

17 July 2020

TO THE CREDITORS

Dear Sir/Madam

**Virgin Australia Holdings Limited (ACN 100 686 226)
and the subsidiaries listed in Annexure A
(All Administrators Appointed)
(the Companies or Virgin Australia)**

Update on the Voluntary Administration of the companies and timetable to second meeting of creditors

Further to the first meeting of creditors held on 30 April 2020 and various other communications sent to creditors, we provide you with this update on the progress of the voluntary administration and the sale of the business.

1. Communication with the committee of inspection (COI)

Regular meetings have been held with the COI to provide them with an update on the status of the voluntary administration and sale process. Meetings with the COI have been held on:

- 1st meeting on 21st May 2020;
- 2nd meeting on 10th June 2020;
- 3rd meeting on 1st July 2020; and
- 4th meeting on 9 July 2020.

In addition to the COI we have also held meetings with a group of bondholders as representatives of that class of creditors referred to as the Noteholder Consultative Committee (NCC) as follows:

- 1st meeting on 28th May 2020;
- 2nd meeting on 11th June 2020; and
- 3rd meeting on 2nd July 2020.

2. Creditor position

From our review of the books and records of the Virgin Companies, we have identified the Companies have approximately 10,247 known creditors (including approximately 9,020 employees), not including customers entitled to credits for flights which were cancelled due to the pandemic.

The creditor groups can be broadly summarised as follows:

- secured lenders and aircraft financiers, who are owed approximately \$2,284 million;
- unsecured bondholders, who are owed approximately \$1,988 million;
- trade creditors, who are owed approximately \$167 million;
- aircraft lessors, who are owed approximately \$1,884 million (full value of future claims if their losses are not mitigated);
- landlords, who are owed approximately \$71 million;
- employees, who are owed approximately \$451 million (in the event of liquidation); and
- customers entitled to credits for flights which were cancelled due to the pandemic - contingently owed approximately (\$604 million).

3. Sale of the business

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 following factors:

- The significant cash constraints facing the Virgin 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; and
- The impact of the uncertainty of the future of the business on customers, financiers, business partners and the general market.

Working with our advisers we undertook the following steps in the sale process:

1. on 21 April 2020, we commenced contacting and interacting with interested parties;
2. on 27 April 2020 we opened a data room to enable parties to commence due diligence and issued an information memorandum for the sale process;
3. on 15 May 2020, we received several non-binding indicative offers/proposals (NBIOs) and, based on those offers, formed a shortlist of interested parties which, in our opinion, were the parties most likely to be able to make a credible offer for the business (**Shortlisted Bidders**);
4. we commenced a second phase of due diligence in the sale process and on 29 May 2020, we received five final NBIOs for from the Shortlisted Bidders. We did receive other NBIOs from other parties not in the sale process;
5. on 2 June 2020 we selected two final preferred bidders, comprising Bain Capital and Cyrus Capital Partners, L.P (**Cyrus Capital**), to proceed to a third phase of the sale process;
6. on and from 2 June 2020, we and our advisers were engaged in extensive negotiations with Bain Capital and Cyrus Capital in relation to all aspects of a proposed transaction, including the form of the documents to give effect to a transaction;
7. on 22 June 2020, we received final binding offers from Bain Capital and Cyrus Capital;
8. on 24 June 2020, we received a back-up 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 back-up recapitalisation proposal) from Broad Peak and Tor (BP&T, two holders of bonds);

9. on 26 June 2020, following our consideration and assessment of the competing proposals (with the assistance of our advisers), we accepted the offer submitted by Bain Capital.

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

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

An additional proposal to that from Bain Capital and Cyrus Capital was received, which we considered. However, it 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.

Based on all of the information available to us, we concluded that the Bain Capital offer was the best offer received, including, because it:

1. provided certainty of a transaction being completed;
2. provided immediate funding required to continue to trade the business; and
3. resulted in the best outcome for the Companies' creditors (including its employees) as a whole.

