counterparties		-	(197.9)	(197.9)
Tax Balances		(0.0)	(19.1)	(19.1)
Creditors and accruals		(2.8)	(386.2)	(389.0)
Property and other leases		(9.5)	(188.0)	(197.5)
Other creditors		(19.9)	(40.8)	(60.7)
<b>Sub-total</b>		<b>(1,407.1)</b>	<b>(5,190.6)</b>	<b>(6,597.7)</b>
Intercompany loans		(4,314.2)	(2,271.3)	(6,585.5)
<b>Total question A5</b>		<b>(5,721.3)</b>	<b>(7,461.9)</b>	<b>(13,183.1)</b>
A6 Are the companies owed money?	5.4			
Trade debtors		Withheld	Withheld	Withheld
Other debtors		Withheld	Withheld	Withheld
Intercompany receivables		Withheld	Withheld	Withheld
<b>Total question A6</b>				
A7 Do the companies own any assets?	5.5			
Bank accounts		Withheld	Withheld	Withheld
Inventory		Withheld	Withheld	Withheld
Aircraft		Withheld	Withheld	Withheld
Property		Withheld	Withheld	Withheld
Non-aircraft		Withheld	Withheld	Withheld
Office equipment		Withheld	Withheld	Withheld
Project WIP		Withheld	Withheld	Withheld
<b>Total question A7</b>				

The cash at bank on our appointment is detailed in section 7.2.1.1. A full breakdown of the Part A of the ROCAPs is attached as **Appendix I**.

The lodged ROCAPs record the following entities as having no assets or liabilities:

- Short Haul 2014 No.1 Pty Ltd
- 737 2012 No.1 Pty Ltd
- 737 2012 No.2 Pty Ltd
- Short Haul 2016 No. 1 Pty Ltd
- Short Haul 2016 No. 2 Pty Ltd
- Short Haul 2017 No. 1 Pty Ltd
- VA Hold Co Pty Ltd
- VA Lease Co Pty Ltd
- VA Regional Leaseco Pty Ltd
- VB LH 2008 No. 1 Pty Ltd
- VB LH 2008 No. 2 Pty Ltd
- VB PDP 2010-11 Pty Ltd
- VBNC5 Pty Ltd
- Virgin Australia 2013-1 Issuer Co Pty Ltd.

We have identified that Short Haul 2014 No.1 Pty Ltd is a guarantor to a financier in respect to secured loans but have not identified any other assets or liabilities in these entities.

Our comments on the information provided in the ROCAPs are set out below.

## 5.2 Does the company owe money to its employees?

The DOCG1 ROCAP discloses combined employee claims of \$127.4m as at 30 April 2020. There were no outstanding employee entitlements in other Companies in administration. The breakdown is summarised below:

**Table 19: Summary of employee entitlements from ROCAPs**

Employee entitlements (\$'000)	DOCG1				
	VARA	VAA	Tiger	VT	Total
Wages	(472.6)	(9,711.1)	-	(1,319.4)	<b>(11,503.2)</b>
Annual leave	(5,920.3)	(35,206.6)	(1,387.6)	(5,181.9)	<b>(47,696.4)</b>
Long service leave	(7,206.8)	(49,980.8)	(448.8)	(7,652.5)	<b>(65,288.9)</b>
Redundancy	(165.7)	(782.3)	(248.4)	-	<b>(1,196.3)</b>
Other	(347.4)	(1,385.2)	(6.7)	(2.8)	<b>(1,742.1)</b>
<b>Total</b>	<b>(14,112.8)</b>	<b>(97,066.0)</b>	<b>(2,091.5)</b>	<b>(14,156.6)</b>	<b>(127,426.9)</b>

Source: Companies' ROCAPs

The redundancy amount listed refers to employees made redundant and who have not been paid their entitlements prior to voluntary administration. Other entitlements refer to various claims for time in lieu, purchased leave, bonuses, relocation allowances and other payments related to termination payments.

We note this is materially the same as the estimate we have made, outlined in **section 3.4.4**. The variances in figures between our estimate and the ROCAPs are principally due to the data available to Management at the time of completing the ROCAPs.

### 5.3 Does the company owe money, goods or services to others (other than employees)?

The Directors have categorised creditors into similar but slightly different creditor groups compared to our assessment at **section 3.4**. The Directors noted a number of exclusions to the ROCAPs and the reasons for doing so. These exclusions included:

- Unearned revenue. The Directors advised it was excluded as it reflects an obligation the Group has to provide passengers a flight (or other service) they purchased and does not represent a monetary exposure to the Group. As stated in **section 3.4.5.4** we consider customers with open tickets, unused tickets and credits and customers a contingent liability.
- Future provisions, commitments and outflows that are not a liability as at the date of voluntary administration.
- Contingent liabilities that had not yet crystallised at the date of voluntary administration. This includes the MOFAs and the QBE bonds as the Directors held the view these were contingent liabilities as at 20 April 2020.

### 5.4 Are the Companies owed money?

The amounts disclosed by the Directors in the ROCAPs include both trade debtors and intercompany loans. In this report and the ROCAP lodgements, we have redacted sensitive information as it is commercially sensitive, and the sale of the Virgin Group has not yet completed at the time this report has been prepared.

### 5.5 Do the Companies own any assets?

The DOCG1 ROCAP disclosed assets including ownership of cash, inventory, aircraft, property, equipment and other items. Pending finalisation of the business sale/recapitalisation, the value of these assets is commercially sensitive and has been withheld from this report.

### 5.6 Reasons for failure

#### 5.6.1 Directors' explanation

To assist voluntary administrators in their role in investigating the affairs of a company, the ROCAP form issued by ASIC includes a question "Did the business fail?" The Directors answered "No" to this question.

The instructions accompanying the form states that "Fail" can refer to the inability of the Company to pay money owed to its creditors as and when the money becomes due and payable. Following receipt of the ROCAPs, we sought an explanation from the Directors on why they answered no to this question and an explanation of events that led to the voluntary administration. In a letter dated 31 July 2020, on behalf of the Directors, their legal advisers provided the responses quoted below.

In respect to the first question, in completing the ROCAPs the Directors "... took the view that the business of the Companies did not "fail", and that the steps they took to appoint Administrators were for the purpose of ensuring the continued survival of the business of the Companies. Given the outcome of the sale process undertaken by the Administrators, it appears likely that the position taken by the Directors was justified."

They advised their decision to appoint voluntary administrators was made in circumstances where:

- “(a) Prior to the government restrictions on travel imposed in response to the COVID19 crisis, VAH, under the leadership of CEO Paul Scurrah (appointed March 2019), was well advanced in implementing a three year transformation plan to make the business more sustainable, and restructure its balance sheet.
- “(b) The government restrictions imposed in March 2020 in response to the COVID19 pandemic severely impacted domestic flights and stopped international flights and reduced the Companies' flying schedule to less than 10% of

*normal domestic scheduling by the end of March. This impact was compounded by enormous uncertainty on the return to any significant level of interstate and overseas travel and so when the Companies' revenues would recover. The COVID19 impact for the Companies was of such a magnitude that without the support of government or external funding the Companies would be unlikely to be able to withstand the impact of this decline in revenue on its cash reserves.*

- (c) *To endeavour to monitor and manage the impact of COVID19, the Directors had commenced holding more frequent board meetings and obtaining more frequent information regarding cash flows and trading outlook. A number of prompt measures were taken to manage the Companies' cash flow, including:*
  - (i) *by 13 March 2020 steps were being taken:*
    - (A) *to reduce domestic capacity by 5%, and international capacity by 8%, in the second half of FY20;*
    - (B) *to reduce director fees, remove of management bonuses, implementing a pay freeze, and encourage employees to take leave without pay;*
  - (ii) *by 18 March 2020 it was announced:*
    - (A) *international flying would be suspended from 30 March 2020, with a reduced international schedule being implemented immediately ;*
    - (B) *group domestic capacity would be reduced by 50%.*

*This effectively grounded the equivalent of 53 aircraft or 40% of the fleet;*
  - (iii) *as announced on 25 March 2020:*
    - (A) *with effect from 27 March 2020, group domestic capacity was to be further reduced to less than 10% of normal scheduled flying, with the grounding of 125 aircraft. Capacity was maintained for transportation of essential services, critical freight and logistics only;*
    - (B) *Tigerair Australia suspended operations immediately;*
    - (C) *80% of the workforce was stood down;*
    - (D) *consultation began to close and deem roles redundant in the New Zealand flight crew and cabin crew base;*
  - (iv) *seeking to exit a number of key contracts relying on force majeure and renegotiating other contracts or seeking fee waiver;*
  - (v) *utilising available government stimulus (including JobKeeper) and other measures to defray expenditure/costs;*
  - (vi) *undertaking measures to carefully manage cash flow including by ceasing all non-critical expenditure, proactively managing staff numbers and extending creditor terms including with airports;*
  - (vii) *terminating term deposits early to release these funds for working capital; and*
  - (viii) *working with State and Federal governments to maintain vital domestic routes, and specific charter services. Financial underwriting for these routes/services was secured.*
- (d) *Attempts by the Companies to obtain support from the airline shareholders of VAH were unsuccessful. These entities were themselves similarly impacted by COVID19, and requiring their own domestic government support.*
- (e) *Advisers Clayton Utz, Houlihan Lokey, UBS, Morgan Stanley, Deloitte and Bespoke Approach were retained to assist in formulating a strategy to ensure the survival of the Companies' business.*
- (f) *Working with the advisers, the Directors took steps promptly to assess the impact of COVID19 including analysing:*
  - (i) *the likely short, medium and long terms effects of COVID19 on the Companies' international and domestic operations, including revenue and cashflow impacts;*
  - (ii) *the anticipated impacts of Federal, State and Territory Government stimulus and other COVID 19 related initiatives as announced, including those in relation to the aviation industry and the JobKeeper scheme;*

*as a result of which they identified that the Companies required interim funding of \$200m, and total funding of \$1.4b, in order to remain solvent and be in a position to be able to continue to operating once COVID19 restrictions eased.*

*(g) To raise the necessary capital the following were undertaken by the Companies with substantial input from Directors:*

- (i) extensive lobbying of the Victorian, Queensland, NSW and Federal governments to provide financial support to the Companies;*
- (ii) a data room was established and targeted approaches were made to potential private investors. Approaches were received from a number of credible and well capitalised parties, including [names of parties omitted as confidential] and government; and*
- (iii) working with the advisers, Directors formulated a plan to raise the necessary capital by a combination of debt or equity funding or other support. This plan had features that evolved over time but involved:*
  - (A) some level of State and Federal Government support (including potentially by way of guarantees or pre-payments for flights);*
  - (B) restructuring the bond debt; and*
  - (C) interim funding of around \$200m to enable the larger capital raising to be completed.*

*The responses received by the Companies to the attempts to raise capital showed that there was significant interest from credible sponsors in an equity solution for the Companies which would enable their business to continue as well as considerable support for the preservation of a second airline in Australia.*

*(h) By 20 April 2020 it had become clear that the continuation of the Companies' attempts to source the interim cash support required during the COVID19 restrictions to enable the Companies to effect the larger funding transaction were no longer tenable. It was evident the preservation of the business of the Companies required the legal mechanics and protections of voluntary administration.*

*(i) At the time at which the Administrators were appointed, the Companies:*

- (i) were still able to pay (and had been paying) their debts as they became due and payable; and*
- (ii) retained significant cash reserves to put the Administrators in the best position to undertake a sale or recapitalisation process, and thereby preserve the business of the Companies."*

In response to our request for an explanation of the events leading to our appointment, the following response was provided:

*"On 20 April 2020, it became clear that extensive attempts to obtain interim funding from one or more of State or Federal governments, shareholders or investors to enable a larger capital raising transaction that would permit the Companies to weather the unprecedented impacts of COVID19 to occur had been unsuccessful. Communications had been received from [name of party omitted as confidential] (on the evening of 19 April) and [name of party omitted as confidential] (on the morning of 20 April) that each of those entities would not be in a position to provide interim funding. The Federal Government confirmed on 20 April that it would not make any commitment to provide interim funding.*

*Given this, the Companies did not have sufficient cash reserves to permit the execution of the broader capital raising or other equity transaction necessary to ensure the continued solvency of the Companies.*

*Accordingly, on Monday 20 April 2020, given the economic environment created by the response to COVID19, and without a pathway to secure a source of sufficient new funding, the Directors reached the conclusion that the Companies were likely to become insolvent if they continued trading, notwithstanding efforts to reduce their expenditure.*

*The Directors considered that the appointment of the Administrators was the only remaining path available to them to restructure of the Companies' liabilities and preserve the business of the Companies, and was in the best interests of the Companies.*



*Consequently, they passed the required resolution under Section 436A of the Corporations Act to appoint the Administrators.*

*It is clear that the Administrators' intention in entering into the transaction with Bain Capital is the substantial preservation of the businesses of the Companies."*

#### 5.6.2 Voluntary Administrators' opinion

Based on preliminary investigations, including our review of operations and records, our view is that the Virgin Group's difficulties were largely due to the inability of the Virgin Group's balance sheet to withstand the immense financial impact caused by COVID-19. The balance sheet had been weakened from cumulative losses incurred almost year on year from 2009 to 2020 of approximately \$2.2 billion. During this period revenue had continued to grow, however it was not profitable growth. This period encompassed the change in the Virgin Group's business from a budget to full-service airline. As evident by the year on year losses, the Virgin Group was unable to derive sustainable profits from this change in strategy.

Following the appointment of Paul Scurrah as CEO in March 2019, the Consolidated Group embarked upon a strategic review designed to simplify the business and drive cost reduction. When COVID-19 impacted capacity, the Consolidated Group was only part way through its strategic review and the implementation of various initiatives. Just months prior to COVID19, the Virgin Group has raised an additional \$325m in debt from Bond Holders to help fund the acquisition of the balance of the Velocity Group. This added further debt to the balance sheet just prior to the time when the business would be severely impacted by COVID-19. This would not have been foreseen by the Board or Management at the time of raising this debt.

From March 2020, COVID-19 began to impact the business with increasing reductions to capacity that ultimately resulted on or around 22 March 2020 in the business reducing its capacity to less than 10% of normal levels. Such a reduction in business was not sustainable to service the Virgin Group's costs and debt load. The Board and Management sought various funding options to support the business, but ultimately were unsuccessful. Traditional funding was difficult to source, given the Virgin Group's existing debt levels, tightening credit markets due to COVID-19 and uncertain airline industry outlook. The Consolidated Group's major shareholders were also exposed to the airline industry and accordingly, did not have the available capital to provide support. Attempts at less conventional funding sources including state and federal government were ultimately unsuccessful.

We are therefore of the view that the Virgin Group's financial difficulties were due to an already highly leveraged balance sheet, resulting from past years of losses, that was unable to support the business impact caused by COVID-19.

## 6 Investigations

### 6.1 Introduction

Section 438A of the Act requires that as soon as practicable after an administration begins the administrator must investigate the company's business, property, affairs and financial circumstances and form an opinion as to whether it would be in the interests of the company's creditors for:

- The company to execute a DOCA;
- The administration to end; or
- The company to be wound up (that is, placed in liquidation).

Pursuant to section 75-225(3) of the Insolvency Practice Rules the administrator is also required to prepare a report which outlines the above investigations and opinions and which must also state (amongst other things) whether there are any transactions that appear to the administrator to be voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act should creditors resolve that the company be wound up.

In addition to recovery of voidable transactions, a liquidator has the power to pursue the directors of a company in respect of certain offences under the Act. For a high level explanation of the actions that a liquidator has the power to pursue, see **Appendix J**. This information sheet has been prepared by ARITA. Creditors who are not familiar with the nature of these actions should refer to **Appendix J** for further explanation. Creditors should contact our office if further explanation is required regarding the material contained in **Appendix J** or in this report.

In this section of the report we outline the various causes of action that may be available to a liquidator of the entities in the Virgin Group and the potential for any recoveries, noting that such recoveries would be subject to the defendants to any such cause of action having the ability to meet any orders for compensation, defences that might be available and the costs of the litigation.

### 6.2 Overview of investigation

In the time available to us, we have undertaken the following investigations to prepare this report and formulate our opinions:

- ASIC and real property searches.
- Personal Property Securities Register searches.
- Review of selected books and records of the Companies under administration.
- Review of the ROCAPs Parts A and B completed by the Directors.
- Discussions with certain members of Management.
- Review of the financial accounts of the Virgin Group and the Consolidated Group.

Whilst we have no reason to doubt any information contained in this report, we reserve the right to alter our conclusions should the underlying data prove to be inaccurate or materially change from the date of this report.

In this section of the report we have outlined our investigations of the Virgin Group on a consolidated basis (excluding the Velocity Group) rather than on an individual entity basis. This is appropriate because:

- The Virgin Group was operated and managed on a group basis, in particular there was a central shared head office administration function and Consolidated Group (except the Velocity Group) funds were pooled via a central treasury function and swept regularly to central bank accounts.

- Some entities within the Virgin Group were SPVs and were totally reliant upon other companies within the Consolidated Group for financial support.
- The Consolidated Group reported its financial results on a consolidated basis.
- All of the main trading entities are under administration (together with some other members of the Consolidated Group) are parties to DOCG1 and DOCG2.

### 6.3 Voidable transactions

Section 75-225(3)(b)(vi) of the Insolvency Practice Rules requires an administrator to specify in their report to creditors whether there are any transactions that appear to the administrator to be voidable transactions in respect of which money, property or other benefits may be recoverable by a liquidator under Part 5.7B of the Act.

This issue is relevant to creditors of a company in administration if they are being asked by an administrator to decide whether to vote in favour of a proposed DOCA (if a DOCA is proposed) or instead, in favour of liquidation, because any voidable transactions can only be pursued by a liquidator in the event that the company goes into liquidation.

Voidable transactions include:

- Unfair preferences (section 588FA)
- Uncommercial transactions (section 588FB)
- Unfair loans to a company (section 588FD)
- Arrangements to avoid employee entitlements (section 596AB)
- Unreasonable director-related transactions (section 588FDA)
- Transactions with the purpose of defeating creditors (section 588FE(5))
- Discharging a debt of a Related Entity (section 588FH)
- Voidable security interests (section 588FJ).

Further detail regarding these transactions is set out in **Appendix J**.

It is important to note that some of the transactions listed above will only be voidable if they are found to be "insolvent transactions" of the company (that is, broadly, that they were entered into at a time when the company was insolvent or the company became insolvent as a result of entry into the transaction). Accordingly, in order for a liquidator to recover amounts in respect of these transactions, it would first be necessary to establish that the company was in fact insolvent at the time of the transaction or became insolvent as a result of entry into the transaction.

In our view, the earliest date of the insolvency of the Companies under administration was 22 March 2020, but it may have been as early as 18 March 2020. In this regard, we refer creditors to **section 6.4** of this report where we outline our investigations.

Generally, actions by liquidators to recover voidable transactions are expensive and are likely to require Court applications. Therefore, in the event that there are inadequate funds available to the liquidator, the liquidator may consider it uncommercial or not in the creditors' best interests to commence or pursue such recovery actions.

In these circumstances, any creditors wishing to fund any such actions themselves may do so. Should any funds be recovered from these creditor-funded actions, those creditors providing the funding may be entitled to receive their contribution in priority to any other creditors.

Litigation funding or insurance may also be available to fund these actions. However, such funding is generally only available where legal advice indicates that there are strong prospects of success.

A summary of our preliminary investigations is detailed below.

Table 20: Summary of investigations of voidable transactions

Types of voidable transactions	Commentary
Unfair Preferences Payments (section 588FA)	<p>Our preliminary investigations indicate that whilst the Companies made payments to creditors in the normal course of trading after the date of insolvency (discussed at <b>section 6.4</b> below), we have not seen any evidence to suggest the recipients of these payments would not have reasonable grounds to assert a defence to such a claim even if one could be substantiated.</p> <p>In the event that the Companies under voluntary administration are subsequently placed into liquidation, the liquidator will need to prove (amongst other things) that the Companies under voluntary administration were insolvent at the time each transaction was entered into or that the Companies under voluntary administration became insolvent as a result of entry into a transaction. The liquidator will also need to be prepared to put on evidence to refute any defence raised by a creditor that it did not have reasonable grounds to suspect that the company was insolvent at the time the payments were made. Significant investigative work would need to be undertaken and the commerciality of any recovery action would need to be considered together with the likely costs of recovery.</p> <p>Our findings in this regard are further detailed in <b>section 6.3.1</b> below.</p>
Unfair Loans (section 588FD)	Our investigations have not revealed that the Companies entered into loans with parties which committed them to extortionate terms.
Uncommercial Transactions (section 588FB)	Our investigations have not identified any transactions that would constitute an uncommercial transaction of any of the Companies.
Discharging a Debt of a Related Entity (section 588FH)	Any related party transactions that may be of this type were to entities subject to DOCG1 or DOCG2, and/or entities in voluntary administration. There are no payments pursuant to this section of the Act that would be available for successful recovery by a liquidator.
Unreasonable Director-Related Transactions (section 588FDA)	Our investigations have not to date identified any unreasonable director related transactions. Remuneration received by the Directors is detailed in the Remuneration Report contained in the Annual Reports of the Consolidated Group.
Arrangements to Avoid Employee Entitlements (section 596AB)	We have not to date identified any transactions of this nature.
Transactions with the Purpose of Defeating Creditors (section 588FE(5))	We have not identified any transactions that appear to have been undertaken for purpose of defeating creditors.
Circulating security interests created within six months (section 588FJ)	A search of the PPSR reveals that no circulating security interests were registered on the PPSR in respect of the assets of the Companies during the six months prior to the relation back day. On this basis, it would appear that there are no transactions of this nature.

### 6.3.1 Unfair preference payments (section 588FA)

We have conducted an analysis of payments made by the Companies from the date we assessed the Companies became insolvent, to determine those that may potentially be considered unfair preferences. However, our investigations are preliminary at this stage only.

In the event that a transaction was identified by a subsequently appointed liquidator as being an unfair preference, that liquidator will need to prove (amongst other things) that:

- The relevant Company was insolvent at the time the transaction was entered into or became insolvent as a result of entry into that transaction; and

- The receipt of the payment constitutes a better outcome for the relevant creditor than it would receive in a liquidation of the relevant company.

There would need to be significant investigative work undertaken to establish whether:

- The Company was insolvent at the time the transaction occurred.
- The creditor that received the payment had no reasonable grounds to suspect that the Company was insolvent or would become insolvent because of the transaction (and that a reasonable person in the creditor's circumstances would have had no such grounds for so suspecting).
- The creditor has sufficient assets to settle any successful claims.
- The cost of commencing the recovery action is greater than the possible return.
- There are sufficient funds available to the liquidator (subject to the approval of creditors) to pursue the proposed preference recovery action.

As noted above, recovery of a preference payment is dependent upon a liquidator proving or refuting (amongst other things) the matters discussed above. This would require a detailed investigation by a liquidator and, more likely than not, the commencement of legal action in court (assuming the parties did not agree with the liquidator's assertions). In response to such a claim, two common defences or responses are:

- That the payment was received in good faith and the creditor receiving the payment had no reasonable grounds for suspecting that the relevant company was insolvent at the time the payment was received (or would become insolvent because of the transaction); and
- A running account existed between the creditor and the company, which contained a series of mutual credits and debits, and therefore, that the sum of the voidable transaction claimed by the liquidator should be reduced. The potential reduction in the amount recoverable is determined by taking the peak indebtedness amount in the account during the period (i.e. the maximum creditor balance) and the closing creditor balance (the calculation typically referred to as the "peak-to-close balance"). In our experience, it is common for a trade creditor to argue that a running account existed when an unfair preference is claimed.

It is also important to note that if any amount is recoverable from a creditor as a preference payment, that creditor will have an unsecured claim against the relevant entity for an equivalent amount in the liquidation and may lodge a proof of debt for that amount plus any other outstanding debts.

The above potential claims may be reduced by a portion of the cost of taking the action as, generally, not all costs are recoverable from a defendant creditor even if the liquidator is successful.

Our view is that, given the short period of time the Companies traded while insolvent, our preliminary investigations, and the defences available to creditors, there is unlikely to be any significant recoveries compared to the overall quantum of creditor claims which would provide a material increase to any returns to creditors if the Companies were placed into liquidation when compared to a return under the Bain DOCA proposal.

## 6.4 Insolvent trading (section 588G)

Directors have a positive duty to prevent a company from trading whilst it is insolvent (section 588G of the Act). If a director is found to have contravened section 588G he or she may be ordered to pay an amount of compensation to the company equal to the amount of loss or damage suffered by creditors of the company as a result of the contravention.

Information about possible insolvent trading is relevant to creditors when making a decision about the future of the company as directors of the company can only be pursued for insolvent trading if the company is in liquidation.

As with the voidable transaction analysis above, creditors have to assess the advantages to them of voting in favour of a DOCA (which relevantly will not include any amounts that might be recoverable by a liquidator from insolvent trading actions) and compare this with the likely return in a liquidation which would include such amounts.

It is important to note that a director can raise a number of possible defences to a claim for insolvent trading, including (see section 588H of the Act):

- The director had reasonable grounds to expect, and did expect, that the company was solvent and would remain solvent.
- The director:
  - had reasonable grounds to believe, and did believe, that a competent and reliable person was responsible for providing adequate information to the director about the company's solvency and that person was fulfilling that responsibility; and
  - expected, on the basis of that information, that the company was solvent and would remain solvent;
- The director, because of illness or for some other good reason, did not take part in the management of the company at the relevant time; and
- The director took all reasonable steps to prevent the company from incurring the debts in question.

On 19 September 2017, the *Treasury Laws Amendment (2017 Enterprise Incentives Np. 2) Act 2017* came into effect, which provides protection to directors under the safe harbour amendments made to the existing insolvent trading laws in certain circumstances (see section 588GA of the Corporations Act 2001).

On 25 March 2020, the Coronavirus Economic Response Package Omnibus Bill 2020 received Royal Assent, which inserted section 588GAAA into the Act. section 588GAAA provides relief for directors from potential insolvent trading during a six month period from 25 March 2020. To be able to rely on these measures, the debt incurred must be incurred:

- In the ordinary course of business; and
- During the six-month period commencing 25 March 2020.

The Explanatory memorandum to the above bill explains that a director is taken to have incurred a debt in the ordinary course of business if it is necessary to facilitate the continuation of the business.

Given our conclusions detailed in **section 6.4.1** of this report regarding the insolvency position of the Companies under administration, we have sought to investigate whether the Directors had sought safe harbor immunity or in raising statutory defences, in respect of any personal liability for insolvent trading debts that might have been incurred by the Companies under administration. Our analysis is discussed at **section 6.5.3.1** below. We have asked the directors whether they would seek to rely on a safe harbour defence in the event we concluded the Companies traded while insolvent. A response was received on 18 August 2020 from the Directors of VAIH, VAIA, VSEA and Tiger1. This is further discussed in **section 6.5.3.1**.

#### 6.4.1 Administrators' conclusions regarding solvency

Our investigations into the solvency of each of the Companies under administration have been extensive, but are preliminary only at this stage. We have set out in the following sections our analysis of the various indicators of insolvency, which have led to our conclusions noted in this section.

We reviewed the indicators of insolvency (detailed in **section 6.4.2**) in coming to a conclusion on whether the Companies under administration were insolvent prior to the date of our appointment and the date they may have become insolvent.

The Consolidated Group's 1HFY20 Results Presentation dated 26 February 2020 forecast a 3% decline in capacity and a \$10m - \$20m impact to international demand in 2HFY20 as a result of COVID-19. On 13 March 2020 the Virgin Group announced to the ASX that domestic and international capacity would decrease by 6% in 2HFY20 and 7.7% in 1HFY21. This was followed by a 50% reduction in capacity announced shortly thereafter on 18 March 2020. On or around 22 March 2020 COVID-19 travel restrictions and social distancing measures were announced by the federal and various state governments that resulted in Virgin Group announcing to the ASX on 25 March 2020 a 90% reduction of Virgin Group's domestic capacity.

On or around 23 March 2020 the Consolidated Group had engaged MS to assist with funding options. Morgan Stanley had indicated to the Board at the 23 March 2020 Board meeting that there was recent international precedent for government support, however it was expected that government support would require that options as to existing shareholder support to have been explored and exhausted.

On 26 March 2020, the CEO wrote to the Australian Prime Minister and Deputy Prime Minister seeking a \$1,400m funding instrument, noting that government support may be the only feasible source of capital to support the Consolidated Group through the COVID-19 pandemic. The CEO followed up this letter with another letter to the Prime Minister, Deputy Prime Minister and Treasurer on 31 March 2020, seeking an indication of the federal government's willingness to support the Virgin Group.

At the Board meeting held on 1 April 2020, a Morgan Stanley paper presented to the Board advised that conventional debt and equity markets were not a funding option and that government and/or existing shareholder support would be required, noting that could be complemented by new major investors.

The Virgin Group formally sought Major Shareholder support from on or around 8 April 2020 and indicated to Major Shareholders as early as 22 March 2020 that they may be required to provide funding as part of seeking government support. From on or around 12 April 2020 to 13 April 2020 Major Shareholders indicated their inability to provide support.

The Virgin Group was actively seeking financial support from state and federal governments, Major Shareholders and other investors from at least from 22 March 2020 up until the date of administration.

In our view, the substantial reductions to capacity and projected revenue caused by the 18 March 2020 and 22 March 2020 travel restrictions combined with the inability to access further debt or equity funding (as evidenced by the approaches to government and Major Shareholders who themselves were materially impacted by travel restrictions) meant that the Virgin Group was unable from that point on to continue to meet its known liabilities moving forward as they fell due.

Government support may be considered as a 'lender of last resort' and as this funding was not committed, the Virgin Group could not rely upon it as an available source of capital to maintain solvency. Furthermore, when combined together with the following indicators of insolvency, we have formed the view that the Virgin Group was insolvent from 22 March 2020 and possibly as early as 18 March 2020 when the imposed travel restrictions caused the Virgin Group to no longer be a sustainable going concern:

- **Continuing losses** – as detailed at **section 6.4.3** the Virgin Group made losses before tax of \$763.5m for 2HFYTD20, \$902m for the period 1 July 2019 to 30 April 2020 and \$424.5m for FY19.
- **Working capital** – as detailed at **section 6.4.5** the Virgin Group's current ratio and adjusted current ratio declined from January 2020 up until administration.
- **Trade creditors** – as detailed at **section 6.4.6** the Virgin Group trade creditor aging and overall trade creditors increased from January 2020 up until the start of the voluntary administration.
- **Access to funding** – by seeking government support, the Virgin Group was acknowledging its existing cash, receivables and loan facilities were insufficient.
- **Ability to raise capital** – as detailed above, Virgin Group had acknowledged that traditional forms of debt and/or equity were likely to be unavailable when it sought government support. Morgan Stanley had advised the Board that conventional debt and equity funding was unavailable. The Major Shareholders had also indicated their inability to assist.

The possibility of government support, whilst it cannot be treated as an available funding source for the purposes of assessing solvency, is relevant to the availability of defences to Directors and this is discussed at **section 6.4.8**.

As section 588GAAA came into effect on 25 March 2020, it provided effective relief to the directors from insolvent trading from this date. We have not seen anything to suggest the debts incurred after section 588GAAA came into operation do not fall within the requirements of that section. There are therefore possibly only three days from 22 March

2020 to 24 March 2020 when the Virgin Group was potentially trading whilst insolvent. This is discussed further at **section 6.5.3.1**.

There exist potential defences available to the Directors as discussed at **section 6.5.3**.

On the assumption that defences were not available, our preliminary analysis is that the potential loss to creditors is approximately \$17m to \$35m, depending upon whether the date of insolvency is 22 March 2020 or 18 March 2020 respectively, representing our estimate of new trading liabilities incurred up to 25 March 2020, being the commencement date of section 588GAAA and the protection it provided to directors from prosecution from trading a company while insolvent. Further, many of the trading liabilities in the above period related to periodic payments under pre-existing agreements including finance and lease agreements. Those debts have been excluded from the analysis of potentially recoverable amounts as those debts were incurred at the time the underlying agreement was signed and at a time when the Virgin Group was not insolvent.

This is our preliminary view, but ultimately the issue of insolvency would need to be determined on the basis of available expert evidence presented to a Court.

In instances where insolvency can be proven, a liquidator would investigate further the possibility of commencing action against the Directors of the Companies under administration for breaches of their duties to prevent insolvent trading. If it is established that a director has breached his or her duties to prevent the company from incurring debts whilst it was insolvent, and there are no defences or exceptions available to the director (for example, under the safe harbour regime), then a liquidator could recover from those directors an amount equal to the loss that has been suffered by the creditors whose debts were incurred in the relevant period but remain unpaid.

If a liquidator chooses to pursue an insolvent trading action, creditors are prevented from taking their own action against the director(s) for compensation. If a liquidator chooses not to take any action in this regard, a creditor may commence proceedings on its own behalf but only with the consent of the liquidator or the Court.

#### **6.4.2 Tests of a company's solvency**

Under section 95A of the Act, a person (including a company) is solvent "if and only if the person is able to pay all the person's debts, as and when they become due and payable." A company is therefore insolvent if it cannot pay its debts as and when they become due and payable.

The ability to pay such debts is determined in the circumstances as they were known, or ought to have been known, at the time. That is, without the benefit of hindsight. Not only are considerations at the time relevant, but also the immediate future. How far into the future depends on the circumstances of the company's business and its known future liabilities. Liabilities into the future that were reasonably unexpected, whether as to incidence or quantity, would be excluded from the proper analysis of the ability to pay debts that were then reasonably known. To that end, sources of funding from the sale of assets or external funding are allowed to be taken into account, including debt funding. However, in the case of debt funding, the assessment of that funding being available to pay debts is assessed in the context of the terms on which it is lent, for example, whether it is secured or unsecured funding and whether the time for its repayment is such that the financier does not itself become a creditor whose debt cannot be repaid.

Whether a company is able to pay its debts as and when they become due and payable is essentially a "cash flow" test rather than a "balance sheet" test (however a company's balance sheet is relevant to the analysis). Proving insolvency generally involves the assessment of the presence of a range of indicia of insolvency. The relevant indicia of insolvency are discussed further in this section.

When considering insolvent trading a liquidator must consider a range of factors to determine whether a company was insolvent and the date that the company became insolvent. No factor by itself is definitive of insolvency rather the factors must be considered in totality.

Where possible we have considered the below analysis at the Virgin Group level, which excludes the Velocity Group. Where relevant we have considered the potential support that may have been available to the Virgin Group from the Velocity Group.



Our preliminary investigations have revealed the following in relation to the relevant indicators of insolvency:

**Table 21: Summary of indicators of insolvency**

Indicators of insolvency	Section reference	Commentary
<b><u>Financial</u></b>		
Continuing losses	6.4.3	The Virgin Group sustained losses over the 22 month period (1 July 2018 to 30 April 2020) and in particular, leading up to the appointment of the Voluntary Administrators.
Balance sheet test	6.4.4	Based on our review of the monthly management account balance sheets, the Virgin Group's balance sheets were in deficit since at least July 2019 (after the add back of AASB16 impact and deducting intangibles).
Working capital	6.4.5	The working capital position of the Companies worsened from January 2020 to Administration. On an adjusted basis the current ratio fell below one in February 2020 and remained so until Administration.
<b><u>Operations and cash flow</u></b>		
Monthly trade creditor payments	6.4.6	Our investigations have revealed increased total trade creditors, trade creditors past due and ageing of trade creditors from February 2020 until Administration. From approximately the middle to the end of March until Administration the Virgin Group was actively deferring trade creditor payments.
Overdue Commonwealth and State taxes	6.4.7	The Virgin Group had sought and obtained the deferral of BAS payments on 18 March 2020 of approximately \$15.8m.
Inability to borrow further funds/no access to further funds and/or inability to raise further equity capital	6.4.8 and 6.4.10	<p>The Virgin Group's debt to assets ratio increased following the raising of debt in November 2019. Known as a leverage ratio, it is a measure of the capacity of a business to raise debt finance. The lower the leverage the greater the capacity to raise debt finance. The airline industry globally had been impacted more so than other industries by COVID-19 and this combined with Virgin Group's leverage position, meant that traditional sources of debt and equity were unavailable. This was confirmed by the Virgin Group's advisors in late March 2020.</p> <p>The Consolidated Group sought government funding, thus indicating existing debt finance facilities were not sufficient or able to be extended.</p>
Suppliers placing the company on C.O.D or demanding special payments before resuming supply/creditors unpaid outside trading terms		We are not aware of any suppliers placing the Companies under administration on "cash on delivery" terms or special payment plans prior to the date of appointment. There were some cases of trade creditors seeking shorter payment terms.
Special payments with selected creditors/payments to creditors of rounded sums which are not reconcilable to specific invoices		Our preliminary investigations have not revealed any special payments that were referenced to creditor demands for payment other than requests for shorter payment terms.
Solicitors letters, summons, judgments entered or warrants issued		We are not aware of any claims of this nature or judgments entered against any of the Companies.

Indicators of insolvency	Section reference	Commentary
Overdue employee wage payments		According to the books and records, there were no material overdue wages owing to employees as at the date of the appointment.
Overdue landlord payments		Our investigations did not reveal any significantly overdue amounts payable to the lessors on appointment.
Inability to produce timely and accurate financial information to display the company's trading performance and financial position, and make reliable forecasts		The Companies prepared monthly management accounts and information for the Board of Directors. We are of the view that it maintained adequate financial records in accordance with section 286 of the Act. From at least September 2019, the Virgin Group had difficulties meeting budgeted earnings and cash balances. This was particularly driven by difficulties in meeting budgeted revenue. It is noted however that from late 2019 the aviation industry was subject to rapidly changing economic events and whilst the Companies did not meet their budget, they remained above the minimum mandated unrestricted cash balance of \$350m set by the Board.

Further detail in respect of the above indicators is set out in the sections to follow.

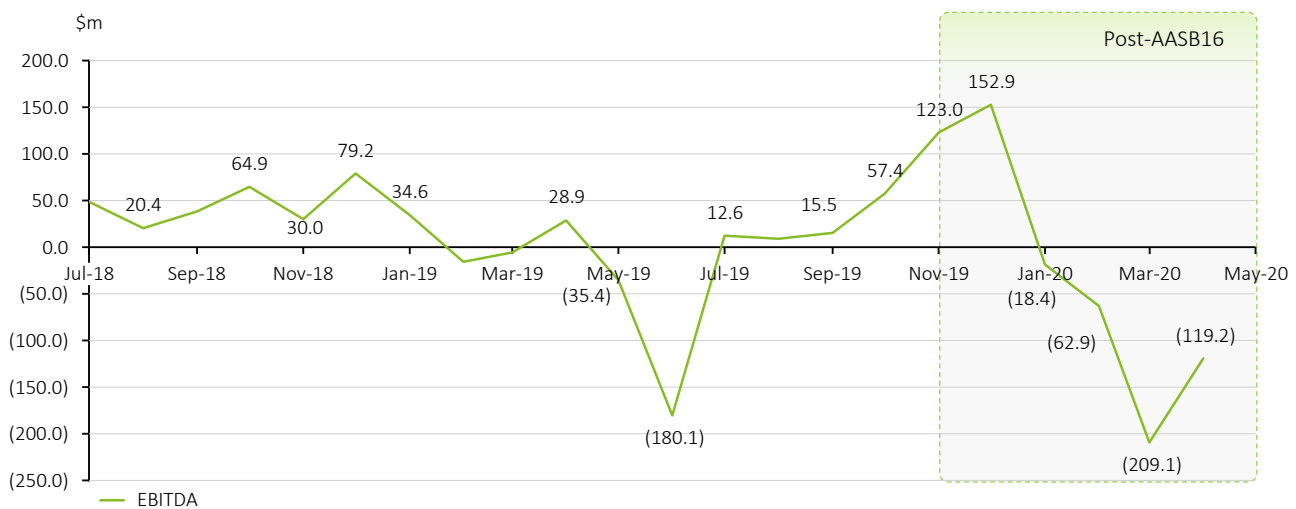
#### 6.4.3 Continuing losses from trading

The Virgin Group made losses before tax of \$763.5m for 2HFYTD20, \$902m for the period 1 July 2019 to 30 April 2020 and \$424.5m for FY19.

For the purpose of assessing the solvency of each of the Companies, we have reviewed the monthly earnings profile over the period of July 2018 to April 2020 below.

In the analysis provided throughout this section we have marked the introduction of AASB16. As mentioned in **section 4.2** the Consolidated Group introduced AASB16 from November 2019. As its impact was material, caution should be taken when reviewing the financial results across months that straddle the introduction.

**Figure 7: Trading performance of Consolidated Group, excluding Velocity**



Source: Management information

In respect of the above monthly management accounts we note the following:

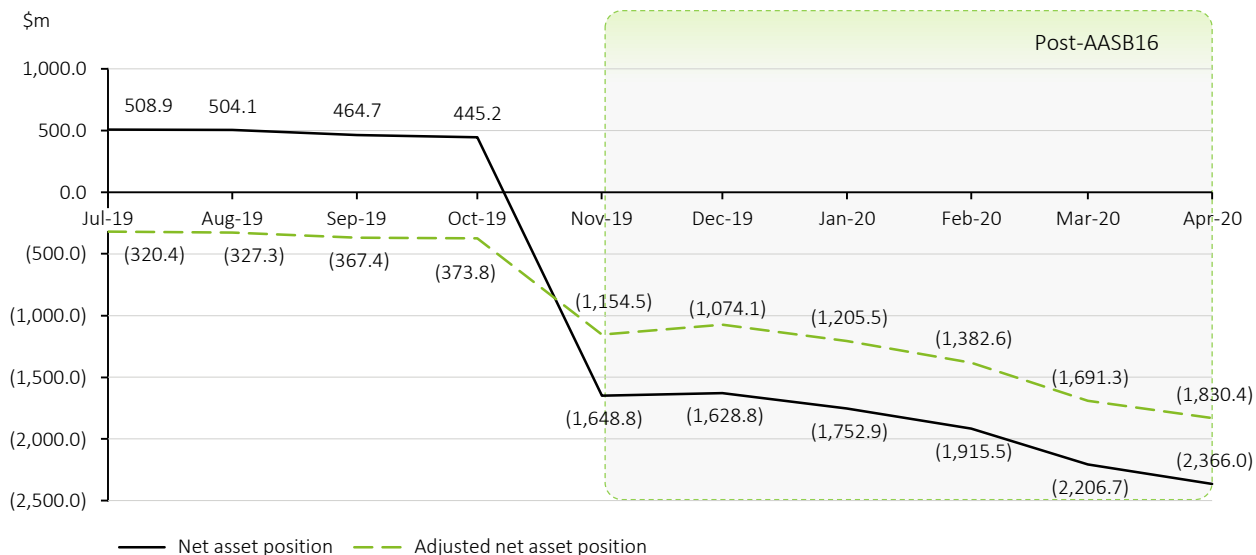
- Virgin Group experienced predominantly positive EBITDA, with 14 out of 22 months being positive since 1 July 2018.
- We have not made any adjustment to reverse the impact of AASB16 from November 2019. It is likely that earnings would be lower without the impact of AASB16 accounting treatment, as depreciation add back increased and rental expenses decreased following AASB16 application.
- Losses significantly increased from January 2020 to April 2020, caused predominantly by the impact of the Australian bushfires and COVID-19.
- The \$180.1m EBITDA loss at June 2019 was largely attributed to year-end adjustments to the carrying value of goodwill.

