

MINUTES OF THE COMMITTEE OF INSPECTION (**COI**) MEETING OF

VIRGIN AUSTRALIA HOLDINGS LIMITED ACN 100 686 226 AND SUBSIDIARIES (ADMINISTRATORS APPOINTED)
(THE **COMPANIES** OR **VIRGIN GROUP**)

HELD AT THE OFFICES OF DELOITTE, LEVEL 9, GROSVENOR PLACE, 225 GEORGE STREET, SYDNEY NSW 2000
ON 31 AUGUST 2020 AT 11:00AM (AEST)

PRESENT Vaughan Strawbridge Joint and Several Administrator, Deloitte Financial
Advisory Pty Ltd (**Deloitte**)
Kathryn Evans Deloitte
Timothy Sackar Clayton Utz
Jillian Robertson Clayton Utz

OPENING OF THE MEETING Mr Strawbridge declared the meeting open at 11:04 AM (AEST).

He advised this was the eighth meeting of the COI of Virgin Australia Holdings Limited and subsidiaries (Administrators Appointed) which will be referred to as the Companies or the Virgin Group during the meeting.

He introduced Timothy Sackar of Clayton Utz, the Administrators' solicitor, who was present at the meeting with him.

He noted John Greig and Sal Algeri, Joint and Several Administrator of the Companies, were also in attendance via the videoconference facility.

IN ATTENDANCE Mr Strawbridge noted that all committee members in attendance were attending via the Microsoft Teams videoconference platform and the listing of those accessing the online meeting platform would be used as a basis for the attendance register.

The attendance register is attached at **Annexure A**.
The observers register is attached at **Annexure A**.

CHAIRPERSON Mr Strawbridge advised that pursuant to rule 75-50 of the *Insolvency Practice Rules (Corporations) 2016* (**IPR**), he would occupy the Chair as Joint and Several Administrator of the Companies.

QUORUM The Chairperson declared a quorum present at the meeting as a majority of the committee members were seen as viewing the online meeting platform at that time.

RECORDING OF THE MEETING The Chairperson advised he intention to record the meeting for the purpose of minute taking. He asked if any committee members objected to the meeting being recorded. No objections to the recording of the meeting were made.

TIME AND PLACE OF MEETING The Chairperson stated he had not received any objections that the time and place was not convenient to the committee members. Therefore, pursuant to 75-30 of the IPR, he declared that the meeting is held at a time and place most convenient for the majority of persons entitled to receive notice of the meeting.

AGENDA The Chairperson advised agenda for the meeting is:

- a) to consider and discuss the Administrators' report to creditors dated 25 August 2020, in particular, the Bain Capital (**Bain**) offer, the Deeds of Company Arrangement proposals and proposed Creditors' Trust;
- b) JobKeeper update;
- c) recent Federal Court Orders
- d) Bond holder voting at the second meeting of creditors (**Second Meeting**);
- e) any other business.

REPORT TO CREDITORS **Bain Offer**

The Chairperson advised that in addition to providing certainty of the continuation of the airline, the Bain offer provided for:

- interim funding of \$125m to enable the business to continue to trade until completion of the transaction;
- Bain assuming economic risk from 1 July;
- employee entitlements to be covered in full;
- all travel credits/earned travel revenue to be assumed in full (estimated at net \$400m);
- \$35m of Administrators trading liabilities to be assumed (including unearned revenue and accrued leave entitlements);
- a cash contribution to a DOCA / Creditors Trust fund of between \$447.2m to \$572.2m
- plus expected Voluntary Administrators' excess cash estimated at between \$40.6m and \$14.8m
- payment undertaking deed of \$750m.

Creditors' Trust

The Chairperson advised there is a commercial and practical benefit to using a creditors' trust for administering a distribution to unsecured creditors. He noted that while a DOCA is still on foot, the Companies would be 'subject to a Deed of Company Arrangement' and this could present impediments to the Companies to trade on an open market and get on with the business of rebuilding successfully. By using a creditors' trust, the DOCA can be completed upon payment to the Creditors' Trust and the Companies would no longer be 'subject to a Deed of Company Arrangement'. The creditors' trust allows the DOCA to be completed in an efficient and timely manner, which then enables the trustee of the creditors' trust to administer the distribution to creditors who become beneficiaries of the creditors' trust.

He further noted that creditors' trusts have been used extensively and are very common.

JobKeeper

The Chairperson noted one of the benefits of a DOCA is that the business and its employees remain in their current legal entities while the shareholders are changed. Accordingly, there is no change to the ability to access JobKeeper. Under an asset sale agreement (**ASA**), the employees would be moved to new entities owned by Bain and there is some concern that those entities would not qualify for the JobKeeper assistance program.

He noted the Administrators have sought guidance from the Federal Government on the operation of JobKeeper where there is a transition of a business as a going concern under an ASA and they are waiting for a response on this.

Glenn Thompson of the Australian Manufacturing Workers' Union (AMWU) asked whether the Administrators' have engaged with Nicholas Moore on this matter, and if so, whether the Administrators' had a clear understanding of the issue.

The Chairperson advised he had engaged with Mr Moore and he is discussing the issue with the Federal Government. He noted the Administrators' are hopeful they will have an answer to this issue by the second meeting of creditors (**Second Meeting**).