On 26 June 2020, we signed binding transaction documents for the sale of the business to Bain Capital and as such we are not able to accept any alternate offer for sale, and they are committed to buying the business.

On 9 July the COI was taken through the sale process and provided with detail as to the steps the Administrators had taken in the sale process. At the conclusion of the COI meeting a resolution in respect to the sale was passed:

"...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".

The current position is as follows:

- the Administrators continue to trade the business as usual until completion of the sale transaction; and
- economic risk for the business passed to Bain Capital from 1 July 2020, underpinned by interim funding of \$125m which has been provided by Bain Capital, which is to be used to trade the business from 1 July 2020 to completion of the sale transaction.

Under the sale transaction with Bain Capital the following will occur:

- employee entitlements to be covered in full. Continuing employees' entitlements are assumed by Bain Capital and any employees not continuing will receive a payout of their entitlements including redundancy entitlements in full. In the event of a liquidation these costs have been estimated at \$450 million;
- all travel credits/unearned travel revenue to be assumed in full;
- assumption of the Virgin Australia Airlines Holdings Pty Limited loan from the Velocity business of \$150 million;

- will take on / assume certain existing contractual and financial arrangements of Virgin Australia;
- will provide a significant amount of cash funding to enable a dividend to be paid to unsecured creditors; and
- will provide sufficient capital for the airline to strengthen the balance sheet of Virgin Australia, which will facilitate the ramp up of operations as the COVID restrictions ease.

We are currently in the process of working with the Virgin Australia management team and Bain Capital to restructure the business for future operations, which are expected to be significantly progressed but not finalised prior to the second meeting of creditors (anticipated to be held on 26 August 2020).

The actual return to creditors will be advised to creditors in our report to creditors expected to be issued on 19 August 2020, ahead of the second creditors meeting.

4. Trading of the business

On our appointment, while there was significant cash in the business, this cash was withheld by the financial institutions (**Restricted Cash**), who were seeking to off-set the cash against debts owed to them or exposures they had to the Companies. This meant we did not have any unrestricted available cash on day one of our appointment, requiring us to seek funding from the group's lending institutions to enable the payment of wages in the first week of our appointment.

We subsequently negotiated the release of some of the Restricted Cash that had been withheld by financial institutions, which has enabled us to trade the business while we urgently sought a sale and/or recapitalisation of the business through to 30 June 2020.

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 circa \$200 million. We, together with the Virgin Australia management team have been able to significantly further reduce the holding and trading costs of the business, mainly due to the support of stakeholders who have been 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; and
 - access to the Federal Government JobKeeper scheme.
- Financiers to the business:
 - Court Orders have been obtained to extend the period until we become personally liable to pay certain costs associated with property occupied by, or in the possession of, the companies;
 - aircraft protocols 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; and
 - financiers' agreement to release restricted cash to provide liquidity to the business.
- Landlords and trade suppliers:
 - agreement with landlords for rental support; and
 - continued services from service providers and operating partners despite significant arrears of payments for services.

- Federal Government support:
 - aviation industry support package; and
 - underwritten flights schedule and international supported repatriation and cargo flights.

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).

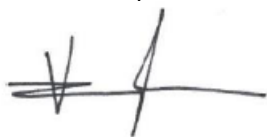
5. Next steps

We anticipate the following timetable in the next phase of the voluntary administration:

- **12 August 2020:** we expect to receive a Deed of Company Arrangement (**DOCA**) proposal from Bain Capital;
- **19 August 2020:** we expect to provide our Report to Creditors together with the notice of the second creditors meeting (convened pursuant to section 439A of the Corporations Act); and
- **26 August 2020:** expected date of the second creditors meeting.

While we have agreed a sale of the business to Bain Capital, they are obliged to submit to us a proposal on 12 August 2020, which if approved by creditors at the second meeting, will provide a better return to unsecured creditors than if the sale is completed through the asset sale transaction. Details of the transaction, DOCA, return to creditors and our recommendation to creditors will be included in our report to creditors.

Yours faithfully

A handwritten signature in black ink, appearing to read 'V. Strawbridge', written over a horizontal line.