#### 6.4.4 Balance sheet test / net asset deficiency

Whilst the cash flow test is generally viewed as the key test by the Courts for assessing solvency in accordance with section 95A of the Act, the balance sheet test is still a relevant indicator and commonly used in assessing a company's solvency, as it reviews whether a company has sufficient (realisable) assets to meet its liabilities.

In **section 4.3.2** above, the Group's management accounts disclose that the Group had a net asset deficiency as at 2HFY20 of \$2,366m. However, for the purpose of assessing the solvency of the Virgin Group, we have reviewed and adjusted the Virgin Group's balance sheet for assets we consider unlikely to be easily realisable, and liabilities which may not be required to be repaid (**Adjusted Net Assets**). As such, the below analysis excludes intangibles assets and, other financial assets (including various performance bonds and deposits on leased equipment etc.) and adds back an adjustment for AASB16.

**Figure 8: Net asset position of Consolidated Group excluding Velocity**



In respect of the above analysis, we note the following:

- The Virgin Group's balance sheet was particularly impacted by the introduction of AASB16, as were all airlines and many other industries that operate via leased assets. Virgin Group applied AASB16 in November 2019 and this resulted in a net asset deficiency. Following losses in 2HFY20YTD this position worsened such that even after adding back a notional AASB16 impact of \$1,345.4m, a net asset deficiency existed.
- The Consolidated Group had in November 2019 acquired the remaining 35% minority stake in the Velocity business, funded by the issue of listed and unlisted notes. This contributed \$711.1 million to the net liability position. The Replacement Prospectus dated 5 November 2019 for the issue of the listed notes, stated the consideration implied an enterprise value of \$2.1 billion for the Velocity Group, representing a 16.1 times multiple of the Velocity business

EBITDA. However, the acquisition was accounted for as a transaction with owners recognised directly in equity with the net assets and liabilities of the Velocity Business continuing to be measured at their historical cost rather than being restated to fair value at the date of acquisition.

#### 6.4.5 Working capital

##### 6.4.5.1 Liquidity (current) ratio

When considering the cash flow of a company, the current ratio provides a useful insight into a company's ability to meet short term commitments. This ratio is calculated as follows:

$$\text{Current ratio} = \frac{\text{net current assets}}{\text{net current liabilities}}$$

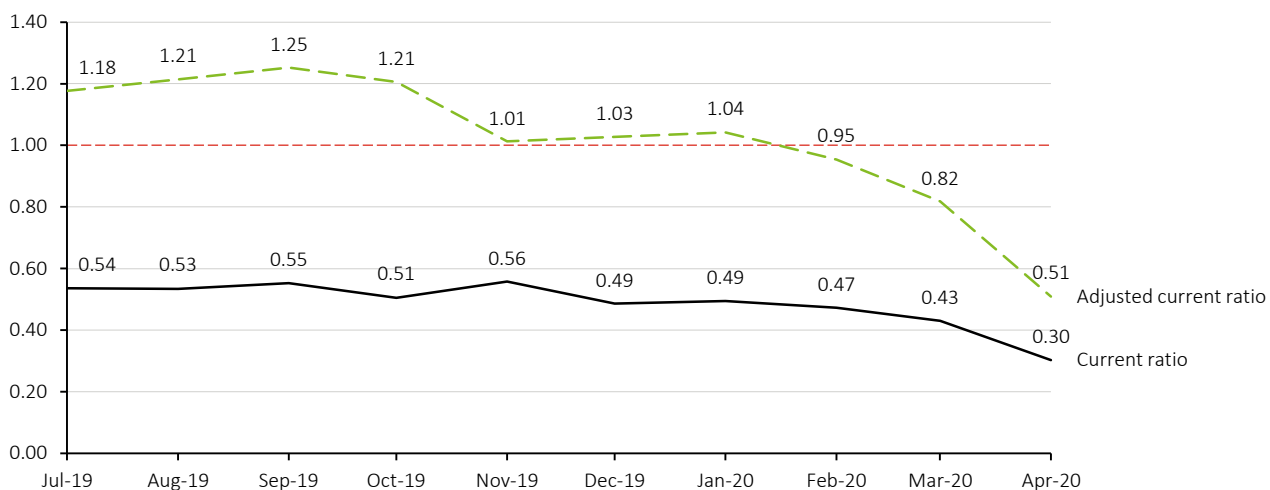
A liquidity ratio (i.e. current ratio) below 1 is considered to be an indicator of insolvency as it signifies that a company does not have sufficient current assets to meet its current liabilities when due and payable.

A company's liquidity ratio on its own is not a definitive indicator of insolvency and should be measured alongside the company's access to alternative finance. We discuss the Group's ability to access alternative finance in **section 6.4.10** below.

Virgin Group historically had a current ratio of below 1. This is not uncommon in the airline industry where there are large unearned revenue liabilities representing forward bookings and therefore by itself a ratio of less than 1 is not necessarily indicative of insolvency. In this case, the focus of our analysis has been upon the current ratio trend over time, as well as adjusting the calculation for the current ratio by removing the AASB16 impact, restricted cash balances, unearned revenue and the current portion of interest-bearing liabilities. These amounts were removed because these types of assets and liabilities may not be considered either immediately available as a source of funding or liabilities requiring immediate payment.

We have analysed the liquidity ratio of the Virgin Group on a monthly basis below:

Figure 9: Monthly current ratio analysis



Source: Management information

In respect of the above analysis, we note the following:

- The Virgin Group had a deteriorating adjusted current ratio from September 2019.
- Adjusted current ratio deteriorated significantly from January 2020 up to Administration, consistent with the deterioration in earnings over the same period. The deterioration was reflected in:
  - falling cash balances

- increases in trade payables
- increases in financing facilities drawn.

#### 6.4.6 Creditor ageing, creditor pressure or legal actions

The increase in ageing, overdue and overall total trade creditors is a potential indicator of solvency concerns. Companies may defer the payment of trade creditors to conserve cash and/or alternatively companies simply do not have the ability to meet creditor obligations. We have analysed the Virgin Group's aged creditors' ledgers and overdue creditor ledger (creditors past their relevant due date as per the invoice terms) and provide the following summary:

Figure 10: Trade creditors of Consolidated Group excluding Velocity

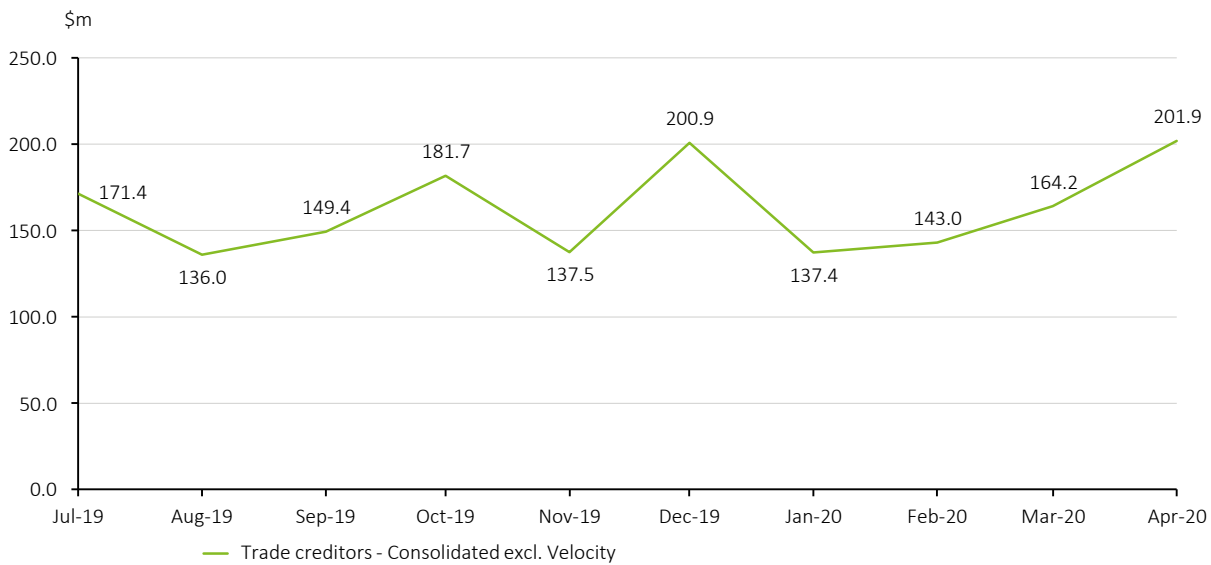


Figure 11: Overdue trade creditors of the Consolidated Group excluding Velocity

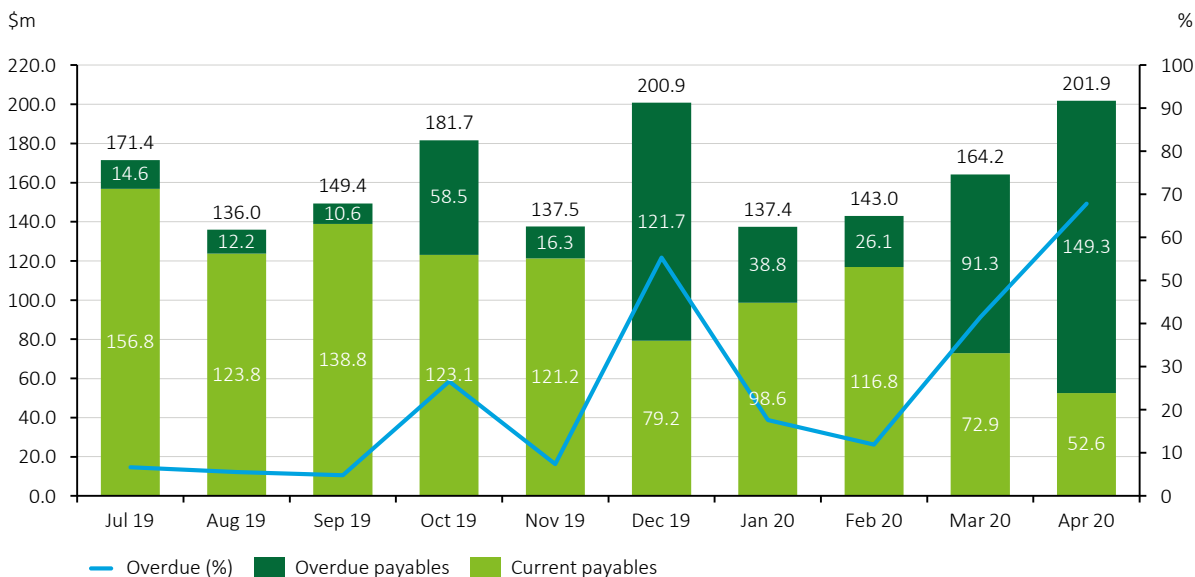
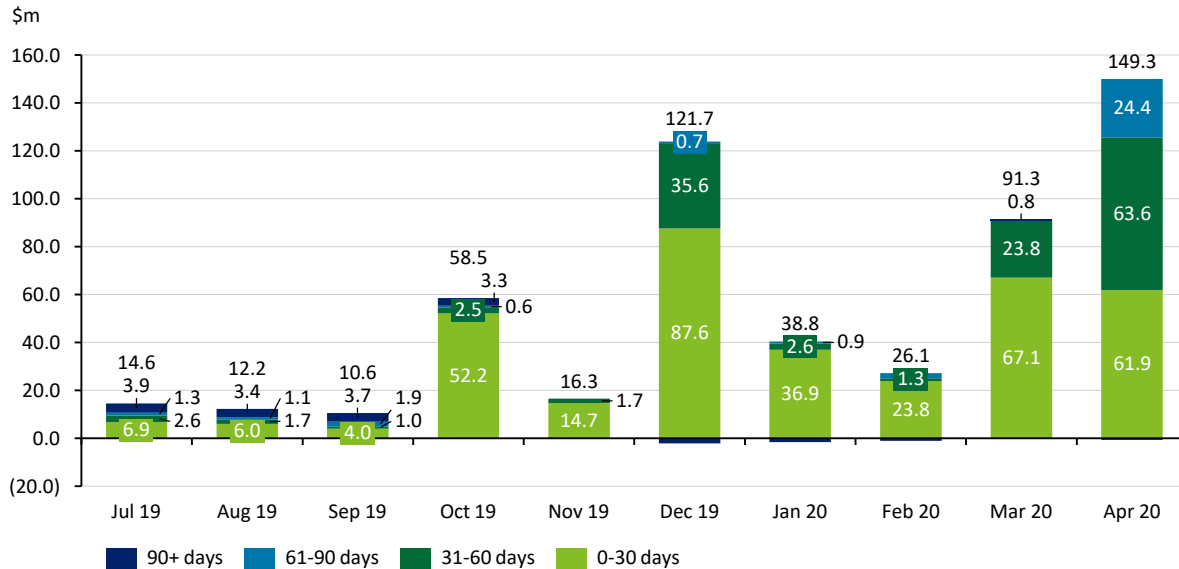


Figure 12: Ageing of monthly trade creditors from invoice due date



Source: Management information

We make the following observations in respect to the Virgin Group's trade creditors:

- There was no discernible increasing trend in overdue creditors until March 2020. The position deteriorated rapidly in March 2020 and April 2020, as earnings impacted by COVID-19 travel restrictions declined, and Virgin Group sought to aggressively manage its liquidity.
- There was a corresponding increase in total trade creditors, trade creditors over 30 days and overdue trade creditors from February 2020 through to our appointment.
- It is also noted that total trade creditors, although increasing from February 2020 to April 2020, had been at similar levels before this period, albeit this would have been at a time when trading operations were at a much greater level and therefore trade creditors would be expected to be higher. Management had also entered into arrangements with creditors for the deferral of payments as a result of the reduced level of operations.
- It appears therefore that Virgin Group was not paying all of its trade creditors as they fell due from on or around March 2020 and our discussions with Management have confirmed that the creditor position was being managed by paying creditors past the due date, thus indicating the Virgin Group was suffering reduced liquidity.

The dealings between a company and its creditors is considered to be a strong indicator of insolvency albeit that it is usually a lag indicator, as creditors are more often reactionary in their dealings.

Our interview of Management revealed no widespread evidence of creditors pressuring the Virgin Group to settle outstanding accounts, nor is there any evidence of enforcement or legal action. Management did advise that a small number of creditors were seeking accelerated payment terms from March 2020 that may have been related to either concerns over Virgin Group's financial position and/or due to airline industry creditors seeking to improve their own liquidity given the COVID-19 financial impact across the industry.

#### 6.4.7 Overdue taxation obligations

On 18 March 2020 the Virgin Group sought payment deferrals of four months for VAA's February 2020 and March 2020 Business Activity Statements (BAS). On 23 March 2020 Virgin Group sought further four month payment deferrals for the April 2020 to June 2020 BAS, and sought to be able to receive a refund of the input tax credits on the February 2020 and March 2020 BAS. Only the February 2020 and March 2020 BAS payment deferrals were granted. The total of the BAS deferrals was \$15.8m.

From our preliminary investigations, we have concluded that the Virgin Group had consistently good compliance history with its main statutory creditors, except until 18 March 2020 when it sought payment deferrals. These revised terms are taken into account in considering insolvency as they change when the debt becomes due and payable.

#### 6.4.8 Access to funding

##### 6.4.8.1 Facility limits

Set out below is a summary from July 2019 to 30 April 2020 of the Virgin Group's access to lines of credit under its Velocity Group Loan and MOFA loan facilities and available cash. We did not include other minor surety, guarantee and receivable funding facilities that were either not available for general working capital purposes, not included within Management's own analysis of liquidity or otherwise immaterial.

**Table 22: Facility limits by month**

\$m	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	20-Apr-20
Total facilities										
MOFA	260.5	264.3	263.9	258.7	263.4	245.5	256.9	263.4	278.5	263.1
Velocity Group Loan	400.0	400.0	400.0	400.0	400.0	460.0	460.0	460.0	460.0	460.0
<b>Total facility limit</b>	<b>660.5</b>	<b>664.3</b>	<b>663.9</b>	<b>658.7</b>	<b>663.4</b>	<b>705.5</b>	<b>716.9</b>	<b>723.4</b>	<b>738.5</b>	<b>723.1</b>
Used at reporting date										
MOFA	(218.6)	(223.5)	(228.4)	(223.5)	(227.3)	(227.0)	(237.5)	(243.9)	(259.1)	(244.7)
Velocity Group Loan	(282.0)	(150.0)	(150.0)	(150.0)	(300.0)	(300.0)	(150.0)	(150.0)	(150.0)	(150.0)
<b>Total used</b>	<b>(500.6)</b>	<b>(373.5)</b>	<b>(378.4)</b>	<b>(373.5)</b>	<b>(527.3)</b>	<b>(527.0)</b>	<b>(387.5)</b>	<b>(393.9)</b>	<b>(409.1)</b>	<b>(394.7)</b>
Unused at reporting date										
MOFA	41.9	40.8	35.5	35.3	36.1	18.6	19.4	19.6	19.4	18.4
Velocity Group Loan	118.0	250.0	250.0	250.0	100.0	160.0	310.0	310.0	310.0	310.0
<b>Total unused</b>	<b>159.9</b>	<b>290.8</b>	<b>285.5</b>	<b>285.3</b>	<b>136.1</b>	<b>178.6</b>	<b>329.4</b>	<b>329.6</b>	<b>329.4</b>	<b>328.4</b>
<b>Unrestricted cash</b>	<b>957.9</b>	<b>847.1</b>	<b>924.2</b>	<b>839.7</b>	<b>642.8</b>	<b>728.1</b>	<b>537.4</b>	<b>508.4</b>	<b>466.7</b>	<b>317.4</b>
<b>Total unused facilities + unrestricted cash</b>	<b>1,117.8</b>	<b>1,137.9</b>	<b>1,209.7</b>	<b>1,125.0</b>	<b>778.9</b>	<b>906.6</b>	<b>866.8</b>	<b>838.0</b>	<b>796.1</b>	<b>645.7</b>

Source: Unaudited management information

Figure 13: Finance facilities - MOFA and Velocity Group Loan

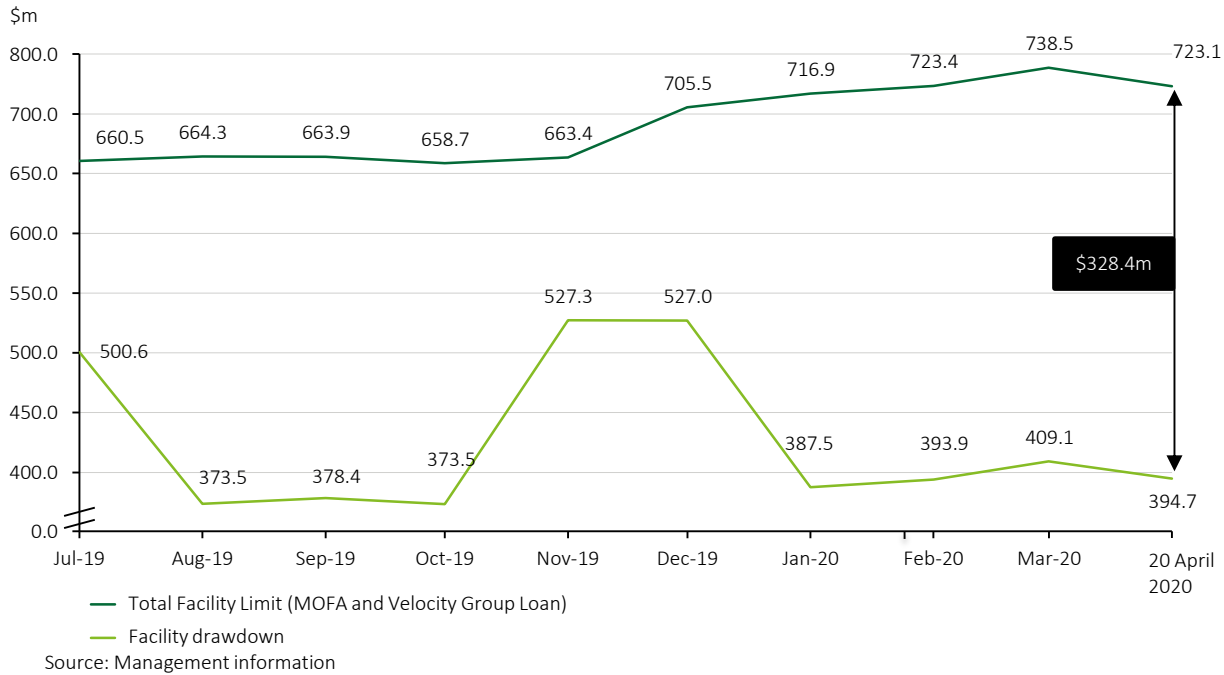
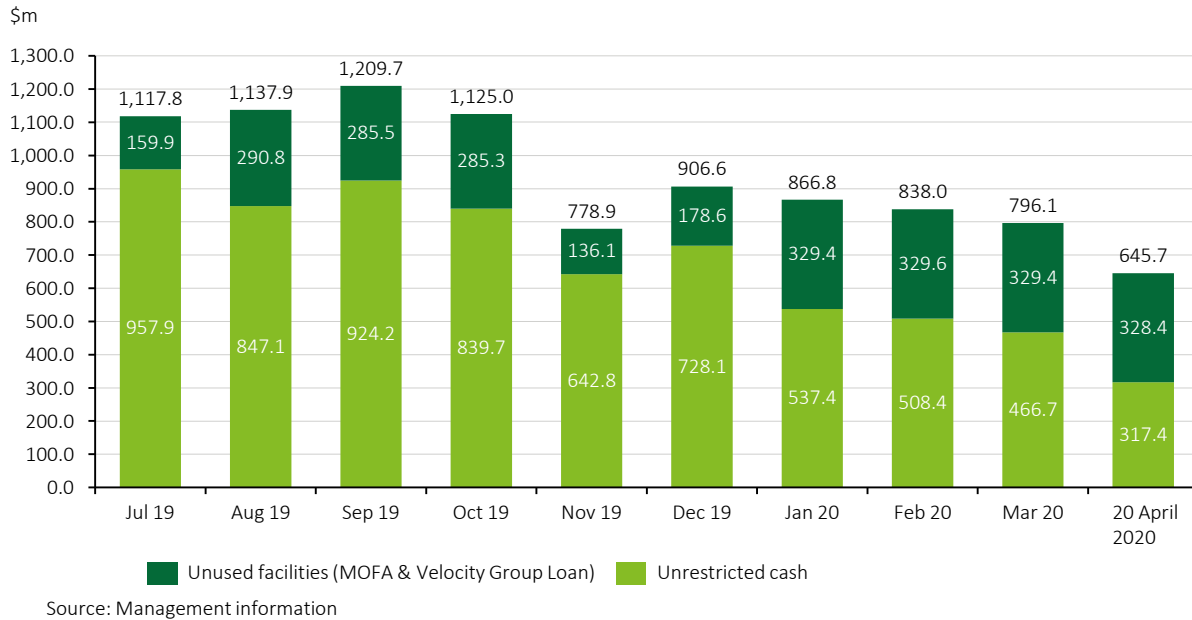


Figure 14: Liquidity based on unrestricted cash, Velocity Group Loan and MOFA



We make the following observations as to Virgin Group's access to funding:

- Total unused facilities and unrestricted cash decreased from December 2019, as cash was funding losses.
- Although there was \$310m unused under the Velocity Group Loan, this amount was not able to be immediately drawn down unless the Virgin Group met certain pre-conditions, including but not limited to, there being no repayment defaults and that Virgin Group's unrestricted cash balance would not be less than the drawn amount of



the loan. This would mean that at some stage in April 2020 the Velocity Group Loan would not have been available in full, as the unrestricted cash requirement would likely not have been met.

By seeking government support Management had formed the view that the available funding lines were not sufficient to fund the Virgin Group through a period of prolonged reduced capacity.

#### 6.4.9 No material uncertainty related to going concern

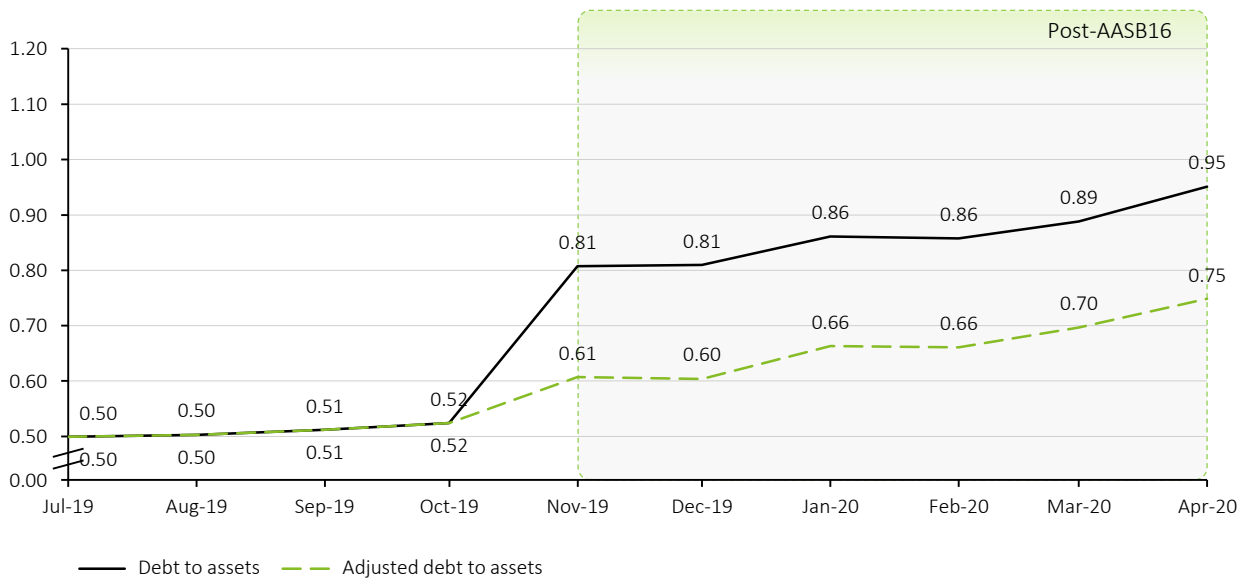
Note 1(c) of the 1HFY2020 financial statements (dated 25 February 2020) disclosed that the interim financial statements had been prepared on a going concern basis that was supported by a risk adjusted forecast of future cash flows. This note further disclosed that the Consolidated Group had performed a range of sensitivity analyses to forecast the impact of COVID-19 and that this analysis supports the Consolidated Group continuing as a going concern. The Consolidated Group's auditors KPMG did not raise a material uncertainty or make other comment as to going concern.

#### 6.4.10 Ability to raise capital

The Consolidated Group had in November 2019 raised USD\$425m and \$325m in unsecured notes. This resulted in the Virgin Group's leverage as measured by debt divided by total assets, increasing from 0.52:1 to 0.81:1. This debt was primarily used to fund the acquisition of 30% of Velocity. As a result, Virgin Group had reduced capacity to raise further debt. We have provided an adjusted measure also to reflect the potential impact of AASB16.

Once the impact of COVID-19 became more pronounced on or around 22 March 2020, when substantial travel restrictions were announced, it would have been very difficult for the Virgin Group to raise traditional sources of debt or equity, given Virgin Group's already increased leverage and general market sentiment towards the airline industry. This was confirmed by MS and evident by the Consolidated Group's attempts to obtain government funding as one of the very few sources of possible capital. The Consolidated Group was also unable to obtain support from its Major Shareholders, who were also impacted by COVID-19 and were unable or unwilling to assist.

Figure 15: Monthly debt to assets ratio



We note also that the Velocity Group, other than the Velocity Group Loan, was also a potential source of capital via the profits that it (the Velocity Group) generated, that were available to the Virgin Group as the 100% owners of the Velocity Business. Our investigations indicate that on or around 26 March 2020 there may have been only approximately \$10m in available potential distributions from the Velocity Group. On this basis the Velocity Group was unable to provide meaningful liquidity support to the Virgin Group save for the unused limit of the Velocity Group Loan.

## 6.5 Offences by the Directors

There are a number of offences under the Act which may be identified by an administrator arising from a director's breach of duties, which may lead to civil and/or criminal liability. A summary of these offences is included in **Appendix J**.

### 6.5.1 Reports to ASIC

As the Administrators we are required to complete and lodge a report pursuant to section 438D of the Act with ASIC where it appears to us that:

- A past or present officer or employee, or a member, of the company may have been guilty of an offence in relation to the company; or
- A person who has taken part in the formation, promotion, administration, management or winding up of the company may have misapplied or retained, or may have become liable or accountable for money or property of the company or may have been guilty of negligence, default, breach of duty or breach of trust in relation to the company.

Any report lodged pursuant to section 438D (or an investigative report lodged by a subsequently appointed liquidator pursuant to section 533 of the Act) is not available to the public.

### 6.5.2 Books and records

Pursuant to section 286 of the Act, a company must keep written financial records that correctly record and explain its transactions, financial position and performance and would enable true and fair financial statements to be prepared and audited in accordance with the accounting standards.

Failure by a company to maintain financial records in accordance with section 286 of the Act provides a rebuttable presumption of insolvency of the company. However, this only applies in respect of a liquidator's application for compensation for insolvent trading and other actions for recoveries pursuant to Part 5.7B of the Act.

In our opinion, it appears that the financial records for each of the Companies under administration have been maintained in accordance with section 286 of the Act.

We have undertaken a preliminary investigation of the affairs of each of the Companies under administration in relation to suspected contraventions of the Act, including but not limited to any potential breach by a Director of their duties, including those detailed in sections 180 - 184 of the Act.

Whilst we will continue to investigate any potential breaches of directors' duties, at the time of writing this report it is unlikely that there are any existing causes of action against any of the Directors of the Companies that would have reasonable chances of success and result in material recovery, given the likely available defences. Further investigation would be required.

### 6.5.3 Potential offences

#### 6.5.3.1 Insolvent trading

As stated in **section 6.4**, directors have a positive duty to prevent a company from trading while insolvent. If a director is found to have contravened section 588G he or she may be ordered to pay an amount of compensation to the company equal to the amount of loss or damage suffered by creditors of the company as a result of the contravention.

Our preliminary analysis indicates the Group was insolvent from 22 March 2020 and possibly as early as 18 March 2020. On 25 March 2020, section 588GAAA was enacted, providing temporary relief to for directors from potential insolvent trading. We estimate there have been trading liabilities incurred of between \$17m to \$35m, depending upon whether the date of insolvency is 22 March 2020 or 18 March 2020, up to 25 March 2020.

As we have formed the view that the Virgin Group was insolvent by at least 22 March 2020, the Directors are able to avail themselves of the relief from insolvent trading under section 588GAAA, provided debts incurred whilst insolvent were done so in the ordinary course of business and during the six-month period commencing 25 March 2020.

The Explanatory Memorandum to the amendment explains that a director is taken to have incurred a debt in the ordinary course of business if it is necessary to facilitate the continuation of the business. Our investigations have not found any material debts that may not be considered to be reasonably incurred in the continuation of the business.

In addition to relying upon section 588GAAA, the Directors of VAIH, VAIA, VSEA and Tiger 1 have foreshadowed that, if necessary (and they deny that it is necessary), they would avail themselves of all grounds of defence available to them in respect to any action for trading the Group while insolvent. We have not at the time of writing this report received an indication from the Directors of the other Virgin Group companies as to reliance upon available defences, but we speculate that their response will be similar if not the same as that of the Directors of VAIH, VAIA, VSEA and Tiger 1. section 588GA contains safe harbour defences the Directors may seek to rely on. That provision pre-dates and is unrelated to COVID-19. It provides directors with protection from insolvent trading liability where a director begins to take a course of action that is reasonably likely to lead to a better outcome for the company than an immediate external administration and the debt incurred, or disposition that is made, for which the director might otherwise have liability to compensate the company, is one that is incurred or made directly or indirectly in connection with that course of action.

As stated, the position of the Directors of VAIH, VAIA, VSEA and Tiger 1 is that safe harbour protection was not needed, because they take the view that VAIH, VAIA, VSEA and Tiger 1 were not insolvent at any time prior to the appointment of administrators. Given what is stated above, we do not share that view, believing the Group was insolvent from 22 March 2020 at the latest.

A liquidator, if appointed, would need to conduct further investigations to assess whether the Directors may be entitled to safe harbour protection. For the purposes of this report to creditors however, and within the time and investigation limitations that have already been referenced in this report, we would still need to be satisfied of a number of things before we would be prepared to say a safe harbour defence would be available.

In addition to section 588GA and 588GAAA, section 588H of the Act provides various defences to a claim for insolvent trading. In particular section 588H(2) provides that it is a defence if the director had reasonable grounds to expect and did expect that the company was solvent and would remain solvent.

It is anticipated that the Directors would strongly defend any claims. For example, the Directors may seek to raise the defence that they had a reasonable expectation up until 13 April 2020 (when Major Shareholders had indicated their inability to support), that Major Shareholder support may be provided, and that up until the date of administration, that government funding may be forthcoming. Ultimately, the question of the availability of defences would need to be decided on the available evidence that could be presented to the court.

#### 6.5.3.2 Directors duties

We have considered also whether the Directors' actions in respect to managing the Virgin Group's solvency position may have been a breach of sections 180 to 184 of the Act. Importantly, while changes were made on 25 March 2020 to the insolvent trading regime because of COVID-19, no corresponding changes were made to these statutory duties of directors, nor the corresponding general law duties. These duties, which are in addition to the duty not to trade while insolvent include:

- A duty of care and diligence (section 180), subject to the business judgment rule defence;
- A duty to exercise their powers, and discharge their duties, in good faith in the best interests of the company and for a proper purpose (section 181);
- A duty not to improperly use their position as a director to gain an advantage for themselves or another person, or to cause detriment to the company (section 182);
- A duty to not improperly use information obtained because of their position as a director to gain an advantage for themselves or someone else, or to cause detriment to the company (section 193); and
- Potential criminal liability for reckless or dishonest conduct connected with their duties of good faith and proper purpose, or use of position or information (section 184).

At this point in our investigations, we have not identified any specific act or omission, or other conduct, that would constitute a breach of sections 180 to 184. Under section 180, a director or officer may rely on the 'business judgement rule'. Under this rule, a director or officer must first show that they made a business judgment and that they made the judgment:

- In good faith and for a proper purpose;
- With no material personal interest in the subject matter of the judgment;
- After they informed themselves about the subject matter of the judgment to the extent they reasonably believed to be appropriate; and
- With a rational belief that the decision was in the best interests of the corporation.

A director or officer must be able to prove all these elements to rely on the rule. If they do, the Act considers that the director has fulfilled their obligations regarding care and diligence.

We continue to review the actions of the Directors and the records of the Virgin Group to see if there are identifiable acts or omissions, or other conduct, that might be actionable. What our investigations to date have revealed is that any such breaches that may have occurred, may have defences. In that respect, it is noted that the COVID-19 situation was unprecedented and evolved rapidly. In such circumstances forecasting the financial impact was difficult, as was the ability to trade out of these difficulties or seek alternate sources of funding to enable that to happen.

#### 6.5.4 Directors' and officers' insurance

The financial position of directors and their ability to compensate for any damages awarded against them in the event proceedings were taken by a liquidator is relevant to the consideration of the commerciality of further action.

The Virgin Group had directors' and officers' insurance policies in place. The policies operate across the different entities in the Group and at a variety of layers, underwritten by insurers of known repute and standing. We consider that, to the extent there may be breaches of duty by the Directors of the type referred to above it may be possible to make a claim on that policy. At this point we do not consider it is in the interests of creditors to give further disclosure or other information on the potential to access the policies, but we will keep creditors abreast of that should the situation change in any material manner.

#### 6.5.5 Other offences

Our investigations to date have not identified any other offences. In the event liquidators are appointed, further investigations would be undertaken.

## 6.6 Summary

As stated above, our investigations are preliminary and at an early stage, however it is our view that:

- The likely date of the insolvency of the Companies was 22 March 2020, and 18 March 2020 at the earliest being the date Group announced capacity reductions of 50% in response to the impact of COVID-19 and travel restrictions imposed by government.
- Having regard to our conclusion as to the earliest date of insolvency, we are of the view that there are no insolvent voidable transactions that are likely to be recoverable by a liquidator in the event the Companies are wound up that would have a material impact on the return to creditors when comparing returns under a DOCA.
- The Group may have traded while insolvent for a short period of time until 25 March 2020 when temporary laws were enacted to provide temporary relief to directors for claims for insolvent trading. Our preliminary view is that there is between \$17m to \$35m in trading liabilities that were incurred during this period that might be recoverable by a liquidator in the event the Group was placed into liquidation. We would expect any claim to be vigorously defended and any recovery net of costs would not have a material impact on returns to creditors when comparing a return in a liquidation versus a DOCA.
- We have not identified any breaches by directors of their duties under sections 180 to 184 of the Act.

A liquidator, if appointed, would be required to conduct further investigations. Ultimately, the final determination on any claims would need to be decided on the basis of available evidence presented to a court. Generally, such actions would only be pursued when there is considerable certainty that there are sufficient funds available to meet any damages awarded in favour of the claimant. These actions are usually expensive, vigorously defended and take a considerable time to litigate and conclude. When making a decision about the future of the Group, creditors should consider the above information in conjunction with information provided in **section 9** and **11** to form a view about what is in each creditor's best interest.

## 7 Voluntary Administrators' actions to date

### 7.1 Actions to date

On appointment, we conducted operational and statutory tasks, including an assessment of the financial viability of the business, and implemented a strategy aimed at maximising the best outcome for creditors. A summary of these actions discussed in the following sections.

#### 7.1.1 Taking control of the business and maintain the operations of the Companies

We attended the Virgin Group's head office and took immediate control of the Virgin Group's business and operations. This has involved ongoing discussions with Management and staff regarding day-to-day operations and implementing trading processes for the voluntary administration period.

We developed a trade-on strategy including cash flow forecasts to allow the Virgin Group to continue operations as a going concern under the existing COVID-19 travel restrictions, for the purposes of facilitating a sale and/or recapitalisation of the Virgin Group. Since our appointment, we have undertaken the tasks detailed below.

##### 7.1.1.1 General operations

- Maintained operations and built-up capacity as travel restrictions and health requirements allowed, which has included:
  - Maintaining government subsidised domestic and international routes, including special international repatriation flights.
  - Continued the VARA charter operations.
  - Worked with the Velocity Group to allow point redemptions.
  - Maintained the active employment of approximately 3,000 staff who continued to serve head office functions and limited flight capacity.
- Attended head office and other key sites, and taking control of all data, assets and services on appointment.
- Reviewed the internal management controls and approval process across the operations and implemented additional Voluntary Administrators' controls.
- Maintained the employment of approximately 9,022 employees who although many were stood down, continued to be employed via the pass-through of JobKeeper payments
- Reviewed, processed and approved purchase orders for continued operations.
- Negotiated amended agreements with parties that had contracts and agreements with the Companies.
- Issued repudiations and disclaimers of agreements where required.
- Worked with Virgin Group management team to plan for and implement a ramp up of operations as COVID-19 travel restrictions ease.

##### 7.1.1.2 Cashflow funding and trading

- Liaised with financial institutions to release cash.
- Worked with advisors on interim funding strategies.
- Negotiated and agreed continued supply of merchant facilities.
- Liaised with state and federal governments regarding potential financial support.
- Prepared and maintained weekly cash flow forecasts.

#### 7.1.1.3 Receivables and inventory

- Reviewed internal management controls regarding collection of outstanding accounts receivable balances.
- Confirmed current status of receivables across the Companies.
- Collected outstanding receivables owed to the Companies.
- Liaised with financial institutions regarding the receivables factoring facility in place prior to our appointment as administrators.
- Identified and secured inventory held by the Companies.
- Sold inventory held by the Companies.
- Liaised with suppliers regarding liens and other security interests over inventory held by the Companies and assessed the validity of the liens and security interests.

#### 7.1.1.4 Insurance

- Liaised with the insurance broker to ensure enough coverage and continuation of policies.
- Liaised with the Virgin Group management team regarding workers compensation self-insurance policy and ensure ongoing coverage.

#### 7.1.1.5 Suppliers and service providers

- Issued initial correspondence to suppliers and service providers regarding continuation of supply and services.
- Liaised with suppliers and service providers to ensure continued supply.
- Negotiated amended agreements with suppliers and service providers where necessary.
- Negotiated lien and security interest claims by suppliers.
- Maintained and processed purchase orders for continued supply and services provided to the Companies.

#### 7.1.1.6 Aircraft and maintenance

- Identified and secured aircraft fleet, including engines and parts located domestically and internationally.
- Liaised with Virgin Group engineers regarding immediate maintenance requirements.
- Facilitated ongoing maintenance of aircraft and engines to preserve value and useful life of the assets.
- Liaised with aircraft lessors regarding updates on maintenance and current useful life of aircraft and engines subject to their security interests.
- Procured parts for maintenance requirements.
- Undertook various procedures to securely store aircraft.

#### 7.1.1.7 Employees, payroll and JobKeeper

- Calculated employee entitlements.
- Reviewed relevant award rates for current employees.
- Processed payroll for all employing entities.
- Liaised with employees regarding employee entitlements and payroll.
- Liaised with Virgin payroll team regarding reconciliations and processing of payroll.
- Liaised with the ATO regarding payroll and requests for PAYG deferrals.
- Liaised with the federal government regarding JobKeeper stimulus.

- Calculated and reported various trading and employment metrics for JobKeeper eligibility.

#### 7.1.1.8 Landlords and lessors (non-aircraft)

- Issued initial correspondence to landlords and lessors regarding continued occupation.
- Negotiated with landlords and lessors regarding continued occupation.
- Assessed ongoing requirements and issuing notices under section 443B of the Act where necessary.

#### 7.1.1.9 Secured creditors, including aircraft lessors

- Issued initial notifications to secured creditors.
- Liaised with secured creditors regarding the voluntary administration and statutory moratorium on debts and lease payments.
- Reviewed and validated security interests.
- Liaised with aircraft lessors regarding extension of the moratorium on Voluntary Administrators' liability in respect to aircraft leases.
- Liaised with aircraft lessors regarding execution of aircraft protocols.
- Liaised with secured creditors regarding assets subject to security interest(s).
- Liaised with hedge counterparties regarding breaches of contract and closing out hedging positions.
- Assessed ongoing capacity requirements and disclaiming assets where necessary.

#### 7.1.1.10 Velocity Frequent Flyer loyalty program and Velocity Group

- Liaised with Velocity Group directors and management regarding the voluntary administration.
- Worked with Velocity Group directors to reactivate Velocity points redemptions.
- Worked with Velocity Group directors to manage communications to members, suppliers and partners, as well as ongoing engagement with the trustee of the Loyalty Trust, lenders and their advisers.
- Worked with the Velocity Group to develop and implement escrow account processes.
- Weekly review and facilitation of transactions on the escrow account.