John Lyons of the Association for Virgin Australia Group Pilots (VIPA) asked whether the Administrators' would have control and governance of the Companies for a longer period under the ASA and liquidation scenario as opposed to the DOCA scenario.

The Chairperson confirmed that under an ASA and liquidation scenario, the Administrators would remain in control of the assets until they are transferred over to new entities established by Bain. He noted that if the DOCA is not approved at the Second Meeting, the meeting would be adjourned for a period of up to 45 business days. If by the end of that period the Administrators could not affect the transfer of key business critical assets, the Administrators would need to continue to trade the business through the liquidation, however, the JobKeeper scheme would not be available to a company in liquidation.

Emeline Gaske of the Australian Services Union (ASU) asked about the risks associated with the ASA and liquidation scenario, and what work the Administrators have done to mitigate those risks.

The Chairperson advised that under the transaction agreement with Bain, a host of steps would need to be undertaken, such as:

- setting up new entities
- looking at whether assets need to be moved around entities in the corporate structure before transferring to Bain
- identifying relevant contracts, noting there are around 200 agreements that would need to be transitioned to the new entities
- working with CASA in relation to the air operating certificate.

He advised there was a workgroup considering what steps would need to be undertaken. The Administrators have also foreshadowed this work with the Federal Government and believe there would be a support from the Government, if required.

The Chairperson commented that one of the significant risks under the ASA and liquidation scenario would be complications around the new entities applying for air operating certificates.

Federal Court Orders

The Chairperson advised there was an application made by some unions to the Federal Court on 21 August seeking orders that the unions be able to represent employees who are members of their association at the upcoming Second Meeting.

He advised that under the orders, if an employee who is a member of one of the unions does not appoint a proxy or elect to attend the Second Meeting, their respective union will then be able to represent them by proxy at the Second Meeting.

Bond holder voting at the Second Meeting

In respect of the AUD unlisted notes, the Chairperson advised the voting by the beneficial owners is a matter for the Registered Holders or custodians to manage, consistent with their governing instruments and own duties and responsibilities. He advised the Administrators' had consulted with the Registered Holders and custodians, whilst noting there are some practicalities around custodians getting voting instructions from underlying holders. He advised the Administrators' had given as much notice of the Second Meeting as they could.

The Chairperson provided the timetable for AUD listed and unlisted notes, as shown on page 7 of the meeting presentation (Annexure C).

In respect of the US bonds, the Chairperson advised the voting process will be conducted through the DTC system, whilst noting the Administrators had communicated with relevant parties to ensure they had access to the Report at the earliest time possible via the Administrators' website.

OTHER BUSINESS AND QUESTIONS

The Chairperson addressed those questions submitted in writing prior to the meeting.

Thomas Jacquot of FIIG Securities Limited asked:

1. What's the enterprise value (EV) underpinning the transaction with Bain?

The Chairperson advised the value is dependent on the completion of negotiations with secured aircraft financiers and the current consultation with employees around redundancies. He noted it would be difficult to specify the actual value of the transaction until there is an outcome on these matters, further noting the Administrators had not set out an enterprise value in their report to creditors for those reasons.

The Chairperson advised negotiations are continuing in respect of aircraft, which will determine the amount of secured debt to be retained versus where aircraft will need to be realised and any shortfall then included in the DOCAs as unsecured debt. He noted the Administrators estimated the secured debt shortfall to be \$336m and \$425m as per Table 34 on page 118 of the Report.

He noted the actual value of redundancies won't be determined until the completion of the consultation with employees, whilst also noting Bain would fund all employee entitlements once redundancies are known.

2. Can you provide the details of each of the building blocks of that EV? In particular, what liabilities are being assumed by Bain? How much cash is actually paid to creditors? How much cash is Bain inheriting (i.e. currently in the business)?

In response, the Chairperson detailed the following under the Bain transaction:

- employee entitlements of greater than \$128m but less than \$450m to be funded
- the Velocity loan of \$150m is to be assumed
- secured financier debt which is estimated to be about \$1.2b
- lease liabilities will be assumed, the amount of which is yet to be determined, however, for the DOCA analysis this amount has been estimated at \$1.1b
- customer credits of circa \$600m, but net \$400m after security against merchant facility liabilities are considered
- cash contribution between \$447.2m and \$572.2m

The Chairperson noted that Bain is not inheriting any cash. The cash to trade the business from 1 July is funded from Bain. Any cash at bank at 30 June after satisfying the administrators liabilities is retained as excluded cash which will be retained for the creditors' trust. The excluded cash is estimated between \$14.8m and \$40m.

3. How is the cash consideration paid to creditors funded by Bain? Debt or equity?

The Chairperson advised Bain will fund the cash to the Trustee of the Creditors' Trust as part of the DOCA. This consideration will be cash and not be equity in the business going forward.

4. Can you provide further details regarding Virgin Australia Holdings Limited's balance sheet on or about the date of your report? This should include the consolidated position of the entities subject to Voluntary Administration but also the consolidation position as historically reported (i.e. including Velocity).

The Chairperson asked Mr Jacquot if there was anything specific he was seeking to understand.

Mr Jacquot commented the Report was very high level and that he was seeking more detail around Velocity.