Vaughan Strawbridge
Joint and Several Administrator

Annexure A

No.	Name	Date of appointment	ACN
1	Virgin Australia Holdings Ltd	20-Apr-20	ACN 100 686 226
2	Virgin Australia Airlines Pty Ltd	20-Apr-20	ACN 090 670 965
3	Virgin Australia International Airlines Pty Ltd	20-Apr-20	ACN 125 580 823
4	Virgin Australia Regional Airlines Pty Ltd	20-Apr-20	ACN 008 997 662
5	Tiger Airways Australia Pty Limited	20-Apr-20	ACN 124 369 008
6	737 2012 No. 2 Pty Ltd	20-Apr-20	ACN 154 225 064
7	737 2012 No.1 Pty. Ltd.	20-Apr-20	ACN 154 201 859
8	A.C.N. 098 904 262 Pty Ltd	20-Apr-20	ACN 098 904 262
9	Short Haul 2014 No. 1 Pty Ltd	20-Apr-20	ACN 600 809 612
10	Short Haul 2014 No. 2 Pty Ltd	20-Apr-20	ACN 600 878 199
11	Short Haul 2016 No. 1 Pty Ltd	20-Apr-20	ACN 612 766 328
12	Short Haul 2016 No. 2 Pty Ltd	20-Apr-20	ACN 612 796 077
13	Short Haul 2017 No. 1 Pty Ltd	20-Apr-20	ACN 617 644 390
14	Short Haul 2017 No. 2 Pty Ltd	20-Apr-20	ACN 617 644 443
15	Short Haul 2017 No. 3 Pty. Ltd.	20-Apr-20	ACN 622 014 813
16	Short Haul 2018 No. 1 Pty. Ltd.	20-Apr-20	ACN 622 014 831
17	Tiger International Number 1 Pty Ltd	28-Apr-20	ACN 606 131 944
18	VA Borrower 2019 No. 1 Pty Ltd	20-Apr-20	ACN 633 241 059
19	VA Borrower 2019 No. 2 Pty Ltd	20-Apr-20	ACN 637 371 343
20	VA Hold Co Pty Ltd	20-Apr-20	ACN 165 507 157
21	VA Lease Co Pty Ltd	20-Apr-20	ACN 165 507 291
22	VA Regional Leaseco Pty Ltd	20-Apr-20	ACN 127 491 605
23	VAH Newco No.1 Pty Ltd	20-Apr-20	ACN 160 881 345
24	VB 800 2009 Pty Ltd	20-Apr-20	ACN 135 488 934
25	VB Leaseco No 2 Pty Ltd	20-Apr-20	ACN 142 533 319
26	VB Leaseco Pty Ltd	20-Apr-20	ACN 134 268 741
27	VB LH 2008 No. 1 Pty Ltd	20-Apr-20	ACN 134 280 354
28	VB LH 2008 No. 2 Pty Ltd	20-Apr-20	ACN 134 288 805
29	VB PDP 2010-11 Pty Ltd	20-Apr-20	ACN 140 818 266
30	VB Ventures Pty Ltd	20-Apr-20	ACN 125 139 004
31	VBNC5 Pty Ltd	20-Apr-20	ACN 119 691 502
32	Virgin Australia 2013-1 Issuer Co Pty Ltd	20-Apr-20	ACN 165 507 326
33	Virgin Australia Airlines (SE Asia) Pty Ltd	20-Apr-20	ACN 097 892 389
34	Virgin Australia Airlines Holdings Pty Ltd	20-Apr-20	ACN 093 924 675
35	Virgin Australia Cargo Pty Ltd	20-Apr-20	ACN 600 667 838
36	Virgin Australia Holidays Pty Ltd	20-Apr-20	ACN 118 552 159
37	Virgin Australia International Holdings Pty Ltd	20-Apr-20	ACN 155 860 021
38	Virgin Australia International Operations Pty Ltd	20-Apr-20	ACN 155 859 608
39	Virgin Tech Pty Ltd	20-Apr-20	ACN 101 808 879