#### 7.1.1.11 Customers

- Obtained orders from the Court to provide customers with conditional credits regarding their outstanding travel credits.
- Liaised with customers and travel agents regarding conditional credits and rights as a consumer.
- Worked with management regarding the communication with customers, development and implementation of the conditional credit policy, and monitoring and management of the Conditional Credits.

#### 7.1.2 Compliance and administrative procedures

- Attended to statutory lodgements and reporting to ASIC, the ATO and other statutory authorities.
- Convened the first concurrent meetings of creditors.
- Applied to the Court to obtain orders on various matters regarding the voluntary administration.
- Applied to the United States Bankruptcy Court in New York for recognition of the voluntary administration in the United States under Chapter 15 of the Bankruptcy Code.
- Processed creditor claims and established the Deloitte Halo platform to record creditor claims and assist ongoing management of creditor claims, proxies, votes and communications.



- Reviewed and adjudicated the quantum of each creditor claim for the purposes of allowing them to vote at the second meeting of creditors.
- Established 7 administration mailboxes which have received over 15,000 emails from creditors and stakeholders to date. This correspondence has been responded to.
- Established COI and NCC creditor representative groups and convened regular meetings of these creditor committees.
- Liaised with shareholders and creditors regarding the voluntary administration.
- Held 7 COI meetings.

#### 7.1.3 Bond Holders

- Liaised with Bond Holders, trustees and their advisers regarding the voluntary administration.
- Convened a Bond Holder (Noteholder Consultative Committee or NCC) committee to provide regular updates on the administration and sale process.
- Appointed Akin Gump Strauss Hauer and Feld LLP, an international legal firm, to act as our Noteholder Liaison Counsel in respect of assisting with communicating and dealing with Bond Holders.
- Held 4 NCC meetings.

#### 7.1.4 Investigations and litigations

Our investigation work is detailed in **section 6**.

## 7.2 Voluntary Administrators' trading performance and receipts and payments

### 7.2.1 Business trading

#### 7.2.1.1 Cash on appointment

Prior to our appointment, the Consolidated Group held cash which consisted of restricted and unrestricted cash. A number of financiers required the Consolidated Group to hold a certain level of cash balances to secure financing agreements. This includes financiers providing merchant facilities who required cash to be held to cover forward sales for some forms of payment. Cash was also required to secure standby letters of credit and bank guarantees.

Unrestricted cash was cash and term deposits held in accounts to fund operations. In addition to requirements to hold restricted cash, some financiers, under security agreements with the Consolidated Group, held the right to freeze and set-off unrestricted cash balances against their debt. The amount of security held by financiers, their ability to offset against cash balances, was dependant on the underlying agreement with each financier. Some financiers held multiple agreements which provided different types of security and ability to offset and/or hold funds against potential future exposures.

On our appointment there was \$541.4m in cash and term deposits held in the Virgin Group (excluding Velocity) but the balances were frozen by financiers who exercised their security over the funds while they considered their legal right to set-off the cash against debts owed to them or exposures they had to the Companies and/or their ability to break term deposits early. Consequently, we did not have access to any funds during the first two weeks of our appointment, requiring us to seek funding from one of the financiers to enable the payment of wages in the first week of our appointment.

We have been working with the financiers to release further funds, enabling us to continue trading. To date we have obtained the release of \$160.3m in funds. A further \$215.7m remains frozen and \$164.1m has been off-set as liabilities have crystallised, such as letters of credit and bank guarantees and for collateral for merchant facilities.

Table 23: Cash balances at appointment

Form of cash \$m	Notes	Balances on appointment			Current status	
		Restricted	Unrestricted	Total	Cash released to date	Cash off-set / remaining frozen
Trading accounts	1	-	157.0	157.0	58.4	98.6
Trading accounts - minor currencies	2	-	17.2	17.2	6.2	11.0
Term Deposits	3	-	145.0	145.0	95.8	48.0
Other accounts with conditions attached	4	222.2	-	222.2		222.2
Other (including Velocity)	5	338.5	-	338.5	N/A	N/A
<b>Total</b>		<b>560.7</b>	<b>319.2</b>	<b>879.9</b>	<b>160.3</b>	<b>379.8</b>

Source: Management information

We provide the following comments on the above table:

1. Operating Accounts: the Virgin Group's pre-appointment transaction banking accounts were held primarily with ANZ (AUD account) and JP Morgan (USD account) and c. \$58.4m from these accounts has been released into the Voluntary Administrators' account. The sum of c. \$98.6m (c. \$8.5m from JP Morgan account and c. \$90m from ANZ account) were off-set by the two banks. The off-set by JP Morgan was for close out of the derivative position (c. \$8.5m) while the off-set by ANZ primarily includes reallocation of cash collateral requirement for merchant facilities (c. \$29m), application of cash against called LCs (c. \$31m) application of receipts against receivables facility (c. \$18m) and costs (\$1m). The cash released excludes receipts during the Administration period.
2. Operating Accounts – Minor Currencies: the Group held cash in various foreign currency denominated offshore accounts such Japanese Yen, PNG Kina, Samoan Tala etc. The release of c. \$6m comprises recovery of all foreign currency denominated cash except PGK denominated cash. The balance c. \$11m of cash in minor currency accounts primarily comprises c. \$10m. equivalent of PGK denominated cash which is trapped due to a shortage of Australian dollars in Papua New Guinea. As a result, these fund are not expected to be released from Papua New Guinea.
3. Term Deposits: the Group held cash with multiple banks under term deposits with varying maturity dates. Approximately \$95.8m of cash held in term deposits were broken and swept into the Voluntary Administrators' bank accounts on 27 April and 8 May 2020, respectively.  
  
The balance of cash was held in term deposits with two banks who set-off the cash held in term deposits (c. \$48m net of termination fees and charges) against liability positions in derivative accounts for Virgin Group, pursuant to set-off terms under the agreements held with the Group.
4. Other Accounts with conditions attached: This mainly includes cash (which totals \$204.7m) held as collateral for merchant facilities and corporate loan facilities (MOFA). These funds will continue to be held as restricted cash of the Group while the business continues to trade. In the event the Group ceased trading, these funds would be used to offset any shortfall suffered by merchant providers. The balance of \$17.5m is cash off-set comprises the sweep by two financiers to apply cash collateral against called LCs (c. \$38m), and a net increase of the amount of cash collateral required to be held for merchant facilities with a financier (\$20.5m).
5. Velocity Cash: this comprises the cash held in trust accounts in relation to Velocity Rewards Program and cash relating to Velocity Frequent Flyer & Velocity Rewards bank accounts. Given we were not appointed as Voluntary Administrators to the Velocity Group, we did not have access to any funds held by the Velocity Group.

#### 7.2.1.2 Trading during administration

Prior to our appointment, given the COVID-19 restrictions on travel, the business was operating at a significant loss. Management had reduced the costs of trading the business significantly, however in the circumstances the business had a monthly funding requirement of c. \$200m. During the voluntary administration, the business has continued to operate at less than 10% of its capacity compared to the same period last year. Working with Management, we have been able to

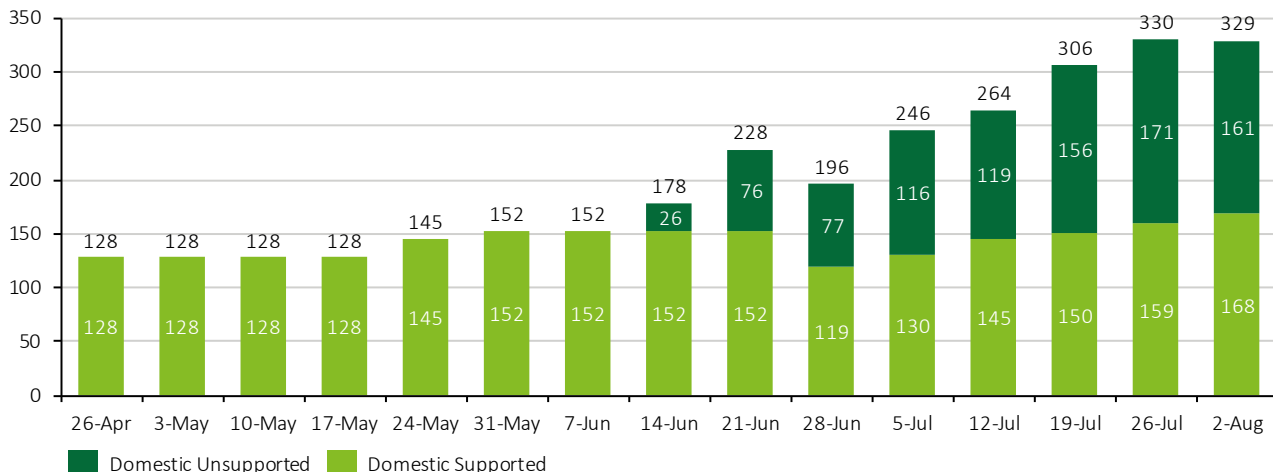
significantly further reduce the holding and trading costs of the business, mainly due to the support of stakeholders who were critical to the continued operation of the airline, including:

- Employee support:
  - flexibility provided under the enterprise agreements and with the support of the unions representing employees.
  - flexibility from staff and continued support for the business.
  - access to the federal government JobKeeper scheme.
- Financiers to the business:
  - Court Orders extending the period until we become personally liable to pay certain costs associated with property occupied by, or in the possession of, the Companies.
  - aircraft Protocol Agreement entered into with aircraft and engine financiers, which have significantly reduced the operating costs of the business in line with the current level of operations.
  - financiers' agreement with respect to the continued operation of merchant facilities.
  - financiers' agreement to release restricted cash to provide liquidity to the business.
- Landlords and trade suppliers:
  - agreement with landlords to deferrals of rent.
  - continued services from service providers and operating partners despite significant arrears of payments for services.
- Federal government support:
  - aviation industry support package.
  - underwritten flights schedule and international supported repatriation and cargo flights.

We sought interim funding during the voluntary administration. However, we were not able to secure funding, mainly due to the uncertainty of the outcome of the voluntary administration and the inability of the Group to offer sufficient unencumbered collateral to secure the repayment of any such funding.

Without the support of the above stakeholders all working collaboratively with us, we would not have been able to reduce the funding requirement to a level enabling the completion of the Sale Process by 30 June 2020 (without significant interim funding being secured).

Figure 16: Government flight support



Source: Voluntary Administrators' records

Below is a summary of our cash position at 30 June 2020 and our estimate of accrued liabilities as at 30 June 2020, showing that had we ceased to trade and met all our known liabilities as at 30 June 2020, there would have only been a surplus cash of \$1.2m. Given the minimum weekly cashflow required to fund operations, and ongoing losses forecast to be incurred due to the reduced level of operations, we would have been unable to continue trading the business beyond 30 June 2020.

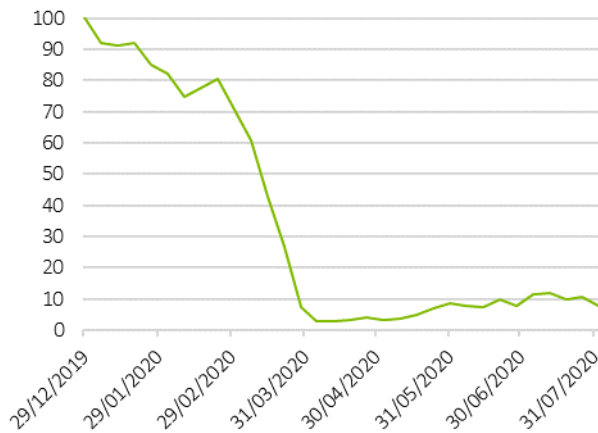
**Table 24: Estimated 30 June 2020 trading position if no interim funding received**

	\$'000
Realisations and commitments to 30 June 2020	
Realisation of circulating assets in existence as at 20 April 2020	192,611
Revenue received to 30 June 2020	95,460
JobKeeper received	49,284
Less costs incurred and paid	(148,333)
Less FX revaluation	(7,556)
Cash at bank 30 June 2020	181,465
Trading commitments	
Less purchase orders and supply commitments	(99,720)
Less accrued leave, PAYG/Super & payroll tax obligations	(44,664)
Less unearned revenue received during administration	(22,034)
	(166,418)
Other accrued costs	
Voluntary administration fees to 30 June 2020	(13,400)
Legal fees	(8,700)
Advisor costs	(16,000)
	(38,100)
Future expected receipts	
JobKeeper reimbursement	24,300
<b>Estimated funds surplus/(shortfall) as at 30 June 2020</b>	<b>1,247</b>

Source: Voluntary Administrators' records

Trading receipts have been \$95.4m (less than 9% of FY19 revenue) which is as a result of the reduced demand for flying and travel restrictions caused by the COVID-19 pandemic. The Figure below shows the level of intakes for flights indexed to last year which illustrates the reduction in demand for travel as a result of COVID-19. It also shows the severity of the speed of impact COVID-19 had on the business.

Figure 17: Weekly revenue indexed to last year



Source: Management information

Cash at bank on appointment and pre-appointment debtors are classified as circulating assets, and as discussed in **section 3.4.4**, employees have a priority to be paid out of realisations of circulating assets ahead of secured and unsecured creditors. Had we not used these realisations to continue trading, we would have had to cease trading and therefore it is unlikely we would have been able to achieve a sale of the business as a going concern.

Shortly after our appointment we contacted staff at FEG to discuss using circulating assets otherwise available for employee entitlements. It was our opinion that using these funds to trade the business to undertake a sale/recapitalisation process for the business was in the best interest of creditors as a whole. This was also in the context that in the event the business ceased to trade there would be a significant shortfall to employees of their entitlements in addition to all jobs being lost.

In the event the sale process was unsuccessful, it is likely the FEG scheme would have been called upon to meet employee entitlements as realisations from circulating assets would have been used to trade the business. This remained a key concern as we progressed through the sale process and the timetable we had set to achieve a sale.

We sought the formal support of staff at FEG and federal government regarding our decision to use circulating assets to fund the trading of the business. While this was not forthcoming, they provided clear acknowledgement of the benefits to the Australian community of achieving a successful sale. We have provided regular updates on the progress of the voluntary administration to staff at FEG and the government and their advisors.

Our forecast for July and August showed the business was expected to continue to operate at a loss of c. \$25m per month. Under the sale agreement entered into with Bain, they assumed economic responsibility for the business from 1 July 2020, with the interim funding agreed of \$125m being used to trade the business through to completion of the transaction. Should additional funding be required we have the ability to increase the amount of interim funding.

#### 7.2.2 Voluntary Administrators' receipts and payments

The table below provides a summary of the receipts and payments during the period 20 April to 2 August 2020. **It does not include accruals incurred to date or future commitments.**

**Table 25: Virgin Group receipts and payments as at 2 August 2020**

<b>Receipts and payments</b>	<b>\$'000</b>
<b>Receipts</b>	
Cash at bank as at 20 April 2020	15,608.8
Flight revenue	
Virgin Australia Airlines Pty Ltd	88,098.4
Virgin Australia Regional Airlines Pty Ltd	26,144.3
Tiger Airways Australia Pty Ltd	8.7
Virgin Australia Cargo Pty Ltd	15,211.3
Funding from purchaser	124,967.0
Government initiatives	2,541.5
Government subsidised flight funding	28,741.3
GST refunds	3,135.2
JobKeeper reimbursement	73,768.5
Other revenue	(1,623.5)
Pre-appointment debtors	29,677.7
Pre-appointment funds	48,638.5
Rebates / Employee recovery	1,055.6
Term deposit funds	95,792.9
Virgin / Velocity escrow account receipts	1,769.5
<b>Total receipts</b>	<b>553,535.7</b>
<b>Payments</b>	
Aircraft expenses	(2,741.6)
Aircraft holding and preservation expenses	(11,880.4)
Advertising and marketing	(122.0)
Cost of sales	(32,360.5)
Employee expenses	(174,578.2)
Fees and charges	(29,693.5)
Occupancy expenses	(5,473.1)
Overhead expenses	(11,647.0)
Other outflows	(1,175.5)
Other supplier payments	(15,728.8)
FX revaluation expense	(8,640.3)
<b>Total payments</b>	<b>(294,041.1)</b>
<b>Balance in Hand</b>	<b>259,494.6</b>

Source: Voluntary Administrators' records

## 8 Sale of business process / recapitalisation

### 8.1 Background

On our appointment we commenced an immediate campaign for the sale and/or recapitalisation of the Virgin Group. Notwithstanding the scale and complexity of the business, we had formed the view that an expedited sale process needed to be conducted given:

- The significant cash constraints facing the Companies and the initial projection there would be insufficient cash to continue trading post 30 June 2020 without additional funding.
- The impact of the COVID-19 pandemic on the viability of the business and the ability to generate revenue to cover costs.
- The need to retain key contracts, assets, employees and regulatory approvals to preserve the value of the business.
- The impact of the uncertainty of the future of the business on employees, customers, financiers, business partners and the general market.

The objective of the sale process was to maximise the value of the business by:

- Running a public competitive sale process to enhance competitive tension.
- Continuing to trade the business and maintain operational readiness to maximise revenue opportunities as the impact of COVID-19 lessened, and to allow a seamless transition to a new owner.
- Maintaining the business structure to provide optionality to interested parties.
- Providing certainty and confidence to stakeholders, including employees, suppliers, financiers, customers and interested parties, by executing an expedited well-defined process and timetable.

Given the financial position of the Virgin Group, the sale process we undertook was to identify any and all possible proposals for a sale of assets or undertaking, or DOCA proposal, in respect of the Virgin Group, a process we conducted publicly which culminated in three stages of offers being received with final binding offers being submitted on 22 June 2020. We advised all parties that registered their interest in the sale process that it was our intention to enter into binding agreements for the sale of the business on or by 30 June 2020, which we have done with Bain which concluded the sale process.

We are now in the process of completing the sale of the business to Bain, which will be done under an asset sale agreement unless creditors approve the Bain DOCA proposal as detailed in this report. We consulted with the creditor appointed COI throughout the sale process, who resolved in support of the decision to enter into a binding agreement for the sale of the business and provision of interim funding by Bain.

### 8.2 Engagement of advisors

Morgan Stanley (**MS**) was engaged by the Group prior to our appointment to undertake a strategic review of the business and its funding options, and as a result, had developed a comprehensive understanding of the Virgin Group business. The Group had also engaged Houlihan Lokey Inc (**HL**), under the same engagement terms, to work alongside MS during this process.

In consideration of the complexity of the business, its stakeholder environment and the timeframe for transaction completion, the services of MS and HL were retained as advisors (**Advisors**) to assist in the sale and/or recapitalisation of the Virgin Group during the voluntary administration period. Clayton Utz were engaged as legal advisors.

### 8.3 Communication with stakeholders

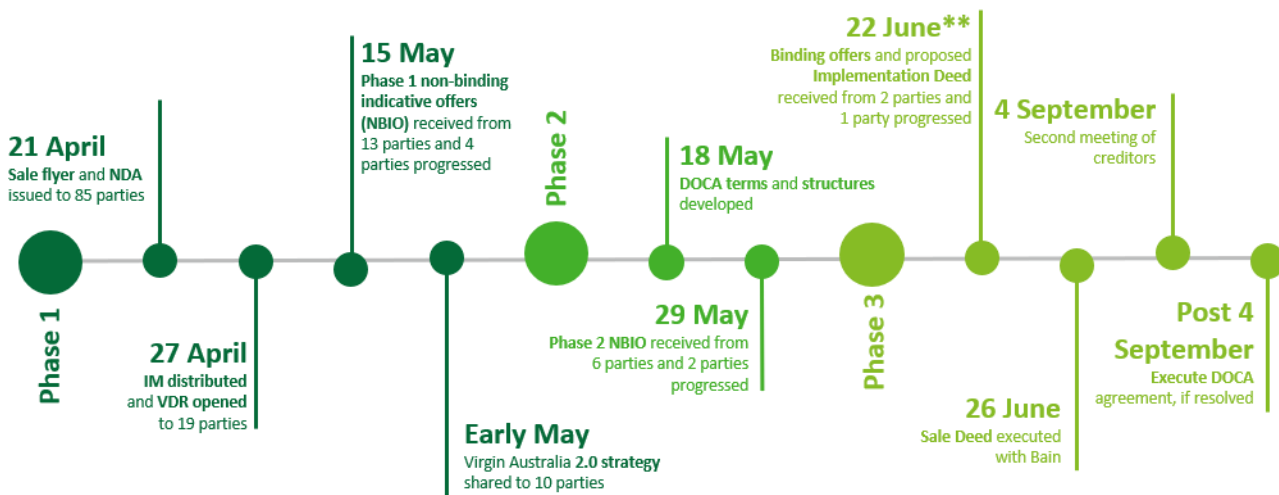
The Virgin Group has a large and complex stakeholder community including employees, unions, trade and financial creditors, governments, and regulators. During the administration we have proactively engaged with all stakeholder

groups and provided regular updates on the administration and sale campaign, including regular engagement with the COI and NCC.

## 8.4 Sale campaign

The process commenced 21 April 2020 with a flyer on the sale process and non-disclosure agreement (**NDA**) being issued to parties demonstrating appropriate interest and considered capable of completing a transaction. In addition, the business was advertised for sale in the Australian Financial Review and The Australian on 23 April 2020 seeking expressions of interest to be lodged with our advisors. There was substantial press coverage of the sale process. We received expressions of interest from 71 parties. The sale process was conducted over three phases during the two months following our appointment. The sale process concluded with binding transaction documents being entered into with one party, Bain on 26 June 2020.

Figure 18: Timeline of sale of business campaign



### 8.4.1 Phase 1

Following execution of an NDA, from 27 April 2020, 19 parties were provided with access to a virtual data room (**VDR**) containing key company information and documentation, including an information memorandum (**IM**) based on historical data. Subsequently in early May 2020, a business plan formulated by Management to restructure the Group (the Virgin Australia 2.0 Strategy) was introduced to the VDR.

Phase 1 of the sale process concluded on 15 May 2020 with the submission of non-binding indicative offers (**NBIO1**). The key requirements of the NBIO1 submission included:

- Form and quantum of the offer, including indication of value and a breakdown of expected value to creditors.
- Details of material commercial, operational and legal assumptions underpinning NBIO1.
- A summary proposed business plan.
- Proposed treatment of internal stakeholders including employees.
- Bidder identity and corporate structure (if needed).
- Confirmation that investment committee and Board approvals had been obtained or details of further such approvals that were required.
- Any further areas of key due diligence required.



Following receipt of the NBIO1s, the offers were assessed together with our Advisors. Factors forming the basis of our assessment included the value of the offer received including a bidder's access to funding, deal certainty and prior aviation and/or turnaround experience.

#### 8.4.2 Phase 2

Four parties were progressed to the second phase of the sale process with the requirement to submit a refined non-binding indicative offer (**NBIO2**) by 29 May 2020. The purpose behind Phase 2 was to engage with a smaller number of interested parties and allow them to lodge questions via the VDR, conduct further diligence and gain access to the additional information, which included detailed legal and tax vendor due diligence reports and the vendor financial model. The shortlisted parties also met with Management and a small number of key external stakeholders, including government, regulators and select airports.

Parties were requested to provide the NBIO2 using the same key requirements of the NBIO1. Together with our Advisors we assessed these updated offers and the factors we considered included:

- The proposed future business plan, including the scale of domestic, international and regional and VARA operations.
- Certainty around executing a transaction, including any conditions precedent to completion.
- The number of employees that would be retained.
- The assumption of contracts, aircraft leases and loans.
- The proposed return to each creditor group.
- Treatment of customer travel credits and Velocity Frequent Flyer loyalty point.
- Confirmation that investment committee and Board approvals had been obtained or details of further such approvals that were required.

We received six NBIO's in Phase 2, which included offers from two parties who had not been shortlisted. Bain and Cyrus Capital Partners LP (**Cyrus**), were selected for Phase 3 which was the final phase of the sale process.

#### 8.4.3 Phase 3

Phase 3 involved the sharing of more detailed financial and operational information, further workshops with Management and meetings with financiers, landlords, suppliers, unions and other stakeholders.

Phase 3 of the sale process concluded on 22 June 2020 with the submission of a binding bid. The key requirements of the binding bids were:

- An offer to acquire the business of the Group including a financial proposal and any non-price considerations.
- A detailed proposed business plan for the Group consistent with a bidder's due diligence to date.
- The proposed treatment for the employees, management team, fleet and carrier network.
- Treatment of any current or planned partners or meaningful business associates related to or intended to be related to the proposal.
- Disclosure of arrangements with contractual counterparties.
- A detailed timetable and transaction plan, including key objectives, with respect to other key stakeholders relevant for the period between execution of transaction documents and completion of a transaction.
- Evidence of FIRB approval and ACCC clearance.
- Proposed directors for the companies in Group and evidence of compliance with the relevant FIRB conditions.
- Evidence of committed funding to fund and complete the proposed transaction the subject of the offer.

During Phase 3 of the sale process we discussed the critical need for interim funding with the shortlisted parties. When an assessment was made of our expected liabilities as at 30 June 2020, it was determined that in the event all trading and

other liabilities incurred by us as the Voluntary Administrators were repaid at this time, there would be insufficient cash to continue to trade the business beyond 30 June 2020.

Whilst we had been successful with Management in reducing the cash burn/losses being incurred in continuing to trade the business we had not been successful in obtaining interim funding due to the lack of unencumbered assets available to provide as security for any such funding.

Both Bain and Cyrus indicated they would provide interim funding, sufficient to trade the business to completion of a transaction as part of their final binding proposals.

In the period leading up to the week of 22 June 2020 and prior to binding proposals being received both shortlisted parties advised separately that they had ongoing concerns with the 'ask' for significant interim funding and a commitment to the purchase of the business without confirmation they were exclusive. The reason conveyed to us for this was that if their proposal was to be selected, significant work would be required to be undertaken to restructure the business prior to the second meeting of creditors should the transaction progress by a DOCA. Both parties further advised they required certainty of a sale of the business in order to provide them with the ability to engage meaningfully with the Virgin Group's various contract counterparties.

We formed the view that given:

1. The significant cash constraints facing the Virgin Group;
2. The current and possible future impact of the COVID-19 pandemic on the business; and
3. The need to retain key customers, contracts, assets, employees and regulatory approvals to preserve the value of the business,

it was imperative to secure a satisfactory and binding transaction as soon as reasonably practicable, having regard to the scale and complexity of the business. Ensuring certainty and security of ongoing funding was critical, and if we had delayed executing a transaction until the second meetings of creditors, there was a very real risk that no transaction would ultimately have been achievable. It was (and remains) our view that any delay in that process, or uncertainty as to an outcome, would have seriously jeopardise the prospects of the business of the Virgin Group continuing as a going concern.

Having regard to the concerns raised separately by shortlisted parties, we agreed a structure for the sale transaction which achieved the objectives of the voluntary administration and met the shortlisted parties' requests for greater certainty given the financial commitments that we required.

As such, it was proposed and agreed that the parties would enter into a binding sale and implementation deed which agreed the sale of the business and the Administrators exercising their power of sale under section 437A(1)(c) of the Act, and for the sale to be completed by an asset sale agreement unless creditors approved DOCAs at the second meeting of creditors.

Shortlisted bidders were required to submit their final binding offers on terms which included:

1. Interim funding of \$125m to enable the business to continue to trade until completion of the transaction;
2. Economic risk being assumed by the purchaser from 1 July 2020; and
3. Evidence the purchasing entity had committed and available funding to complete the overall transaction as well as the provision of security in the form of a guarantee or an indemnity. In the case of Bain, a Payment Undertaking Deed of \$750m was provided as security which was available to be called upon in the event of a breach of the Sale Deed.

## 8.5 Offers

On 22 June 2020 we received binding offers from Bain and Cyrus. We met with both Bain and Cyrus (together with their financial and legal advisers) to step through their proposals and proposed business plans for the business, as well undertaking a detailed assessment of their binding proposals and proposed transaction. Both offers included:

- Evidence of available and committed funding.
- Transaction documents for the sale of the business and assets of the Companies.
- Provision of sufficient interim funding to enable the business to continue to trade to completion of a transaction.
- Details of any conditionality and conditions precedents.
- The bidder assuming the economic risk of trading the business from 1 July 2020. This was important as the business has been incurring losses and was forecast to continue to do so.

In addition to the binding offers received from Bain and Cyrus we also received several proposals from other interested parties, including a proposal received on 24 June 2020 from two Bond Holders being Broad Peak Investment Advisers Pte Ltd (for and on behalf of Broad Peak Master Fund II Limited and Broad Peak Asia Credit Opportunities Holdings Pte. Ltd) and Tor Investment Management (Hong Kong) Ltd . This proposal is dealt with in **section 8.7**.

On 25 June 2020 Cyrus submitted a revised and improved binding offer. They then subsequently withdrew their offer on 26 June 2020, at a time when we were in the process of finalising binding documentation with Bain for the sale of the business.

After consideration of all of the offers received, we considered transaction certainty, security of funding and expedited assumption of economic risk to be essential commercial elements of a sale, in addition to the estimated returns to unsecured creditors and the ability of the purchaser to adequately recapitalise the business going forward.

## 8.6 Bain offer and transaction structure

On 26 June 2020 we exercised our power of sale as Voluntary Administrators under section 437A(1)(c) of the Act and signed binding transaction documents for the sale of the business to Bain.

The reason for executing binding contracts at this time was to:

- Secure interim funding necessary to continue trading while the sale process could be completed.
- Provide security and certainty of completion of the sale to Bain in return for their interim funding and commitment to assume economic risk for trading liabilities from 1 July 2020.
- As much as was possible, provide certainty to stakeholders including customers, employees and creditors as to the future of the business.

At the time of the signing of the Sale Deed, Bain agreed to provide \$125m in interim funding for the continued operation of the Group and from 1 July 2020 became responsible for all liabilities incurred by the Group from trading the business. This funding and financial commitment were necessary to ensure the continued trading of the Group.

The Sale Deed is to be completed by an ASA unless creditors approved DOCAs at the second meeting of creditors. The proposed DOCAs as presented in this report, creates certainty about the future of the business and enables completion to occur more expeditiously than by an ASA. The Bain DOCA proposal also provides a better return to creditors than if the sale is completed through the ASA or the Companies are placed into liquidation and the assets realised on a piecemeal basis.

Under their offer Bain are providing:

- Certainty of the continuation of Virgin as Australia's second domestic airline.
- Employee entitlements to be covered in full. Continuing employees' entitlements are assumed and any employees not continuing will receive a payout of their entitlements including redundancy entitlements in full by Bain. In the event of a liquidation these costs have been estimated at \$448m.
- All travel credits/unearned travel revenue to be assumed in full. Gross amount \$604m, less restricted cash of \$210m resulting in a net \$394m.

- Assumption of the Velocity Group Loan of \$150m.
- Renegotiation of major contracts and required aircraft leases.
- Provision of between \$447.2m and \$572.2m to be paid into a creditors' trust to be paid to unsecured creditors of the Companies, before the Voluntary Administrators' excess cash estimated at between \$40.6m and \$14.8m.
- The assumption of certain liabilities accrued by us during our appointment up to 30 June 2020 of approximately \$35m including unearned revenue and accrued leave entitlements.

Should completion of the sale of the Group to Bain proceed by an ASA, this will involve the transfer of the business into a new corporate structure owned by Bain with the existing Companies being placed into liquidation. By contrast, the DOCAs require transfer of ownership in Virgin Australia Holdings Limited (VAH) to Bain by way of the transfer of shares in VAH to Bain. The key terms and metrics under both options are presented below.

**Table 26: Summary of Bain offer under DOCA and ASA**

Key term	DOCA structure	ASA
Cash contribution Pool A, B, C and D Funds of the Bain DOCA proposal	<ul style="list-style-type: none"> <li>• Under the Bain DOCA proposal the value of the cash contribution after repayment of the interim funding is \$447.2m to be paid into the Creditors' Trust, plus</li> <li>• Any surplus funds held by the Voluntary Administrators after costs or less any deficit.</li> </ul>	<ul style="list-style-type: none"> <li>• Under the ASA the cash contribution will be \$347.2m after repayment of the interim funding, less any costs of completing the sale under the ASA exceeding \$100m, capped at \$100m. Under the ASA the cash contribution is expected to be between \$322.2m and \$247.2m plus</li> <li>• Any surplus funds held by the Voluntary Administrators after costs or less any deficit.</li> </ul>
Contingent value entitlement	<ul style="list-style-type: none"> <li>• The proposal allows for additional consideration of \$125m in the event the earning of the Companies meets certain hurdles in either or both FY22 and FY23: <ul style="list-style-type: none"> <li>– \$62.5m if EBITDAR in FY22 is greater than \$1 billion</li> <li>– \$62.5m if EBITDAR in FY23 is greater than \$1 billion.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The ASA allows for additional consideration of \$25m in the event the EBITDAR of the Companies is greater than \$1 billion in FY22, but only to the extent that additional costs to completing the sale exceeds \$175m. We assumed no recovery in our analysis.</li> </ul>
Funding and commitment	<ul style="list-style-type: none"> <li>• Interim funding of \$125m to fund trading operations until the sale is completed with the option to seek further funding if required.</li> <li>• Assumption of economic risk for trading from 1 July 2020.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as DOCA structure.</li> </ul>
Conditions precedent	<ul style="list-style-type: none"> <li>• The key conditions to the execution of the Bain DOCA proposal are: <ul style="list-style-type: none"> <li>– Approval of the Bain DOCA proposal at the second meeting of creditors.</li> <li>– ASIC issuing consents and approvals or such other acts which is agreed in writing as reasonable or necessary or desirable to implement the sale, including the ASIC Relief.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• The key conditions to the completion of the ASA are: <ul style="list-style-type: none"> <li>– Certain agreed pre-completion steps are undertaken, designed to enable the assignment of employees, agreements and assets to entities owned by Bain.</li> <li>– The transfer to the purchasing entity: <ul style="list-style-type: none"> <li>o the AOCs and all current operating specifications associated with or required to operate the AOCs</li> </ul> </li> </ul> </li> </ul>

Key term	DOCA structure	ASA
	<ul style="list-style-type: none"> <li>– The Deed Administrators obtaining the order from the Court in respect to the transfer of shares in VAH to Bain under section 444GA of the Act.</li> <li>– The Deed Administrators obtaining the Chapter 15 Order to allow recognition of the DOCA in the US.</li> <li>– The Creditors' Trust is executed.</li> </ul>	<ul style="list-style-type: none"> <li>o At least 90% of the peak and non-peak slots for Brisbane, Sydney and Perth airports.</li> <li>o A CASR Part 145 maintenance organisation issued by Civil Aviation Safety Authority under the Civil Aviation Act 1988 (Cth).</li> <li>o A transport security program approved under the Aviation Transport Security Act 2004 (Cth).</li> <li>o An international airline licence granted by the Secretary of The Department of Infrastructure, Transport, Regional Development and Communications under the Air Navigation Act 1920 (Cth).</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• All continuing employees to be paid in the normal course and the entitlements for any employees made redundant to be paid in full.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as DOCA structure</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Bain will provide customers currently holding, or are entitled to a Conditional Credit, with a new Future Flight credit for an amount equal to any remaining value on their Conditional Credit. Future Flight credits will be available for booking flights up to 31 July 2022 with travel valid until 30 June 2023. Bookings using the Future Flight credit will be subject to seat availability within the fare class reserved for Future Flight credits on the selected flight and will be subject its own terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as DOCA structure</li> </ul>
Velocity Group Loan assumed	<ul style="list-style-type: none"> <li>• Agreement to assume the liability for the Velocity Group Loan of \$150m plus interest.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as DOCA structure</li> </ul>
Contract (including aircraft, leases, property)	<ul style="list-style-type: none"> <li>• Assumption of certain major contracts and required aircraft leases, reducing the level of unsecured creditors of the Companies.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as DOCA structure</li> </ul>
Creditors	<ul style="list-style-type: none"> <li>• The return each creditor receives will depend on their eligibility to participate as a beneficiary in the four Trust Fund pools in the Creditors' Trust Fund. This is further outlined in <b>section 10</b> and <b>10.2</b>.</li> </ul>	<ul style="list-style-type: none"> <li>• The return each creditor receives will be based on the asset realisations and quantum of creditor claims within each DOCG group and any guarantees the creditor may have to claim from a guarantor entity.</li> </ul>
Estimated timing of payment	<ul style="list-style-type: none"> <li>• Assuming that there are no delays in adjudicating the claims of creditors it is estimated that an interim distribution to admitted creditors will be paid 6 to 9 months following the creation of the Creditors' Trust.</li> </ul>	<ul style="list-style-type: none"> <li>• Assuming that there are no delays in adjudicating the claims of creditors it is estimated that an interim distribution to admitted creditors will be paid 12 to 18 months following the completion of the ASA.</li> </ul>

Key term	DOCA structure	ASA
	<ul style="list-style-type: none"><li>The timing of a final dividend will be dependent on the receipt of any Contingent Value Entitlement.</li></ul>	<ul style="list-style-type: none"><li>This takes into consideration the additional time required to complete the ASA as well as time required for the liquidator to investigate any possible voidable transactions and insolvent trading claims.</li><li>The timing of a final dividend will be dependent on the receipt of any Contingent Value Entitlement.</li></ul>

The Contingent Value Entitlement referred to above was negotiated with Bain as a potential upside in the sale transaction consideration. However, given the ongoing status of the current global airline industry, the second wave of COVID-19 impacts since the transaction was entered into, and the expected reduced size of the business post-completion, we do not presently expect the business is likely to achieve the level of earning required for the Contingent Value Entitlement to be received.

Not only does the completion of the sale under the Bain DOCA proposal result in a greater return to all creditors given the higher cash contribution outlined above, but it also provides greater certainty as to a completion occurring, liquidation being avoided and reducing the expected time to complete the sale.

We estimate the cost of completing the sale of the business by the proposed DOCAs will be less than by the ASA. Further details of the terms of the DOCAs are set out in **sections 9 and 10**.

Importantly, entities associated with Bain have guaranteed Bain's performance under the sale agreement in the form of a Payment Undertaking Deed (**PUD**) of \$750m.

As disclosed on the ASX on 5 August 2020, the proposed restructured business operations of the Group under Bain's ownership will be as follows:

- Reduction in cost base to meet sector uncertainty and ongoing COVID-19 market conditions.
- Ongoing employment for approximately 6,000 staff when the market recovers with 3,000 roles impacted.
- Simplified all-Boeing 737 mainline fleet and the retention of the regional and charter fleet, but removing ATR, Boeing 777, Airbus A330 and Tigerair Airbus A320 aircraft types.
- Long-haul international flying important part of plan but suspended until global travel market recovers.
- Tigerair Australia brand discontinued, but with the relevant AOC and necessary support maintained to provide option for ultra-low-cost operations when market recovers.
- Continued commitment to regional and charter flying.

## 8.7 Alternative proposals

As we advised at the first meeting of creditors on 30 April 2020, the Voluntary Administrators have power, pursuant to section 437A of the Act, to sell all or part of the business and assets of the Virgin Companies at any time, including prior to the Second Meetings. Immediately following our appointment, and as described at **section 8.4** in this report, we undertook a comprehensive sale process that culminated in the entry into the transaction with Bain. In the first to fourth COI meetings, we kept the COI updated on the progress of the sale process.

Throughout the Sale Process, we have at all times been focused on achieving the best outcome for the Companies' creditors as a whole. In our view, the comprehensive and competitive sale process that we have undertaken has achieved the best outcome for creditors, including by creating transaction certainty at a critical time so that liquidation could be avoided and a return to unsecured creditors achieved.

**Section 8.6** of this report describes the sale transaction entered into with Bain on 26 June 2020 following the conclusion of the sale process.

As creditors have previously been advised (including via our circular to creditors dated 17 July 2020) and as set out in this report, we have exercised our power of sale pursuant to section 437A of the Act and have entered into a transaction with Bain for the sale of the Virgin Group's business. As such, it is not possible for a competing proposal for the sale of the Companies' assets or otherwise dealing with the assets to be completed. Currently, no court application has been commenced by any potential DOCA proponent to set aside the asset sale to Bain or the Bain transaction more generally.

At the COI meeting held 9 July 2020, a resolution was passed unanimously:

*"...approving the Administrators actions of entering into binding agreements for the sale of the Virgin Australia business and to obtain interim funding enabling the business to continue to trade".*

Exclusivity provisions form part of the binding sale agreements with Bain, which is normal practice for such transactions. These provisions prevent us from considering or progressing discussions with respect to the sale or dealing with the assets subject to the agreement with any other party.

As we have previously advised creditors, the Second Meetings will determine not *who* the business is sold to, but *how* the completion of the sale will occur, that is, by way of an asset sale or DOCA. If the Bain DOCA proposal is not approved by creditors at the Second Meeting, the sale to Bain will be completed under an asset sale agreement.

Prior to entering into the binding agreement with Bain, we received a number of additional proposals for the sale or recapitalisation of the Virgin Group's business, all of which we considered. However, with the exception of the final offers received from Bain and Cyrus Capital, the other proposals were either highly conditional or contained little or no evidence of committed funding to enable a transaction to be completed, nor provided interim funding. In these circumstances, we were unable to take those proposals forward given their lack of certainty and conditionality.

One of those proposals was received from BP&T on Wednesday 24 June 2020. The BP&T proposal sought to recapitalise the business by way of a debt for equity swap, including new financing (capital raising) of \$800m by way of convertible note, in which creditors could participate (i.e. contribute). We considered the proposal and the draft transaction documents received from BP&T at the time of their receipt but determined that the proposal was not one we could take forward due to its highly conditional nature, lack of certainty and no evidence of committed funding.

Despite the sale process concluding with execution of the Bain proposal (which was announced to the market and notified to BP&T on 26 June 2020), a further proposal was submitted, unsolicited, from BP&T under a covering letter dated 20 July 2020. This proposal was on substantially similar terms to the 24 June 2020 proposal. In addition to these proposals, we understand that a summary proposal has been circulating in the market that has not been provided to the Administrators by BP&T. The copies of the summary proposal seen by us appear to be in substantially the same form as the earlier versions of the proposals which have been considered and rejected by us as being highly conditional and uncertain.

On 21 August 2020, BP&T formally withdrew each of their DOCA proposals such that, as at the date of this report, there is no proposal being advanced by BP&T in respect of the Virgin Group. A summary of their proposal is contained at **Appendix K**.



## 9 Deed of Company Arrangement

### 9.1 Introduction

As stated in **section 8.6**, we executed a Sale Deed that provides for completion of the sale of the Virgin Group by either a DOCA structure or an ASA. Completion of the sale by a DOCA structure is subject to resolutions being passed by creditors at the second meeting of creditors and the Court making orders for the transfer of shares in VAH.

The DOCA structure proposes 10 DOCAs covering all entities under administration. For companies subject to a DOCA, a single Creditors' Trust will come into effect. The Creditors' Trust is described in the following section of this report.

A copy of Bain's proposal for the DOCAs can be found on the Deloitte Virgin website: <http://www.deloitte.com/au/virgin>.