The Chairperson noted Velocity is a separate legal entity. Whilst noting the Virgin Group was a shareholder of Velocity, the cash held by Velocity is for the benefit of Velocity members. Velocity was taken into account for the purpose of the Administrators' analysis, however reiterated the cash held by Velocity was for the benefit of its members and not the Virgin Group and the Virgin Group owes Velocity \$150m.

5. Can you provide some details about current performance of Velocity? While I acknowledge Velocity is not part of the Administration process, it remains nonetheless an asset of the group and Bain would have no doubt ascribed a value to the program.

The Chairperson responded:

- A significant amount of work has been done to ensure the secured creditors to Velocity did not enforce their security. There are on-going discussions regarding this debt position which have been successful to ensure there has been no adverse action taken.
- As you can appreciate trading has been minimal given there haven't been many options to redeem points for flights or earn points.
- Shortly after the Administrators' appointment, Velocity suspended redemption of points with Velocity partners due to the financial impact.

- A lot of work has been undertaken to ensure the Velocity business is preserved and protected.
- The Virgin Group owes Velocity \$150m.
- The funds held by Velocity are for the benefit of members.

6. Have you investigated why it would appear that the group has repaid about \$150m to Velocity in January and then, despite having significant headroom under the Velocity loan, it wasn't redrawn? This amount would have potentially made a very material difference to the Administration outcome.

The Chairperson responded:

- Velocity is run as a separate business with a Trustee structure.
- The repayment was in the ordinary course, with the ability to seek to redraw on the loan.
- The Virgin Group had sought to draw down additional loans in the lead up to the administration, and these requests were not approved at the time by the Trustee.

7. Can you provide more details on restricted cash? The \$338.5m highlighted in page 78 of your report implies it's not just Velocity and yet the footnote only refers to Velocity.

The Chairperson advised:

- Bullet point 4 under the table clearly describes what else is in restricted cash. It's funds held as security for merchant facility regarding un-flown flights and security for Multi Option facility Agreements (**MOFA**) facilities.
- In respect of customer credits, the amount is \$600m less cash security held of \$200m, so a net \$400m. The \$200m is the security held against merchant facilities. A lot of work has been done to ensure the collateral held is matched to un-flown flight transactions on credit cards, which it does.
- There has always been restricted cash as referred to in the annual reports and on our appointment, counterparties in some instances sought to increase the level of restricted cash held to mitigate against the perceived increased risk of shortfalls.

8. Why didn't you seek a creditor-led solution in parallel to the sale process? It would appear from the outside that you put your entire focus on getting a 3rd party to come with a solution for the business. Given an administrator is (simplistically) supposed to look after the interest of the creditors and further given the appointment of 2 highly experienced financial advisers (Houlihan Lokey and Morgan Stanley), one has to wonder why all these parties didn't develop a recapitalisation plan themselves and put it to creditors. In effect, a process very similar to what typically happens in the US for companies that have filed for Chapter 11 (and which Houlihan Lokey should be very familiar with, given the very extensive experience advising bondholders in such US cases).

In response, the Chairperson advised:

- We don't have a Chapter 11 process in Australia.
- This business operated from Australia and this is where the majority of its operations are.
- Chapter 11 is a Court administered process and is a very expensive process.
- He was not sure if a Chapter 11 process would have worked in this case as:
 - the only funding the Administrators had was accessing unrestricted cash, which employees have had a priority over
 - if these funds had been set aside for that purpose the business would not have had any monies to continue to trade
 - the Administrators did explore Debtor In Possession (**DIP**) funding, which is used to fund Chapter 11 cases, but unfortunately were not able to raise any such funding as highlighted in the report to creditors

- the trading circumstances are extraordinary with the business was incurring losses and trading at a lot less than usual levels.
- The Administrators had no Court protection regarding the incurring of liabilities or anyone behind them to underwrite trading losses.
- The Administrators have achieved a sale of the business as a going concern in the midst of an unprecedented pandemic which has decimated the global aviation industry. They ran a very public process with all options being explored and avoiding liquidation.
- Broad Peak and Tor (**BP&T**) have in some parts played this role, they were not comfortable in providing DIP funding and did not offer any cash or collateral as part of their proposal.
- BP&T reached out to a number of people including bond holders seeking funding and were not successful in doing so.

9. With hindsight, it is very hard to reconcile the composition of the Committee of Inspection and actual exposure of the creditors. How can it be justified that employees receive 11 places on the COI, landlords 6 positions and trade creditors another 6 positions when the bondholders only receive 4 positions? This is completely unrepresentative of actual liabilities. Based on the ROCAP table on page 27 and 28, these 3 categories of creditor seem to represent claims of about \$667m but received 23 positions. Bondholders had claims of close to \$2bn and yet only 4 positions. This is even more difficult to reconcile when the CoI is then expected to opine on certain resolutions (required a majority only) which are used as support to certain steps taken during the process.