### 9.2 DOCA structure

Bain has proposed:

- A single pooled DOCA relating to:
  - Each entity that is bound by DOCG1
  - 14 non-operational dormant entities that are not bound by DOCG1(collectively, the **Primary DOCA**).
- A single pooled DOCA relating to each entity that is bound by DOCG2 (**International DOCA**).
- 8 individual DOCAs for 8 entities which are not bound by any deed of cross guarantee and carry on operations and/or have creditors (collectively, the **Subsidiary DOCAs**). These DOCAs will be grouped based on the assets and liabilities in each, as follows:
  - A pooled DOCA for SH20141 and SH20142 which have the same financial creditors (**Subsidiary DOCA 1**).
  - Individual DOCAs for each remaining company that are not party to the Primary DOCA, International DOCA or Subsidiary DOCA 1 (**Subsidiary DOCAs 2 to 8**).

Collectively this proposal will be referred to as the **Bain DOCA structure** or **Bain DOCA proposal**. The Companies for which a DOCA is being proposed by Bain will be referred to as the **DOCA Companies**.

The below table outlines the entities included within each DOCA group.

**Table 27: Summary of DOCAs by entity**

	Entity	DOCG classification	DOCA category
1.	VAH	DOCG1	Primary DOCA
2.	VAAH	DOCG1	Primary DOCA
3.	VAA	DOCG1	Primary DOCA
4.	VT	DOCG1	Primary DOCA
5.	VB Leaseco	DOCG1	Primary DOCA
6.	VAH Newco 1	DOCG1	Primary DOCA
7.	Tiger	DOCG1	Primary DOCA
8.	ACN 098 904 262	DOCG1	Primary DOCA
9.	VARA	DOCG1	Primary DOCA

	Entity	DOCG classification	DOCA category
10.	VAC	DOCG1	Primary DOCA
11.	VA Holidays	DOCG1	Primary DOCA
12.	VB Ventures	DOCG1	Primary DOCA
13.	VB Investco	DOCG1	Primary DOCA
14.	VAH Newco 2	DOCG1	Primary DOCA
15.	VAIO	Non-DOCG entity	Primary DOCA
16.	VBNC5	Non-DOCG entity	Primary DOCA
17.	SH20171	Non-DOCG entity	Primary DOCA
18.	VB PDP	Non-DOCG entity	Primary DOCA
19.	VLH20081	Non-DOCG entity	Primary DOCA
20.	737 20121	Non-DOCG entity	Primary DOCA
21.	VARL	Non-DOCG entity	Primary DOCA
22.	VA Holdco	Non-DOCG entity	Primary DOCA
23.	SH20161	Non-DOCG entity	Primary DOCA
24.	VLH20082	Non-DOCG entity	Primary DOCA
25.	737 20122	Non-DOCG entity	Primary DOCA
26.	VA20131	Non-DOCG entity	Primary DOCA
27.	VA Leaseco	Non-DOCG entity	Primary DOCA
28.	SH20162	Non-DOCG entity	Primary DOCA
29.	VAIH	DOCG2	International DOCA
30.	VAIA	DOCG2	International DOCA
31.	Tiger 1	DOCG2	International DOCA
32.	VSEA	DOCG2	International DOCA
33.	SH20141	Non-DOCG entity	Subsidiary DOCA 1
34.	SH20142	Non-DOCG entity	Subsidiary DOCA 1
35.	SH20172	Non-DOCG entity	Subsidiary DOCA 2
36.	SH20181	Non-DOCG entity	Subsidiary DOCA 3
37.	VA20191	Non-DOCG entity	Subsidiary DOCA 4
38.	VA20192	Non-DOCG entity	Subsidiary DOCA 5
39.	VB Leaseco2	Non-DOCG entity	Subsidiary DOCA 6
40.	VB 800	Non-DOCG entity	Subsidiary DOCA 7
41.	SH20173	Non-DOCG entity	Subsidiary DOCA 8

The Bain DOCA proposal will allow for the operating business to be sold as a going concern and an estimated greater return to creditors when compared to the Companies being placed into liquidation and the sale completed by the ASA.

**Table 31** in **section 11** outlines the dividend to unsecured creditors under the Bain DOCA structure.

All creditors of the DOCA Companies will have a claim against funds held in a single Creditors' Trust. That is, a creditor of one of the DOCA Companies will be treated under the DOCA as a creditor of all the DOCA Companies, without the need for creditors to prove their claim separately against each entity.

### 9.3 Key features

A summary of the key features for each DOCA is outlined below.

#### 9.3.1 Key terms of the DOCAs

The key terms of the DOCAs are as follows:

- The terms of the DOCAs are such that, for each to be executed, a resolution must be passed by the creditors of each Company in favour of each DOCA.
- The Voluntary Administrators will become the Deed Administrators for each DOCA.
- The Primary DOCA is not contingent on the approval of the International DOCA or any of the Subsidiary DOCAs.
- If the Primary DOCA is approved but the International DOCA or any Subsidiary DOCAs are not approved (or the conditions under the International DOCA or any Subsidiary DOCAs are not satisfied), the assets of the relevant companies subject to the International or Subsidiary DOCAs will be sold to Bain by the ASA.
- If the Primary DOCA is not approved (or the conditions to the Primary DOCA are not satisfied), no distributions will be made under the Subsidiary DOCAs, but the release of claims under a Subsidiary DOCA will not limit a creditor's rights in respect of any claim in the liquidation of another DOCA company.
- The International DOCA and the Subsidiary DOCAs are conditional on approval of the Primary DOCA but if the Primary DOCA is not approved (or the conditions to the Primary DOCA are not satisfied), Bain will have the option of waiving that condition and proceeding with an acquisition of the shares in the relevant International or Subsidiary Companies under the ASA.
- The Deed Administrators will continue to trade the business to allow for certain tasks to be met prior to the DOCA completion (we note our comments in **section 10** about completion risks and how we have sought to limit their impact).
- Completion of the International DOCA and Subsidiary DOCAs will occur simultaneously with the Primary DOCA.
- There are a number of conditions to the completion of the Primary, International and Subsidiary DOCAs. Details of the conditions and the steps to completion for each DOCA has been outlined in **section 10.3**.
- The Creditors' Trust will be established upon completion of the Primary DOCA and will comprise of four pools of funds. This is discussed further in **section 10.2.1**.
- The Deed Administrators are required to facilitate the application to Court to seek orders for the transfer of the shares in VAH to Bain. This is further discussed at **section 9.4** below.

#### 9.3.2 Creditor claims

The effect of the Bain DOCA structure and Creditors' Trust will be to release the claims by creditors against the relevant DOCA Companies on completion of each DOCA. Creditors with eligible creditor claims will become beneficiaries of the Creditors' Trust and be paid a dividend from the relevant pool in the Trust Fund. Details of the funds available in each pool and the creditors entitled to a distribution has been outlined in **section 10.2.1** and a summary is set out below.

#### 9.3.3 Creditors' Trust fund under the Bain DOCA structure

Under the Bain DOCA structure, funds will be transferred into the Creditors' Trust for distribution to creditors and divided into four pools with different eligibility criteria:

- The funds in **Pool A** total between \$343m and \$468m including an estimate of excluded cash as detailed in **section 10.2.1** and will be available for creditors in the Primary DOCA, International DOCA and Subsidiary DOCA companies (with the exception of critical suppliers).
- The funds in **Pool B** total \$10m. If creditors resolve to accept both the Primary and the International DOCAs, then creditors in the International DOCA will be eligible to receive a distribution from Pool B, which they would not otherwise receive.

- The funds in **Pool C** total \$94.1m and will be available for the critical suppliers. Critical suppliers have been deemed that because there are no alternative service providers and they are critical for the future of the airline to continue operating. Suppliers who are deemed critical have been made aware of their return.
- The funds in **Pool D** will total \$23.2m and will be available for the creditors of the International DOCA, however only in the event that the International DOCA completes but the Primary DOCA does not.

## 9.4 Share transfer to Bain

The Primary DOCA proposes the transfer of 100% of the shares held by VAH to Bain. To do this, the Primary DOCA requires the Deed Administrators to make an application to Court seeking leave under section 444GA of the Act (**Section 444GA Process**).

Section 444GA of the Act provides that a deed administrator may transfer shares in the company to which he or she is appointed with either the written consent of the owner of the shares or the leave of the Court. The Court will only grant leave if it is satisfied that the transfer of shares will not unfairly prejudice the interests of shareholders of the company. We have engaged an independent expert to value the shares in VAH. Shareholders, creditors or other interested parties will have the opportunity to be heard at the application. The Section 444GA Process will involve:

- Filing the application in Court with supporting affidavits.
- Providing information to shareholders, including an explanatory statement about the application and the independent expert's report on the estimated value, if any, of the shares.
- A Court hearing of the application, which may involve appearances from shareholders or any other parties who may oppose the application.
- A decision by the Court either granting or refusing leave for the transfer of the shares.

To enable the transfer of shares to take place, the Deed Administrators will also be required to obtain ASIC relief from the takeover provisions contained in Chapter 6 of the Act, which apply where a party is increasing its voting interest beyond 20%, as well as any waiver from the ASX that may be required in connection with the transfer of the shares.

Based on our analysis of the financial position of the Group we believe that the Court will have reasonable grounds to grant relief pursuant to section 444GA of the Act. However, this is ultimately a decision of the Court. If the Primary DOCA is approved at the second meeting of creditors, we expect the originating process will take up to two months to complete following the second creditors' meeting. The length of the application will depend on whether the application is contested.

The Sale Deed provides that if the Court does not grant relief under section 444GA of the Act, then the DOCAs will be terminated and the assets of each company will be sold to Bain under the ASA.

## 9.5 Effect on unsecured creditors

The following provisions outlined below in **sections 9.5.1 to 9.5.8** relate to the Primary DOCA, the International DOCA and Subsidiary DOCAs contain provisions that are in all material respects on the same terms.

### 9.5.1 Released claims

The Primary DOCA will release all debts and claims that would be admissible to proof against a company in the Primary DOCA if that company had been wound up on the date of appointment of the Voluntary Administrators, including:

- To the extent permissible by law, any fine or penalty that would be provable but for section 553B of the Act.
- The claims of secured creditors (without limiting the rights of secured creditors under section 444D(2) of the Act).
- The claims of lessors (without limiting the rights of lessors under section 444D(3) of the Act).
- All claims under the 2007 ASIC deed of cross guarantee of which VAH is the head company.

In return for the releases, creditors will obtain an entitlement to receive a distribution from the relevant pool of the Creditors' Trust fund (except in respect of customers who have a claim for a Future Flight Credit, as discussed in **section 9.5.7**). This is further discussed at **section 10.2.1**.

#### 9.5.2 Excluded claims

The Primary DOCA proposes the claims below be excluded from participating in the Creditors' Trust. These claims will remain with the Companies and not be extinguished by operation of the relevant DOCA:

- Claims in respect to continuing employees for anything (including for any amounts referred to in section 556(1)(e), (g) or (h) of the Act) other than claims for historical underpayment of superannuation or wages (refer **section 9.5.3** below).
- Claims of employees under the workers' compensation self-insurance scheme in which each of the Primary DOCA companies are participants.
- Claims in respect of staff travel entitlements, being entitlements to refunds or credits arising prior to the date of appointment of Voluntary Administrators under the Virgin Australia Team Travel Leisure Policy.
- Claims in respect to certain excluded contracts (refer to **section 9.5.4** below).
- Insured claims (refer to **section 9.5.5** below).
- Intragroup claims (refer to **section 9.5.6** below).
- Any other claim that Bain nominates in writing to the Deed Administrators as an excluded claim prior to completion (noting that the counterparty would have to agree to be considered as excluded for the purpose of the DOCA).

#### 9.5.3 Effect on employees

The continuing employees are those who are employed by a company in the Primary DOCA at the date of the DOCA and who remain employees upon completion of the Primary DOCA.

As noted in **section 3.4.4**, the Bain DOCA structure does not have any impact on continuing employees. Under the DOCAs proposed by Bain or sale of the business by an ASA, all employee entitlements will either be adopted for continuing employees or paid in full for those employees made redundant.

In the event an employee has an unpaid claim against the Companies, these claims will be transferred to the Creditors' Trust as beneficiaries and that employee will retain their priority to receive an amount equal to what they would have been entitled to if the property of the Companies had been applied in accordance with sections 556, 560 and 561 of the Act. Bain is responsible for funding all employee entitlements of employees who cease to be employed by a Primary DOCA Company between 1 July 2020 and completion of the Primary DOCA.

In the event the Bain DOCA proposal is unable to be completed, nor the sale of the business by an ASA, as stated in **section 3.4.4**, it is likely there will be insufficient assets to pay employees their outstanding entitlements in full. The FEG scheme can only be accessed when a company goes into liquidation. We note that how employees vote at the Second Meeting does not affect their eligibility to make a claim with FEG if this event was to occur.

#### 9.5.4 Excluded contracts

Each DOCA contains a list of contracts (which includes aircraft finance contracts and leases) to which a Primary DOCA, International DOCA or Subsidiary DOCA company is party to and is currently intended to be excluded from the relevant DOCA.

It is intended that these contracts will remain on foot (and may be subject to varied terms) and that the liabilities under these contracts will not be extinguished under the relevant DOCA, subject to the counterparties agreeing to waive termination and default rights.

#### 9.5.5 Insured claims

Insured claims will be excluded from the Primary DOCA. An insured claim is a claim which a creditor has against a Company subject to the Primary DOCA for which they would have received priority in the event of a liquidation under section 562 of the Act.

This is a claim where:

- The Company subject to the Primary DOCA is insured against the claim under a contract of insurance entered pre-appointment.
- An amount in respect of that claim would be payable by the insurer to a Company subject to the Primary DOCA under a contract of insurance. However, only to the extent that part of the claim would be discharged by the payment from the insurer and provided the creditor indemnifies the Company subject to the Primary DOCA in respect to all costs and expenses incurred in connection to the claim.

#### 9.5.6 Intragroup claims

The Primary DOCA contains a schedule of intragroup claims (being claims as between entities in the Consolidated Group) that will not be released under the Primary DOCA but will be excluded from receiving a distribution from the Creditors' Trust.

#### 9.5.7 Future flight credits

Creditors who have claims for refunds or other monetary compensation for or in respect of the following will be released under the Primary DOCA, with the relevant creditors to receive an entitlement to a Future Flight Credit from completion of the Primary DOCA in exchange for the release:

- Flights or holiday packages operated or sold by or on behalf of a company in the Primary DOCA that were booked and paid for prior to the date of appointment of the Voluntary Administrators have been cancelled as at the date of the Primary DOCA and where that creditor is entitled (whether under the terms of the relevant policy or as a result of a direct communication to that creditor by or on behalf of a company in the Primary DOCA), immediately prior to completion of the Primary DOCA, to a Conditional Credit.
- Flights or holiday packages operated or sold by or on behalf of a company in the Primary DOCA that were booked and paid for prior to the date of appointment of the Voluntary Administrators and which are cancelled after the date of the Primary DOCA or after completion of the Primary DOCA.
- Flights or holiday packages operated or sold by or on behalf of a company in the Primary DOCA that were booked and paid for prior to the date of appointment of the Voluntary Administrators which were cancelled prior to the date of appointment and where the creditor had, prior to the date of appointment, been issued with a travel credit in accordance with that Primary DOCA company's terms and conditions applicable as at the date such credit was issued.
- Expenses incurred in connection with a delayed or cancelled flight or holiday package operated or sold by or on behalf of a company in the Primary DOCA, which was booked prior to the date of appointment of the Voluntary Administrators, or ancillary services paid for or in connection with a delayed or cancelled flight or holiday package operated or sold by or on behalf of a company in the Primary DOCA that was booked prior to the date of appointment of the Voluntary Administrators where that creditor is entitled (whether under the terms of the relevant policy or as a result of a direct communication to that creditor by or on behalf of a company in the Primary DOCA), to a Conditional Credit.
- Service related incidents arising in connection with a flight or holiday package operated or sold by or on behalf of a company in the Primary DOCA, which was booked prior to the date of appointment of the Voluntary Administrators, where the relevant creditor is entitled (whether under the terms of the relevant policy or as a result of a direct communication to that creditor by or on behalf of a company in the Primary DOCA), immediately prior to completion of the Primary DOCA, to a Conditional Credit.
- Deposits paid to and held by, a company in the Primary DOCA prior to the date of appointment of the Voluntary Administrators in respect of a group booking for flights operated or sold by or on behalf of a company in the Primary DOCA which have been cancelled or are cancelled after the date of the Primary DOCA.

#### 9.5.8 Non-participating claims

The following claims will be released under the Primary DOCA but will not be entitled to any distribution from the Creditors' Trust Fund or other payment:

- Claims that are 'subordinate claims' within the meaning of section 563A of the Act, being claims for debts owed by the company to a person in the person's capacity as a member of the company (whether by way of dividends, profits or otherwise) or any other claim that arises from buying, holding, selling or otherwise dealing in shares in the company.
- Any claim by a company in the Primary DOCA, or any claim of a related body corporate of a company in the Primary DOCA, against another company in the Primary DOCA which is not an excluded claim.
- Any future flight credit claims (as described in **section 9.5.7** above).
- Any claim in respect of which the relevant creditor has agreed in writing with the Voluntary Administrators, the Deed Administrators or the relevant company in the Primary DOCA not to participate in distributions from the Creditors' Trust fund.

#### 9.6 End date

The Primary DOCA will include a date (30 November 2020) by which conditions have to be satisfied prior to completion. This date can be extended with the agreement of both the Deed Administrators and Bain.

If the Primary DOCA has not completed by the end date, the Deed Administrators will convene a meeting to consider the future of the Primary DOCA Companies. The end date is the earlier of the date under which the Sale Deed is terminated in accordance with its terms or any other date as agreed in writing between the Voluntary Administrators and Bain.

#### 9.7 ASA

In circumstances where the Bain DOCA proposal is not approved by creditors at the second meeting, the sale of the business will complete by way of an asset sale. In these circumstances, we will adjourn the second meeting and the asset sale, which is subject to only limited conditions, will be completed during the period of adjournment. If completion of the sale has not occurred by the time the meeting recommences, or certain assets and contracts are not transferred or novated, these matters will be completed after the meeting. It is likely the Companies would be placed into liquidation at the adjourned meeting.

#### 9.8 Conclusion

The Bain DOCA proposal provides ongoing employment for the majority of employees and continued trading with creditors. The Bain DOCA proposal provides a higher return to creditors compared to the Companies being placed into liquidation. This includes in circumstances where the sale of the business to Bain is completed by an ASA or in circumstances where no sale of business is achieved and the Group ceases to trade.

## 10 Creditors' Trust

### 10.1 Purpose

A creditors' trust is a mechanism used to accelerate a company's exit from external administration. A creditors' trust provides for a trust to be formed to deal with the claims of creditors while allowing the return of the company back to the directors or to the buyer of the business without them having to operate with the term "Subject to Deed of Company Arrangement" after the company's name.

Under a DOCA, creditors' rights are regulated by both the terms of the DOCA and the provisions of the Act (which deal with such matters as the right of creditors to appeal against a rejection of a proof of debt).

Under a creditors' trust, the rights of creditors will transform into the rights of a beneficiary under the terms of the trust instrument with any additional rights under the relevant trust legislation such as the Trustee Act 1925 (NSW).

The Bain DOCA structure proposes the creation of a single Creditors' Trust to deal with the combined creditor claims of each company in voluntary administration. The single Creditors' Trust will comprise of four pools of funds as outlined in **section 10.2.1**.

We consider the Bain DOCA structure with a single creditors' trust to be in the best interests of all creditors as this structure is an integral part of the proposal, with the proposal providing the highest return to creditors, and no creditor will be unfairly prejudiced by the arrangements contemplated in the Creditors' Trust. The single Creditors' Trust will also allow for a more efficient, less costly and quicker turnaround for a distribution to creditors.

Creditors need to be aware that while we have taken steps to protect the interests of creditors by ensuring that creditors' claims are not released and each DOCA does not complete until the relevant conditions are met, creditors should understand that their rights under a creditors' trust are different to their rights under a DOCA. The differences are discussed in the sections below.

### 10.2 Proposed Creditors' Trust

A single Creditors' Trust will be established on completion of the Primary DOCA, or on completion of the International DOCA in the event that Bain elects to proceed with the International DOCA in circumstances where the Primary DOCA is not approved or the conditions to completion of the Primary DOCA are not satisfied.

#### 10.2.1 Trust Fund pools under the Bain DOCA structure

The funds to be transferred into the Creditors' Trust will be divided into four pools as described in the table below.

**Table 28: Creditors' Trust Fund pools**

Pool	Creditors entitled to funds	Funds available
Pool A	<ul style="list-style-type: none"> <li>Creditors of the Primary DOCA (excluding those entitled to Pool C and non-participating claims)</li> <li>Creditors of the International DOCA</li> <li>Creditors of the Subsidiary DOCAs</li> </ul>	<p>The estimated amount of \$343m to \$468m, being the sum of:</p> <p>An amount equal to \$575m less:</p> <ul style="list-style-type: none"> <li>The full amount drawn under the interim funding facility agreement, being \$125m</li> <li>if the liability of the DOCA Companies on account of pre-paid flights as at 30 June 2020 less the restricted cash collateral held in respect of prepaid flights as at 30 June 2020 exceeds \$401,533,000 by more than \$100,000, the amount of that difference, being \$2,783,000.</li> </ul>



Pool	Creditors entitled to funds	Funds available
		<ul style="list-style-type: none"> <li>The amount allocated to Pool B (\$10m) - only in the event creditors resolve to accept the Primary DOCA and the International DOCA.</li> <li>An amount of \$23.2m - only in the event creditors do not approve the International DOCA or any of its conditions are not met satisfied or waived.</li> <li>The amount allocated to Pool C (\$94,110,384).</li> </ul> <p>Plus</p> <ul style="list-style-type: none"> <li>The excluded cash estimated to be \$40.6m to \$14.8m.</li> </ul> <p>Where excluded cash means, at any date, the unrestricted cash at bank in the Administrators' Account on 30 June 2020 plus the cash proceeds of any trade debts owing to a Virgin Group company as at 30 June 2020 received by the Voluntary Administrators as at that date (including any JobKeeper payments referable to wages paid for the period up to 30 June 2020), less the Voluntary Administrator Trading Liabilities that have accrued prior to 1 July 2020 paid, and any Voluntary Administrator Trading Liabilities as at that date which are for the Administrators account under clause 8.2(b)(iii) of the Sale Deed.</p> <ul style="list-style-type: none"> <li>Any amount that may become payable by Bain in respect to the Contingent Value Entitlement deed poll, up to a maximum of \$125m.</li> <li>Cash balances of the foreign currency accounts held by the Primary DOCA companies, which is included in the estimate of excluded cash.</li> <li>If the International DOCA is approved and completion of the International DOCA occurs simultaneously with the Primary DOCA, then cash balance of the foreign currency accounts held by the International DOCA companies, which is included in the estimate of excluded cash.</li> <li>If the International DOCA is not approved or the conditions of the International DOCA are not satisfied, the intercompany claims of the Primary DOCA companies against the International DOCA companies.</li> <li>Any surplus funds in Pool C after the final distribution is made to the Pool C creditors entitled to participate in that fund.</li> <li>Interest accruing on the Creditors' Trust fund.</li> </ul> <p>Pool A is only available on completion of the Primary DOCA.</p>
Pool B	Creditors of the International DOCA	<p>\$10m</p> <p>Pool B is only available in the event that creditors resolve to accept both the Primary and International DOCAs. This is on account of claims in respect of which the creditor has a claim that arises from a common underlying obligation or in</p>

Pool	Creditors entitled to funds	Funds available
		connection with the same underlying transaction under the Primary DOCA.
Pool C	Critical Suppliers	<p>\$94,110,384</p> <p>Pool C is only available on completion of the Primary DOCA. Critical suppliers have already been made aware of their individual return.</p>
Pool D	Creditors of the International DOCA	<p>\$23.2m</p> <p>Plus:</p> <ul style="list-style-type: none"> <li>Cash balances of the International DOCA Companies Foreign Currency Accounts; and</li> <li>Interest on the Pool D fund.</li> </ul> <p>Pool D is only available in the event that creditors resolve to accept the International DOCA and not the Primary DOCA and the ASA in respect of the assets of the companies in the Primary DOCA completes.</p>

No other assets of companies subject to the Primary DOCA, International DOCA or Subsidiary DOCAs will be available to meet the claims of creditors. Other than the excluded cash outlined above, all cash held by the Deed Administrators and the companies in the Bain DOCA structure on completion (including any balance of the interim funding provided by Bain will be retained by or transferred to the companies in the Bain DOCA structure on completion.

As at the date of this report, the Creditors' Trust Deed is being finalised. Immaterial terms of the Creditors' Trust Deed may change before the second meeting of creditors. We do not expect the Creditors' Trust Deed to materially change or materially affect the projected return to creditors or the terms in the Creditors' Trust as set out in this section. Creditors are advised that if they are unsure of their position in relation to the proposed Creditors' Trust they should seek their own legal advice prior to the second meeting of creditors.

### 10.3 Key information regarding the Creditors' Trust

In accordance with ASIC's Regulatory Guide 82 titled "External Administrations: deeds of company arrangement involving a creditors' trust", we have provided below the information to be disclosed where a DOCA incorporating a creditors' trust has been proposed.

**Table 29: Key elements of the Creditors' Trust**

Information for creditors	Further comments
Reasons for the Trust Deed	It is our opinion that the use of the Bain DOCA structure with a single Creditors' Trust will provide an accelerated exit of the Virgin Group from the DOCA structure. It will also allow the Trustees to finalise the Voluntary Administrators' and Deed Administrators' trading liabilities and responsibilities and deal with the creditor claims of the Group.
Key events	<p>The key events are as follows:</p> <ul style="list-style-type: none"> <li>Creditor approval is required for the Bain DOCA structure to be executed after the second meeting of creditors on 4 September 2020. If approved by the creditors of the DOCA Companies, the Primary DOCA, International DOCA and Subsidiary DOCAs will be required to be executed within 15 business days of creditor approval.</li> <li>Completion of the Primary DOCA, International DOCA and Subsidiary DOCA will occur in line with the steps outlined below and a single Creditors' Trust will be established on completion of the Primary DOCA.</li> </ul>

Information for creditors	Further comments
	<ul style="list-style-type: none"> <li>• If Bain elects to proceed with the International DOCA in circumstances where the Primary DOCA is not approved or the conditions to completion of the Primary DOCA are not satisfied, a single Creditors' Trust will be established on completion of the International DOCA.</li> <li>• The Primary DOCA, International DOCA and Subsidiary DOCAs will terminate simultaneously, immediately following completion of the steps outlined below for each of the Primary DOCA, International DOCA and Subsidiary DOCAs. Alternatively: <ul style="list-style-type: none"> <li>– <u>In the case of the Primary DOCA</u>, where the International DOCA or any Subsidiary DOCA is not approved by creditors, or where a condition to completion under the International DOCA or a Subsidiary DOCA is not satisfied or waived by Bain, the Primary DOCA will terminate immediately following completion of the steps outlined below for the Primary DOCA and completion under the ASA.</li> <li>– In the case of the International DOCA, where the Primary DOCA is not approved by creditors, or a where a condition to completion under the Primary DOCA is not satisfied or waived by Bain, completion under the ASA.</li> <li>– In the case of the Subsidiary DOCAs, upon written notice from Bain to the Deed Administrators that one or more of the conditions to completion is incapable of being satisfied, that Subsidiary DOCA will be terminated and that Subsidiary DOCA Company will be placed into liquidation under section 446AA of the Act.</li> </ul> </li> <li>• The Primary DOCA, International DOCA and Subsidiary DOCAs will also terminate if the Court makes an order terminating any of them under 445D of the Act or if the creditors of the Primary DOCA, International DOCA or Subsidiary DOCA (as applicable) pass a resolution terminating the Primary DOCA, International DOCA or Subsidiary DOCA (as applicable) under section 445C(b) and 445CA of the Act.</li> <li>• The receipt of the Creditors' Trust funds by the trustee will occur upon the completion steps for the Primary DOCA, International DOCA and Subsidiary DOCAs being completed and at the time the Creditors' Trust is established.</li> <li>• It is estimated that a distribution to creditors (being the beneficiaries of the Creditors' Trust) will occur within 6-9 months of the Creditors' Trust having been formed.</li> <li>• It is important to note that, at the time that each of the Primary DOCA, International DOCA and Subsidiary DOCAs complete and are terminated, creditors entitled to participate and receive a dividend will cease to be creditors of the Group, and will be beneficiaries of the Creditors' Trust and will be able to claim against the Creditors' Trust.</li> <li>• In circumstances where the Bain DOCA proposal is not approved by creditors at the second meeting, the sale of the business will complete by way of an asset sale (as described in <b>section 8.6</b> of this report).</li> <li>• The Deed Administrators will be the trustees of the Creditors Trust.</li> </ul>
Completion of the Primary DOCA	<p>Completion of the Primary DOCA will be conditional on the following being completed:</p> <ul style="list-style-type: none"> <li>• Execution of the Creditors' Trust Deed;</li> <li>• ASIC issuing consents and approvals or such other acts which is agreed in writing as reasonable or necessary or desirable to implement the sale, including the exemptions and modifications from Chapter 6 of the Act granted by ASIC pursuant to section 655A of the Act;</li> <li>• The Deed Administrators obtaining the order from the Court pursuant to section 444GA of the Act, in respect to the transfer of shares;</li> </ul>

Information for creditors	Further comments
	<ul style="list-style-type: none"><li>• The Deed Administrators obtaining a Chapter 15 recognition order under the US Bankruptcy Code to give full force and effect to the Primary DOCA and release of claims under the Primary DOCA, unless this condition has been waived;</li><li>• Bain is reasonably satisfied that on completion, all claims expressed to be released under the Primary DOCA will be fully and effectively released under all applicable laws, unless it has been waived; and</li><li>• The Sale Deed has not been terminated, unless this condition has been waived.</li></ul> <p>The following steps will be undertaken no later than two business days prior to completion of the Primary DOCA:</p> <ul style="list-style-type: none"><li>• VAH will incorporate the following special purpose entities:<ul style="list-style-type: none"><li>– BC Hart Holdco, an Australian company (wholly owned by VAH)</li><li>– BC Hart Midco, an Australian company (wholly owned by BC Hart Holdco)</li><li>– BC Hart Company, an Australian company (wholly owned by BC Hart Midco)</li></ul></li><li>• Bain to deliver to the Deed Administrators the excluded contracts as outlined in <b>section 9.5.2</b>.</li></ul> <p>On completion of the Primary DOCA the following will be effected (or deemed to be effected) in the following order:</p> <ul style="list-style-type: none"><li>• The releases of the released claims (outlined in <b>section 9.5.1</b>) will take effect.</li><li>• The Deed Administrators will transfer all the shares in VAH to Bain in accordance with the section 444GA order.</li><li>• Bain will subscribe for equity in VAH in an amount equal to the funds in Pool A and Pool C (and, if the International DOCA has been approved and is completing simultaneously, the funds in Pool B) and an amount equal to the drawn amount under the interim funding facility and VAH will direct Bain to transfer the consideration for the portion of the subscription amount equal to the drawn amount under the interim funding facility to the lender under the interim funding facility in full satisfaction of the interim funding facility.</li><li>• VAH will transfer its shares in VAAH and VAIO to BC Hart Company.</li><li>• VAH will pay an amount equal to the funds in Pool A and Pool C (and, if the International DOCA has been approved and is completing simultaneously, the funds in Pool B) to the Trustees of the Creditors' Trust.</li><li>• The Purchaser will deliver to the Deed Administrators a deed poll in respect of the Contingent Value Entitlement duly executed by the Purchaser.</li></ul> <p>Immediately following completion, the boards of the companies in the Primary DOCA will be reconstituted in accordance with Bain's direction.</p>
Completion of the International and Subsidiary DOCAs	<p>Completion of the International DOCA will be conditional on the following being satisfied:</p> <ul style="list-style-type: none"><li>• Execution of the Creditors' Trust Deed.</li><li>• The Deed Administrators obtaining the Chapter 15 recognition order under the US Bankruptcy Code, unless this condition has been waived.</li><li>• Completion of the transfer of the shares to Bain under the Primary DOCA (unless Bain elect to waive this condition), unless this condition has been waived.</li><li>• The Sale Deed has not been terminated, unless this condition has been waived.</li></ul>

Information for creditors	Further comments
	<p>Completion of each Subsidiary DOCA will be conditional on the following being satisfied or waived:</p> <ul style="list-style-type: none"> <li>• Completion of the transfer of the shares to Bain under the Primary DOCA.</li> <li>• For each company in the Subsidiary DOCAs (except VB Leaseco2 and VB 800), in relation to each aircraft finance contract or aircraft lease that is intended to be an excluded contract under the Subsidiary DOCA, the Subsidiary DOCA Company has entered into a binding amendment agreement with the financier or lessor on terms satisfactory to Bain and any conditions to the effectiveness of the amendment agreement have been satisfied or will be satisfied simultaneously with completion of the Subsidiary DOCA.</li> <li>• For VB Leaseco2 and VB 800, a binding amendment agreement on terms satisfactory to Bain has been entered into, and any conditions to the effectiveness of that amendment agreement have been satisfied or will be satisfied simultaneously with completion of the Subsidiary DOCA, in respect of the aircraft finance contracts or aircraft lease documents that are intended to be excluded contracts in relation to at least one aircraft that is financed or leased by the company in the Subsidiary DOCA.</li> <li>• The Sale Deed has not been terminated.</li> </ul> <p>The following steps will be undertaken no later than two business days prior to completion of the International DOCA and the Subsidiary DOCAs:</p> <ul style="list-style-type: none"> <li>• Bain to deliver to the Deed Administrators the excluded contracts designated notice as outlined in <b>section 9.5.2</b>.</li> </ul> <p>On completion of the International DOCA and Subsidiary DOCAs, the following will be effected (or deemed to be effected) in the following order:</p> <ul style="list-style-type: none"> <li>• The releases of the released claims (outlined in <b>section 9.5.1</b>) will take effect. This will occur at the same time as the releases of the released claims under the Primary DOCA take effect.</li> <li>• For the International DOCA, VAH will pay an amount equal to the funds in Pool B to the Trustees of the Creditors' Trust, if the Primary DOCA is not approved.</li> </ul> <p>Immediately following completion, the boards of the companies in the International and Subsidiary DOCAs will be reconstituted in accordance with Bain's direction.</p> <p>Timing of completion</p> <ul style="list-style-type: none"> <li>• Completion of the International and Subsidiary DOCAs will occur simultaneously with the Primary DOCA.</li> <li>• If the Primary DOCA is not approved at the second meeting or the conditions to Completion of the Primary DOCA are not satisfied and Bain waives the conditions noted above, completion of the International and Subsidiary DOCAs will occur simultaneously with completion of the ASA.</li> </ul> <p>Termination</p> <ul style="list-style-type: none"> <li>• The International and Subsidiary DOCAs will terminate: <ul style="list-style-type: none"> <li>– As a result of being fully effectuated in accordance with the terms immediately following completion simultaneously with the Primary DOCA or, if applicable, where the Primary DOCA is not approved or a condition is not satisfied or waived completion under the ASA.</li> <li>– In respect of the Subsidiary DOCAs, upon written notice from Bain to the Deed Administrators that one or more of the conditions to completion are incapable of</li> </ul> </li> </ul>

Information for creditors	Further comments
	<p>being satisfied. In this instance, the relevant company in the Subsidiary DOCA will be placed into liquidation under section 446AA.</p> <ul style="list-style-type: none"> <li>- If the Court makes an order terminating the Primary DOCA under section 445D; or</li> <li>- If the creditors of the Primary DOCA in accordance with section 445C(b) or 445CA.</li> </ul>
Return to creditors / beneficiaries	<p>The Creditors' Trust will be established and funds will be received from Bain upon completion of the Primary DOCA, International DOCA and the Subsidiary DOCAs. At present, it is anticipated that completion will occur on or before 31 October 2020. Accordingly, it is anticipated that distributions will be made within 6-9 months of completion of the Primary DOCA, International DOCA and the Subsidiary DOCAs.</p> <p><b>Table 31 in section 11</b>, shows the estimated return to creditors. The estimated return to creditors may vary due to the variables discussed in <b>section 11.2.6</b>.</p> <p>Other than where required by law, the funds in the Trust Deed will be distributed in the following order of priority:</p> <ul style="list-style-type: none"> <li>• Pools A: <ul style="list-style-type: none"> <li>- First, to the Voluntary Administrators or Deed Administrators for any amount which the Voluntary Administrators or Deed Administrators are entitled to be paid or indemnified for under the Primary DOCA, International DOCA or Subsidiary DOCAs including their remuneration, costs and expenses and all other debts and liabilities incurred by them during the voluntary administration and deed administration of the companies in the DOCAs.</li> <li>- Next, to the Trustees of the Creditors' Trust in satisfaction of their remuneration and costs.</li> <li>- Next, any liability to employees for historic underpayment claims.</li> <li>- Next, to the Pool A creditors, by a pro rata amount.</li> <li>- sections 444DA and 444DB of the Act will apply.</li> </ul> </li> <li>• Pool B: <ul style="list-style-type: none"> <li>- pro rata to each Pool B creditor</li> </ul> </li> <li>• Pool C: <ul style="list-style-type: none"> <li>- per the amount agreed to each Pool C creditor.</li> </ul> </li> <li>• Pool D, (only established if the Primary DOCA does not complete but the International DOCA completes and the ASA in respect to the companies in the Primary DOCA completes): <ul style="list-style-type: none"> <li>- First, to the Voluntary Administrators or Deed Administrators for any amount which the Voluntary Administrators or Deed Administrators are entitled to be paid or indemnified for under the International DOCA including their remuneration, costs and expenses and all other debts and liabilities incurred by them during the administration and deed administration of the International DOCA Companies.</li> <li>- Next, to the Trustees of the Creditors' Trust in satisfaction of their remuneration and costs.</li> <li>- Next, any liability to employees for historic underpayment claims or injury compensation claims in respect of injuries occurring prior to completion.</li> <li>- Next, pro rata to each other Pool D Creditor.</li> </ul> </li> </ul>

Information for creditors	Further comments
Trustee particulars – identity, skills, experience, and insurance	<p>If the Bain DOCA proposal did not involve a creditors' trust, it may significantly impact the ability of the Companies to complete their restructuring in a timely manner and resume normal operations, including the ability to attract customers to the airline.</p>
	<p>The Trust Deed will include provisions relating to the determination of creditors' claims incorporating the applicable provisions of the Act and Regulations.</p>
	<p>The Voluntary Administrators / Deed Administrators to be Trustees of the Creditors' Trust.</p>
	<p>We are registered liquidators and have the relevant experience and necessary skills to undertake the required duties and tasks. We have adequate civil liability insurance (including professional indemnity and fidelity insurance) that would cover our role as trustees of the Creditors' Trust.</p> <p>A summary of our experience is listed on our website <a href="http://www.deloitte.com.au">www.deloitte.com.au</a>. Each DOCA requires us to be appointed Deed Administrators and Trustees of the Creditors' Trust. We do not consider that there is any potential conflict in acting as Trustees of the Creditors' Trust.</p>
Remuneration	<p>As the Trustees are registered liquidators, ASIC will have supervisory powers over the conduct of the Trustees under Division 40 of Schedule 2 of the Act.</p>
	<p>We do not consider that we have any potential conflict of interests in acting as Trustee of the Creditors' Trust.</p>
	<p>The Creditors' Trust will provide for the payment of the Voluntary Administrators', Deed Administrators' and Trustees' remuneration from the Trust Fund in priority to any payment to admitted creditors. This includes:</p> <ul style="list-style-type: none"> <li>Any approved remuneration and expenses owing to the Voluntary Administrators and Deed Administrators that remained unpaid at the time of the establishment of the Creditors' Trust.</li> <li>The Trustees' remuneration and costs. The Trustees' costs will be calculated based on hourly rates and in accordance with Deloitte rates as detailed in our Initial Remuneration Notice sent to creditors on 21 April 2020 which is available on the Deloitte website: <a href="http://www.deloitte.com/au/virgin">http://www.deloitte.com/au/virgin</a>.</li> </ul>
	<p>At the COI meeting on 10 August 2020, the COI approved the Voluntary Administrators' remuneration and disbursements. Details of the remuneration approved is outlined in <b>section 12</b>.</p> <p>We estimate that the remuneration and costs of the Deed Administrators will be approximately \$4m and the remuneration and costs of the Trustees will be between approximately \$7-8m. The remuneration and costs of the Deed Administrators and Trustees will be charged on an hourly basis on the same rates as those charged during the period of voluntary administration. Our estimate does not consider any litigation or protracted negotiations when adjudicating on creditor claims. Any additional costs will be dependent on the time taken to adjudicate claims and distribute the payment to the beneficiaries of the Creditors' Trust.</p> <p>In a voluntary administration and DOCA scenario, the approval of fees is subject to the provisions of the IPS, requiring that remuneration be approved by either a COI, by a resolution of creditors, or by applying to Court to review the Administrators' or Deed Administrators' remuneration.</p>

Information for creditors	Further comments
	<p>In a Creditors' Trust, there is no equivalent statutory procedure in the Trustee Act 1925 (NSW) pursuant to which beneficiaries, or the COI, or the Federal Court can agree or approve the Trustee's remuneration. However, a beneficiary can apply to the Supreme Court of NSW to seek to review or challenge the Trustees' remuneration.</p>
Indemnities	<p>The Administrators and Deed Administrators will have a lien over and be entitled to be indemnified from the assets of the Creditors' Trust for their remuneration, costs and expenses.</p> <p>Accordingly, any fees or costs incurred by the Trustees that are associated with any legal actions that are required to be undertaken or defended will be met from the funds held in the Creditors' Trust. While any such actions may reduce the available funds and diminish the return to creditors</p> <p>This indemnity takes effect from the commencement of the DOCA, is continuing and will endure for the benefit of the Deed Administrator and Trustees.</p> <p>No other indemnity has been provided to the Trustees.</p>
Powers (Deed Administrators / Trustee under the DOCA proposal)	<p>As Trustees we will administer the Trust fund in accordance with the provisions set out in each DOCA and the Creditors' Trust Deed and do anything incidental to exercising a power set out in the Creditors' Trust Deed and anything else that is necessary or convenient for administering the Creditors' Trust.</p> <p>Primarily, the Trustees' proposed role is to call for proofs of debt, adjudicate the creditors' claims and distribute the Creditors' Trust Funds. The Creditors' Trust Deed also incorporates the powers that would apply to a Deed Administrator. The Deed Administrators have broad powers, including to be able to perform any function and exercise any power or right a director may have performed or exercised, and to do anything else necessary or convenient to exercising their powers under the Deed.</p> <p>As mentioned above, the Deed Administrators are governed by the Act, whereas a creditors' trust set up in NSW is governed by the Trust Deed and the Trustees Act 1925 (NSW).</p>
Claims	<p>Creditors are referred to <b>section 10.4</b> below.</p> <p>Creditors will be entitled to make only a single claim in the Creditors' Trust Fund in respect of any claims that arise from a common underlying obligation or in connection with the same underlying transaction (for example, where one DOCA company is a guarantor or co-obligor of an obligation of debt owing by another DOCA company), and where they are for different amounts, for the largest admitted claim; provided that Pool B creditors will be entitled to claim against the Pool A Fund and the Pool B Fund.</p> <p>The Creditors' Trust Deed will include provisions relating to the determination of claims incorporating the provisions of the Act and Regulations applicable to the determination of claims.</p> <p>section 444DB of the Act will apply to the Creditors' Trust.</p>
Other creditor / beneficiary differences	<p>Creditors' rights in an external administration are set out in the Act. Beneficiaries of a creditors' trust do not have equivalent rights under the Act. Rather, as mentioned above their rights are governed by the Trust Deed and the Trustees Act 1925 (NSW). Although courts can still provide relief under the general law of trusts, the safeguards available to creditors under Pt 5.3A of the Act are not available to beneficiaries of a trust.</p>



Information for creditors	Further comments
	<p>In a DOCA, creditors have the right to request a meeting of creditors or apply to Court to seek orders to amend or terminate the DOCA pursuant to the Act. They also have certain rights to challenge decisions, actions and omissions of the Deed Administrator and to be informed about the progress of the external administration. Further, creditors can lodge a complaint with ASIC about the conduct of the Deed Administrator. Beneficiaries of a Creditors' Trust do not have such rights under the Act. However, given that the terms of each DOCA and Creditors' Trust are provided in this report, we consider that the creditors will have had a sufficient opportunity to consider the terms of each DOCA and Creditors' Trust including to obtain independent legal and financial advice they consider necessary regarding their rights and can decide whether to vote in favour of executing each DOCA and Creditors' Trust at the second meeting of creditors. Further, it is anticipated that there may be a one to two month period between execution of each DOCA and the creation of the Creditors' Trust which will allow any aggrieved creditor the opportunity to exercise their statutory rights during this period. That said, we will be making all reasonable endeavours to complete each DOCA as soon as possible once that DOCAs conditions are met.</p> <p>In terms of the determination and admission of creditors' claims for participation in a distribution from the Trust Fund, creditors will have 14 days to appeal the Trustees' decision to reject their claim, or a longer period if the Trustees permit. In a liquidation, the Act stipulates that the appeal must be made within 14 days of the liquidator giving notice of rejection, or such longer period as the Court permits. Accordingly, we do not believe creditors will be disadvantaged.</p> <p>As Trustees are registered liquidators, creditors have the ability to make any complaints about their conduct to ASIC.</p>
Fair Entitlements Guarantee Scheme (FEG)	<p>Should creditors resolve to accept the DOCA structure, the employees will not have access to the FEG scheme. The FEG scheme may only be available if the companies are placed into liquidation.</p> <p>In the event an employee has an unpaid claim against the Virgin Group, and to the extent that these claims are determined to be outstanding wages and superannuation contributions, leave entitlements or retrenchment payments and are provable claims falling within section 556(1) of the Act, such claims will be payable in accordance with the priorities prescribed by that section under the provisions of the Trust Deed.</p>
Compliance opinion	<p>It is our opinion that the companies subject to the Primary DOCA, International DOCA and Subsidiary DOCAs are capable of complying with the terms of the Trust Deed and are likely to comply with the obligations to the Trustees, if the DOCAs proposed by Bain are approved by the creditors.</p> <p>Additionally, claims against the Group are not extinguished until the funds to satisfy creditor claims are paid into the Trust Fund.</p>
Solvent statement	<p>It is our opinion that the companies subject to Primary DOCA, International DOCA and Subsidiary DOCAs will become solvent at the date of effectuation of the DOCA structure on the terms proposed for the following reasons:</p> <ul style="list-style-type: none"><li>• Creditor claims against the companies subject to DOCA will be extinguished</li><li>• Bain is providing working capital to fund the future business activities of the companies subject to the Primary DOCA, International DOCA and Subsidiary DOCAs.</li></ul>
Tax (company trust)	<p>A Creditors' Trust may create the potential for some taxation issues when compared to a distribution received from an ordinary deed of company arrangement. That is, any taxation that may arise with the administration of the Creditors' Trust will reduce the funds available</p>

Information for creditors	Further comments
	<p>to creditors. However, we do not expect that there will be any material changes to the funds available as a distribution to creditors under the proposed Creditors' Trust.</p> <p>No assets of the Companies other than the funds as set out in the Bain DOCA proposal are expected to be transferred to the Creditors Trust, therefore there are no significant tax obligations that are expected to arise.</p>
Tax (creditor beneficiary)	Creditors are advised to seek their own taxation advice as there may be some implications for creditors receiving a distribution from a trust rather than a distribution from a company subject to DOCA. We are unable to provide any advice regarding this issue.
Other	<p>No other material aspects or implications have been identified at this stage.</p> <p>The Creditors' Trust Deed will contain other terms that are customary of a Creditors' Trust of this nature and are agreed between the Administrators and Bain, however those terms will not have a material impact on the information provided in this report or the estimated amount to be returned to creditors/beneficiaries.</p>

## 10.4 Creditor claims

As outlined in **section 9.5.1** the Bain DOCA structure will release all debts and claims against the companies in the Bain DOCA structure (except for the excluded claims as per **section 9.5.2**). In return for the releases, creditors will receive an entitlement to receive a dividend from the relevant pool of the Creditors' Trust.

In accordance with the Trust Deed, the Trustees will adjudicate the claims from creditors who had a debt owed by the Group as at 20 April 2020. The Trustees will have unrestricted and free access to all the books and records of the Virgin Group necessary to determine claims. The Deed Administrators will have the power under the DOCA to commence the adjudication process. Those creditors with debts that have been adjudicated as valid will be considered as admitted creditors in the Creditors' Trust.

The terms of the Creditors' Trust provide for four creditor pools to be created for the benefit of those creditors who have been determined to be admitted creditors by the Trustees. The proposed distribution mechanism of the Trust fund to admitted creditors has been detailed in **Table 29** above.

Assuming that there are no delays in adjudicating the claims of creditors it is estimated that a first and final distribution to admitted creditors will be paid 6 to 9 months following the creation of the Creditors' Trust.

# 11 Estimated return to creditors

## 11.1 Introduction

We have prepared an analysis of the estimated return to creditors under the following scenarios:

- Return to creditors under the **Bain DOCA proposal**.
- Return to creditors if the sale of the business of the Virgin Group was to proceed under an ASA with Bain (**ASA – liquidation**).
- Return to creditors if the sale of the business of the Virgin Group was not to proceed with any party and the business was wound down (**no sale - liquidation**).

There are different returns to creditors dependent on what may (or may not be approved) by creditors at the second meeting. The four return scenarios are:

1. All DOCAs are approved by creditors (**Scenario 1**).
2. The International & Subsidiary DOCA is approved however, the Primary DOCA is not (i.e. Primary ASA - liquidation) (**Scenario 2**).
3. The Primary and Subsidiary DOCAs are approved however, the International DOCA is not (i.e. International ASA - liquidation) (**Scenario 3**).
4. All DOCAs are not approved by creditors (i.e. ASA - liquidation) (**Scenario 4**).

There is a significant amount of detail and modelling that has been undertaken in order to assess the return to creditors under the Bain DOCA proposal, ASA and liquidation scenarios. This is further complicated by the intergroup debt structures, two separate deeds of cross guarantee and guarantees held by certain creditors and Bond Holders across different entities. As part of our analysis and work papers we have sought to capture all those variables, however, due to the complexities involved we have not included all this detail in this report. Some of the detailed analysis is included in **Appendix L**.

**Table 30** shows the expected return to creditors under the Bain DOCA proposal versus in the event the sale is either completed in liquidation under the ASA (ASA – liquidation) or if that is not possible, the company ceases to operate and the assets are realised in liquidation on a piecemeal basis (no sale – liquidation).

The sale being completed by the Bain DOCA proposal will provide a significantly better return to all creditors and provide a full return to employees, provide for all customer prepaid flights to be honoured, significant return to secured creditors (which will be consistent under the DOCA and ASA but provide a better return to them under their unsecured claims), with an estimated unsecured creditor return on average of between 13% and 9% on a high and low basis respectively.

**Table 30: Summary of estimated average returns to unsecured creditors**

The Group		Bain DOCAs	Liquidation			
			ASA - liquidation		No sale - liquidation	
Creditor Group		High	Low	High	Low	High
Priority creditors/employees	%	100	100	100	100	19.4
Unsecured creditors / average return	%	13	9	7	4	1
Unsecured creditors – funds available for distribution after costs	\$m	612.8	462.0	310.1	207.2	52.4

The funds available to pay a distribution to unsecured creditors in the Creditors' Trust after costs, are estimated to be between \$612.8m and \$462.0m, versus under the ASA of less than \$320m, and in the event of a closure and liquidation (no sale – liquidation), approximately \$52.4m (noting under this scenario employees would only receive 19.4% of their claims and be required to apply under the FEG scheme for additional recoveries of entitlements).

## 11.2 Estimated return to creditors

We have provided a summary of the potential return under the different scenarios. Any final return to creditors under any of the possible outcomes will be dependent on the actual level of claims of creditors. Given the restructuring of the business, the global state of the airline industry and strained operating circumstances as a result of the pandemic, it has not been possible for all creditors to fully quantify their claims at this time. This is a process that will take time especially as creditors seek to mitigate any losses they have suffered. Before a dividend is paid to creditors under any of the scenarios, a detailed process of assessment of all claims, including an assessment of actions undertaken to mitigate their losses, will be undertaken as is the standard procedure in these circumstances.

The returns to unsecured creditors under the scenarios and options will be dependent which entities creditors have a claim against and if they have been considered a critical supplier for the purpose of the Bain DOCA proposal. On the Halo platform when adjudicating on your claims for the purpose of voting at the meeting we have sought to recognise the entities to which you have a claim against.

**Table 31: Return to creditors by outcome scenarios**

Creditor Group		Liquidation				
		Bain DOCAs		ASA - liquidation		No sale - liquidation
		High	Low	High	Low	High
Priority creditors	%	100	100	100	100	19.4
Unsecured creditors						
<b>Scenario 1: All DOCAs approved</b>						
Funds available in Creditors Trust (after costs)	\$m	612.8	462.0	n/a	n/a	n/a
Pool A – ordinary unsecured (all creditors)	%	12.8	8.4	n/a	n/a	n/a
Pool B – ordinary unsecured DOCG2 creditors	%	0.5	0.5	n/a	n/a	n/a
Pool C – critical suppliers	%	14.4	14.4	n/a	n/a	n/a
*DOCG2 creditors receive Pool A & Pool B returns						
<b>Scenario 2: International &amp; Subsidiary DOCAs approved and Primary DOCA fails</b>						
Funds available in creditors trust	\$m	24.1	17.7	n/a	n/a	n/a
Pool D – ordinary unsecured DOCG2 creditors	%	0.5	0.4	n/a	n/a	n/a
Funds available after costs Primary ASA-liquidation	\$m	n/a	n/a	309.9	213.7	n/a
Returns to unsecured creditors in DOCG1	%	n/a	n/a	6.9	4.5	n/a
<b>Scenario 3: Primary &amp; Subsidiary DOCAs approved, International DOCA fails</b>						
Funds available in Creditors Trust (after costs)	\$m	593.6	445.5	n/a	n/a	n/a
Pool A – ordinary unsecured DOCG1 & Non-DOCG creditors	%	11.8	7.6	n/a	n/a	n/a
Pool C – Critical suppliers	%	14.4	14.4	n/a	n/a	n/a
Funds available in International ASA-liquidation after costs	\$m	n/a	n/a	8.8	2.2	n/a
Return to ordinary unsecured DOCG2 creditors	%	n/a	n/a	0.2	0.0	n/a

Creditor Group		Liquidation				
		Bain DOCAs		ASA - liquidation		No sale - liquidation
		High	Low	High	Low	High
Scenario 4: All DOCAs fail – ASA-liquidation						
Funds available in ASA-liquidation (after costs)	\$m	<i>n/a</i>	<i>n/a</i>	310.1	207.2	52.4
<i>DOCG1 Unsecured creditors</i>	%	<i>n/a</i>	<i>n/a</i>	6.7	4.3	1.1
<i>DOCG2 Unsecured creditors</i>	%	<i>n/a</i>	<i>n/a</i>	0.2	0.0	0.0
<i>Other subsidiary unsecured creditors</i>	%	<i>n/a</i>	<i>n/a</i>	0.0	0.0	0.0

We have assessed the returns to creditors should the sale complete by the Bain DOCA proposal or ASA on both high and low value basis. We have also assessed the return on a no sale - liquidation high basis. We have not included the low case estimate in this report as it sees no return to unsecured creditors.

We have not included in the above table the return to secured creditors, as this is still being determined (relating mainly to secured debt for aircraft and associated equipment), however an estimate of their potential shortfall under their claims has been included in the above analysis as an unsecured claim. Please refer to **Table 34** for the estimate of the shortfall to secured creditors included as unsecured claims.

**Table 32** summarises the estimated main sources of funds available to fund any distribution to the unsecured creditors with the main source being the Pool A, B,C and D Fund amounts under the DOCAs to be received from Bain or the purchase price under the ASA.

**Table 32: Sources of funds available to unsecured creditors**

The Group	Liquidation				
	Bain DOCAs		ASA- liquidation		No sale- liquidation
	High	Low	High	Low	High
DOCA Pool A, B, C & D / ASA purchase price (before excluded cash)	447.2	447.2	347.2	347.2	n/a
Less: Allowance for incremental costs to effect transaction	n/a	n/a	(25.0)	(100.0)	n/a
Plus: Sale Deed Contingent Value Entitlement	125.0	nil	nil	nil	n/a
<b>Total cash consideration</b>	<b>572.2</b>	<b>447.2</b>	<b>322.2</b>	<b>247.2</b>	<b>n/a</b>
Other net asset realisations	n/a	n/a	n/a	n/a	192.5
Less: Employee entitlements paid in priority from entity asset realisations	n/a	n/a	n/a	n/a	(81.1)
Excluded cash:					
Working capital released through assumption of liabilities	35.0	35.0	35.0	35.0	n/a
Net other cash at bank / (costs)	5.6	(20.2)	(47.1)	(75.0)	(58.9)
<b>Total cash consideration available to unsecured creditors</b>	<b>612.8</b>	<b>462.0</b>	<b>310.1</b>	<b>207.2</b>	<b>52.4</b>

The Pool A, B, C and D Fund amounts and Contingent Value Entitlement are the amounts as specified in the Bain DOCA proposal. Under the low basis we have assumed the Contingent Value Entitlements is nil as the payment is based on the future profitability of the business which we have commented on in **section 8.6** above.

The Sale Deed specifies the purchase price payable in the event the transaction is completed by ASA. In the event the sale is completed by the ASA, the Sale Deed allows for a portion of the costs of completing the transaction, including stamp

duty payable and advisor costs, to be a reduction of the purchase price. The amounts we have included are an estimate of those costs. The estimate is the portion of costs expected to be incurred in completing the transaction which are capped at \$100m under the Sale Deed.

Under the Sale Deed, Bain agreed to take on certain liabilities which we would otherwise have had to meet, including prepaid flights and any accrued leave entitlements of staff.

The net other cash at bank and costs reflects the expected cash at bank of the Voluntary Administrators as at 30 June 2020 less any costs to be paid in the voluntary administration, deed administration, creditors' trust or liquidation.

In the no sale – liquidation scenario the only expected realisable assets to meet employee claims in priority to unsecured creditors total \$81.1m. In the event of liquidation there is a significant shortfall expected to employees.

#### 11.2.1 Bain DOCA proposal approved: Scenario 1

A sale of the business of the Virgin Group by the Bain DOCA proposal will allow the completion of the sale of the business as a going concern, whilst providing minimal disruption to trade and operations of the Group.

Under the Bain DOCA proposal all assets, securities and elected contracts of the Group will be assumed in the go forward business. A significant amount of work has been undertaken in respect to restructuring the airline which will be reflected in the business structure going forward based on decisions made by Bain and Management with respect to which contracts and agreements are to be retained in the restructured business including, but not limited to aircraft, employees, debt and financing facilities.

There is no requirement to novate or transfer contracts under the DOCAs, which would be required in the event the sale completes under the ASA. The costs associated with executing and implementing the DOCAs is significantly less than implementing the ASA; the benefit of which is reflected in the superior return to creditors under the Bain DOCA proposal.

As stated in **section 9.3.3**, if the Bain DOCA proposal is approved a single Creditors' Trust will be established to pool creditors' claims to enable a distribution to be made to unsecured creditors. The priority of payments under the Creditors' Trust are detailed in **section 10.2.1**.

Dividends to creditors will vary depending on whether the Primary and International DOCAs are approved. The table below summarises which creditor groups are entitled to receive funds from the different pools.

All eligible creditors participate in Pool A unless you are a critical supplier; then you participate in Pool C.

If you are also a creditor of the International DOCA you receive an additional distribution from:

1. Pool B: if the International DOCA and Primary DOCA are approved;

OR

2. Pool D if the International DOCA is approved but the Primary DOCA fails and the sale completes by ASA.

**Table 33: Trust pools and creditor entitlement**

Trust Pool	Creditor classes entitled to funds
Pool A	Creditors of the Primary DOCA other than those entitled to Pool C Creditors of the International DOCA Creditors of the Subsidiary DOCAs
Pool B	Creditors of the International DOCA (only available in the event the Primary & International DOCA is approved)
Pool C	Critical suppliers as outlined in the Primary DOCA (only available in the event the Primary DOCA is approved)
Pool D	Creditors of the International DOCA (only available in the event a Primary DOCA is not approved)

If the Primary and International DOCAs are approved, creditors who reside in both DOCG groups will received a slightly higher return as identified in **Table 31**, reflecting their entitlements across both structures. The main creditors this relates to are the Bond Holders.

The Bain DOCA proposal provides a greater return to unsecured creditors versus completing the sale to Bain by the ASA or in the event the assets are realised in liquidation on a piecemeal basis. We note the following in relation to the estimated dividends under the Bain DOCA proposal as follows:

- Employees will receive their entitlements in full. The entitlement of continuing employees will be paid in the normal course and those staff who are leaving the Group will be paid their outstanding entitlements in full without having to submit a claim in the DOCA.
- Secured aircraft financiers' debt will either be retained or to the extent there is a shortfall in their debt, the shortfall will be an unsecured claim under the DOCAs and Creditors' Trust.
- Unsecured creditors within Pool A are estimated to receive between 12.8% (high) and 8.4% (low).
- An aggregate dividend to unsecured creditors within both Pool A and Pool B between 13.3% (high) and 8.9% (low)
- Critical suppliers will receive an average of 14.4% .

#### 11.2.2 International DOCA approved, Primary and Subsidiary ASA - liquidation: Scenario 2

In the event the International DOCA is approved and the Primary and Subsidiary DOCA is **not** approved (Primary ASA – liquidation), the sale of the Primary group will complete by an ASA and we estimate creditors would receive the following returns:

- Employees will receive their entitlements in full. The entitlement of continuing employees will be paid in the normal course and those staff who are leaving the Group will be paid their outstanding entitlements in full without having to submit a claim in the DOCA.
- Secured aircraft financiers debt will either be retained or to the extent there is a shortfall in their debt the shortfall will be an unsecured claim under the DOCAs and Creditors' Trust.
- There will be no Pool A, however creditors of DOCG1 are expected to receive a dividend of between 6.9% (high) and 4.5% (low).
- A dividend to unsecured creditors of Pool D between 0.5% (high) and 0.4% (low). DOCG2 unsecured creditors (who are also creditors in DOCG1) will receive an aggregate dividend from Primary ASA - liquidation and Pool D of 7.4% (high) and 4.9% (low).
- There will be no critical supplier dividend given the failure of the Primary DOCA.

#### 11.2.3 Primary and Subsidiary DOCAs approved, International DOCA is not approved: Scenario 3

In the event the Primary and Subsidiary DOCAs are approved and the International DOCA is **not** approved (International ASA – liquidation), the sale of the International group will complete by an ASA and we estimate creditors would receive the following returns:

- Employees will receive their entitlements in full. The entitlement of continuing employees will be paid in the normal course and those staff who are leaving the Group will be paid their outstanding entitlements in full without having to submit a claim in the DOCA.
- Secured aircraft financiers debt will either be retained or to the extent there is a shortfall in their debt the shortfall will be an unsecured claim under the DOCAs and Creditors' Trust.
- Unsecured creditors within Pool A are estimated to receive between 11.8% (high) and 7.6% (low).
- Critical suppliers will receive an average dividend of 14.4%.
- Under the International ASA-liquidation creditors in DOCG2 will receive either 0.2% (high) and 0.0% (low). DOCG2 unsecured creditors (who are also creditors in DOCG1) will receive an aggregate dividend from the Primary DOCA and International ASA – liquidation of between 12.0% (high) and 7.6% (low).

#### 11.2.4 ASA - liquidation: Scenario 4

The Sale Deed specifies the transaction is to complete by the ASA unless creditors approve the Bain DOCA proposal.

In the event the Bain DOCA proposal is not approved by creditors we will adjourn the second meeting of creditors for 45 business days to seek to complete the sale by the ASA. At the reconvened second meeting of creditors it is likely the Companies will be placed into liquidation, and as such, until the key contracts and AOC's are established in the new Bain entities, the airline would be traded in liquidation.

Under the ASA, all assets and securities would be purchased by Bain in accordance with the ASA on completion which gives rise to the requirement for the Voluntary Administrators to transfer or novate all contractual agreements to new Bain entities. Critical contracts include but are not limited to employees and employment agreements; real property leases; service and maintenance agreements; and aircraft finance and operating leases. All of these are required to continue to trade the business. In addition, the new operating entities will need to seek AOCs for continued operations.

The requirement to novate contractual assets pursuant to the ASA will provide operational challenges and difficulties and is estimated to take significantly more time. The ASA allows for a period of 3 years for this process to be completed.

For the purposes of this analysis, under Scenario 3 there will be no differential creditor pools and all returns have been calculated based on the DOCG structures of the Group.

We estimate that completion of the transaction under an ASA - liquidation would reduce returns to unsecured creditors under all scenarios as identified in **Table 31**. The return to creditors under the DOCG1 group would be reduced to an estimate of 6.7% on a high basis and 4.3% on a low basis, with those in both the DOCG1 and DOCG2 receiving an estimated 6.9% and 4.3% respectively on a high and low basis.

In this event there would not be any return to any unsecured creditors in the Subsidiary DOCA Companies.

#### 11.2.5 No sale - liquidation

In the event the Bain DOCA proposal is not approved, and a sale is to be completed under an ASA, there is a risk that certain business critical assets are not able to be retained which would result in the transaction failing and the liquidation of the assets of the business. These critical assets include AOCs and key airport landing and take-off slots.

We have estimated the return to creditors on this basis, being a closure of the business and piecemeal sale of the assets. This analysis also assisted us in evaluating offers received in the sale process as it meant that we only considered those offers which provided a higher dividend return to creditors than if the Companies had ceased to trade and were placed into liquidation.

In this outcome there would be a significant shortfall to employees and minimal return to unsecured creditors of DOCG1 of 1% but no expected return to unsecured creditors of the DOCG2 or the Subsidiary DOCA Companies.

Refer to **Appendix L** for further detail regarding the returns and assumptions included in all the scenarios above.

#### 11.2.6 Factors and limitations influencing the return

The calculation of estimated returns to each creditor group in each entity is complex and requires estimates and assumptions because:

- There are two DOCG with DOCG1 containing 14 entities and DOCG2 containing 4 entities, meaning each company within a DOCG group guarantees each entity's liability incurred.
- One of the MOFA facilities is guaranteed by entities within DOCG1 and DOCG2.
- The unsecured bonds have claims under the DOCG1 and DOCG2 groups.



- The restructuring of the business is complex and will continue for some time. There could be future decisions made after we have calculated estimated returns to creditors which could give rise to further secured and unsecured claims reducing or improving the overall return to creditors in each pool.
- Significant work will need to be undertaken by creditors to mitigate their claims which will be assessed in the adjudication of debts process we will perform prior to a dividend being paid, which could significantly impact the return estimates to unsecured creditors given the unknown actual size of their claims.
- The Group's key operating assets are aircraft which are predominately subject to either a finance or operating lease agreement. The valuation of these assets is difficult at this time given the challenges in the global aircraft industry, driving downsizing and an increase of supply in the secondary market. In our analysis we have assumed discounts to latest available market values for aircraft.
- Each aircraft financing and operating lease agreement is required to be assessed to determine appropriate estimates of realisable values, quantification of the crystallised liability in the event the aircraft is returned and any termination payments payable in the event the contract is terminated early.
- The number and quantum of aircraft financier and premises lease claims submitted in the DOCA/Creditors' Trust can fluctuate significantly dependent on terms agreed with Bain and the financiers/landlord's ability to mitigate their claims (i.e. finding a new lessee).
- The complexity of the adjudication and distribution process which will impact the Trustees' costs.
- The value in the Velocity Group is greatly enhanced with an operating airline as a redemption partner. While we have assumed that the shares in the Velocity Frequent Flyer business may have some realisable value to DOCG1 in a liquidation scenario, in a 'high' scenario we believe it is possible that it may have no or limited value in a low scenario given the entitlement of members and its existing debt structure.
- It is difficult to estimate the actual timing and outcome creditors would realise through an ASA - liquidation scenario due to the complexities of novating all contractual assets of the Group to Bain.
- We note that at the time of writing this report while Bain have confirmed the majority of their future aircraft fleet requirements with surplus aircraft to be returned to financiers and lessors, this is an ongoing process and subject to change and documentation. The unsecured portion of secured creditor financiers' claims and the residual lessors' claims are based on aircraft and finance leases that have been identified as not being required by Bain.

As listed above, there are a range of uncertainties and potential developments that could adversely impact the quantum and timing of such recovery for creditors estimated under each scenario.

It is our view that the estimated returns presented in this report are reasonable estimates based on available information and the current position.

### 11.3 Effect on employees

Under both a Bain DOCA proposal and ASA scenario, continuing employee entitlements will be assumed in full by Bain and any exiting employee entitlements will be paid in full.

We estimate that under a no sale - liquidation, employees would receive a return of 19.4% on a high realisation basis and significantly lower on a low basis. Under a no sale - liquidation scenario, where there are inadequate funds for the payment of employee entitlements, employees may be entitled to access the FEG scheme.

FEG may cover successful applicants for outstanding wages, annual leave and termination notice. However, FEG does not cover outstanding superannuation entitlements, nor excluded employees, including Directors.

### 11.4 Creditors' claims

The table below sets of the expected creditor position under each of the scenarios.

Table 34: Estimated value of creditor pool participants

The Group \$m	Bain DOCA or ASA		ASA - liquidation
	High	Low	High
<b>Unsecured Creditors</b>			
Pool A			
Secured financier (shortfall) total	336.2	424.5	649.3
Employee entitlements (shortfall)	<i>n/a</i>	<i>n/a</i>	343.1
Net prepaid flights and credits un assumed	<i>n/a</i>	<i>n/a</i>	404.3
Bond Holders	1,929.1	1,929.1	1,929.1
Derivative counterparties	196.6	196.6	196.6
Exiting operating lease exposure	1,105.1	1,174.8	1,402.0
Other unsecured creditors	409.6	468.9	1,082.6
Total Pool A	3,976.5	4,193.9	6,007.0
Pool C			
Critical supplier Pool	655.0	655.0	
Total Pool A & C	4,631.5	4,848.9	
Pool B			
Secured financiers (shortfall) total	183.1	232.4	<i>n/a</i>
Net prepaid flights and credits un assumed	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>
Bond Holders	1,929.1	1,929.1	<i>n/a</i>
Total Pool B	2,112.1	2,161.5	
Total estimated unsecured creditors in liquidation			6,007.0

The creditor claims above in **Table 34** relates to the estimated unsecured claims in each Pool Fund. These claims will not reconcile to the creditor values in **sections 3.4** or **5.3** for the following reasons:

- The amount for secured financiers is the expected shortfall after either, realisation of secured assets where Bain has elected not to retain aircraft or associated equipment, or the assumption of liability by Bain.
- Employee entitlements are assumed under the DOCAs or paid in full. In a liquidation scenario this is the expected shortfall after applicable circulating asset realisations.
- Prepaid flights are \$614.9m, however, net of collateral held this is \$404.3m. Under the Bain DOCAs and ASA these liabilities are assumed, however, could be an unsecured claim in the event of liquidation.
- Operating lease exposures are our estimates of the potential claim for returned aircraft equipment and potential claims for losses incurred on renegotiated leases retained.

The unsecured creditors in the ROCAP included an estimate for contingent claims regarding residual lease liabilities. The ROCAP estimated trade creditors, landlords and statutory liabilities totalling \$558.1m. The estimate in **Table 34** includes a potential claim under the Boeing contract increasing the total estimated other creditors (including critical suppliers) to approximately \$1 billion.

## 12 Voluntary Administrators' opinion

### 12.1 Introduction

The following options are available to creditors to decide:

- The Companies execute a deed of company arrangement; or
- The voluntary administrations end; or
- The Companies be wound up.

Our opinions on each option and our reasons for our opinions are discussed below.

### 12.2 The Companies execute the Bain DOCA proposal

As noted above, 10 DOCAs have been proposed by Bain.

For the DOCAs to come into effect, the majority of creditors entitled to vote at the second meeting of creditors and entitled to vote, who also hold the majority in terms of the value of their claims, will need to pass a resolution voting in favour of the DOCA proposal in respect to each Company.

As noted above, 10 DOCAs have been proposed by Bain.

We are of the opinion that the return to creditors would be greater under the Bain DOCA proposal than in either of the liquidation scenarios presented in **section 11**. We are also of the opinion that the DOCAs proposed by Bain would provide greater certainty of a return, as well as continued employment for the employees and provide sufficient resources to recapitalise the business.

For the DOCAs to come into effect, the majority of creditors entitled to vote at the second meeting of creditors and present in person (via Microsoft Teams) or by proxy, who also hold the majority in terms of the value of their claims, will need to pass a resolution voting in favour of the DOCA proposal in respect to each Company.

When there is a deadlock, the chairperson may use their casting vote either in favour of or against the resolution. The chairperson may also decide not to use their casting vote, and then the deadlocked resolution is not passed. The chairperson must inform the meeting (and include in the written minutes of meeting lodged with ASIC) the reasons why they did or did not to use their casting vote.

### 12.3 The administration should end

Based on our analysis, the Group is presently insolvent and unable to pay its debts as and when they fall due. Accordingly, we are of the opinion it would not be in creditors' interests for the administrations to end and control be returned to the Directors.

### 12.4 The Companies be wound up

As the Bain DOCA proposal results in a greater return than a liquidation, we are of the opinion it would not be in creditors' interest to place the DOCA Companies into liquidation.

### 12.5 Opinion

In our opinion, creditors would be best served if the Companies execute the DOCAs proposed by Bain.

Table 35: Opinion by entity

	Entity	DOCG classification	DOCA category	Opinion
1.	VAH	DOCG1	Primary DOCA	Execute Bain DOCA proposal
2.	VAAH	DOCG1	Primary DOCA	Execute Bain DOCA proposal
3.	VAA	DOCG1	Primary DOCA	Execute Bain DOCA proposal
4.	VT	DOCG1	Primary DOCA	Execute Bain DOCA proposal
5.	VB Leaseco	DOCG1	Primary DOCA	Execute Bain DOCA proposal
6.	VAH Newco 1	DOCG1	Primary DOCA	Execute Bain DOCA proposal
7.	Tiger	DOCG1	Primary DOCA	Execute Bain DOCA proposal
8.	ACN 098 904 262	DOCG1	Primary DOCA	Execute Bain DOCA proposal
9.	VARA	DOCG1	Primary DOCA	Execute Bain DOCA proposal
10.	VAC	DOCG1	Primary DOCA	Execute Bain DOCA proposal
11.	VA Holidays	DOCG1	Primary DOCA	Execute Bain DOCA proposal
12.	VB Ventures	DOCG1	Primary DOCA	Execute Bain DOCA proposal
13.	VB Investco	DOCG1	Primary DOCA	Execute Bain DOCA proposal
14.	VAH Newco 2	DOCG1	Primary DOCA	Execute Bain DOCA proposal
15.	VAIO	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
16.	VBNC5	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
17.	SH20171	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
18.	VB PDP	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
19.	VLH20081	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
20.	737 20121	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
21.	VARL	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
22.	VA Holdco	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
23.	SH20161	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
24.	VLH20082	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
25.	737 20122	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
26.	VA20131	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
27.	VA Leaseco	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
28.	SH20162	Non-DOCG entity	Primary DOCA	Execute Bain DOCA proposal
29.	VAIH	DOCG2	International DOCA	Execute Bain DOCA proposal
30.	VAIA	DOCG2	International DOCA	Execute Bain DOCA proposal
31.	Tiger 1	DOCG2	International DOCA	Execute Bain DOCA proposal
32.	VSEA	DOCG2	International DOCA	Execute Bain DOCA proposal
33.	SH20141	Non-DOCG entity	Subsidiary DOCA 1	Execute Bain DOCA proposal
34.	SH20142	Non-DOCG entity	Subsidiary DOCA 1	Execute Bain DOCA proposal
35.	SH20172	Non-DOCG entity	Subsidiary DOCA 2	Execute Bain DOCA proposal
36.	SH20181	Non-DOCG entity	Subsidiary DOCA 3	Execute Bain DOCA proposal
37.	VA20191	Non-DOCG entity	Subsidiary DOCA 4	Execute Bain DOCA proposal

	Entity	DOCG classification	DOCA category	Opinion
38.	VA20192	Non-DOCG entity	Subsidiary DOCA 5	Execute Bain DOCA proposal
39.	VB Leaseco2	Non-DOCG entity	Subsidiary DOCA 6	Execute Bain DOCA proposal
40.	VB 800	Non-DOCG entity	Subsidiary DOCA 7	Execute Bain DOCA proposal
41	SH20173	Non-DOCG entity	Subsidiary DOCA 8	Execute Bain DOCA proposal

We reserve the right to change our opinion should there be any change to the Bain DOCA proposal.

Should we receive any new information relevant to creditors between issuing this report and the date of the creditors meeting, a summary will be made available on the website established to provide creditors with information:

<https://www2.deloitte.com/au/en/pages/finance/articles/virgin-australia-holdings-limited-subsidiaries.html>

#### 12.5.1 Other material information

We are not aware of any other information that is materially relevant to creditors being able to make an informed decision on the future of the Virgin Group.

## 13 Remuneration

On 21 April 2020 we provided our initial remuneration notice to creditors setting out our schedule of hourly rates and method of remuneration. A copy of this notice is available on our website here:

<https://www2.deloitte.com/au/en/pages/finance/articles/virgin-australia-holdings-limited-subsidiaries-circulars-notices.html>.

An administrator's remuneration can be approved by resolution of a COI, a company's creditors or by application to Court.

At the COI meeting held on 10 August 2020, the COI approved our remuneration for each of the periods below in respect to the Companies in the Group that have some form of trading operations. A remuneration approval report was provided to the COI prior to the meeting.

**Table 36: Approved remuneration**

Period	\$
Actual – 20 April 2020 to 30 June 2020	13,399,000
Future – 1 July 2020 to completion of the voluntary administrations	13,383,765
<b>Total fees approved by the COI (excluding GST)</b>	<b>26,782,765</b>

It is noted that in respect to the future approval, we will only draw the amount incurred. If the actual remuneration exceeds the amount approved, we may seek further approval from the COI.

The COI also approved the following disbursements:

**Table 37: Approved disbursements**

Period	Disbursements approved \$	Disbursements at cost \$	Total \$
Actual – 20 April 2020 to 30 June 2020	15,000	-	15,000
Future– 1 July 2020 to completion of the voluntary administrations	-	-	-
<b>Total disbursements approved by the COI (excluding GST)</b>	<b>15,000</b>	<b>-</b>	<b>15,000</b>

Voluntary Administrators are not required to seek creditor approval for expenses paid to third parties at cost, however administrators are required to obtain creditor's consent for the payment of a disbursement where the administrators or a related entity of the administrators, may directly or indirectly obtain a profit. In these circumstances, creditors will be asked to approve these disbursements prior to them being paid from the administration.

Remuneration totalling \$35,524.50 (excluding GST) and disbursements in respect to the following non-trading entities has not been obtained:

- 737 2012 No.1 Pty. Ltd
- 737 2012 No. 2 Pty Ltd
- Short Haul 2014 No. 1 Pty Ltd
- Short Haul 2016 No. 1 Pty Ltd
- Short Haul 2016 No. 2 Pty Ltd

- Short Haul 2017 No. 1 Pty Ltd
- VA Hold Co Pty Ltd
- VA Lease Co Pty Ltd
- VA Regional Leaseco Pty Ltd
- VB LH 2008 No. 1 Pty Ltd
- VB LH 2008 No. 2 Pty Ltd
- VB PDP 2010-11 Pty Ltd
- VBNC5 Pty Ltd
- Virgin Australia 2013-1 Issuer Co Pty Ltd
- VB Investco Pty Ltd
- VAH Newco No.2 Pty Ltd.

Future remuneration in respect to the DOCAs proposed by Bain, the Creditors' Trust, and liquidation (if resolved by creditors) will be sought from the COIs convened under the DOCAs, Creditors' Trust or liquidations (if resolved by creditors).

## 14 Meeting

Pursuant to section 439A(3) of the Act and section 75-225 of the IPR, attached is a notice convening the second meeting of creditors of each of the Companies to be held on **Friday 4 September 2020 at 10:00am AEST**. The meeting is a concurrent meeting for all Companies. The notice of meeting is enclosed at **Appendix B**.

Government health guidelines around social distancing means it would be inappropriate to convene a physical meeting. Recent interim amendments to the legislation that governs insolvent administrations provides that meetings of creditors may be held virtually, using technology that will give all persons entitled to attend a reasonable opportunity to participate without being physically present in the same place. To this end, the meeting will be held using Microsoft Teams Live Events platform.

At this meeting, creditors will be asked to resolve whether:

- The Companies execute a DOCA; or
- The administrations end; or
- The Companies be wound up.

We will also be seeking resolutions regarding the formation of joint committees of inspection in the DOCAs and Creditors' Trust, or liquidation, based on the resolutions passed by creditors. It is proposed that creditors vote to approve the existing members of the COI to continue in any COI established in the DOCA, Creditors' Trust or liquidation. We have consulted with the members and all existing members (listed at **section 2.4**) have consented to being nominated for future COI's. Creditors will be invited to consider whether a COI should be formed, and if so, if the existing members should be appointed.

The resolutions being put to the meeting are attached at **Appendix M**.

Attendance at this meeting is not compulsory, however, those creditors wishing to attend and vote at the second meeting are required to lodge their Proof of Debt or Claim by **5:00pm AEST 28 August 2020**. Individuals attending the meeting on behalf of a corporate creditor also need to also appoint a proxy via the Halo platform by **5:00pm AEST 1 September 2020**.

The electronic proxy form in the Halo platform allows for creditors to nominate a special or general proxy to be lodged. If a creditor lodges a special proxy, they will have the right to submit their votes via the Halo platform and nominate a proxy to attend the virtual meeting of creditors on their behalf. If a creditor lodges a general proxy, their nominated proxy will have the right to submit votes via the Halo platform on behalf of the creditor. If they wish, the creditor will still be able to attend the meeting of creditors as an observer.

A creditor will not be able to vote at the meeting unless a Proof of Debt or Claim is lodged with us via the Halo platform by **5:00pm AEST 28 August 2020**. Those creditors who have already lodged an informal proof of debt are not required to submit a further proof, unless you have an amended claim, in which case please amend your claim in the Halo platform. If your claim has already been admitted for voting purposes, do not lodge an additional claim. Please contact the Voluntary Administrators at [virginhalo@deloitte.com.au](mailto:virginhalo@deloitte.com.au) if you have any issues in amending your claim in the Halo platform.

**On the Proof of Debt Form in the Halo platform please ensure you select the relevant company of which you are a creditor.**



## 14.1 Voting procedures (excluding Bond Holders)

We have prepared the attached voting guide at **Appendix C** and ask that you review this document ahead of the second meeting of creditors.

## 14.2 Voting procedures (Bond Holders only)

For various reasons, including differing structures, note documentation, governing law and clearing systems, the voting procedures to be followed by Bond Holders will vary depending upon which type of notes are held.

The table below sets out key information in relation to the specific voting procedures applicable to the separate Bond Holder categories and the action required from Bond Holders. The procedures below are determined by the relevant documents and applicable law. The information below was also provided to creditors in our circular to creditors dated 18 August 2020.

**Table 38: Bond Holder action required for voting**

Notes	Who will vote at the second meeting of creditors?	Action required
AUD325,000,000 8% notes due 26 November 2024 (ASX: VAHHA) (ISIN: AU0000063455) (Listed AUD Notes)	Sargon Pty Ltd (Sargon) (the Trustee for the Listed AUD Notes)	<ol style="list-style-type: none"> <li>If Sargon wishes to attend and vote at the second meeting of creditors it must, to the extent it has not done so already: <ol style="list-style-type: none"> <li>submit its proof of debt through the Halo platform by <b>5:00pm AEST on 28 August 2020</b>; and</li> <li>submit its proxy and/or power of attorney through the Halo platform by <b>5:00pm AEST on 1 September 2020</b>.</li> </ol> </li> <li>Beneficial owners of Listed AUD Notes (Listed AUD Noteholders) are not required to register on the Halo platform or submit proofs of debt or proxies to the Voluntary Administrators. Listed AUD Noteholders should, however, contact Sargon (contact details below) as soon as possible for details of Sargon's procedural requirements and deadlines for receiving voting instructions from Listed AUD Noteholders: <p style="text-align: center;">Sargon Pty Ltd  <a href="mailto:ct.sfas@sargon.com">ct.sfas@sargon.com</a></p> </li> <li>Sargon and Listed AUD Noteholders should access and review this report from 25 August 2020.</li> <li>AUD Listed Noteholders are entitled to attend the second meeting of creditors as observers.</li> </ol>
AUD150,000,000 8.25% Senior Notes due 30 May 2023 (ISIN: AU3CB0253367) and AUD250,000,000 8.075% Senior Notes due 5 March 2024 (ISIN: AU3CB0261410) (Unlisted AUD Notes 2018)	Noteholders registered on the Noteholder Registers maintained by BTA Institutional Services Australia Ltd (the Registered Noteholders (Unlisted AUD))	<ol style="list-style-type: none"> <li>Each Registered Noteholder (Unlisted AUD) that wishes to vote at the second meeting of creditors must, to the extent it has not done so already: <ol style="list-style-type: none"> <li>submit its proof of debt through the Halo platform by <b>5:00pm AEST on 28 August 2020</b>; and</li> <li>submit its proxy and/or power of attorney through the Halo platform by <b>5:00pm AEST on 1 September 2020</b>.</li> </ol> </li> <li>If an Unlisted AUD Noteholder holds Unlisted AUD Notes on behalf of a sub-custodian or beneficial owner, it will need to liaise with the relevant sub-custodian or beneficial owner (as applicable) in respect of any voting</li> </ol>

Notes	Who will vote at the second meeting of creditors?	Action required
		<p>instructions or directions it may require in accordance with the relevant custody arrangements.</p> <ol style="list-style-type: none"> <li>Beneficial owners of Unlisted AUD Notes are not required to register on the Halo platform or submit proofs of debt or proxies to the Voluntary Administrators. Beneficial owners should, however, contact their Registered Noteholder (Unlisted AUD) or custodian as soon as possible to request details of any applicable procedural requirements or deadlines set by the Registered Noteholder or custodian for receiving voting instructions from beneficial owners of Unlisted AUD Notes.</li> <li>Registered Unlisted AUD Noteholders and beneficial owners of Unlisted AUD Notes should access and review this report from 25 August 2020.</li> <li>Beneficial owners of Unlisted AUD Notes are entitled to attend the second meeting of creditors as observers.</li> </ol>
<p>US\$350,000,000 7.875% Senior Notes due 15 October 2021 (Reg S CUSIP: Q94606AG7 &amp; 144A CUSIP: 92765YAG2) and the US\$425,000,000 8.125% Senior Notes due 15 November 2024 (Reg S CUSIP: Q94606AH5 &amp; 144A CUSIP: 92765YAH0) <b>(USD Noteholders)</b></p>	<p>N/A (beneficial owners of the USD Notes will vote via Depository Trust Company (DTC) Participants by way of a ballot process with Master Ballots to be provided to the Voluntary Administrators 2 business days in advance of the second meeting of creditors.</p>	<ol style="list-style-type: none"> <li>A voting process commenced on or around 18 August 2020 through the DTC by the direct distribution of Master Ballots and Beneficial Owner Ballots by the Voluntary Administrators to the DTC Participants listed on the Securities Position Report as at 7 August 2020 at 5:00 p.m. New York time (the Voting Record Date).</li> <li>The deadline for the DTC Participants to return the Master Ballots to the Voluntary Administrators is 1 September 2020 at 6 p.m. New York Time (the Master Ballot Voting Deadline). Following commencement of the voting process beneficial owners of USD Notes as at the Voting Record Date should contact their DTC Participants or nominees (as applicable) to request details of any interim deadlines set by such parties for the return of the Beneficial Owner Ballots.</li> <li>Beneficial owners of the USD Notes are not required to register on the Halo platform or submit a proof of debt or proxy to the Voluntary Administrators.</li> <li>Beneficial owners of the USD Notes should access and review this report from 25 August 2020.</li> <li>Beneficial owners of the USD Notes should complete and return their Beneficial Owner Ballots in accordance with the instructions from and by the deadlines set by their respective DTC Participants or nominees (as applicable) in order to have their vote reflected in the Master Ballot.</li> <li>DTC Participants are required to tally the Beneficial Owner Ballots returned to them by the beneficial owners of the USD Notes and complete and return their Master Ballots to the Administrators by the Master Ballot Voting Deadline.</li> <li>The votes of the beneficial owners of the USD Notes as set out in the Master Ballots will be incorporated into the Halo platform for the purpose of recording voting at the second creditors meeting.</li> <li>Beneficial owners of the USD Notes are entitled to attend the second meeting of creditors as observers.</li> </ol>

We trust creditors find this report informative and useful. In the event you have any queries regarding the contents of this report, or the administration in general, please do not hesitate to contact us at [virginadmin@deloitte.com.au](mailto:virginadmin@deloitte.com.au).