In response, the Chairperson commented:

- He believed this question has come from someone who did not put themselves forward to be on the COI. That person does reside on the Noteholder Consultative Committee (**NCC**) but failed to raise this concern where there has been ample opportunity.
- This was a COI elected to by the creditors. The resolution was put to creditors for approval, no questions or concerns were raised at the time, this was a very transparent process.
- He disagrees with the comments regarding representation. More than 85% of the value of bonds are represented on the COI.
- The Administrators did ensure there was a good representation from a broad cross section of creditors.
- In respect to the COI members representing the staff, they represent over 9,000 people whose jobs are at stake. They all represent different groups, the unions are here representing their members, which is appropriate under the Fair Work Act. Dayna Field is here representing those who are not members of unions.

Mr Jacquot commented that while he had a discussion around this question with a particular investor, the record should note the question was raised by FIIG Securities Limited.

10. Can you please clarify Table 7 on page 31? For the USD notes, principal is shown as a value that is lower than outstanding liability.

The Chairperson advised:

- The principal sum is using the currency conversion from the books and records.
- The outstanding liability amount is using the 0.6671 conversion rate.

11. Can you provide additional details of the claims from aircraft financiers (falling in the category of Bank loan and finance leases in Table 6) and claims from operating leases? In particular, according to table 34, the first category have a deficiency claim of about 20% of total claim (\$336m-\$424m against \$1.826bn) but the second category has a deficiency claim of about 60% (\$1.105bn-\$1.175bn against \$1.894bn).

The Chairperson advised:

- The first point is the difference between the two categories:
 - one is secured debt owed to financiers, which is secured against certain assets of the Companies, being aircraft. Any deficiency would be after the realisation of those assets.
 - the second is leased aircraft, where the aircraft is actually the property of the lessor and would be a claim for any loss, they suffer under the lease arrangements in place.
- The estimate of the shortfall is our best estimate of:
 1. The level of owned aircraft which will be retained, and the secured debt rolled forward against those aircraft. The shortfall is our estimate of the shortfall on realisation of certain aircraft which will be incurred, resulting in an unsecured claim against the company. This is still being determined and there will be movement in this figure.
 2. Under the leases an estimate of the mitigated loss suffered by lessors whose aircraft are returned and the potential claim by lessors of retained aircraft for loss suffered, plus any pre appointment liability and any accruing liability during the administration.

12. Setting aside the liabilities that are being assumed by Bain, can you provide some details about how you have estimated the claims? Of particular interest are those contracts relying on certain "external" recoveries (e.g. operating leases with obligation to mitigate, aircraft financing where the claim is split between a secured claim up to the value of the asset and unsecured for the rest). What assumptions have been made?

The Chairperson commented:

- Ultimately these claims will be subject to an adjudication process. The adjudication process will match up with the Corporations Act on how an adjudication would be done in a liquidation, so there will be an opportunity for any aggrieved parties to object on how their claim has been adjudicated on.
- The Administrators have made an estimate for the report based on their reasonable expectation of potential claims. The exact criteria have not been disclosed in the report as the Administrators do not want to pre-dispose what they would deem as acceptable claims at this point.
- This will be a significant exercise, being the adjudication of claims for the purpose of the payment of a dividend, which may also include significant contested legal actions in respect to claims which may require a Court to assess and make determinations.

13. Your report clearly makes certain assumptions regarding creditors' return (9% to 13% under the DOCA). Can you provide additional information to assess the likely of the lower end of that range potentially being less than 9%.

The Chairperson responded:

- The ultimate return to creditors will depend on the level of creditor claims admitted for the purpose of the dividend.
- What the Administrators have done is sought to minimise the cash leakage of the funds available to unsecured creditors. They have done this by putting Bain on economic risk from 1 July. The business is trading at a loss and is expected to do so until completion occurs. If they had not, any delay to the completion, and the full cost of holding the business to now would have been borne by a reduction in the return to unsecured creditors. This is upside achieved for creditors.
- During the contract negotiations, the Administrators also sought for Bain to take on an additional \$35m in liabilities which relate to employee entitlements that have accrued during the administration period and unearned revenue for flights.

14. The upside on the Bain deal has been presented as simply linked to Virgin Australia achieving EBITDAR of \$1bn in FY22 and FY23. However, as described in the draft of the Contingent Value Entitlement Deed Poll, the payment is subject to more conditions and,

in particular, to the actual value of Available Operating Cash as defined in that Deed Poll. Given the construct of that definition, it is entirely in Bain's control to keep Available Operating Cash materially below its potential liability (and Bain can potentially have this amount negative). On that basis, how can this be presented as potential upside? To flag a few loopholes, Bain can enter into an agreement now with Virgin whereby an amount equal to the Available Operating Cash would become payable by Virgin if EBITDAR was above \$1bn in these 2 years. This would be considered an amount falling under paragraph 8 of that definition and therefore reduce the Available Operating Cash to zero. Bain could also voluntarily repay debt immediately prior to the test date to artificially force that amount to zero.

In response, the Chairperson noted:

- In relation to the upside of the deal as presented, there are some risks around the ability to receive the upside which is why the Administrators' assumed no upside in the low scenario in the Report. The Administrators' reasons for this are stated in the Report.
- The upside was not in the initial proposal received. The Administrators negotiated this in the 24 hours prior to signing the Bain transaction. This has always been seen as upside and the Administrators make specific comments in the Report with respect to this.
- This upside was not factor in selecting Bain as the successful party, it was simply the Administrators' attempt to achieve a better return for creditors.
- There are further protections against actions that would strip cash out of the business.
- Fundamentally, this is potential upside the Administrators are attempting to capture in the event the business can achieve the levels of earnings that have been foreshadowed.