Yours faithfully



**Vaughan Strawbridge**  
Joint and Several Administrator



**John Greig**  
Joint and Several Administrator



**Salvatore Algeri**  
Joint and Several Administrator



**Richard Hughes**  
Joint and Several Administrator

## Glossary and abbreviations

Term	Definition
\$'000/k	Thousands
\$m	Millions
1H	First Half of Financial Year
2007 Deed Group / DOCG1	The following entities which are currently party to the Deed of Cross Guarantee made on 18 June 2007, or by subsequent Assumption Deed and identified in Appendix G.
2012 Deed Group / DOCG2	The following entities in the Group which are party to the Deed of Cross Guarantee made on 18 June 2012, or by subsequent Assumption Deed and identified in Appendix G.
2H	Second Half of Financial Year
2HFY20 YTD	Second Half of Financial Year to date (January to April 2020)
737 20121	737 2012 No.1 Pty. Ltd. ACN 154 201 859 (Administrators Appointed)
737 20122	737 2012 No.2 Pty Ltd ACN 154 225 064 (Administrators Appointed)
ACN 098 904 262	A.C.N. 098 904 262 Pty Ltd ACN 098 904 262 (Administrators Appointed)
Act	Corporations Act 2001 (Cth)
Administration/voluntary administration	The voluntary administration of the Virgin Group
Administrators or Voluntary Administrators or us/we/our	Vaughan Strawbridge, John Greig, Salvatore Algeri & Richard Hughes
Affinity	Affinity Equity Partners, the private equity firm that owned 35% of Velocity until late 2019
Affinity stake	35% shareholding in the Velocity Group
AGM	Annual General Meeting
Aircraft Leased Property	Any leased aircraft, aircraft engines or other aviation equipment
Akin Gump	Akin Gump Strauss Hauer & Feld, a US law firm acting for the Voluntary Administrators in assisting with communications and dealings with bondholder creditors.
ALL PAAP	All Present and After Acquired Property
Annual Report	Virgin Australia Holdings Limited 2019 Annual Report
ANZ	Australia and New Zealand Banking Group Ltd
AOC	Air Operators Certificates
Applicable Agreements	Those agreements as referred to in the Federal Court Order made 15 May 2020 <a href="https://www.fedcourt.gov.au/data/assets/pdf_file/0011/76385/Order-20200515-JK.pdf">https://www.fedcourt.gov.au/data/assets/pdf_file/0011/76385/Order-20200515-JK.pdf</a>
Appointment date/date of appointment	For all entities listed in Appendix A: 20 April 2020, except for 28 April 2020 for Tiger 1 and 3 August 2020 for VAH Newco 2 and VB Investco.
ARITA	Australian Restructuring Insolvency & Turnaround Association
ASA	Asset Sale Agreement
ASIC	The Australian Securities & Investments Commission
Assumption Deed	A deed executed by which further Group entities may be included in the DOCG.

Term	Definition
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUD	Australian dollars
Bain	BC Hart Aggregator, LP
BAS	Business Activity Statement
Board	The Board of Directors of VAH
Bond Holder	Holders of listed and unlisted unsecured bonds or notes issued by VAH
BP&T	Broad Peak Investment Advisers Pte Ltd (for and on behalf of Broad Peak Master Fund II Limited and Broad Peak Asia Credit Opportunities Holdings Pte. Ltd) and Tor Investment Management (Hong Kong) Ltd
BV	Book value
c	cents
c.	circa
Class Order Relief Instrument	<i>ASIC Corporations Act (Wholly-owned Companies) Instrument 2016/785</i>
COI or Committee	Committee of Inspection
Companies	Companies in voluntary administration as listed in Appendix A (All Administrators Appointed)
Consolidated Group	VAH, the entities it controls and interests in associates, consistent with how it prepares its consolidated financial statements and the definition of control and associate in section 9 of the Corporations Act.
DOCG1 ROCAP	The ROCAP submitted by the Directors in respect of the companies included in DOCG1, under orders of the Federal Court dated 15 May 2020
Convening Period	The period between the date of the appointment of the Voluntary Administrators and the date the Voluntary Administrators provide notice (convene) of the second meeting of creditors
COVID-19	The 2019 novel coronavirus pandemic
Creditors' Trust	Proposed Creditors' Trust
CU	Clayton Utz
D&O	Directors and Officers
Deed Administrators	Vaughan Strawbridge, John Greig, Salvatore Algeri & Richard Hughes
Deloitte	Deloitte Financial Advisory Pty Ltd
Deloitte Web-Link	A Virgin Australia Holdings website managed by the Voluntary Administrators: <a href="http://www.deloitte.com/au/virgin">www.deloitte.com/au/virgin</a>
Directors	The directors of each of the Virgin Group entities: Allan Grant Houston, Anthony Francis Shepherd, Elizabeth Bloomfield Bryan, Graham John Bradley, Hou Wei, Judith Swales, Keith Antony Neate, Kenneth Alfred Dean, Kevin Xing, Lindsay James Tanner, Meng Hung Marvin Tan, Paul Darren Scurrah, Peter George Dowling, Raymond Gammell, Steven James Fouracre, Trevor Bourne, and Warwick Negus
DIRRI	Declaration of Independence and Relevant Relationships and Indemnities
DOCA	Deed of Company Arrangement
DOCA structure	The Primary DOCA, International DOCA and Subsidiary DOCAs
DOCG	A deed of cross guarantee executed by certain entities in the Group in accordance with the Class Order Relief Instrument
DOCG1	Deed of Cross Guarantee dated 18 June 2007
DOCG2	Deed of Cross Guarantee dated 18 June 2012
EBITDA	Earnings before interest, tax, depreciation and amortisation
ERV	Estimated Realisable Value

Term	Definition
ESOP	Estimated Statement of Position
Excluded Employees	Directors or a relation of the Directors, as defined in section 556 of the Act
FEG	Fair Entitlements Guarantee Scheme
Finance Facilities	Agreements entered into between various financiers and entities within the Virgin Group to provide finance facilities to the Virgin Group, including loans, letters of credit, bank guarantees, derivative financial instruments, leases, and bonds
Financier	Institutions providing financing facilities to the Virgin Group, excluding Bond Holders
FY	Financial year ended
GST	Goods and services tax
HFY	Financial half year
HL	Houlihan Lokey Inc
HSBC	The Hongkong and Shanghai Banking Corporation
IM	Information memorandum
Insolvency Practice Rules/IPR	Insolvency Practice Rules (Corporations) 2016 (Cth)
Insured claim	A claim defined as an Insured Claim under the terms of the DOCA
Interim statement	Financial Report released to the market for half year results ended December
International DOCA	Deed of company arrangement proposed by Bain for Tiger 1, VAIA, VSEA, VAIH
Insolvency Practice Schedule/IPS	Insolvency Practice Schedule (Corporations) 2016
ITSA	Indirect Tax Sharing Agreement
Listed AUD Notes	Corporate bonds issued by VAH in November 2019 and listed on the ASX under VAHHA.
m	Millions
Major Shareholders	The Consolidated Group's five largest shareholders, being Etihad Airways (20.97%), Singapore Airlines Ltd (20.03%), Nanshan Group (20.01%), HNA Group (19.86%) and Virgin Group Ltd (10.02%) (a UK entity and not otherwise related to VAH other than through its shareholding).
Management	Management of VAH and/or subsidiaries
MOFA	Multi Option Facility Agreement – working capital facility provided by ANZ and HSBC
MS	Morgan Stanley
N/A	Not applicable
NBIO	Non-binding indicative offers
NBIO1	Non-binding Indicative Offers - phase 1
NBIO2	Non-binding Indicative Offers - phase 2
NCC	Noteholder Consultative Committee
NDA	Non-disclosure agreement
Non-DOCG entities	Meaning all entities in voluntary administration that are not part of DOCG1 or DOCG 2
PAYG	Pay as you go withholding tax
PMSI	Purchase money security interest
POD	Proof of Debt
PPSA	Personal Property Securities Act 2009 (Cth)

Term	Definition
PPSR / Personal Property Securities Register	The register established and maintained under the PPSA
Primary DOCA	Deed of company arrangement proposed by Bain for ACN 098 904 262, Tiger, VA Holidays, VAA, VAAH, VAC, VAH, VAH Newco 1, VAH Newco 2, VARA, VB Investco, VB Leaseco, VB Ventures, VT, VAIO, 737 20121, 737 20122, SH20161, SH20162, SH20171, VA Holdco, VA Leaseco, VA20131, VARL, VB PDP, VBLH20081, VBLH20082, VBNC5
Protocol Agreement	An agreement between the Voluntary Administrators and the Lessors whereby the Voluntary Administrators have the ability to retain the use of assets under a commercial arrangement, without adopting the pre-appointment contract.
Receivables or Receivables Book	Lease receivables and loan receivables
Related entity	Has the meaning given to that term in the Act (see section 9)
Relation back day	The date of appointment of the Voluntary Administrators
ROCAP	Report on Company Activities and Property
ROT	Retention of title
S&P Global	S&P Global Inc.
Sale Deed	Sale and Implementation Deed
Second meeting	The second meetings of creditors for the Virgin Group subject to this report
Security Trustee	Permanent Custodians Limited in its capacity as trustee of the Virgin Australia Holdings Limited Security Trust
SH20141	Short Haul 2014 No.1 Pty Ltd ACN 600 809 612 (Administrators Appointed)
SH20142	Short Haul 2014 No.2 Pty Ltd ACN 600 878 199 (Administrators Appointed)
SH20161	Short Haul 2016 No.1 Pty Ltd ACN 612 766 328 (Administrators Appointed)
SH20162	Short Haul 2016 No.2 Pty Ltd ACN 612 796 077 (Administrators Appointed)
SH20171	Short Haul 2017 No.1 Pty Ltd ACN 617 644 390 (Administrators Appointed)
SH20172	Short Haul 2017 No.2 Pty Ltd ACN 617 644 443 (Administrators Appointed)
SH20173	Short Haul 2017 No.3 Pty. Ltd. ACN 622 014 813 (Administrators Appointed)
SH20181	Short Haul 2018 No.1 Pty. Ltd. ACN 622 014 831 (Administrators Appointed)
Slots	Airport Slots
SPV	Special Purpose Vehicle
Subsidiary DOCA	Deeds of company arrangement proposed by Bain for SH20141, SH20142, SH20172, SH20181, VA20191, VA20192, VB Leaseco2, VB 800, SH20173. Titled sequentially as Subsidiary DOCA 1 to 8
the Companies, Virgin Group	Companies in voluntary administration as listed in Appendix A (All Administrators Appointed)
the Court	The Federal Court of Australia or any of the state Supreme Courts
the Regulations	Corporations Regulations 2001 (Cth)
Tiger	Tiger Airways Australia Pty Limited ACN 124 369 008 (Administrators Appointed)
Tiger 1	Tiger International Number1 Pty Ltd ACN 606 131 944 (Administrators Appointed)
Tigerair	Tigerair Australia business segment
Trust Deed	The trust deed establishing the Creditors' Trust
Trust Fund	Amount paid to the Deed Administrators for purpose of the Creditors' Trust (further details in section 8)
Trustee	Trustees of the Creditors' Trust, proposed to be the Voluntary Administrators/Deed Administrators
Unlisted AUD notes	Unlisted corporate bonds issued by VAH in two tranches on 30 May 2018 and 5 March 2019

Term	Definition
US	United States of America
USD	United States dollars
USD denominated notes	Corporate bonds issued by VAH in the United States in two tranches on 17 October 2016 (USD Noteholders 2016) and 7 November 2019 (USD Noteholders 2019)
VA (NZ)	Virgin Australia (NZ) Employment and Crewing Ltd (In Liquidation)
VA Holdco	VA Hold Co Pty Ltd ACN 165 507 157 (Administrators Appointed)
VA Holidays	Virgin Australia Holidays Pty Ltd ACN 118 552 159 (Administrators Appointed)
VA Leaseco	VA Lease Co Pty Ltd ACN 165 507 291 (Administrators Appointed)
VA20131	Virgin Australia 2013-1 Issuer Co Pty Ltd ACN 165 507 326 (Administrators Appointed)
VA20191	VA Borrower 2019 No.1 Pty Ltd ACN 633 241 059 (Administrators Appointed)
VA20192	VA Borrower 2019 No.2 Pty Ltd ACN 637 371 343 (Administrators Appointed)
VAA	Virgin Australia Airlines Pty Ltd ACN 090 670 965 (Administrators Appointed)
VAAH	Virgin Australia Airlines Holdings Pty Ltd ACN 093 924 675 (Administrators Appointed)
VAC	Virgin Australia Cargo Pty Ltd ACN 600 667 838 (Administrators Appointed)
VAD	Virgin Australia Domestic
VAH	Virgin Australia Holdings Limited ACN 100 686 226 (Administrators Appointed) - ultimate parent and ASX listed entity
VAH Newco 1	VAH Newco No.1 Pty Ltd ACN 160 881 345 (Administrators Appointed)
VAH Newco 2	VAH Newco No. 2 Pty Ltd ACN 160 881 354 (Administrators Appointed)(In Liquidation)
VAIA	Virgin Australia International Airlines Pty Ltd ACN 125 580 823 (Administrators Appointed)
VAIH	Virgin Australia International Holdings Pty Ltd ACN 155 860 021 (Administrators Appointed)
VAIO	Virgin Australia International Operations Pty Ltd ACN 155 859 608 (Administrators Appointed)
VARA	Virgin Australia Regional Airlines Pty Ltd ACN 008 997 662 (Administrators Appointed)
VARL	VA Regional Leaseco Pty Ltd ACN 127 491 605 (Administrators Appointed)
VB 800	VB 800 2009 Pty Ltd ACN 135 488 934 (Administrators Appointed)
VB Investco	VB Investco Pty Ltd ACN 101 961 095 (Administrators Appointed)(In Liquidation)
VB Leaseco	VB Leaseco Pty Ltd ACN 134 268 741 (Administrators Appointed)
VB Leaseco2	VB Leaseco No 2 Pty Ltd ACN 142 533 319 (Administrators Appointed)
VB PDP	VB PDP 2010-11 Pty Ltd ACN 140 818 266 (Administrators Appointed)
VB Ventures	VB Ventures Pty Ltd ACN 125 139 004 (Administrators Appointed)
VBLH20081	VB LH 2008 No.1 Pty Ltd ACN 134 280 354 (Administrators Appointed)
VBLH20082	VB LH 2008 No.2 Pty Ltd ACN 134 288 805 (Administrators Appointed)
VBNC5	VBNC5 Pty Ltd ACN 119 691 502 (Administrators Appointed)
VDR	Virtual data room
Velocity Group	The entities that own and operate the Velocity Frequent Flyer business, not subject to voluntary administration
Velocity /Velocity Frequent Flyer	The loyalty program business ultimately owned by the Velocity Group and not subject to voluntary administration
Velocity Group Loan	\$460m secured loan facility provided by VRPL as trustee for The Loyalty Trust to VAA
VFF	Velocity Frequent Flyer Pty Ltd manager of the Velocity business



Term	Definition
Virgin Australia 2.0	Forecast business plan
Virgin Group/Group	Companies in voluntary administration as listed in Appendix A (All Administrators Appointed)
VRPL	Velocity Frequent Pty Ltd - trustee of the Loyalty Trust
VSEA	Virgin Australia Airlines (SE Asia) Pty Ltd ACN 097 892 389 (Administrators Appointed)
VT	Virgin Tech Pty Ltd ACN 101 808 879 (Administrators Appointed)
YTD	Year to date (1 July 2019 to 30 April 2020)

## Appendix A – Entities under administration

No.	Name	Date of appointment of voluntary administrators	ACN	Abbreviation
1	Virgin Australia Holdings Ltd	20-Apr-20	ACN 100 686 226	VAH
2	Virgin Australia Airlines Pty Ltd	20-Apr-20	ACN 090 670 965	VAA
3	Virgin Australia International Airlines Pty Ltd	20-Apr-20	ACN 125 580 823	VAIA
4	Virgin Australia Regional Airlines Pty Ltd	20-Apr-20	ACN 008 997 662	VARA
5	Tiger Airways Australia Pty Limited	20-Apr-20	ACN 124 369 008	Tiger
6	737 2012 No. 2 Pty Ltd	20-Apr-20	ACN 154 225 064	737 20122
7	737 2012 No.1 Pty. Ltd.	20-Apr-20	ACN 154 201 859	737 20121
8	A.C.N. 098 904 262 Pty Ltd	20-Apr-20	ACN 098 904 262	ACN 098 904 262
9	Short Haul 2014 No. 1 Pty Ltd	20-Apr-20	ACN 600 809 612	SH20141
10	Short Haul 2014 No. 2 Pty Ltd	20-Apr-20	ACN 600 878 199	SH20142
11	Short Haul 2016 No. 1 Pty Ltd	20-Apr-20	ACN 612 766 328	SH20161
12	Short Haul 2016 No. 2 Pty Ltd	20-Apr-20	ACN 612 796 077	SH20162
13	Short Haul 2017 No. 1 Pty Ltd	20-Apr-20	ACN 617 644 390	SH20171
14	Short Haul 2017 No. 2 Pty Ltd	20-Apr-20	ACN 617 644 443	SH20172
15	Short Haul 2017 No. 3 Pty. Ltd.	20-Apr-20	ACN 622 014 813	SH20173
16	Short Haul 2018 No. 1 Pty. Ltd.	20-Apr-20	ACN 622 014 831	SH20181
17	Tiger International Number 1 Pty Ltd	28-Apr-20	ACN 606 131 944	Tiger 1
18	VA Borrower 2019 No. 1 Pty Ltd	20-Apr-20	ACN 633 241 059	VA20191
19	VA Borrower 2019 No. 2 Pty Ltd	20-Apr-20	ACN 637 371 343	VA20192
20	VA Hold Co Pty Ltd	20-Apr-20	ACN 165 507 157	VA Holdco
21	VA Lease Co Pty Ltd	20-Apr-20	ACN 165 507 291	VA Leaseco
22	VA Regional Leaseco Pty Ltd	20-Apr-20	ACN 127 491 605	VARL
23	VAH Newco No.1 Pty Ltd	20-Apr-20	ACN 160 881 345	VAH Newco 1
24	VB 800 2009 Pty Ltd	20-Apr-20	ACN 135 488 934	VB 800
25	VB Leaseco No 2 Pty Ltd	20-Apr-20	ACN 142 533 319	VB Leaseco2
26	VB Leaseco Pty Ltd	20-Apr-20	ACN 134 268 741	VB Leaseco
27	VB LH 2008 No. 1 Pty Ltd	20-Apr-20	ACN 134 280 354	VBLH20081
28	VB LH 2008 No. 2 Pty Ltd	20-Apr-20	ACN 134 288 805	VBLH20082
29	VB PDP 2010-11 Pty Ltd	20-Apr-20	ACN 140 818 266	VB PDP
30	VB Ventures Pty Ltd	20-Apr-20	ACN 125 139 004	VB Ventures
31	VBNC5 Pty Ltd	20-Apr-20	ACN 119 691 502	VBNC5
32	Virgin Australia 2013-1 Issuer Co Pty Ltd	20-Apr-20	ACN 165 507 326	VA20131
33	Virgin Australia Airlines (SE Asia) Pty Ltd	20-Apr-20	ACN 097 892 389	VSEA

No.	Name	Date of appointment of voluntary administrators	ACN	Abbreviation
34	Virgin Australia Airlines Holdings Pty Ltd	20-Apr-20	ACN 093 924 675	VAAH
35	Virgin Australia Cargo Pty Ltd	20-Apr-20	ACN 600 667 838	VAC
36	Virgin Australia Holidays Pty Ltd	20-Apr-20	ACN 118 552 159	VA Holidays
37	Virgin Australia International Holdings Pty Ltd	20-Apr-20	ACN 155 860 021	VAIO
38	Virgin Australia International Operations Pty Ltd	20-Apr-20	ACN 155 859 608	VAIH
39	Virgin Tech Pty Ltd	20-Apr-20	ACN 101 808 879	VT
40	VB Investco Pty Ltd	3-Aug-20	ACN 101 961 095	VB Investco
41	VAH Newco No.2 Pty Ltd	3-Aug-20	ACN 160 881 354	VAH Newco 2

## Appendix B – Notice of meeting

### FORM 529

CORPORATIONS ACT 2001

Section 439A

Insolvency Practice Rules (Corporations)  
75-10, 75-15, 75-225

#### Notice of meeting of creditors

**Virgin Australia Holdings Limited ACN 100 686 226  
and subsidiaries listed in Appendix A to the Report  
(all Administrators Appointed) (the Companies)  
and the business names listed in Schedule 1 below**

Notice is given under Insolvency Practice Rules (Corporations) (IPR) section 75-225 that a virtual concurrent meeting of creditors of the Companies will be held:

Date: Friday 4 September 2020  
Time: 10:00 Australian Eastern Standard Time  
URL: [VAHregistrationform.deloitte.com.au](https://varegistrationform.deloitte.com.au)

Consistent with government policy on gatherings and social distancing, there is no physical meeting place. Technology will be in use to enable all creditors in attendance at the virtual meeting the ability to participate and vote at the meeting\*.

#### Agenda

1. To receive a Report on the Companies business, property, affairs and financial circumstances.
2. For creditors to resolve:
  - a. that the Companies execute a Deed of Companies Arrangement; or
  - b. that the administrations should end; or
  - c. that the Companies be wound up.
3. If the Companies execute Deeds of Company Arrangement, to consider appointing a Committee of Inspection.
4. If the Creditors' Trust is formed, to consider appointing a Committee of Inspection.
5. If the Companies are wound up, to consider appointing a Committee of Inspection.
6. Any other business that may be lawfully brought forward.

Attendance at this meeting is not compulsory. Creditors may access electronic proofs of debt and proxy forms via the Deloitte Halo platform at: <https://virgin.deloitte-halo.com/>.

Proofs of debt must be lodged on the Deloitte Halo platform by **5:00 pm (AEST) on Friday, 28 August 2020**.

Creditors may attend virtually and vote in person, by proxy or by attorney\*\*. The appointment of a proxy must be in the approved form. A special proxy can be lodged confirming approval or rejection of each resolution. Proxy forms must be lodged through the Halo platform not later than **Tuesday 1 September 2020, 5:00pm (AEST)**. An attorney of the creditor must show the instrument by which he or she is appointed to the Chairperson of the meeting, prior to the commencement of the meeting.

Please note under IPR section 75-225 if you wish to participate in the meeting using such facilities you must give to the convener not later than **Tuesday 1 September 2020, 5:00pm (AEST)** a written statement, lodged via the Deloitte Halo platform, setting out:

- (i) the name of the person and of the proxy or attorney (if any); and
- (ii) an address to which notices to the person, proxy or attorney may be sent; and
- (iii) a method by which the person, proxy or attorney may be contacted for the purposes of the meeting.

Upon receipt of the above mentioned statement of participation, a link for the virtual meeting will be made immediately available on the Microsoft Forms page.

DATED this 25<sup>th</sup> day of August 2020.



**Vaughan Neil Strawbridge, Salvatore Algeri, Richard John Hughes and John Lethbridge Greig**  
**Joint and Several Administrators**

Deloitte Financial Advisory Pty Ltd  
 Grosvenor Place  
 225 George Street  
 SYDNEY NSW 2000  
 Telephone: (02) 9322 7000

#### **\*Participating at a virtual meeting**

The virtual meeting will be hosted using Microsoft Teams Live Events technology and is accessible by registering to vote at the following URL: [VAHregistrationform.deloitte.com.au](https://VAHregistrationform.deloitte.com.au)

The Microsoft Teams Live Events technology and Halo platform together enable all participants at the virtual meeting a reasonable opportunity to participate in a vote taken at the meeting, and to ask questions via the Microsoft Teams Live Events technology, without being physically present.

A creditor or proxy is able to participate in a vote taken at the meeting by voting on the Halo platform. The creditor or proxy can start voting from today until voting closes during the meeting. If the creditor's claim is admitted for voting, the creditor or the creditor's proxy can lodge their vote by logging into Halo and clicking 'Start Voting' on the 'Claims' dashboard.

Creditors will be able to speak and to ask questions at the meeting through the Microsoft Teams Q&A chat functionality.

To ensure the meeting runs in a controlled manner, the Administrators will allow creditors to ask questions prior to the meeting which can then be answered by the Chairperson in the meeting. During the meeting, creditors will be able to ask questions through the Q&A chat functionality in the Microsoft Teams platform, which will be answered during the meeting of creditors. Final decisions regarding the technological features that may be employed will be made at the meeting.

#### **\*\*Voting at a Meeting: Insolvency Practice Rules (Corporations) 75-85:**

##### **Entitlement to vote at meetings of creditors**

1. A person other than a creditor (or the creditor's proxy or attorney) is not entitled to vote at a meeting of creditors.
2. Subject to subsections (3), (4) and (5), each creditor is entitled to vote and has one vote.
3. A person is not entitled to vote as a creditor at a meeting of creditors unless:

- a. his or her debt or claim has been admitted wholly or in part by the external administrator; or
  - b. he or she has lodged, with the person presiding at the meeting, or with the person named in the notice convening the meeting as the person who may receive particulars of the debt or claim:
    - (i) those particulars; or
    - (ii) if required—a formal proof of the debt or claim.
4. A creditor must not vote in respect of:
- a. an unliquidated debt; or
  - b. a contingent debt; or
  - c. an unliquidated or a contingent claim; or
  - d. a debt the value of which is not established,
- unless a just estimate of its value has been made.
5. A creditor must not vote in respect of a debt or a claim on or secured by a bill of exchange, a promissory note or any other negotiable instrument or security held by the creditor unless he or she is willing to do the following:
- a. treat the liability to him or her on the instrument or security of a person covered by subsection (6) as a security in his or her hands;
  - b. estimate its value;
  - c. for the purposes of voting (but not for the purposes of dividend), to deduct it from his or her debt or claim.
6. A person is covered by this subsection if:
- a. the person's liability is a debt or a claim on, or secured by, a bill of exchange, a promissory note or any other negotiable instrument or security held by the creditor; and
  - b. the person is either liable to the company directly, or may be liable to the company on the default of another person with respect to the liability; and
  - c. the person is not an insolvent under administration or a person against whom a winding up order is in force.

#### Votes to be taken on a poll

The *Corporations (Coronavirus Economic Response) Determination (No. 1) 2020* requires all votes taken at a virtual meeting must be taken on a poll, not a show of hands. This means that, to calculate the outcome of each resolution, the administrator must calculate the number and dollar value of each vote in favour together with the number and dollar value of each vote against. A resolution is taken to have passed if a majority in both number and dollar value have voted in favour.

#### Schedule 1 - Business Names

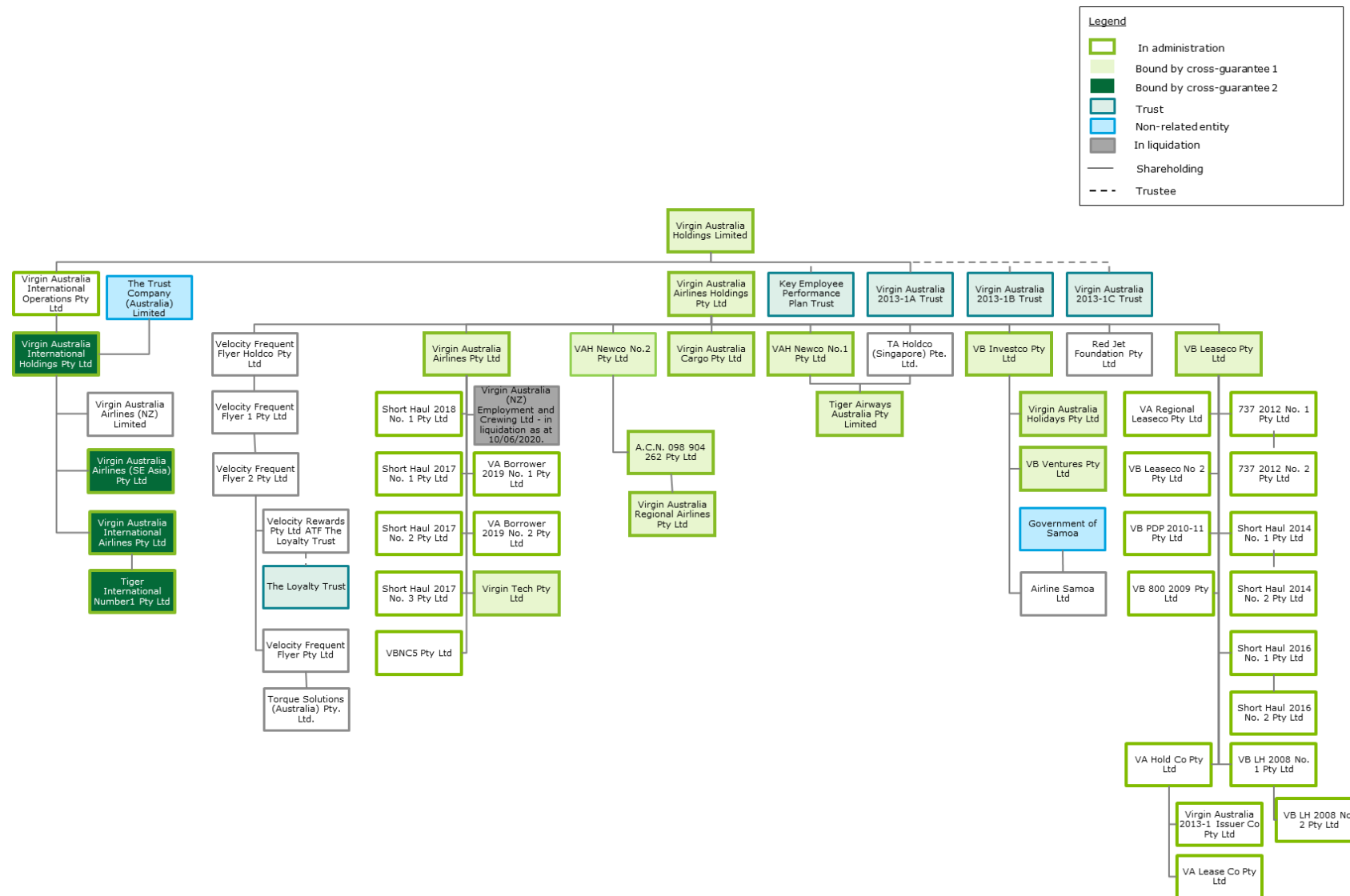
Virgin Australia Holidays  
 V Australia  
 AFL Travel  
 Tigerair Events  
 Skywest Events  
 Skywest Airlines

## Appendix C – Guide for voting

‘The Voting in Halo – How to Guide’ is attached as a separate document to this report and can be found here:

<http://www.deloitte.com/au/virgin>

## Appendix D – Corporate structure





## Appendix E – Report and ARITA Practice Statement

### Insolvency 4: Voluntary Administrators' Report

	Practice Statement – reference and requirement	Compliance	Voluntary Administrators' comments
4.4.2.B	<b>Shareholders, Officers and Charges</b> The Voluntary Administrator's report should incorporate details of the company's existing shareholders and officers and material security interests (in summary form if necessary). Relevant changes in these details that have occurred within twelve months before the Administrator's appointment should also be disclosed.	Partial compliance	<p>This Report does not include complete details of existing shareholders or changes to the shareholding of the Virgin Group. That information is variously (i) not available as the Group is a public company with shares traded on the ASX (ii) too voluminous and (iii) in respect of detail not provided, not sufficiently material. This Report does however include a corporate structure and details of the largest registered shareholders.</p> <p>This Report does include details of the directors and officers of the Group during the 12 month period prior to the appointment of the Administrators.</p> <p>Due to the large number of secured creditors, this Report does not provide details of each security interest. This Report does however provide a summary of all creditors of the Virgin Group, including secured creditors. This Report also provides a summary of securities registered against the Group on the PPSR.</p>
4.4.2.E	<b>Historical financial performance</b> The Voluntary Administrator's report should incorporate a summary of the company's historical financial results and a preliminary analysis and commentary from the Administrator.	Partial compliance	<p>This Report does not include full details of the Virgin Group's historical financial performance. Information as to the Group's full historical financial performance is publicly available from the ASX. This Report does however provide a summary of the Consolidated Group's audited statement of profit and loss, balance sheet and statement of cash flows for FY18 and FY19, and provides a summary of internal management accounts for year to date for the second half of FY20 for the Virgin Group.</p>
4.4.2.G	<b>Directors' Report on Company Activities and Property</b>	Partial Compliance	<p>In accordance with orders of the Federal Court made on 15 May 2020, a single</p>

	Practice Statement – reference and requirement	Compliance	Voluntary Administrators' comments
	The Voluntary Administrator's report should outline the content of the directors' ROCAP and include the Administrator's comments as to the Administrator's estimate of realisable value of assets and liabilities. If directors have failed to provide a ROCAP, this needs to be disclosed.		ROCAP was lodged by the directors in relation to 13 entities in the Virgin Group. Individual ROCAPs were lodged for the remaining entities in administration. This Report outlines the content of all ROCAPs.
4.4.2.J	<b>Related Entities</b> The Voluntary Administrator's report should disclose to the best of the Administrator's knowledge: <ul style="list-style-type: none"> <li>those creditors of the company who are related entities</li> <li>the quantum of their claims</li> <li>when the debt was incurred</li> <li>how the debt was incurred</li> <li>if the debt was assigned, the amount paid for the assignment, and</li> <li>the process taken by the Administrator to verify the claims made by related entities.</li> </ul>	Partial Compliance	The Virgin Group operated as one business and some entities within the Consolidated Group relied on other entities for continued trading and, not unusually for a large, integrated group, the intercompany transactions were considerable. This Report does not therefore include specific details as to every individual intercompany transaction or related party debt due to the large number of dealings and intercompany transactions. This Report does include a summary of related party balances, both inside and outside the Consolidated Group.
4.4.3.D	<b>Directors' personal financial position</b> Where voidable transactions against a company director or a potential insolvent trading claim are identified, the Administrator should comment on the likelihood of recovering monies from the directors in the event that the company were to proceed into liquidation. In forming an opinion, the Administrator should make reasonable enquiries to establish the directors' capacity to pay any judgment obtained.	Non-compliance	This Report does not comment on the likelihood of recovering monies from the personal assets of directors. This is due to (i) the anticipated materiality of such assets when considered against the potential liability if any potential claims identified in this report were pursued, (ii) the existence of directors and officers insurance policies which, if responsive, would be expected to meet any such liability up to the limit of the policies, which is considerable, and (iii) as commented upon in the Report, the availability of defences (including temporary relief to directors for claims for insolvent trading), and the small quantum of the potential insolvent trading claim, both of which mean that any recovery would be unlikely to have any material impact on returns to creditors.

## Appendix F – DIRRI



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## Declaration of Independence, Relevant Relationships and Indemnities

**Virgin Australia Holdings Limited (ACN 100 686 226)**

**And the entities listed in Schedule A**

**(all Administrators Appointed)**

**(the Companies or Virgin)**

This document requires the Practitioners appointed to an insolvent entity to make declarations as to:

- A. their independence generally;
- B. relationships, including
  - (i) the circumstances of the appointment;
  - (ii) any relationships with the Companies and others within the previous 24 months;
  - (iii) any prior professional services for the Companies within the previous 24 months;
  - (iv) that there are no other relationships to declare; and
- C. any indemnities given, or up-front payments made, to the Practitioner.

On 30 July 2020 the Federal Court of Australia granted leave for Vaughan Strawbridge, Salvatore Algeri, John Greig and Richard Hughes to be appointed as Voluntary Administrators of VAH Newco No. 2 Pty Ltd (**VAH Newco 2**) and VB Investco Pty Ltd (**VB Investco**), together (**VAH Newcos**).

Richard Hughes was previously appointed as liquidator of the VAH Newcos as detailed in the Corporate Simplification section under Prior Professional services to the Group.

There have been no other updates or changes that would affect our independence, relevant relationships or indemnities requiring notification to creditors since our initial appointment on 20 April 2020 to the Companies as detailed in our Declaration of Independence, Relevant Relationships and Indemnities dated 20 April 2020.

This declaration is made in respect of ourselves, our partners and Deloitte Australia. Deloitte Australia means the Australian partnership of Deloitte Touche Tohmatsu and each of the entities under its control, including Deloitte Financial Advisory Pty Limited (**Deloitte Australia**).

### 1. Independence

We, Vaughan Strawbridge, Salvatore Algeri, John Greig and Richard Hughes of Deloitte Australia have undertaken a proper assessment of the risks to our independence prior to accepting the appointment as Voluntary Administrators of Virgin in accordance with the law and applicable professional standards. This assessment identified no real or potential risks to our independence. We are not aware of any reasons that would prevent us from accepting this appointment.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

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## 2. Declaration of Relationships

### Circumstances of appointment

On 6 April 2020, we were engaged by Clayton Utz (Virgin's external legal adviser) to assess the financial position of Virgin and develop contingency plans in the event they would be required.

This engagement involved:

- Assessing the financial position of Virgin with a focus on liquidity including a review of cash flow forecasts and the impact of likely outcomes from negotiations with key stakeholders across the whole of Virgin's operations, and any other restructuring initiatives
- Reviewing the commercial and financial aspects of key stakeholder contracts to determine the consequences in the event of failure of Virgin
- Conducting scenario analysis in order to estimate downside returns and considering alternate courses of action available to Virgin should management's turnaround plans not be achievable.

As part of the engagement we held daily meetings with Virgin management, Houlihan Lokey and Clayton Utz in order to undertake the above services. These meetings were held between 5 April 2020 and the date of appointment.

Deloitte Australia will receive remuneration of approximately \$200,000 (excluding GST) for this engagement, invoiced to Clayton Utz.

In our opinion, Clayton Utz engaging us for these services does not result in a conflict of interest because:

- The initial referral of the engagement was from Houlihan Lokey. Referral engagements are commonplace from business advisors and do not impact on our ability to carry out our duties as Voluntary Administrators.
- We are not paid any commissions, inducements or benefits by Houlihan Lokey or Clayton Utz to undertake any appointments.
- There is no arrangement between us and either Houlihan Lokey or Clayton Utz that we will give any work arising out of the Administration to either Houlihan Lokey or Clayton Utz.
- There is no relationship with Houlihan Lokey or Clayton Utz which in our view would restrict us from properly exercising our judgment and duties in relation to the appointment.

In our opinion the above engagement does not affect our independence for the following reasons:

- The engagement enabled us to gain an understanding of the financial position and operations of Virgin and plan for the Voluntary Administration.
- No advice has been provided to Virgin or its management in relation to Virgin's financial position
- The Courts and the ARITA Code of Professional Practice (**COPP**) specifically recognise the need for practitioners to discuss the insolvency process and the options available prior to an appointment and do not consider that such discussions result in a conflict or an impediment to accepting the appointment.
- Our work would not be subject to review or challenge during the course of the administrations due to the nature of the engagement.
- The engagement does not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the administration of Virgin.

On 20 April 2020, we were appointed Voluntary Administrators of the first through thirty-eighth entities listed in Schedule A by resolutions of the companies' directors.



On 28 April 2020, at a meeting of the directors of Tiger International Number 1 Pty Ltd (**Tiger 1**), a resolution was passed appointing us Voluntary Administrators of Tiger 1. Our appointment to Tiger1 was due to guarantees made by Tiger1 to certain Virgin creditors. Tiger 1 is a wholly owned subsidiary of Virgin Australia International Airlines Pty Ltd.

On 3 August 2020, we were appointed Voluntary Administrators of the VAH Newcos pursuant to section 436B of the Corporations Act 2001. VAH Newcos are both, ultimately and through intermediate holding companies, wholly owned subsidiaries of Virgin Australia Holdings Limited (**VAH**). VAH Newcos were placed into Voluntary Administration after Mr Hughes became aware that:

- the VAH Newcos are parties to a deed of cross guarantee (**DOCG**) which provides that, upon the winding up of an entity to the DOCG, each other entity to the DOCG is liable for its debts; and
- VAH Newco 2 is a guarantor of various notes issued by VAH.

#### **Pre-appointment communications**

Vaughan Strawbridge attended meetings of the Board of Directors of Virgin Australia Holdings Limited (the directors), as an invitee, on 19 April 2020 and 20 April 2020:

- to clarify and explain to the directors the nature and consequences of an insolvency appointment, and
- for us to provide a consent to act.