Comments and questions submitted by the Australian Taxation Office (ATO):

- 1. Generally, the Commissioner will vote against any proposed DOCA which includes the use of a creditors' trust, as it can create additional risks for creditors bound by the deed of company arrangement.**

In response to these comments, the Chairperson disagreed with the position of the ATO and reiterating the commercial and practical benefits of using a creditors' trust mentioned earlier in the meeting.

He noted that how the ATO votes is a matter for them, whilst also noting that disappointing given the risks which completing a sale under ASA poses, and the risk of potential liquidation.

- 2. Under the Bain DOCA, the creditors' trust fund must be paid to the trustees of the creditors' trust as part of the completion steps of the Bain DOCA.**

The Chairperson noted that he understood this comment was around the perception of the risk that the monies may be lost between the DOCA and the creditors trust. He advised the Administrators have sought to mitigate that risk. The Administrators are the proposed Deed Administrators and trustees of the creditors' trust, and the funds will be paid to them for the benefit of creditors. He noted he has worked with this structure a number of times without issue, risk or complication.

- 3. Under the creditors' trust, can you ensure the COI of the Trust has the ability to approve fees?**

The Chairperson advised it was the intention for this to be the case, noting that otherwise there wouldn't be a normal fee approval mechanism in a creditors trust.

4. Where a DOCA proposal incorporates differential treatment of creditors, the Commissioner expects the administrator to provide an explanation and opinion on this in their report to creditors”

The Chairperson noted that creditors were advised that certain suppliers are considered critical as there are no alternative service providers and they are critical for the future of the airline to continue operating. The details of these critical suppliers are included in the Bain DOCA proposals which were posted on the Administrators' website last week.

5. As the administrators have already signed a binding contract for the sale of the business which can be completed either by way of a DOCA or through a liquidation process, it is not clear why it is necessary to give “critical” suppliers preferential treatment under the Bain DOCA. Accordingly, I would appreciate the administrators’ comments on this.

In response, the Chairperson advised that ultimately the proposals are put forward by Bain, whilst noting the DOCA proposals give a significantly better return to all creditors than if the sale is completed through an asset sale agreement, hence no creditor has been prejudiced against in the DOCA proposal.

He noted the impact on creditors due to the treatment of critical suppliers is only a 0.2% reduction in a return, so the impact is minimal and not a material impact on the distribution rates to unsecured creditors.

6. What is the role of the COI of the creditors’ trust?

The Chairperson reiterated that it is the Administrators intention to ensure the COI has the power to approve fees under the creditors' trust. In addition to this, he noted the COI is an important consultative body and the trustees will be able to seek their counsel when issues arise.

The Chairperson then opened the meeting to questions without notice.

Noel McCoy representing Perth Aircraft Leasing (UK) Limited sought clarification on the following:

1. In respect of the release of claims of secured creditors, can you confirm there is nothing in the proposed DOCAs that would prevent a secured creditor from realising or otherwise dealing with their security interest?

The Chairperson confirmed that is correct.

2. In respect of the conditions for completion of the DOCA, are the conditions for execution disclosed in the Report the only conditions for completion?

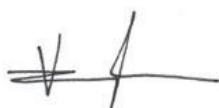
The Chairperson confirmed they are the only conditions; the rest had already been dealt with.

There were no further questions.

CLOSURE OF MEETING

The Chairperson thanked committee members for their attendance and declared the meeting closed at 12:23 PM (AEST)

Signed as a correct record.



CHAIRPERSON

**Virgin Australia Holdings Limited and Subsidiaries
(all Administrators Appointed)**

Meeting Details: Committee of Inspection (eighth meeting)

Meeting date, time and place: 31 August 2020, 11:00am AEST

Deloitte Financial Advisory Pty Ltd, Level 23, Riverside Centre, 123 Eagle Street Brisbane QLD 4000

| Committee Member | Name of Proxy/Representative | Proxy Type | Signature |
|-----------------------------------------------------|------------------------------|------------|--------------------------------------|
| FIIG Securities Limited | Thomas Jacquot | General | Attended via audio-visual conference |
| Association of Virgin Australia Group Pilots (VIPA) | John Lyons | General | Attended via audio-visual conference |
| Australian Council of Trade Unions (ACTU) | Michele O'Neil | General | Attended via audio-visual conference |
| Deputy Commissioner of Taxation | Gary Busby | General | Attended via audio-visual conference |
| Australian Federation of Air Pilots (AFAP) | Simon Lutton | General | Attended via audio-visual conference |
| Australian Licensed Aircraft Engineers (ALAEA) | Steve Purvinas | General | Attended via audio-visual conference |
| Australian Manufacturing Workers Union (AMWU) | Glenn Thompson | General | Attended via audio-visual conference |
| Australian Services Union (ASU) | Emeline Gaske | General | Attended via audio-visual conference |
| Dayna Field | | General | Attended via audio-visual conference |
| Flight Attendants Association of Australia (FAAA) | Teri O'Toole | General | Attended via audio-visual conference |
| Skywest Airlines Pilot Association (SALPA) | Paolo Casali | General | Attended via audio-visual conference |
| Northern Trust Asset Management | Leah Savageau | General | Attended via audio-visual conference |
| Transport Workers Union of Australia (TWU) | Michael Kaine | General | Attended via audio-visual conference |
| The Bank of New York Mellon | Jeremy Hollingsworth | General | Attended via audio-visual conference |
| Electrical Trades Union (ETU) | Matt Murphy | General | Attended via audio-visual conference |