We received no remuneration for this advice.

It is our opinion that these meetings do not result in a conflict of interest or duty because:

- The Courts and COPP specifically recognise the need for practitioners to discuss the insolvency process and the options available prior to an appointment and do not consider that such discussions result in a conflict or an impediment to accepting the appointment
- the nature of the advice provided to Virgin is such that it would not be subject to review and challenge during the course of the voluntary administration
- The pre-appointment communications will not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the voluntary administration of Virgin in an objective and impartial manner.

We have provided no other information or advice to Virgin, the directors and their advisors prior to our appointment beyond that outlined in this DIRRI.

#### **Prior Professional services to the Group**

We, or Deloitte Australia, have provided the following professional services to Virgin in the 24 months prior to the acceptance of this appointment:

<b>Nature of Professional Service</b>	<b>Reasons why there is no conflict of interest or duty</b>
<b>Employment tax advice</b> In April 2019 Deloitte Australia provided advice to Virgin regarding the employment tax implications of	In our opinion the services provided do not cause a conflict of interest or duty for the following reasons:  1. The engagement was immaterial to Virgin and to Deloitte Australia as it was limited with respect to fees, time incurred and scope.



<p>superannuation top-ups and the hiring of a UK individual.</p> <p>Fees rendered for these services were \$25,211 (excluding GST and expenses). This amount was unpaid and has since been written off by Deloitte Australia.</p>	<ol style="list-style-type: none"> <li>2. The tax services provided were not ongoing and one- off advice only.</li> <li>3. The advice provided does not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the administration of Virgin. These services will not be subject to review by us during the course of the administration.</li> <li>4. The services will not influence the objectivity and impartiality of us during the administration.</li> </ol>
<p><b>Staff wellbeing advice</b></p> <p>In January 2019, Deloitte Australia provided advice to Virgin in relation to its staff wellbeing documentation.</p> <p>Fees rendered were \$7,875 (excluding GST and expenses).</p>	<p>In our opinion the services provided do not cause a conflict of interest or duty for the following reasons:</p> <ol style="list-style-type: none"> <li>1. The engagement was immaterial to Virgin and to Deloitte Australia as it was limited with respect to fees, time incurred and scope.</li> <li>2. The advice provided does not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the administration of Virgin. These services will not be subject to review by us during the course of the administration.</li> <li>3. The engagement will not influence the objectivity and impartiality of us during the administration.</li> </ol>
<p><b>GST advice</b></p> <p>In August 2018 Deloitte Australia provide advice to Virgin regarding the GST implications of an agreement with a booking partner to re-direct customers to a co-branded site for booking accommodation.</p> <p>Fees rendered were \$12,500 (excluding GST and expenses).</p>	<p>In our opinion the services provided do not cause a conflict of interest or duty for the following reasons:</p> <ol style="list-style-type: none"> <li>1. The engagement was immaterial to Virgin and to Deloitte Australia as it was limited with respect to fees, time incurred and scope.</li> <li>2. The advice provided does not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the Administration of Virgin. These services will not be subject to review by us during the course of our Administration.</li> <li>3. The services will not influence the objectivity and impartiality of us during the Administration.</li> </ol>
<p><b>Corporate Simplification</b></p> <p>Richard Hughes was appointed by Virgin to conduct various Members Voluntary Liquidations (<b>MVLs</b>) for the purpose of deregistering solvent, non-operating entities within Virgin's corporate structure. The appointments were for five dormant and two active, non-operating, entities in June 2018, and two dormant entities in March 2019.</p>	<p>In our opinion the services provided do not cause a conflict of interest or duty for the following reasons:</p> <ol style="list-style-type: none"> <li>1. The engagement is immaterial to Virgin and to Deloitte Australia as it was limited with respect to fees, time incurred and scope.</li> <li>2. The MVLs were of solvent, non-operating entities. The services provided to deregister the entities will not be subject to review by us during the course of our Administration.</li> <li>3. The MVL engagements do not influence our ability to be able to fully comply with the</li> </ol>



<p>Fees rendered were \$40,500 (excluding GST and expenses) for this work.</p> <p>The VAH Newcos were originally excluded from the administration of Virgin. On 30 July 2020, the Federal Court of Australia made orders that the MVLs be stayed and leave be granted for the Voluntary Administrators to be appointed Administrators of VAH Newcos to be dealt with as part of the administration of Virgin.</p>	<p>statutory and fiduciary obligations associated with the administration of Virgin in an objective and impartial manner.</p>
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**Relevant Relationships (excluding Professional Services to the Group)**

We, or Deloitte Australia, have, or have had within the preceding 24 months, a relationship with:

<b>Name</b>	<b>Nature of relationship</b>	<b>Reasons why this relationship does not result in a conflict of interest</b>
<p>Australia and New Zealand Banking Group Limited (<b>ANZ</b>)</p>	<p>ANZ holds an All Present and After-Acquired Property charge over substantially the whole of the property of certain entities of Virgin.</p> <p>We have undertaken formal insolvency and advisory engagements for ANZ in the usual course of business.</p> <p>Deloitte Australia has provided and continues to provide Accounting, Advisory, Assurance, Consulting, Forensic, Tax and Risk services to ANZ.</p>	<p>We have never undertaken any work for ANZ in respect of Virgin.</p> <p>We do not consider previous formal insolvency and advisory engagements accepted for ANZ to present a conflict as there is no connection between these engagements and Virgin.</p> <p>The provision of Accounting, Advisory, Assurance, Consulting, Forensic, Risk Services and Tax services to ANZ brings about a commercial relationship that in our opinion does not present a conflict or impediment as it does not impact upon the position of Virgin.</p> <p>We are not paid any commissions, inducements or benefits to undertake any engagements with ANZ and do not consider ourselves to be bound or in any way obligated to deliver a favourable outcome to any party.</p> <p>Therefore, there is no relationship with ANZ which in our view would restrict us from properly exercising our judgment and duties in relation to the appointments.</p>





<p>Bank of China Limited <b>(Bank of China)</b></p>	<p>Bank of China holds an All Present and After-Acquired Property charge over substantially the whole of the property of certain entities of Virgin.</p> <p>Deloitte Australia has provided tax and risk services to Bank of China.</p>	<p>We have never undertaken any work for Bank of China in respect of Virgin.</p> <p>The provision of tax and risk services to Bank of China brings about a commercial relationship that in our opinion does not present a conflict or impediment as it does not impact upon the position of Virgin.</p> <p>We are not paid any commissions, inducements or benefits to undertake any engagements with Bank of China and do not consider ourselves to be bound or in any way obligated to deliver a favourable outcome to any party.</p> <p>Therefore, there is no relationship with Bank of China which in our view would restrict us from properly exercising our judgment and duties in relation to the appointments.</p>
<p>Deutsche Bank AG (Singapore) <b>(Deutsche Bank)</b></p>	<p>Deutsche Bank holds an All Present and After-Acquired Property charge over substantially the whole of the property of certain entities of Virgin.</p> <p>Deloitte Australia has provided tax services to Deutsche Bank AG in Australia.</p>	<p>We have never undertaken any work for Deutsche Bank in respect of Virgin.</p> <p>The provision of tax and services to Deutsche Bank AG in Australia brings about a commercial relationship that in our opinion does not present a conflict or impediment as it does not impact upon the position of Virgin.</p> <p>We are not paid any commissions, inducements or benefits to undertake any engagements with Deutsche Bank and do not consider ourselves to be bound or in any way obligated to deliver a favourable outcome to any party.</p> <p>Therefore, there is no relationship with Deutsche Bank which in our view would restrict us from properly exercising our judgment and duties in relation to the appointments.</p>
<p>BNP Paribas <b>(BNP)</b></p>	<p>BNP holds an All Present and After-Acquired Property charge over substantially the whole of the property of certain entities of Virgin.</p>	<p>We have never undertaken any work for BNP in respect of the Company.</p> <p>The provision of Audit, Accounting and Risk services to BNP brings about a commercial relationship that in our opinion does not</p>



	<p>Deloitte Australia have provided, and continue to provide Audit, Accounting and Risk services to BNP.</p>	<p>present a conflict or impediment as it does not impact upon the position of Virgin.</p> <p>We are not paid any commissions, inducements or benefits to undertake any engagements with BNP and do not consider ourselves to be bound or in any way obligated to deliver a favourable outcome to any party.</p> <p>Therefore, there is no relationship with BNP which in our view would restrict us from properly exercising our judgment and duties in relation to the appointments.</p>
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A Deloitte Touche Tohmatsu Limited Member Firm (DTTL Member Firm) have, or have had within the preceding 24 months, a relationship with:

<b>Name</b>	<b>Nature of relationship</b>	<b>Reasons why this relationship does not result in a conflict of interest</b>
<p>TD Bank, N.A (<b>TD Bank</b>)</p>	<p>TD Bank holds an All Present and After-Acquired Property charge over substantially the whole of the property of certain entities of Virgin.</p> <p>Deloitte Australia does not have a relationship with TD Bank and has not provided services to TD Bank.</p> <p>DTTL Member Firms have provided, and continue to provide advisory services to TD Bank.</p>	<p>The provision of advisory services by other DTTL Member Firms does not present a conflict as there is no connection between Deloitte Australia and TD Bank.</p> <p>There is no relationship with TD Bank which in our view would restrict us from properly exercising our judgment and duties in relation to the appointments.</p>
<p>UMB Bank N.A., United States of America (<b>UMB Bank</b>)</p>	<p>UMB Bank holds an All Present and After-Acquired Property charge over substantially the whole of the property of the certain entities of Virgin.</p> <p>Deloitte Australia does not have a relationship with UMB Bank and has not</p>	<p>The provision of advisory services by other DTTL Member Firms does not present a conflict as there is no connection between Deloitte Australia and UMB.</p> <p>There is no relationship with UMB Bank which in our view would restrict us from properly exercising our judgment and duties in relation to the appointments.</p>



	<p>provided services to UMB Bank.</p> <p>DTTL Member Firms have provided, and continue to provide advisory services to UMB Bank.</p>	
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## Relationships with Associates

We, Deloitte Australia, or DTTL Member Firms, have the following relationships with Associates of the Companies:

Name	Nature of relationship	Reasons why this relationship does not result in a conflict of interest
<p>Velocity Frequent Flyer Pty Limited (<b>Velocity</b>), a wholly owned subsidiary of Virgin Australia Holdings Limited</p> <p>We are not appointed administrators of Velocity.</p>	<p>Deloitte Australia has provided the following services to Velocity over the prior 24 months:</p> <p><b>Vendor advisory services</b></p> <p>Deloitte was engaged by Velocity to provide financial vendor assist and tax due diligence in relation to the sale of Affinity Equity Partner's stake in Velocity (Trade Sale) and IPO readiness advice for the possible IPO of Velocity. The engagement spanned the period from February 2019 to approximately October 2019.</p> <p><b>Accounting Advice</b></p> <p>In November 2018 Deloitte provided accounting advice to Velocity regarding the accounting treatment under AASB 15 of fees paid by Virgin Australia to Velocity for the management of the Tier Status Program.</p> <p><b>Share based payment advice</b></p> <p>Deloitte Australia has provided accounting advice to Velocity in relation to the valuation of Velocity shared based payments for financial reporting purposes. This has been a</p>	<p>In our opinion the services provided to Velocity do not cause a conflict of interest or duty for the following reasons:</p> <p><b>Vendor advisory services</b></p> <ol style="list-style-type: none"> <li>1. The IPO and Trade Sale process did not complete. We did not deliver any reports, nor was our work utilised by Velocity.</li> <li>2. Our work entailed assisting management in the compilation and presentation of financial and tax information and analysis only.</li> <li>3. Affinity Equity Partner's stake in Velocity Frequent Flyer was sold to Virgin instead. Deloitte did not advise Virgin on its purchase of Affinity Equity Partner's 35% stake in Velocity.</li> <li>4. No work undertaken by Deloitte has impacted Velocity or Virgin and therefore the services will not be subject to review by us during the course of our administration.</li> </ol>



	<p>recurring annual engagement since 2016.</p>	<p><b>Accounting Advice and Share based payment advice</b></p> <ol style="list-style-type: none"> <li>1. No services were provided to Virgin.</li> <li>2. The services are unrelated to Virgin and will not be subject to review by us during the course of the administration.</li> <li>3. The services will not influence our objectivity and impartiality during the administration.</li> <li>4. The services do not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the administration of Virgin.</li> </ol>
	<p>Deloitte Australia subleases office space in Grosvenor Place, 225 George Street, Sydney NSW 2000 to Velocity.</p>	<p>In our opinion, the subleasing of office space to Velocity does not cause a conflict with the Voluntary Administration of Virgin because:</p> <ol style="list-style-type: none"> <li>1. We have not been appointed administrators of Velocity and therefore this agreement will not be subject to review</li> <li>2. The rental agreement is on normal market terms and rates</li> <li>3. Is immaterial to both Deloitte Australia and Velocity.</li> </ol>
	<p>The Administrators personally are members of the Velocity Frequent Flyer program.</p>	<p>In our opinion, the points balances we hold in the Velocity Frequent Flyer program do not cause a conflict with the voluntary administration of Virgin because:</p> <ol style="list-style-type: none"> <li>1. The points balances are immaterial to us, Velocity and Virgin</li> <li>2. The points were earned in the normal course of business.</li> <li>3. The points balances will not influence our objectivity and</li> </ol>



		impartiality during the administration.
<ul style="list-style-type: none"> <li>• SkyWest Airlines Pte Ltd</li> <li>• Captivevision Capital Pte Ltd</li> <li>• SkyWest Airlines (S) Pte Ltd</li> <li>• F11305 Pte Ltd</li> </ul> <p>All are Singapore registered wholly owned subsidiaries of Virgin and not part of the administration of the Companies.</p>	<p>Deloitte Singapore, a participating geography of the Asia Pacific DTTL Member Firm was engaged by Virgin to conduct Members Voluntary Liquidations of the entities listed for the purpose of deregistering dormant, solvent, non-operating entities within Virgin's corporate structure. The dates of appointment were:</p> <ul style="list-style-type: none"> <li>• SkyWest Airlines Pte Ltd: commenced liquidation on 18 August 2014</li> <li>• SkyWest Airlines (S) Pte Ltd: commenced liquidation on 18 August 2014, and dissolved on 22 February 2020</li> <li>• Captivevision Capital Pte Ltd: commenced liquidation on 17 December 2015, and dissolved on 9 October 2019</li> <li>• F11305 Pte Ltd: commenced liquidation on 17 December 2015, and dissolved on 10 September 2019</li> </ul>	<p>In our opinion the services provided do not cause a conflict of interest or duty for the following reasons:</p> <ol style="list-style-type: none"> <li>1. The Members Voluntary Liquidations are of dormant, solvent non-operating entities. The services provided to deregister the entities by Deloitte Singapore will not be subject to review by us during the course of our administration.</li> <li>2. A Members Voluntary Liquidation engagement does not influence our ability to be able to fully comply with the statutory and fiduciary obligations associated with the Administration of Virgin in an objective and impartial manner.</li> </ol>

### Group Appointment

As specified on page 1 and Schedule 1, we have been appointed as Voluntary Administrators of 41 companies in the group we refer to as Virgin. We are of the view that the appointment to Virgin will have practical benefits to our conduct, particularly in that this will enable an accurate view to be obtained of the financial position of Virgin as a whole. We are aware that there may be inter-company transactions within Virgin but at this time we are not aware of any potential conflicts arising from our appointment over all the companies in Virgin. However, if in the future any inter-company dealings give rise to a conflict then we undertake to disclose any such conflicts to the creditors and, if required, seek Court directions as to the appropriate means of resolving the conflict among the companies in Virgin.

### No other relevant relationships to disclose

There are no other known relevant relationships, including personal, business and professional relationships, from the previous 24 months with Virgin, an associate of Virgin, a former insolvency practitioner appointed to Virgin or any person or entity that has security over the whole or substantially whole of Virgin's assets and undertaking that should be disclosed.



### 3. Indemnities and up-front payments

We have not been indemnified in relation to this administration, other than any indemnities that we may be entitled to under statute and we have not received any up-front payments in respect of our remuneration or disbursements.

Dated: 21 August 2020

A handwritten signature in black ink, appearing to be "V. Strawbridge".

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**Vaughan Strawbridge**  
Joint and Several Administrator

A handwritten signature in black ink, appearing to be "S. Algeri".

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**Salvatore Algeri**  
Joint and Several Administrator

A handwritten signature in black ink, appearing to be "J. Greig".

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**John Greig**  
Joint and Several Administrator

A handwritten signature in black ink, appearing to be "R. Hughes".

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**Richard Hughes**  
Joint and Several Administrator

#### Note:

1. If circumstances change, or new information is identified, we are required under the Corporations Act 2001 and the ARITA Code of Professional Practice to update this Declaration and provide a copy to creditors with my/our next communication as well as table a copy of any replacement declaration at the next meeting of the insolvent's creditors.
2. Any relationships, indemnities or up-front payments disclosed in the DIRRI must not be such that the Practitioner is no longer independent. The purpose of components B and C of the DIRRI is to disclose relationships that, while they do not result in the Practitioner having a conflict of interest or duty, ensure that creditors are aware of those relationships and understand why the Practitioner nevertheless remains independent.



## Schedule A – Virgin Group entities, all Administrators Appointed

No.	Name	Date of appointment of voluntary administrators	ACN	Abbreviation
1	Virgin Australia Holdings Ltd	20-Apr-20	ACN 100 686 226	VAH
2	Virgin Australia Airlines Pty Ltd	20-Apr-20	ACN 090 670 965	VAA
3	Virgin Australia International Airlines Pty Ltd	20-Apr-20	ACN 125 580 823	VAIA
4	Virgin Australia Regional Airlines Pty Ltd	20-Apr-20	ACN 008 997 662	VARA
5	Tiger Airways Australia Pty Limited	20-Apr-20	ACN 124 369 008	Tiger
6	737 2012 No. 2 Pty Ltd	20-Apr-20	ACN 154 225 064	737 20122
7	737 2012 No.1 Pty. Ltd.	20-Apr-20	ACN 154 201 859	737 20121
8	A.C.N. 098 904 262 Pty Ltd	20-Apr-20	ACN 098 904 262	ACN 098 904 262
9	Short Haul 2014 No. 1 Pty Ltd	20-Apr-20	ACN 600 809 612	SH20141
10	Short Haul 2014 No. 2 Pty Ltd	20-Apr-20	ACN 600 878 199	SH20142
11	Short Haul 2016 No. 1 Pty Ltd	20-Apr-20	ACN 612 766 328	SH20161
12	Short Haul 2016 No. 2 Pty Ltd	20-Apr-20	ACN 612 796 077	SH20162
13	Short Haul 2017 No. 1 Pty Ltd	20-Apr-20	ACN 617 644 390	SH20171
14	Short Haul 2017 No. 2 Pty Ltd	20-Apr-20	ACN 617 644 443	SH20172
15	Short Haul 2017 No. 3 Pty. Ltd.	20-Apr-20	ACN 622 014 813	SH20173
16	Short Haul 2018 No. 1 Pty. Ltd.	20-Apr-20	ACN 622 014 831	SH20181
17	VA Borrower 2019 No. 1 Pty Ltd	20-Apr-20	ACN 633 241 059	VA20191
18	VA Borrower 2019 No. 2 Pty Ltd	20-Apr-20	ACN 637 371 343	VA20192
19	VA Hold Co Pty Ltd	20-Apr-20	ACN 165 507 157	VA Holdco
20	VA Lease Co Pty Ltd	20-Apr-20	ACN 165 507 291	VA Leaseco
21	VA Regional Leaseco Pty Ltd	20-Apr-20	ACN 127 491 605	VARL
22	VAH Newco No.1 Pty Ltd	20-Apr-20	ACN 160 881 345	VAH Newco 1
23	VB 800 2009 Pty Ltd	20-Apr-20	ACN 135 488 934	VB 800
24	VB Leaseco No 2 Pty Ltd	20-Apr-20	ACN 142 533 319	VB Leaseco2
25	VB Leaseco Pty Ltd	20-Apr-20	ACN 134 268 741	VB Leaseco
26	VB LH 2008 No. 1 Pty Ltd	20-Apr-20	ACN 134 280 354	VB LH20081



No.	Name	Date of appointment of voluntary administrators	ACN	Abbreviation
27	VB LH 2008 No. 2 Pty Ltd	20-Apr-20	ACN 134 288 805	VBLH20082
28	VB PDP 2010-11 Pty Ltd	20-Apr-20	ACN 140 818 266	VB PDP
29	VB Ventures Pty Ltd	20-Apr-20	ACN 125 139 004	VB Ventures
30	VBNC5 Pty Ltd	20-Apr-20	ACN 119 691 502	VBNC5
31	Virgin Australia 2013-1 Issuer Co Pty Ltd	20-Apr-20	ACN 165 507 326	VA20131
32	Virgin Australia Airlines (SE Asia) Pty Ltd	20-Apr-20	ACN 097 892 389	VSEA
33	Virgin Australia Airlines Holdings Pty Ltd	20-Apr-20	ACN 093 924 675	VAAH
34	Virgin Australia Cargo Pty Ltd	20-Apr-20	ACN 600 667 838	VAC
35	Virgin Australia Holidays Pty Ltd	20-Apr-20	ACN 118 552 159	VA Holidays
36	Virgin Australia International Holdings Pty Ltd	20-Apr-20	ACN 155 860 021	VAIO
37	Virgin Australia International Operations Pty Ltd	20-Apr-20	ACN 155 859 608	VAIH
38	Virgin Tech Pty Ltd	20-Apr-20	ACN 101 808 879	VT
39	Tiger International Number 1 Pty Ltd	28-Apr-20	ACN 606 131 944	Tiger 1
40	VAH Newco No.2 Pty Ltd	3-Aug-20	ACN 160 881 354	VAH Newco 2
41	VB Investco Pty Ltd	3-Aug-20	ACN 101 961 095	VB Investco



## Appendix G – Guarantee groups

Abbreviation	DOCG1	DOCG2	Bond guarantors*	Finance facilities	
				Borrowing entity	Guarantor entity
VAH	✓		Issuer		✓
VAA	✓		✓	✓	✓
VAIA		✓	✓	✓	✓
VARA	✓		✓	✓	
Tiger	✓		✓		✓
737 20122					
737 20121					
ACN 098 904 262	✓		✓		
SH20141					✓
SH20142				✓	
SH20161					
SH20162					
SH20171					
SH20172				✓	
SH20173				✓	
SH20181				✓	
Tiger 1		✓	✓		
VA20191				✓	
VA20192				✓	
VA Holdco					
VA Leaseco					
VARL					
VAH Newco 1	✓		✓		
VB 800				✓	
VB Leaseco2					
VB Leaseco	✓		✓	✓	✓
VB LH20081					
VB LH20082					
VB PDP					
VB Ventures	✓				
VBNC5					
VA20131					

Abbreviation	DOCG1	DOCG2	Bond guarantors*	Finance facilities	
				Borrowing entity	Guarantor entity
VSEA		✓	✓		
VAAH	✓		✓		✓
VAC	✓				
VA Holidays	✓				
VAIO					
VAIH		✓	✓		✓
VT	✓				
VB Investco	✓				
VAH Newco 2	✓		✓		

\* See list of guarantor entities by tranche in **Table 8**.

## Appendix H – Statutory information

### Officers

The ASIC database indicates that during the 12-month period prior to the Voluntary Administrators' appointment, the directors and officers of the Companies were:

Name	Entity	Position	Appointed	Ceased
Allan Grant Houston	VAH	Current director	12 Dec 18	-
Anthony Francis Shepherd	Tiger 1	Current director	29 May 15	-
	VAIA	Current director	30 Mar 12	-
	VAIH	Current director	22 Feb 12	-
	VSEA	Current director	5 Sep 01	-
Du Ming	VAH	Current alternate director	28 May 19	-
Elizabeth Blomfield Bryan	Tiger 1	Current director	29 May 15	-
	VAH	Current director	20 May 15	-
	VAIA	Current director	20 May 15	-
	VAIH	Current director	20 May 15	-
	VSEA	Current director	20 May 15	-
Geoffrey Kevin Smith	737 20121	Former director	23 Sep 15	1 Oct 19
	737 20122	Former director	23 Sep 15	1 Oct 19
	ACN 098 904 262	Former director	23 Sep 15	1 Oct 19
	SH20141	Former director	23 Sep 15	1 Oct 19
	SH20142	Former director	23 Sep 15	1 Oct 19
	SH20161	Former director	2 Jun 16	1 Oct 19
	SH20162	Former director	3 Jun 16	1 Oct 19
	SH20171	Former director	27 Feb 17	1 Oct 19
	SH20172	Former director	27 Feb 17	1 Oct 19
	SH20173	Former director	2 Oct 17	1 Oct 19
	SH20181	Former director	2 Oct 17	1 Oct 19
	Tiger	Former director	23 Sep 15	1 Oct 19
	VA Holdco	Former director	23 Sep 15	1 Oct 19
	VA Holidays	Former director	23 Sep 15	1 Oct 19
	VA Leaseco	Former director	23 Sep 15	1 Oct 19
	VA20131	Former director	23 Sep 15	1 Oct 19
	VA20191	Former director	24 May 19	1 Oct 19
	VAA	Former director	23 Sep 15	1 Oct 19
	VAAH	Former director	23 Sep 15	1 Oct 19
	VAC	Former director	23 Sep 15	1 Oct 19

Name	Entity	Position	Appointed	Ceased
	VAH Newco 1	Former director	23 Sep 15	1 Oct 19
	VAIO	Former director	23 Sep 15	1 Oct 19
	VARA	Former director	23 Sep 15	1 Oct 19
	VARL	Former director	23 Sep 15	1 Oct 19
	VB 800	Former director	23 Sep 15	1 Oct 19
	VB Leaseco	Former director	23 Sep 15	1 Oct 19
	VB Leaseco2	Former director	23 Sep 15	1 Oct 19
	VB PDP	Former director	23 Sep 15	1 Oct 19
	VB Ventures	Former director	23 Sep 15	1 Oct 19
	VLH20081	Former director	23 Sep 15	1 Oct 19
	VLH20082	Former director	23 Sep 15	1 Oct 19
	VBNC5	Former director	23 Sep 15	1 Oct 19
	VT	Former director	23 Sep 15	1 Oct 19
Graham John Bradley	Tiger 1	Current director	29 May 15	-
	VAIA	Current director	30 Mar 12	-
	VAIH	Current director	30 Mar 12	-
	VSEA	Current director	30 Mar 12	-
Hou Wei	VAH	Current director	28 May 19	-
Jiaoqi Luo	VAH	Former alternate director	17 Jul 18	28 May 19
Judith Swales	VAH	Current director	29 May 19	-
Keith Antony Neate	737 20121	Current director	1 Oct 19	-
	737 20122	Current director	1 Oct 19	-
	ACN 098 904 262	Current director	1 Oct 19	-
	SH20141	Current director	1 Oct 19	-
	SH20142	Current director	1 Oct 19	-
	SH20161	Current director	1 Oct 19	-
	SH20162	Current director	1 Oct 19	-
	SH20171	Current director	1 Oct 19	-
	SH20172	Current director	1 Oct 19	-
	SH20173	Current director	1 Oct 19	-
	SH20181	Current director	1 Oct 19	-
	Tiger	Current director	1 Oct 19	-
	VA Holdco	Current director	1 Oct 19	-
	VA Holidays	Current director	1 Oct 19	-
	VA Leaseco	Current director	1 Oct 19	-
	VA20131	Current director	1 Oct 19	-
	VA20191	Current director	1 Oct 19	-
	VA20192	Current director	11 Nov 19	-

Name	Entity	Position	Appointed	Ceased
	VAA	Current director	1 Oct 19	-
	VAAH	Current director	1 Oct 19	-
	VAC	Current director	1 Oct 19	-
	VAH Newco 1	Current director	1 Oct 19	-
	VAIO	Current director	1 Oct 19	-
	VARA	Current director	1 Oct 19	-
	VARL	Current director	1 Oct 19	-
	VB 800	Current director	1 Oct 19	-
	VB Leaseco	Current director	1 Oct 19	-
	VB Leaseco2	Current director	1 Oct 19	-
	VB PDP	Current director	1 Oct 19	-
	VB Ventures	Current director	1 Oct 19	-
	VB LH20081	Current director	1 Oct 19	-
	VB LH20082	Current director	1 Oct 19	-
	VBNC5	Current director	1 Oct 19	-
	VT	Current director	1 Oct 19	-
Kenneth Alfred Dean	VAH	Current director	1 Dec 16	-
Kevin Xing	VAH	Current director	27 Sep 19	-
Kui Zhang	VAH	Former director	31 Jan 18	28 May 19
Lan Xiang	VAH	Former director	24 Jul 17	27 Sep 19
Lindsay James Tanner	Tiger 1	Current director	29 May 15	-
	VAIA	Current director	30 Mar 12	-
	VAIH	Current director	30 Mar 12	-
	VSEA	Current director	30 Mar 12	-
Mark Peter Chellew	VAH	Former director	1 Jan 18	29 Jan 20
Meng Hung Marvin Tan	VAH	Current director	1 Jan 16	-
Paul Darren Scurrah	ACN 098 904 262	Current director	25 Mar 19	-
	Tiger	Current director	25 Mar 19	-
	Tiger 1	Current director	25 Mar 19	-
	VA Holidays	Current director	25 Mar 19	-
	VAA	Current director	25 Mar 19	-
	VAAH	Current director	25 Mar 19	-
	VAC	Current director	25 Mar 19	-
	VAH	Current director	25 Mar 19	-
	VAH Newco 1	Current director	25 Mar 19	-
	VAIA	Current director	25 Mar 19	-
	VAIH	Current director	25 Mar 19	-
	VAIO	Current director	25 Mar 19	-

Name	Entity	Position	Appointed	Ceased
	VARA	Current director	25 Mar 19	-
	VB Ventures	Current director	25 Mar 19	-
	VSEA	Current director	25 Mar 19	-
	VT	Current director	25 Mar 19	-
Peter George Dowling	737 20121	Former director	10 Nov 11	24 Feb 20
	737 20122	Former director	11 Nov 11	24 Feb 20
	SH20141	Current director	21 Jul 14	-
	SH20142	Current director	24 Jul 14	-
	VBLH20082	Former director	13 Jan 09	31 Jul 19
Raymond Gammell	VAH	Current director	20 Dec 18	-
	VAH	Current alternate director	17 Jul 18	-
Samantha Mostyn	VAH	Former director	1 Sep 10	29 May 19
Sharyn Anne Page	737 20121	Company secretary	1 Feb 16	-
	737 20122	Company secretary	1 Feb 16	-
	ACN 098 904 262	Company secretary	1 Feb 16	-
	SH20141	Company secretary	1 Feb 16	-
	SH20142	Company secretary	1 Feb 16	-
	SH20161	Company secretary	2 Jun 16	-
	SH20162	Company secretary	3 Jun 16	-
	SH20171	Company secretary	27 Feb 17	-
	SH20172	Company secretary	27 Feb 17	-
	SH20173	Company secretary	2 Oct 17	-
	SH20181	Company secretary	2 Oct 17	-
	Tiger	Company secretary	1 Feb 16	-
	Tiger 1	Company secretary	1 Feb 16	-
	VA Holdco	Company secretary	1 Feb 16	-
	VA Holidays	Company secretary	1 Feb 16	-
	VA Leaseco	Company secretary	1 Feb 16	-
	VA20131	Company secretary	1 Feb 16	-
	VA20191	Company secretary	24 May 19	-
	VA20192	Company secretary	11 Nov 19	-
	VAA	Company secretary	1 Feb 16	-
	VAAH	Company secretary	1 Feb 16	-
	VAC	Company secretary	1 Feb 16	-
	VAH	Company secretary	1 Feb 16	-
	VAH Newco 1	Company secretary	1 Feb 16	-
	VAIA	Company secretary	1 Feb 16	-
	VAIH	Company secretary	1 Feb 16	-

Name	Entity	Position	Appointed	Ceased
	VAIO	Company secretary	1 Feb 16	-
	VARA	Company secretary	1 Feb 16	-
	VARL	Company secretary	1 Feb 16	-
	VB 800	Company secretary	1 Feb 16	-
	VB Leaseco	Company secretary	1 Feb 16	-
	VB Leaseco2	Company secretary	1 Feb 16	-
	VB PDP	Company secretary	1 Feb 16	-
	VB Ventures	Company secretary	1 Feb 16	-
	VBLH20081	Company secretary	1 Feb 16	-
	VBLH20082	Company secretary	1 Feb 16	-
	VBNC5	Company secretary	1 Feb 16	-
	VSEA	Company secretary	1 Feb 16	-
	VT	Company secretary	1 Feb 16	-
Steven James Fouracre	737 20121	Current director	24 Nov 17	-
	737 20122	Current director	24 Nov 17	-
	SH20141	Current director	24 Nov 17	-
	SH20142	Current director	24 Nov 17	-
	SH20161	Current director	24 Nov 17	-
	SH20162	Current director	24 Nov 17	-
	SH20171	Current director	24 Nov 17	-
	SH20172	Current director	24 Nov 17	-
	SH20173	Current director	2 Oct 17	-
	SH20181	Current director	2 Oct 17	-
	VA Holdco	Current director	24 Nov 17	-
	VA Leaseco	Current director	24 Nov 17	-
	VA20131	Current director	24 Nov 17	-
	VA20191	Current director	24 May 19	-
	VA20192	Current director	11 Nov 19	-
	VARL	Current director	24 Nov 17	-
	VB 800	Current director	24 Nov 17	-
	VB Leaseco	Current director	24 Nov 17	-
	VB Leaseco2	Current director	24 Nov 17	-
	VB PDP	Current director	24 Nov 17	-
	VBLH20081	Current director	24 Nov 17	-
	VBLH20082	Current director	24 Nov 17	-
	VBNC5	Current director	24 Nov 17	-
Tan Pee Teck	VAH	Current alternate director	1 Jan 16	-
Trevor Bourne	VAH	Current director	1 Jan 18	-

Name	Entity	Position	Appointed	Ceased
Warwick Negus	VAH	Current director	3 Jan 17	-
Wu An	VAH	Current alternate director	27 Sep 19	-
	VAH	Former alternate director	24 Jul 17	27 Sep 19

Source: SAI Global and Illion Direct Company Searches

**Shareholders**

Below is a summary of the distribution of shareholdings in VAH as at the date of appointment, as well as a list of the top 20 shareholders. The Consolidated Group entered a trading halt on 14 April 2020 and has been in voluntary suspension since 16 April 2020.

Fully paid ordinary shares	Number of shareholders	Number of shares	% of issued capital
1-1,000 shares	947	546,782	0.01
1,001 - 5,000 shares	8,600	25,059,119	0.30
5,001 - 10,000 shares	3,945	29,932,675	0.35
10,001 - 100,000 shares	5,012	156,409,264	1.85
100,001 and over shares	682	8,233,270,634	97.49
Total	19,186	8,445,218,474	100.00

Source: Computershare as at 1/6/20

The Consolidated Group's ownership, held either in their own capacity or via nominee or custody entities is concentrated upon its top 5 shareholders being Etihad Airways (20.97%), Singapore Airlines Ltd (20.03%), Nanshan Group (20.01%), HNA Group (19.86%) and Virgin Group Ltd (10.02%) (a UK entity and not otherwise related to VAH other than through its shareholding).

**Largest registered shareholders**

Shareholder	Total Shares Held	%
EAG Investment Holding Company Limited	1,771,023,828	20.97%
Singapore Airlines Ltd	1,691,623,863	20.03%
Nanshan Capital Holdings Ltd	1,689,932,240	20.01%
HNA Innovation Ventures (Hong Kong) Co Limited	1,676,736,791	19.86%
Corvina Holdings Limited	845,811,931	10.02%
Merrill Lynch (Australia) Nominees Pty Limited	140,159,854	1.66%
Citicorp Nominees Pty Limited	51,404,371	0.61%
HSBC Custody Nominees (Australia) Limited	39,797,045	0.47%
Chesters Nominees Pty Ltd	16,960,275	0.20%
J.P. Morgan Nominees Australia Pty Limited	14,672,238	0.17%
Kilby Pty Ltd <Donald & Ann Lazzaro FAM A/C>	13,653,838	0.16%
BNP Paribas Noms Pty Ltd <DRP>	10,558,680	0.13%
Massimo John Borghetti	9,367,924	0.11%
Archerfield Airport Corporation Pty Ltd	8,000,000	0.09%
Henleaze Investments Pty Ltd	7,000,000	0.08%
JACPAR Qld Pty Ltd	6,000,000	0.07%



Shareholder	Total Shares Held	%
Miss Xiuhua Chen	5,810,656	0.07%
Just Super Co Pty Ltd <Super Fund A/C>	4,930,580	0.06%
Mrs Ruth Morris	4,484,371	0.05%
Mr Lawrence Mottin	3,743,488	0.04%

Source: Computershare as at 1/6/2020

**Security Interests**

A search of the Personal Property Securities Register (PPSR) revealed the following number of security interests over Virgin Group's assets as at the date of the Voluntary Administrators' appointment:

Company	Collateral class							Invest- ment instru- ment	Document of title	Account	Other goods	Total
	All PAAP secured creditor	All PAAP with exception	Motor vehicle	Aircraft engine	Airframe	Chattel paper	General intangible					
VAAH	-	10	-	-	-	-	-	1	-	-	-	11
VAH	-	14	-	-	-	-	-	-	-	-	1	15
VAA	46	374	155	767	361	-	6	-	1	1	104	,815
VAIA	1	60	-	147	70	-	2	-	-	-	6	286
VARA	3	27	5	73	28	1	-	-	-	1	16	154
ACN 098 904 262	-	-	1	-	-	-	-	-	-	-	1	2
VT	-	-	9	-	-	-	-	-	-	-	5	14
Tiger	-	34	2	98	47	-	2	-	-	1	6	190
VARL	7	11	-	20	10	-	-	-	-	-	-	48
VB Leaseco	13	122	-	291	139	-	1	-	-	-	1	567
VBLH20082	-	1	-	-	-	-	-	-	-	-	-	1
VB 800	1	6	-	22	11	-	-	-	-	-	1	41
VB Leaseco2	-	13	-	44	22	-	-	-	-	-	1	80
SH20172	-	2	-	8	4	-	-	-	-	-	-	14
SH20173	-	1	-	4	2	-	-	-	-	-	-	7
SH20181	-	1	-	4	1	-	-	-	-	-	-	6
VA20191	-	1	-	36	14	-	-	-	-	-	-	51
VA20192	-	2	-	44	22	-	-	-	-	-	-	68

Report to Creditors pursuant to section 75-225 of the Insolvency Practice Rules (Corporations) | Appendix H – Statutory information

Company	Collateral class										Other goods	Total
	All PAAP secured creditor	All PAAP with exception	Motor vehicle	Aircraft engine	Airframe	Chattel paper	General intangible	Investment instrument	Document of title	Account		
VSEA	7	-	-	-	-	-	-	-	-	-	-	7
VAIH	-	5	-	-	-	-	-	-	-	-	-	5
SH20141	1	3	-	-	-	-	-	-	-	-	-	4
SH20142	1	23	-	30	15	-	-	-	-	-	-	69
VAC	-	-	3	-	-	1	-	-	-	1	3	8
<b>Total</b>	<b>80</b>	<b>710</b>	<b>175</b>	<b>1,588</b>	<b>746</b>	<b>2</b>	<b>11</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>145</b>	<b>3,463</b>

## Appendix I – ROCAP

ROCAP question \$m		SH20142	SH20172	SH20173	SH20181	VA20191	VA20192	VB 800	VB LEASECO 2	TIGER 1	VAIA	VAIH	VSEA	DOCG1	Total (\$m)
A4	Do the companies owe money to their employees?	-	-	-	-	-	-	-	-	-	-	-	-	(127.4)	(127.4)
A5	Do the companies owe money, goods or services to others (other than employees)?														
	Secured														
	Aircraft leases	-	-	-	-	-	-	(82.6)	(228.8)	-	-	-	-	(1,903.0)	(2,214.4)
	Debt and interest	(128.6)	(68.7)	(38.0)	(36.8)	(370.8)	(420.7)	-	-	-	-	-	-	(463.9)	(1,527.5)
	Unsecured	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Debt and interest	-	-	-	-	-	-	-	-	-	-	-	-	(1,991.6)	(1,991.6)
	Hedge counterparties	-	-	-	-	-	-	-	-	-	-	-	-	(197.9)	(197.9)
	Tax Balances	-	-	-	-	-	-	-	-	-	(0.0)	-	-	(19.1)	(19.1)
	Creditors and accruals	-	-	-	-	-	-	-	-	-	-	-	(2.8)	(386.2)	(389.0)
	Property and other leases	-	-	-	-	-	-	-	-	-	(9.5)	-	-	(188.0)	(197.5)
	Other creditors	-	-	-	-	-	-	-	-	-	(19.1)	-	(0.8)	(40.8)	(60.7)
	<b>Sub-total</b>	<b>(128.6)</b>	<b>(68.7)</b>	<b>(38.0)</b>	<b>(36.8)</b>	<b>(370.8)</b>	<b>(420.7)</b>	<b>(82.6)</b>	<b>(228.8)</b>	<b>-</b>	<b>(28.6)</b>	<b>-</b>	<b>(3.5)</b>	<b>(5,190.6)</b>	<b>(6,597.7)</b>
	Intercompany loans	(8.5)	-	-	-	(9.4)	-	(2.7)	(4.2)	(54.0)	(2,505.1)	(948.3)	(782.0)	(2,271.3)	(6,585.5)
	<b>Total question A5</b>	<b>(137.1)</b>	<b>(68.7)</b>	<b>(38.0)</b>	<b>(36.8)</b>	<b>(380.1)</b>	<b>(420.7)</b>	<b>(85.3)</b>	<b>(233.0)</b>	<b>(54.0)</b>	<b>(2,533.7)</b>	<b>(948.3)</b>	<b>(785.6)</b>	<b>(7,461.9)</b>	<b>(13,183.1)</b>

ROCAP question \$m		SH20142	SH20172	SH20173	SH20181	VA20191	VA20192	VB 800	VB LEASECO 2	TIGER 1	VAIA	VAIH	VSEA	DOCG1	Total (\$m)
A6	Are the companies owed money?														
	Trade debtors	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Other debtors	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Intercompany receivables	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
<b>Total question A6</b>															
A7	Do the companies own any assets?														
	Bank accounts	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Inventory	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Aircrafts	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Property	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Non-aircraft	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Office equipment	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
	Project WIP	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld	Withheld
<b>Total question A7</b>															

## Appendix J – ARITA Information Sheet on Offences, Recoverables and Insolvent Trading

## Creditor Information Sheet

### Offences, Recoverable Transactions and Insolvent Trading



#### Offences

A summary of offences under the Corporations Act that may be identified by the administrator:

180	Failure by company officers to exercise a reasonable degree of care and diligence in the exercise of their powers and the discharge of their duties.
181	Failure to act in good faith.
182	Making improper use of their position as an officer or employee, to gain, directly or indirectly, an advantage.
183	Making improper use of information acquired by virtue of the officer's position.
184	Reckless or intentional dishonesty in failing to exercise duties in good faith for a proper purpose. Use of position or information dishonestly to gain advantage or cause detriment. This can be a criminal offence.
198G	Performing or exercising a function or power as an officer while a company is under administration.
206A	Contravening a court order against taking part in the management of a corporation.
206A, B	Taking part in the management of corporation while being an insolvent, for example, while bankrupt.
206A, B	Acting as a director or promoter or taking part in the management of a company within five years after conviction or imprisonment for various offences.
209(3)	Dishonest failure to observe requirements on making loans to directors or related companies.
254T	Paying dividends except out of profits.
286	Failure to keep proper accounting records.
312	Obstruction of an auditor.
314-7	Failure to comply with requirements for the preparation of financial statements.
437C	Performing or exercising a function or power as an officer while a company is under administration.
437D(5)	Unauthorised dealing with company's property during administration.
438B(4)	Failure by directors to assist administrator, deliver records and provide information.
438C(5)	Failure to deliver up books and records to the administrator.
590	Failure to disclose property, concealed or removed property, concealed a debt due to the company, altered books of the company, fraudulently obtained credit on behalf of the company, material omission from Report on Company Activities and Property or false representation to creditors.

#### Recoverable Transactions

##### Preferences

A preference is a transaction, such as a payment by the company to a creditor, in which the creditor receiving the payment is preferred over the general body of creditors. The relevant period for the payment commences six months before the commencement of the liquidation. The company must have been insolvent at the time of the transaction, or become insolvent because of the transaction.

Where a creditor receives a preference, the payment is voidable as against a liquidator and is liable to be paid back to the liquidator subject to the creditor being able to successfully maintain any of the defences available to the creditor under the Corporations Act.

##### Uncommercial Transaction

An uncommercial transaction is one that it may be expected that a reasonable person in the company's circumstances would not have entered into, having regard to:

- the benefit or detriment to the company;
- the respective benefits to other parties; and,
- any other relevant matter.



To be voidable, an uncommercial transaction must have occurred during the two years before the liquidation. However, if a related entity is a party to the transaction, the period is four years and if the intention of the transaction is to defeat creditors, the period is ten years.

The company must have been insolvent at the time of the transaction, or become insolvent because of the transaction.

### **Unfair Loan**

A loan is unfair if and only if the interest was extortionate when the loan was made or has since become extortionate. There is no time limit on unfair loans – they only must be entered into before the winding up began.

### **Arrangements to avoid employee entitlements**

If an employee suffers loss because a person (including a director) enters into an arrangement or transaction to avoid the payment of employee entitlements, the liquidator or the employee may seek to recover compensation from that person. It will only be necessary to satisfy the court that there was a breach on the balance of probabilities. There is no time limit on when the transaction occurred.

### **Unreasonable payments to directors**

Liquidators have the power to reclaim '*unreasonable payments*' made to directors by companies prior to liquidation. The provision relates to payments made to or on behalf of a director or close associate of a director. The transaction must have been unreasonable, and have been entered into during the 4 years leading up to a company's liquidation, regardless of its solvency at the time the transaction occurred.

### **Voidable charges**

Certain charges over company property are voidable by a liquidator:

- circulating security interest created within six months of the liquidation, unless it secures a subsequent advance;
- unregistered security interests;
- security interests in favour of related parties who attempt to enforce the security within six months of its creation.

## **Insolvent trading**

In the following circumstances, directors may be personally liable for insolvent trading by the company:

- a person is a director at the time a company incurs a debt;
- the company is insolvent at the time of incurring the debt or becomes insolvent because of incurring the debt;
- at the time the debt was incurred, there were reasonable grounds to suspect that the company was insolvent;
- the director was aware such grounds for suspicion existed; and
- a reasonable person in a like position would have been so aware.

The law provides that the liquidator, and in certain circumstances the creditor who suffered the loss, may recover from the director, an amount equal to the loss or damage suffered. Similar provisions exist to pursue holding companies for debts incurred by their subsidiaries.

A defence is available under the law where the director can establish:

- there were reasonable grounds to expect that the company was solvent and they did so expect;
- they did not take part in management for illness or some other good reason; or
- they took all reasonable steps to prevent the company incurring the debt.

The proceeds of any recovery for insolvent trading by a liquidator are available for distribution to the unsecured creditors before the secured creditors.

**Important note:** This information sheet contains a summary of basic information on the topic. It is not a substitute for legal advice. Some provisions of the law referred to may have important exceptions or qualifications. This document may not contain all of the information about the law or the exceptions and qualifications that are relevant to your circumstances.



## Appendix K – Summary of BP&T proposal

### 1. Introduction

As stated in **section 8.7** BP&T submitted a DOCA proposal as part of the sale process on 24 June 2020 and a subsequent proposal on substantially the same terms as the 24 June 2020 proposal on 20 July 2020. On 21 August 2020, BP&T withdrew all proposals that had been submitted to us.

While the proposal has been subsequently withdrawn, for completeness, we set out below a summary of the terms of BP&T's proposal. Our comments on the proposal assume that the BP&T proposal received on 20 July 2020 superseded the prior proposal submitted by BP&T. This proposal will be referred to as the "**BP&T DOCA Proposal**", however, references to "**BP&T DOCA**" in this **Appendix** should be read as references to the **BP&T DOCA Proposal**.

BP&T's proposal contemplated:

- A single pooled DOCA relating to each company in the Virgin Group; and
- A single creditors' trust that would be entered into under the BP&T DOCA, with all claims of creditors of the Virgin Group being replaced with claims against the creditors' trust.

The BP&T DOCA Proposal contemplated a recapitalisation of the Virgin Group and continued trading of the Group's business. It broadly proposed that \$800m of funding would be provided to the Virgin Group in the form of convertible notes and working capital facilities. This funding was to also form part of the BP&T creditors' trust to be distributed to certain creditors under the BP&T DOCA.

A summary of the key features of the BP&T DOCA Proposal as understood by the Administrators is outlined below. Where there are items in square brackets, [ ]; this reflects the documents provided to us.

### 2. Key Features

#### 2.1. Key terms of the DOCA

The key terms of the BP&T DOCA proposal were as follows:

- The terms of the BP&T DOCA would have begun to operate once it had been executed. For this to occur, a resolution must have first been passed by the creditors of each of the Companies in favour of the BP&T DOCA.
- The interim funding provided to the Administrators by Bain in the amount of AUD\$125m was to be repaid. A replacement facility was to be put in place to fund the administration after the close of the second meeting if necessary.
- It was intended that the Administrators would become the Deed Administrators of the BP&T DOCA.
- There were a number of conditions to the BP&T DOCA. Details of the conditions and the steps to completion for the BP&T DOCA have been outlined in section 4.2 below.
- The Deed Administrators would have been required to facilitate the application to Court to seek orders for the transfer of the shares in VAH to the Trustee of the Creditor's Trust. This is further discussed at 2.4 below.
- In circumstances where the Court did not make orders to transfer the VAH shares to the Trustee, the deed proponent would have been required to reach an agreement with the Deed Administrators to enter into alternative share issuance documents. This has been discussed further in section 2.4 below.
- A creditors' trust was proposed to be established upon completion of the BP&T DOCA and would have comprised of [\$270m] cash and all of the shares held in VAH. This is discussed further in section 4.2 below.

## 2.2. Creditor claims

The effect of the BP&T DOCA Proposal and BP&T creditors' trust would have been to release claims held by creditors against the Virgin Group on completion of the BP&T DOCA. Creditors with eligible creditor claims would have become beneficiaries of the BP&T creditors' trust and be paid a dividend from the relevant pool in the Trust Fund (either as cash or in equity issuance). Details of the funds available in each pool and the creditors entitled to a distribution have been outlined in section 4.1 below.

## 2.3. BP&T creditors' trust fund under the BP&T DOCA structure

BP&T's DOCA proposal contemplated that under the BP&T creditors' trust, the fund available for distribution to creditors would be divided into seven pools with different eligibility criteria:

- Pool A, being employees and costs in the administration (including the Trustees' remuneration and costs). It was proposed that these creditors would receive a cash distribution from the BP&T creditors' trust.
- Pool B, being "essential" creditors (namely, certain core trade creditors of the Virgin Group's business). It was proposed that these creditors would receive distributions under the BP&T creditors' trust on a pro-rata basis for claims up to a defined amount (not specified in the BP&T DOCA). These creditors were proposed to receive a cash distribution from the BP&T creditors' trust.
- Pool C, being finance lessor creditors. It was proposed that these creditors would receive VAH shares in accordance with the share allocation formula (which is not articulated).
- Pool D, operating lessors. It was proposed that these creditors would receive VAH shares in accordance with the share allocation formula (which was not articulated).
- Pool E, comprised of Bond Holders. It was proposed that these creditors would receive VAH shares in accordance with the share allocation formula (which was not articulated).
- Pool F, comprised of hedging counterparties. It was proposed that these creditors would receive VAH shares in accordance with the share allocation formula (which was not articulated).
- Pool G, being non-core trade creditors. It was proposed that these creditors would receive VAH shares in accordance with the share allocation formula (which was not articulated).

## 2.4. Share transfer to the creditors' trust

The BP&T DOCA proposed the transfer of 100% of the shares held in VAH to the BP&T creditor's trust for distribution, it is assumed in specie, to creditors. To do this, the BP&T DOCA would have required the Deed Administrators to make an application to Court seeking leave to transfer the shares under section 444GA of the Act.

In circumstances where the 444GA order was not obtained, it was proposed that the parties would enter into the Alternative Share Transaction, whereby [1,196,777,777,778] new ordinary shares in VAH would be issued to the Trustee to be distributed under the BP&T creditors' trust. The effect of this would have been to dilute the VAH Shareholders to [1%] of share capital, with [99%] of the shares to be issued to creditors under the BP&T creditors' trust. In circumstances where VAH is an ASX listed company and the proposal would have resulted in a transfer of 99% of the VAH shares to the Trustee (prior to the shares being distributed pursuant to the BP&T creditors' trust deed, the mechanics of which are also uncertain), the BP&T DOCA Proposal did not address how this transfer could have been effected or how the statutory caps for shareholdings in an ASX entity would have been overcome.

## 3. Effect on unsecured creditors

### 3.1. Released claims

The BP&T DOCA proposed to release all debts or claims (other than excluded claims, which are discussed below) against the Virgin Group that occurred on or before the date of appointment of the Administrators whether or not they would have been admissible to prove in the winding up of the Companies.

In return for the releases, creditors who had a claim against the Companies would have been entitled to make a claim against the Trust Fund, which is equal in value to their released claim, in accordance with the BP&T creditors' trust deed.

Creditors would then have received a distribution from the relevant pool of the BP&T creditors' trust fund by way of a cash payment or receipt distribution in specie of VAH shares. This is further discussed at section 4.1.

### 3.2. Excluded claims

The BP&T DOCA proposed that the following claims would be excluded from participation in the BP&T creditors' trust:

- Claims in respect to continuing employees (refer to section 3.3 below)
- Claims in respect to certain "continuing contracts" (refer to section 3.4 below)
- Insured claims (refer to section 3.5 below)
- Intragroup claims (refer to section 3.6 below); and
- Any creditor who had agreed in writing with the Administrators or Deed Administrators not to participate in the Trust Fund.

### 3.3. Effect on employees

The continuing employees under the BP&T DOCA were proposed to be employees that would continue to be employed by the Virgin Group following completion of the BP&T DOCA. The Administrators understand that this would have included all employees, with the exception of those that had received a letter terminating their employment. The BP&T DOCA Proposal did not identify which employees would be continuing employees under the BP&T DOCA proposal.

Under the BP&T DOCA, it was proposed that employees (other than the continuing employees) would have been entitled to claim against the BP&T creditors' trust for the value of their employee entitlements. Employees would have retained their priority for the purposes of section 444DA of the Act to receive an amount from the BP&T creditors' trust at least equal to what they would have been entitled to in a liquidation in accordance with sections 556, 560 and 571 of the Act.

### 3.4. Excluded contracts

The BP&T DOCA contained a placeholder in Schedule 2 for a list of continuing contracts that were intended to be excluded from the BP&T creditors' trust. The BP&T DOCA proposed to exclude these contracts, such that creditors would not have been entitled to claim against the BP&T creditors' trust in respect of those contracts.

### 3.5. Insured claims

Insured claims were proposed to be excluded from the BP&T DOCA. An insured claim is a claim a creditor has against a Company, in respect of which they would have received priority in the event of a liquidation of the Company under section 562 of the Act.

### 3.6. Intragroup claims

Intra-Group claims were proposed to be excluded from receiving a distribution in the Creditor's Trust and those claims are would therefore not have been released or extinguished by the BP&T DOCA.

### 3.7. Future flight credits

Appendix C of the BP&T DOCA Proposal stated that all travel credits would have been honoured in full. No further detail was been provided in relation to travel credits issued to customers.

### 3.8. Sunset date

The BP&T DOCA listed a Sunset Date of 31 January 2021. That is, the date by which the s444GA order would need to have been obtained and the BP&T DOCA completed (effectuated). It had been proposed that this date could be extended by agreement.

#### 4. Proposed BP&T creditor's trust

It was proposed that a single creditors' trust would have been established pursuant to the BP&T DOCA and the cash amount as well as the VAH shares were to be transferred to the trust as part of the implementation steps under the BP&T DOCA.

##### 4.1. Trust fund pools under the DOCA structure

The cash amount and VAH shares to be transferred into the BP&T creditors' trust were proposed to be divided into 7 pools as described in the table below.

Pool	Distribution of trust funds	Funds / VAH shares available
Pool A	<ul style="list-style-type: none"> <li>Deed Administrators, Voluntary Administrators and Trustee of the creditors' trust in respect of their costs and remuneration;</li> <li>Employee creditors that are not continuing employees with the Virgin Group, in respect of their employee entitlements</li> <li>Note: the extent that there would have been any surplus, funds would have been provided to the Deed Proponent.</li> </ul>	\$170m
Pool B	<ul style="list-style-type: none"> <li>Creditors described in the BP&amp;T DOCA as "Essential Creditors", being continuing contractual counterparties, which the Voluntary Administrators understand would have included certain core trade creditors of the Virgin Group business.</li> </ul>	\$100m
Pool C	<ul style="list-style-type: none"> <li>Creditors described in the BP&amp;T DOCA as "Finance Lessor Creditors", whereby those creditor's claims would have been admitted in accordance with the formula proposed to be used by BP&amp;T the VAH shares. described as the "share allocation formula" (not articulated)</li> </ul>	146,727,986 of the VAH shares.
Pool D	<ul style="list-style-type: none"> <li>Creditors described in the BP&amp;T DOCA as "Operating Lessor Creditors", whereby those creditor's claims would have been admitted in accordance with the share allocation formula (not articulated)</li> </ul>	735,668,023 of the VAH shares.
Pool E	<ul style="list-style-type: none"> <li>Noteholder creditors whose claims would have been admitted in accordance with the share allocation formula (not articulated)</li> </ul>	6,855,736,473 of the VAH shares.
Pool F	<ul style="list-style-type: none"> <li>Hedging Creditors whose claims would have been admitted in accordance with the share allocation formula (not articulated)</li> </ul>	260,036,557 of the VAH shares.
Pool G	<ul style="list-style-type: none"> <li>Non-Core Trade Creditors whose claims would have been admitted in accordance with the share allocation formula (not articulated)</li> </ul>	447,049,435 of the VAH shares.

##### 4.2. Information regarding the BP&T creditors' trust

Information for creditors	Further comments
Key events	<p>The key events in respect of the BP&amp;T creditors' trust were to be as follows:</p> <ul style="list-style-type: none"> <li>Creditor approval would be required for the BP&amp;T DOCA structure to be executed following second meeting of creditors.</li> <li>Completion of the BP&amp;T DOCA would have occurred in line with the steps outlined below and a single creditors' trust would have been established on completion of the DOCA.</li> <li>The Deed Administrators would have been the Trustees of the creditors' trust.</li> </ul>

Information for creditors	Further comments
Completion of the DOCA	<p>Completion of the BP&amp;T DOCA was to be conditional on the following:</p> <ul style="list-style-type: none"> <li>• Execution of the BP&amp;T creditors' trust deed.</li> <li>• In relation to approval from the FIRB, either: <ul style="list-style-type: none"> <li>– FIRB approval having been granted by the Treasurer of the Commonwealth of Australia (unconditionally or subject to conditions acceptable to BP&amp;T, acting reasonably);</li> <li>– the Treasurer of the Commonwealth of Australia having become precluded from making an order in relation to the transaction contemplated by the BP&amp;T DOCA under the Foreign Acquisitions and Takeovers Act 1975 (Cth) (FATA); or</li> <li>– if an interim order were to be made under the FATA, the subsequent period for making a final order prohibiting the transfer of shares in VAH having expired without a final order being made;</li> </ul> </li> <li>• ASIC and the ASX having issued consents and approvals or such other actions which BP&amp;T considered were reasonably necessary or desirable to implement the transaction contemplated by the BP&amp;T DOCA, including the ASIC Relief.</li> <li>• The Deed Administrators having obtained the order from the Court in respect to the transfer of shares.</li> <li>• The Convertible Note Agreement having been executed (we note that there was no explanation given by BP&amp;T in regard to how the Convertible Note Agreement was to operate).</li> <li>• The Working Capital Facility agreement having been executed (we note that BP&amp;T did not provide any details or indication on the terms of this agreement).</li> <li>• Directors of the Companies having been removed and replaced by incoming directors (we note that BP&amp;T did not detail which directors were to be removed or the proposed incoming directors).</li> <li>• The following steps having been undertaken no later than five business days after the completion (or waiver) of the conditions precedent above: <ul style="list-style-type: none"> <li>– BP&amp;T to have paid the Fund Amount to be administered to creditors pursuant to the BP&amp;T creditors' trust.</li> <li>– the VAH shares to have been transferred to the Trustee to be administered to creditors pursuant to the BP&amp;T creditors' trust.</li> </ul> </li> </ul> <p>On completion of the BP&amp;T DOCA the releases of the released claims (outlined in section 3.1) were to have taken effect.</p>
Return to creditors / beneficiaries	<p>Other than where required by law, the funds in the trust deed were proposed to be distributed in the following order of priority:</p> <ul style="list-style-type: none"> <li>• Pool A: <ul style="list-style-type: none"> <li>– First, to the extent that they have not previously been paid, for the remuneration and costs payable to the Voluntary Administrators or Deed Administrators for work performed by them, their partners, employees or agents with respect to acting as administrators of the Companies or as Deed Administrators and all amounts in respect of which the Voluntary Administrators are indemnified in accordance with the trust deed;</li> <li>– Next, to the Trustees of the BP&amp;T creditors' trust in satisfaction of their remuneration and costs.</li> <li>– Next, any liability to employees (other than continuing employees) in respect of their employee entitlements;</li> </ul> </li> </ul>

Information for creditors	Further comments
	<ul style="list-style-type: none"> <li>– Next, to the extent of any surplus, to the Deed Proponent.</li> <li>• Pool B: <ul style="list-style-type: none"> <li>– pro rata to each Pool B creditor</li> </ul> </li> <li>• Pools C to G: <ul style="list-style-type: none"> <li>– to each creditor in Pools C to G in accordance with the Share Allocation Formula (not articulated) and the Share Transfer Mechanism (not articulated), from the shares allocated to each of those pools respectively.</li> </ul> </li> </ul>

#### 4.3. BP&T DOCA proposal estimated return to creditors

BP&T estimated that unsecured creditors (other than employees and core trade creditors) under the BP&T DOCA would receive an average of 69 cents in the dollar, which was to be provided to unsecured creditors in the form of equity in VAH. As mentioned above, a further document circulating in the market appears to contain an amended BP&T DOCA proposal from BP&T. This document was not provided to us by BP&T. In relation to the return to creditors, we note that this later document contemplated that unsecured noteholder creditors were to receive a different return depending on whether they choose to participate in the new money raising by way of the convertible notes. Accordingly, BP&T expected Bond Holders who elected to participate in the new money raising would receive 50-67 cents in the dollar (as equity in VAH) and Bond Holders who elected not to participate in new money raising would receive 38-47 cents in the dollar (as equity in VAH).

#### 5. Administrators' observations

We did not take the BP&T DOCA proposal forward during the week commencing 22 June 2020 due to the reasons set out in section 8.7 of this report. Our observations of their proposal include:

- The BP&T DOCA remained highly conditional in nature as it requires, among other things:
  - Engagement by BP&T with employee organisations to confirm management's view regarding the extension of flexible working arrangements currently agreed to continue during the ramp-up period.
  - Meetings between BP&T and Virgin Group financiers to discuss existing facility agreements and the implications of the DOCA proposal on those facilities post administration of the Virgin Group.
  - Engagement between BP&T and Queensland Investment Corporation to discuss if they would be willing to commit to c. \$200 million.
  - Engagement between BP&T and the Virgin Group lessors and other financiers to discuss and agree reasonable amendments that need to be made to existing leasing and financing arrangements to reflect what would be needed for the Virgin Group's business going forward.
  - Confirmation of the "Share Transfer Allocation Formula" and "Share Transfer Mechanism" pursuant to which Pools C to G were to receive an entitlement to VAH shares under the BP&T creditors' trust.
- The DOCA did not seem to deliver any certainty or guaranteed return to creditors, nor does it provide any cash for a dividend to be paid to unsecured creditors (with the exception of Pool A (employees) and B essential creditors).
- It is unclear whether funding was to be provided for any employees to be terminated and paid in full prior to the DOCA being put in place. The wording of the DOCA indicates that any employees that were not continuing employees would have been required to claim in the creditors' trust.
- The DOCA contained a number of features which would have made implementation and effectuation of the DOCA uncertain, for example, the BP&T DOCA would need to have explained the mechanics of how it was proposed that the creditors in Pools C to G (including Finance Lessor Creditors, Operating Lessor Creditors, Bond Holders, Hedging Creditors and Non-Core Creditors) would be bound to receive equity or how BP&T proposed to cause other creditors to receive or subscribe for equity absent their consent to do so.

- The BP&T DOCA also contained a number of features that were not confirmed by BP&T, which were not contingent on due diligence or any assistance from the Administrators or the Virgin Group, including the "share allocation formula" and the "share allocation mechanism", which were proposed to determine the allocation of VAH shares received by unsecured creditors. The BP&T DOCA did not explain either of these defined terms and no further explanation was provided by BP&T.
- As VAH is an ASX listed company, the proposed arrangement under the BP&T DOCA proposal whereby all of the VAH shares will be transferred to the BP&T creditors' trust by way of a 444GA order was problematic. It is not clear how this aspect of the BP&T DOCA could have been effectuated when that transfer would result in the Trustee of the BP&T creditors' trust holding shares above the statutory cap for shareholdings in an ASX listed company. No clarification of this issue was provided by BP&T.
- Funding for the transaction, being in the form of an \$800m convertible note issuance, would have resulted in significant delays (and material uncertainty) before creditors would have been able to receive any return from any deed of company arrangement distribution.
- BP&T failed to provide us with any satisfactory evidence of financial capacity to provide committed funding either to meet the interim funding requirements or to support their BP&T DOCA proposal, or the conduct of the day-to-day business following completion of the BP&T DOCA.
- No evidence was furnished, nor were we provided with any basis to assume that BP&T speak for, or could bind, all or even a majority of the \$1.98bn in notes on issue.
- The expected level of unsecured creditors is significantly higher than anticipated in their circular to Bond Holders.

## 6. Consideration of the BP&T DOCA proposal dated 24 June 2020

For completeness, we make the following further comments in relation to our consideration of the BP&T proposal received on 24 June 2020, including our relevant considerations at that time.

Prior to receipt of BP&T's proposal of 24 June 2020, we had made it very clear to BP&T on a number of occasions and as early as 9 June 2020 the minimum threshold requirements their proposal would need to meet. We advised BP&T, as part of the sale process, that we required an interim funding facility of \$125m and additional collateral of \$500m to underpin any proposal. We indicated that if these threshold requirements could be met, we would be prepared to consider their proposal further. The BP&T proposal did not deliver any certainty of a guaranteed return to creditors, nor did their proposal provide any cash for a dividend to be paid to the majority of unsecured creditors. Rather, creditors were to be given the opportunity to participate in convertible notes (in other words, acquiring an interest in a debt instrument rather than a cash distribution, as offered by the Bain proposal). At no time did BP&T provide any evidence of committed funding (either for interim funding or to support their recapitalisation proposal) prior to the decision being made to enter into binding agreements with Bain. In addition, on Tuesday 23 June 2020, prior to their proposal being submitted, BP&T confirmed to the Administrators that they did not have Investment Committee approval from their organisations for the provision of interim funding.

One of the conditions which we imposed on each bidder who proceeded to the final stage of the sale process was the requirement to provide documentary evidence of available and committed funding to complete the transaction proposed by that bidder. This was a contractual element of each bidding party's proposal.

BP&T advised they would not provide interim funding unless their proposal was accepted, and they were not forthcoming with any collateral to underpin a transaction. In addition to this (as noted above) they advised they did not have investment committee approval to provide interim funding.

Under the Sale Deed with Bain we received interim funding of \$125m and security underpinning the transaction by way of a guarantee/payment undertaking deed of \$750m. Bain also provided evidence of available and committed funding to complete the transaction, and evidence of funding to enable the business to trade following completion.

## 7. Withdrawal of BP&T DOCA proposal

On 21 August 2020, BP&T formally withdrew each of their DOCA proposals such that, as at the date of this report, there is no proposal being advanced by BP&T in respect of the Virgin Group.

## Appendix L – Estimated return to creditors in a liquidation scenario

We have assessed the returns to creditors under a no sale-liquidation scenario with both high and low values for each scenario identified below.

We have a detailed model by entity which supports the analysis we have undertaken, the basis for realisation of assets and the flow of funds waterfall across the Group, given the known guarantees between group entities and creditors and the DOCG structures across the Group.

The summary of possible returns to each creditor class are detailed under the below scenarios and in the following table:

- You are either a priority, secured or unsecured creditor and have a claim against an entity within DOCG1 (**No sale-liquidation Example 1**).
- You are either a priority, secured or unsecured creditor and have a claim against an entity within DOCG2 (**No sale-liquidation Example 2**).
- You are either a priority, secured or unsecured creditor and have a claim against a non-DOCG entity (**No sale-liquidation Example 3**).

**Table 39: Estimated return to creditors by amount – no sale - liquidation scenario**

The Group \$m Description	No sale-liquidation DOCG1 – Example 1		No sale-liquidation DOCG2 – Example 2		No sale-liquidation Non-DOCG – Example 3	
	High	Low	High	Low	High	Low
Net asset realisation (incl. equity in subsidiaries)	184.6	35.7	7.9	-	0.1	-
Net Administrators trading position (less fees)	(47.6)	(65.0)	(10.4)	(11.0)	(0.9)	(0.9)
<b>Net assets available to priority creditors</b>	<b>136.9</b>	<b>(29.3)</b>	<b>(2.5)</b>	<b>(11.0)</b>	<b>(0.8)</b>	<b>(0.9)</b>
<b>Priority creditors</b>						
Employee entitlement claims	(419.1)	(419.1)	-	-	-	-
Employee entitlements paid in Priority	81.1	-	-	-	-	-
Shortfall to priority creditors	(338.0)	(419.1)	-	-	-	-
<b>Cash available to unsecured creditors</b>	<b>55.8</b>	<b>(29.3)</b>	<b>(2.5)</b>	<b>(11.0)</b>	<b>(0.8)</b>	<b>(0.9)</b>
<b>Unsecured claims</b>						
<b>Total Creditor claims</b>	<b>(5,301.4)</b>	<b>(5,681.3)</b>	<b>(2,165.3)</b>	<b>(2,175.1)</b>	<b>(469.3)</b>	<b>(631.9)</b>
<b>Total Surplus/(Shortfall)</b>	<b>(5,382.6)</b>	<b>(5,681.3)</b>	<b>(2,165.3)</b>	<b>(2,175.1)</b>	<b>(469.3)</b>	<b>(631.9)</b>
Unsecured creditors	(5,240.6)	(5,558.3)	(2,165.3)	(2,175.1)	(469.3)	(631.9)
Priority creditors	(339.2)	(424.2)	-	-	-	-
<b>Total Surplus/(shortfall)</b>	<b>(5,579.7)</b>	<b>(5,982.6)</b>	<b>(2,165.3)</b>	<b>(2,175.1)</b>	<b>(469.3)</b>	<b>(631.9)</b>



Table 40: Estimated return to creditors by percentage – no sale - liquidation scenario

The Group % Return Description	No sale-liquidation DOCG1		No sale-liquidation DOCG2		No sale-liquidation Non- DOCG	
	High	Low	High	Low	High	Low
Priority creditors (employees)	19.4%	0%	n/a	n/a	n/a	n/a
Secured creditors (range ex. MOFA)*	100.0%	62.4%	n/a	n/a	100.0%	68.0%
Unsecured creditors	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%

\*The returns to secured creditors range between high and low scenarios for all secured creditors, not individual creditors where aircraft is expected to be returned. We note that individual returns for each creditor is estimated to vary within the above-mentioned ranges.

#### Dividends to creditors under a no sale-liquidation scenario

As stated in **section 11.2.5**, the estimation of a return to creditors in the event a sale was unable to be achieved assisted us in evaluating the offers we received for the Group. The analysis undertaken clearly indicates that a sale of the business as a going concern under the Bain DOCA proposal provides a higher return to creditors than if the Companies were to be placed into liquidation.

The no sale-liquidation scenario assumes the Group would cease to operate and all assets would be realised for the benefit of creditors. Our assumptions are summarised below.

Table 41: Assumptions under a no sale - liquidation scenario

Assumption	Detail
Aircraft asset value and aircraft creditors	<ul style="list-style-type: none"> <li>Given the significant shock to the global airline and aircraft markets due to COVID-19 and the consequent economic downturn, we have discounted the aircraft market values</li> <li>For all high scenarios we have assumed 80% realisation of the midpoint valuation based on age and maintenance status of aircraft estimated by an independent valuer, Cirium as at 30 July 2020. For all low scenarios we have assumed 65% realisation.</li> <li>For operating leased aircraft, we have assumed the crystallisation of a claim driven by 'time to re-lease' and 'market re-lease rate'. For all high scenarios we have assumed 12 months to re-lease at 80% of the currently contracted value. For all low scenarios we have assumed 12 months to re-lease at 65% of the currently contracted value.</li> <li>The high scenario reflects the current fleet plan and any amended lease terms which includes specific aircraft to be retained at asset realisation values of 80%, whereas the low scenarios reflect asset realisations of 65%.</li> </ul>
Creditor claims across two or more DOCG Groups	<ul style="list-style-type: none"> <li>For the purposes of this analysis we have assumed creditors who have a claim across two or more DOCG groups receive a pari passu return from the DOCG Group where the liability is incurred (i.e. not from a guarantee DOCG Group). This assumes no creditor receives a more favourable outcome than others due to the structure of each DOCG group under a no sale-liquidation scenario.</li> </ul>
Employee claims	<ul style="list-style-type: none"> <li>In the event of a liquidation the employee entitlements claim is \$419m representing all redundancy employee entitlements for the current workforce.</li> </ul>
Foreign exchange rates	<ul style="list-style-type: none"> <li>All asset and liability values denominated in a foreign currency have been converted to AUD using the opening carded on demand airmail buying rate</li> </ul>

Assumption	Detail
	from the Commonwealth Bank of Australia in accordance with section 554C of the Act.
Liquidator recovery actions	<ul style="list-style-type: none"><li>We have assumed no recovery actions available to a liquidator as outlined in <b>section 6.6</b> of this report.</li></ul>
Property leases	<ul style="list-style-type: none"><li>Crystallisation of claim if property is disclaimed being, the lessor value of 18 months to re-let at monthly contracted occupancy rates or cost of lease to expiry.</li></ul>
Liquidator fees	<ul style="list-style-type: none"><li>We estimate the remuneration of the Liquidator to be approximately \$50m under both an ASA - liquidation and no sale – liquidation scenario. We have previously identified the significant work that would be required under an ASA-liquidation scenario. We estimate there would also be significant work that would be required to wind-down operations, realise the assets on a piecemeal basis and liaise with aircraft financiers on collection of leased assets. The remuneration and costs of the Liquidator will be charged on an hourly basis on the same rates as those charged during the period of voluntary administration.</li></ul>

#### High scenario

These values have been included on the basis that there is potential for an increased recovery or realisation above that of a low scenario for specific assets. Where there are two estimates of the value of an asset, the higher value has been included in the high calculations. Achieving these values is subject to several factors that would arise during the realisation process. This includes various market forces affecting the value of each asset, including the interest in each asset, its condition and the general economic status at the time of sale.

#### Low scenario

The values included in this calculation are considered the lower possible values recoverable from the specific assets of the company. These amounts have been calculated by either discounting for a reduced return or where two values were provided for an asset, the lower value was included.

In a liquidation piecemeal asset realisation scenario, it is estimated that:

- An aggregate asset value between \$192.5m (high) and \$35.7m (low) across DOCG1 and DOCG2 may be realised for the benefit of creditors under a no sale-liquidation scenario. This includes the realisation of the interest held by VAH in Velocity, inventories, intangible assets, non-aircraft property plant & equipment and encumbered aircraft and non-aircraft assets.
- Secured financiers are estimated to receive a return of between 62.4%-100% within DOCG1 and 68.0%-100% within Non-DOCG entities based on the discounted secured aircraft value and debt facilities held as at appointment. There are no aircraft financing facilities or assets held by companies within DOCG2.
- There is estimated to be between \$37.3m (high) and \$23.7m (low) in equity which relates to both owned and secured financed aircraft (excluding MOFA). Where there is equity in aircraft, the individual secured lenders of that aircraft would receive a 100% return on the dollar.
- Employee priority creditors are estimated to receive between 0.0% (low) and 19.4% (high) in the scenarios, leaving a shortfall to employees of \$419.1m (low) and \$338m (high) respectively.
- Unsecured creditors are estimated to receive a pari passu returns between 1.1% (high) and 0.0% (low) in a no sale-liquidation scenario.

We reiterate the calculation of estimated returns to each creditor class in each entity shown above is extremely complex and requires estimates and assumptions because:

- There are two DOCG with DOCG1 containing 14 entities and DOCG2 containing 4 entities, meaning each company within a DOCG group guarantees each entity's liability incurred.
- One of the MOFA facilities is guaranteed by entities within DOCG1 and DOCG2.
- The unsecured bonds have claims under the DOCG1 and DOCG2 groups.
- The Group's key operating assets are aircraft which are predominately subject to either a finance or operating lease agreement. The valuation of these assets is difficult at this time given the challenges in the global aircraft industry, driving downsizing and an increase of supply in the secondary market. In our analysis we have assumed discounts to latest available "market values" for aircraft.
- Each aircraft financing and operating lease agreement is required to be assessed to determine appropriate estimates of realisable values, quantification of the crystallised liability in the event the aircraft is returned and any termination payments payable in the event the contract is terminated early.

## Appendix M – Proposed resolutions at the Second Meeting of Creditors on 4 September 2020

DOCA category	Resolution No. (USD Noteholders only)	Resolutions	Entity	DOCG classification
Primary DOCA	1(a)	To consider, and if thought fit, pass the following resolution, choosing to vote ‘for’, ‘against’ or ‘abstain’ on each option:  “That the Companies execute the Primary Deed of Company Arrangement as proposed in the Administrators’ report to creditors dated 25 August 2020”  “That the Companies should be wound up”  “That the administration of the Companies should end”	1. Virgin Australia Holdings Ltd	DOCG1
			2. Virgin Australia Airlines Holdings Pty Ltd	DOCG1
			3. Virgin Australia Airlines Pty Ltd	DOCG1
			4. Virgin Tech Pty Ltd	DOCG1
			5. VB Leaseco Pty Ltd	DOCG1
			6. VAH Newco No.1 Pty Ltd	DOCG1
	2	To consider, and if thought fit, pass the following resolution:  “That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors’ Trust/Liquidation Committee of Inspection”	7. Tiger Airways Australia Pty Limited	DOCG1
			8. A.C.N. 098 904 262 Pty Ltd	DOCG1
			9. Virgin Australia Regional Airlines Pty Ltd	DOCG1
			10. Virgin Australia Cargo Pty Ltd	DOCG1
			11. Virgin Australia Holidays Pty Ltd	DOCG1
			12. VB Ventures Pty Ltd	DOCG1
			13. VB Investco Pty Ltd	DOCG1
			14. VAH Newco No.2 Pty Ltd	DOCG1
			15. Virgin Australia International Operations Pty Ltd	Non-DOCG entity
			16. VBNC5 Pty Ltd	Non-DOCG entity
			17. Short Haul 2017 No. 1 Pty Ltd	Non-DOCG entity

			18.	VB PDP 2010-11 Pty Ltd	Non-DOCG entity
			19.	VB LH 2008 No. 1 Pty Ltd	Non-DOCG entity
			20.	737 2012 No.1 Pty. Ltd.	Non-DOCG entity
			21.	VA Regional Leaseco Pty Ltd	Non-DOCG entity
			22.	VA Hold Co Pty Ltd	Non-DOCG entity
			23.	Short Haul 2016 No. 1 Pty Ltd	Non-DOCG entity
			24.	VB LH 2008 No. 2 Pty Ltd	Non-DOCG entity
			25.	737 2012 No. 2 Pty Ltd	Non-DOCG entity
			26.	Virgin Australia 2013-1 Issuer Co Pty Ltd	Non-DOCG entity
			27.	VA Lease Co Pty Ltd	Non-DOCG entity
International DOCA	1(b)	To consider, and if thought fit, pass the following resolution, choosing to vote 'for', 'against' or 'abstain' on each option:  "That the Companies execute the International Deed of Company Arrangement as proposed in the Administrators' report to creditors dated 25 August 2020"  "That the Companies should be wound up"  "That the administration of the Companies should end"	28.	Short Haul 2016 No. 2 Pty Ltd	Non-DOCG entity
			29.	Virgin Australia International Holdings Pty Ltd	DOCG2
			30.	Virgin Australia International Airlines Pty Ltd	DOCG2
	3	To consider, and if thought fit, pass the following resolution:  "That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors' Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors' Trust/Liquidation Committee of Inspection"	31.	Tiger International Number 1 Pty Ltd	DOCG2
			32.	Virgin Australia Airlines (SE Asia) Pty Ltd	DOCG2
Subsidiary DOCA 1		To consider, and if thought fit, pass the following resolution, choosing to vote 'for', 'against' or 'abstain' on each option:  "That the Companies execute the Subsidiary Deed of Company Arrangement 1 as proposed in the Administrators' report to creditors dated 25 August 2020"  "That the Companies should be wound up"  "That the administration of the Companies should end"	33.	Short Haul 2014 No. 1 Pty Ltd	Non-DOCG entity
			34.	Short Haul 2014 No. 2 Pty Ltd	Non-DOCG entity

	To consider, and if thought fit, pass the following resolution:  “That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors’ Trust/Liquidation Committee of Inspection”.			
Subsidiary DOCA 2	To consider, and if thought fit, pass the following resolution, choosing to vote ‘for’, ‘against’ or ‘abstain’ on each option:  “That the Company execute the Subsidiary Deed of Company Arrangement 2 as proposed in the Administrators’ report to creditors dated 25 August 2020”  “That the Company should be wound up”  “That the administration of the Company should end”  To consider, and if thought fit, pass the following resolution:  “That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors’ Trust/Liquidation Committee of Inspection”.	35.	Short Haul 2017 No. 2 Pty Ltd	Non-DOCG entity
Subsidiary DOCA 3	To consider, and if thought fit, pass the following resolution, choosing to vote ‘for’, ‘against’ or ‘abstain’ on each option:  “That the Company execute the Subsidiary Deed of Company Arrangement 3 as proposed in the Administrators’ report to creditors dated 25 August 2020”  “That the Company should be wound up”  “That the administration of the Company should end”  To consider, and if thought fit, pass the following resolution:  “That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors’ Trust/Liquidation Committee of Inspection”.	36.	Short Haul 2018 No. 1 Pty. Ltd.	Non-DOCG entity
Subsidiary DOCA 4	To consider, and if thought fit, pass the following resolution, choosing to vote ‘for’, ‘against’ or ‘abstain’ on each option:	37.	VA Borrower 2019 No. 1 Pty Ltd	Non-DOCG entity

“That the Company execute the Subsidiary Deed of Company Arrangement 4 as proposed in the Administrators’ report to creditors dated 25 August 2020”

“That the Company should be wound up”

“That the administration of the Company should end”

To consider, and if thought fit, pass the following resolution:

“That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors’ Trust/Liquidation Committee of Inspection”.

Subsidiary  
DOCA 5

To consider, and if thought fit, pass the following resolution, choosing to vote ‘for’, ‘against’ or ‘abstain’ on each option:

38. VA Borrower 2019 No. 2 Pty Ltd Non-DOCG entity

“That the Company execute the Subsidiary Deed of Company Arrangement 5 as proposed in the Administrators’ report to creditors dated 25 August 2020”

“That the Company should be wound up”

“That the administration of the Company should end”

To consider, and if thought fit, pass the following resolution:

“That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors’ Trust/Liquidation Committee of Inspection”.

Subsidiary  
DOCA 6

To consider, and if thought fit, pass the following resolution, choosing to vote ‘for’, ‘against’ or ‘abstain’ on each option:

39. VB Leaseco No 2 Pty Ltd Non-DOCG entity

“That the Company execute the Subsidiary Deed of Company Arrangement 6 as proposed in the Administrators’ report to creditors dated 25 August 2020”

“That the Company should be wound up”

“That the administration of the Company should end”

To consider, and if thought fit, pass the following resolution:

“That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors’ Trust/Liquidation and that all members of the Committee of

	Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors' Trust/Liquidation Committee of Inspection".			
Subsidiary DOCA 7	<p>To consider, and if thought fit, pass the following resolution, choosing to vote 'for', 'against' or 'abstain' on each option:</p> <p>"That the Company execute the Subsidiary Deed of Company Arrangement 7 as proposed in the Administrators' report to creditors dated 25 August 2020"</p> <p>"That the Company should be wound up"</p> <p>"That the administration of the Company should end"</p> <p>To consider, and if thought fit, pass the following resolution:</p> <p>"That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors' Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors' Trust/Liquidation Committee of Inspection".</p>	40.	VB 800 2009 Pty Ltd	Non-DOCG entity
Subsidiary DOCA 8	<p>To consider, and if thought fit, pass the following resolution, choosing to vote 'for', 'against' or 'abstain' on each option:</p> <p>"That the Company execute the Subsidiary Deed of Company Arrangement 8 as proposed in the Administrators' report to creditors dated 25 August 2020"</p> <p>"That the Company should be wound up"</p> <p>"That the administration of the Company should end"</p> <p>To consider, and if thought fit, pass the following resolution:</p> <p>"That a Committee of Inspection be formed for the ensuing Deed of Company Arrangement/Creditors' Trust/Liquidation and that all members of the Committee of Inspection appointed for the purpose of the Voluntary Administration, be appointed to the newly formed Deed of Company Arrangement/Creditors' Trust/Liquidation Committee of Inspection".</p>	41.	Short Haul 2017 No. 3 Pty. Ltd.	Non-DOCG entity





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