**Virgin Australia Holdings Limited and Subsidiaries
(all Administrators Appointed)**

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Deloitte Financial Advisory Pty Ltd, Level 23, Riverside Centre, 123 Eagle Street Brisbane QLD 4000

| Committee Member | Name of Proxy/Representative | Proxy Type | Signature |
|---------------------------------------------------------|------------------------------|------------|--------------------------------------|
| Australia Pacific Airports (Melbourne) Pty Ltd | Shane O'Hare | General | Attended via audio-visual conference |
| AS Air Lease Holdings (Castlelake) | June Raj | General | Attended via audio-visual conference |
| Brisbane Airport Corporation Pty Ltd | Jim Parashos | General | Attended via audio-visual conference |
| Canberra Airport Pty Ltd | Stephen Carson | General | Attended via audio-visual conference |
| Gold Coast Airport Pty Ltd | Adam Rowe | General | Attended via audio-visual conference |
| Perth Airport Pty Ltd | Brian Pereira | General | Attended via audio-visual conference |
| Sydney Airport Corporation Limited | Dhruv Gupta | General | Attended via audio-visual conference |
| Velocity Rewards Pty Limited | Christopher Hill | General | Attended via audio-visual conference |
| Airframe Leasing (S) Pte. Ltd | Richard Wolanski | General | Attended via audio-visual conference |
| Dell Financial Services Pty Ltd | Cassie Douglas | General | Attended via audio-visual conference |
| JPA No. 123 Co., Ltd | Jason Opperman | General | Attended via audio-visual conference |
| Wilmington Trust Company (AerCap) | Alexander Wilson | General | Attended via audio-visual conference |
| Airline Cleaning Services Pty Ltd | David Baker | General | Attended via audio-visual conference |
| Alliance Airlines Pty Limited | Marc Devine | General | Attended via audio-visual conference |
| Boeing Training & Flight Services Australia Pty Limited | Edward Gomes | General | Attended via audio-visual conference |

**Virgin Australia Holdings Limited and Subsidiaries
(all Administrators Appointed)**

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Meeting date, time and place: 31 August 2020, 11:00am AEST

Deloitte Financial Advisory Pty Ltd, Level 23, Riverside Centre, 123 Eagle Street Brisbane QLD 4000

| Committee Member | Name of Proxy/Representative | Proxy Type | Signature |
|-------------------------------------|------------------------------|------------|--------------------------------------|
| Perth Aircraft Leasing (UK) Limited | Noel McCoy | General | Attended via audio-visual conference |
| Spotless Facility Services Pty Ltd | Jacob Gunzburg | General | Attended via audio-visual conference |
| Sabre GLBL Inc | Tony Troiani | General | Attended via audio-visual conference |
| Sargon CT Pty Ltd | Yvonne Kelaher | General | Attended via audio-visual conference |
| CWT Australia Pty Ltd | Wai Mun Wong | General | Attended via audio-visual conference |

LIST OF PERSONS PRESENT AT MEETING OF COMMITTEE OF INSPECTION

**Observer's Register for: Virgin Australia Holdings Limited and Subsidiaries
(all Administrators Appointed)**

Meeting Details: Committee of Inspection (eighth meeting)

Meeting date, time and place: 31 August 2020, 11:00am AEST

Deloitte Financial Advisory Pty Ltd, Level 23, Riverside Centre, 123 Eagle Street Brisbane QLD 4000

| Observer's name | Organisation | Signature |
|-------------------|----------------------------------------------------------------------------------|--------------------------------------|
| Henry Carr | Commonwealth of Australia represented by the Attorney-General's Department (FEG) | Attended via audio-visual conference |
| David Orr | Deloitte | Attended via audio-visual conference |
| Kathryn Evans | Deloitte | |
| Matthew Carr | Deloitte | Attended via audio-visual conference |
| Harry Bayard | Deloitte | Attended via audio-visual conference |
| Jillian Robertson | Clayton Utz | Attended via audio-visual conference |
| Tim Sacker | Clayton Utz | Attended via audio-visual conference |
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Deloitte.



Virgin Australia Holdings Limited, ACN 100 686 226
and certain subsidiaries
(all Administrators Appointed)
(the Companies or Virgin Group)

Eighth meeting of the Committee of Inspection
11:00am (AEST), Monday 31 August 2020

Agenda



Opening & welcome

- Attendance register

Report to Creditors

- Overview of the Bain offer
 - DOCA; and
 - Creditors Trust, purpose and benefit of using structure

Jobkeeper

Federal Court Orders

- Unions representation for employee at the 2nd meeting

Bond holder voting at the meeting

Questions and discussion

- Questions received in advance of the meeting
- Any other questions



Estimated return to creditors

Under the agreement with Bain we obtained:

1. Certainty of the continuation of Virgin as Australia's second domestic airline
2. Interim funding of \$125m to enable the business to continue to trade until completion of the transaction;
3. Bain assuming economic risk from 1 July;
4. Employee entitlements to be covered in full (>\$128m and <\$450m);
5. All travel credits/unearned travel revenue to be assumed in full (net \$400m);
6. Assumed \$35m of Administrators liabilities (including unearned revenue and accrued leave entitlements);
7. Cash contribution to a DOCA / Creditors Trust fund of between \$447.2m to \$572.2m
8. Plus expected Voluntary Administrators' excess cash estimated at between \$40.6m and \$14.8m
9. Payment Undertaking Deed of \$750m.

| The Group | Liquidation | | | | | |
|--------------------------------------------------------------------|-------------|-------|-------------------|-------|-----------------------|------|
| | Bain DOCAs | | 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 |



Creditors Trust practical and commercial benefits



Jobkeeper issues explained



Summary of Orders made by the Federal Court on Friday 21 August

| Matter | Summary of orders |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Industrial Association Orders | <p>Applicable to employees who are members of the following industrial associations:</p> <ul style="list-style-type: none">• Transport Workers' Union of Australia• Australian Municipal, Administrative, Clerical and Services Union• Flight Attendants' Association of Australia• The Australian Licenced Aircraft Engineers Association• Association of Virgin Australia Group Pilots (VIPA)• Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing and Allied Services Union of Australia• Automotive, Food, Metals, Engineering, Printing and Kindred Industries Union <p>Representatives of the above unions will automatically be appointed general proxy to members who have not, by midday 3 September 2020:</p> <ol style="list-style-type: none">a) appointed a proxy or power of attorney;b) already voted through the Halo platform; orc) registered to attend the second meeting of creditors. |



AUD unlisted Notes

- Voting by the beneficial holders of AUD Unlisted Notes is a matter for the Registered Holders or custodians of those Notes to manage, consistent with their governing instruments and own duties and responsibilities.
- As administrators whose duties are to the company and all of its creditors, we cannot determine the internal timeframes which Registered Holders impose upon their clients or beneficial noteholders and nor can we seek to modify a statutory timeframe solely to meet the convenience of one or even a group of creditors.
- Beneficial owners of Unlisted AUD Notes are of course entitled to attend the second meeting of creditors as observers.

Timetable for AUD listed and unlisted Notes

- Timetable outlined for all AUD listed and Unlisted notes:
 1. submit its proof of debt through the Halo platform by 5:00pm AEST on 28 August 2020; and
 1. submit its proxy and/or power or attorney through the Halo platform by 5:00pm AEST on 1 September 2020.



Bond holder voting at the meeting

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US Bonds Voting at 2nd meeting of creditors

| Noteholder category | Instrument | Note trustee | Value | Who has right to vote? | How will they vote? |
|---------------------------|---------------------------|-------------------------|------------------|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) USD 2016 senior notes | 7 October 2016 Indenture | Bank of New York Mellon | USD\$350 million | Noteholders | Noteholders will vote using the DTC system and results will be provided to us 2 business days in advance of the meeting to be incorporated into the Halo platform for the purpose of recording voting for the meeting. |
| (2) USD 2019 senior notes | 7 November 2019 Indenture | Bank of New York Mellon | USD\$425 million | | |

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Bond holder voting at the meeting

Deloitte.

US Bonds Key dates – 2nd meeting of creditors

| Key dates | Action item / event |
|-------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7 August 2020 at 5:00PM New York time | USD Senior Note Voting Record Date Master Ballots and Solicitation Packages Distributed to DTC Participants (the Master Ballot Agents) listed on the SPR as of the USD Senior Note Voting Record Date <ul style="list-style-type: none">• Including Beneficial Owner Ballots and Administrators' cover letter with summary of key events and dates• Distributed directly to DTC Participants to streamline the process and avoid delay• Akin Gump reached out to DTC Participants ahead of the 18 August distribution regarding the logistics and the timing of the voting process• The Beneficial Owner Ballots and Administrators' cover letter included directions for attending this call as well as accessing the s75-225 Report• The Master Ballot Agents will not separately distribute the s75-225 Report |
| Deadline to Return Beneficial Owner Ballots to the DTC Participants / Master Ballot Agent | <ul style="list-style-type: none">• This will have been set by the individual DTC Participants not the Administrators and should be in the instructions or cover email from each DTC Participant.• This deadline will be before the deadline the Master Ballot Agent has to return the Master Ballots to the Administrators so that the Master Ballot Agents can transcribe all of the Beneficial Owner Ballots onto the Master Ballot. |
| 1 September 2020 6:00PM New York time | Deadline to return the Master Ballots to the Administrators |
| 3 September 2020 8:00PM New York time / 4 September 2020 at 10:00AM Sydney time | Second Meeting of Creditors |

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FIIG Questions

1. What's the enterprise value underpinning the transaction with Bain?
2. Can you provide the details of each of the building blocks of that EV? In particular, what liabilities are being assumed by Bain? How much cash is actually paid to creditors? How much cash is Bain inheriting (i.e. currently in the business)?
3. How is the cash consideration paid to creditors funded by Bain? Debt or equity?
4. Can you provide further details regarding VAH's balance sheet on or about the date of your report? This should include the consolidated position of the entities subject to VA but also the consolidation position as historically reported (i.e. including Velocity).
5. Can you provide some details about current performance of Velocity? While I acknowledge Velocity is not part of the VA process, it remains nonetheless an asset of the group and Bain would have no doubt ascribed a value to the program.
6. Have you investigated why it would appear that the group has repaid about \$150m to Velocity in January and then, despite having significant headroom under the Velocity loan, it wasn't redrawn? This amount would have potentially made a very material difference to the VA outcome.



7. Can you provide more details on restricted cash? The \$338.5m highlighted in page 78 of your report implies it's not just Velocity and yet the footnote only refers to Velocity.
8. Why didn't you seek a creditor-led solution in parallel to the sale process? It would appear from the outside that you put your entire focus on getting a 3rd party to come with a solution for the business. Given an administrator is (simplistically) supposed to look after the interest of the creditors and further given the appointment of 2 highly experienced financial advisers (Houlihan Lokey and Morgan Stanley), one has to wonder why all these parties didn't develop a recapitalisation plan themselves and put it to creditors. In effect, a process very similar to what typically happens in the US for companies that have filed for Chapter 11 (and which Houlihan Lokey should be very familiar with, given the very extensive experience advising bondholders in such US cases).



9. With hindsight, it is very hard to reconcile the composition of the Committee of Inspection and actual exposure of the creditors. How can it be justified that employees receive 11 places on the COI, landlords 6 positions and trade creditors another 6 positions when the bondholders only receive 4 positions? This is completely unrepresentative of actual liabilities. Based on the ROCAP table on page 27 and 28, these 3 categories of creditor seem to represent claims of about \$667m but received 23 positions. Bondholders had claims of close to \$2bn and yet only 4 positions. This is even more difficult to reconcile when the Col is then expected to opine on certain resolutions (required a majority only) which are used as support to certain steps taken during the process.
10. Can you please clarify Table 7 on page 31? For the USD notes, principal is shown as a value that is lower than outstanding liability.
11. Can you provide additional details of the claims from aircraft financiers (falling in the category of Bank loan and finance leases in Table 6) and claims from operating leases? In particular, according to table 34, the first category have a deficiency claim of about 20% of total claim (\$336m-\$424m against \$1.826bn) but the second category has a deficiency claim of about 60% (\$1.105bn-\$1.175bn against \$1.894bn).



12. Setting aside the liabilities that are being assumed by Bain, can you provide some details about how you have estimated the claims? Of particular interest are those contracts relying on certain "external" recoveries (e.g. operating leases with obligation to mitigate, aircraft financing where the claim is split between a secured claim up to the value of the asset and unsecured for the rest). What assumptions have been made?
13. Your report clearly makes certain assumptions regarding creditors' return (9% to 13% under the DOCA). Can you provide additional information to assess the likely of the lower end of that range potentially being less than 9%.

14. The upside on the Bain deal has been presented as simply linked to Virgin Australia achieving EBITDAR of \$1bn in FY22 and FY23. However, as described in the draft of the Contingent Value Entitlement Deed Poll, the payment is subject to more conditions and, in particular, to the actual value of Available Operating Cash as defined in that Deed Poll. Given the construct of that definition, it is entirely in Bain's control to keep Available Operating Cash materially below its potential liability (and Bain can potentially have this amount negative). On that basis, how can this be presented as potential upside? To flag a few loopholes, Bain can enter into an agreement now with Virgin whereby an amount equal to the Available Operating Cash would become payable by Virgin if EBITDAR was above \$1bn in these 2 years. This would be considered an amount falling under paragraph 8 of that definition and therefore reduce the Available Operating Cash to zero. Bain could also voluntary repay debt immediately prior to the test date to artificially force that amount to zero.



ATO Questions and Statement

"Generally, the Commissioner will vote against any proposed DOCA which includes the use of a creditors' trust, as it can create additional risks for creditors bound by the deed of company arrangement"

Risks: Under the Bain DOCA, the creditors' trust fund must be paid to the trustees of the creditors' trust as part of the completion steps of the Bain DOCA – this is correct and mitigates the risks, although usually the Deed Administrator receives the funds so I don't see what the Commissioners issue is.

Creditors Trust – asked that we ensure the COI of the Trust has the ability to approve fees – noted, and yes it is intended that this be the case



ATO Questions and Statement

Critical suppliers average 14.4% versus other creditors 8.4% to 12.8%

“..where a DOCA proposal incorporates differential treatment of creditors, the Commissioner expects the administrator to provide an explanation and opinion on this in their report to creditors”

- we advised creditors certain suppliers have been considered critical because there are no alternative service providers and they are critical for the future of the airline to continue operating.
- Details are included in the Bain DOCA loaded onto the website Thursday last week.



Questions received ahead of the meeting



"As the administrators have already signed a binding contract for the sale of the business which can be completed either by way of a DOCA or through a liquidation process, it is not clear why it is necessary to give "critical" suppliers preferential treatment under the Bain DOCA. Accordingly, I would appreciate the administrators' comments on this."



Thank you for your attendance and participation.

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