

Information Statement

for shareholders of Virgin Australia Holdings Limited

Proposed New Structure of Virgin Australia Holdings Limited
(ACN 100 686 226)

by way of an in specie dividend of shares in
Virgin Australia International Holdings Pty Ltd (ACN 155 860 021)

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Overview

On 23 February 2012 Virgin Australia Holdings Limited (**VAH**) announced a proposed new structure for VAH's international airline operations (**New Structure**). This document is an Information Statement that describes the New Structure in more detail.

VAH's entire business became subject to the 49% foreign ownership restrictions under the Air Navigation Act (**ANA**) when its international airline operations were launched in 2004. Foreign ownership has traditionally been well below the 49% cap, however, over the last 12 months the level of foreign ownership has been sitting only marginally below 49%. Accordingly, VAH has proposed the New Structure following a review of the available options to ensure ongoing compliance with the foreign ownership restrictions under the ANA.

The New Structure involves creating a new unlisted entity, Virgin Australia International Holdings Pty Ltd (**VAIH**), which will be the holding company for the International Airline Business. VAIH will:

- be owned by existing VAH shareholders and the majority of directors on its board will be independent;
- be comprehensively serviced and funded by VAH, and therefore will not involve any visible changes from a consumer perspective; and
- ensure there is no change from a staff perspective or the day to day running of the airline operations.

The New Structure will be effected by way of an in specie distribution of VAIH Shares to VAH Shareholders on a 1:1 basis (**In Specie Dividend**) if certain conditions are satisfied or waived by VAH.

The VAH board of directors and management believe that the New Structure is the best option for VAH and its stakeholders. The New Structure offers several benefits for VAH, including that it:

- ensures ongoing compliance with the foreign ownership requirements of the ANA;
- releases the domestic airline operations of VAH from the foreign ownership requirements of the ANA;
- facilitates overseas institutional investment in the domestic airline operations, which will improve the liquidity of VAH and in turn enhance shareholder value;
- requires limited changes to the actual day to day operations of VAH, both domestically and internationally; and
- is not expected to have any additional tax consequences for its shareholders through the In Specie Dividend.

It is important to note that whilst the two businesses will have different shareholders in the future, they will continue to have a close working relationship. Central to this relationship will be a long term Service Agreement between VAIH and VAH. Under the terms of the Service Agreement, VAH will provide to VAIH all of the services it will require to operate as an international airline. In addition, VAH will have representation on the board of VAIH, will support VAIH financially through a loan agreement and will hold a small shareholding (expected to be less than 1%) in VAIH. These arrangements are significant in several regards:

- VAH's customers, employees and suppliers will experience no changes as a result of the separation;
- they will ensure that two operating structures are not created to effect the separation, thus ensuring synergies between the two businesses are retained for the benefit of shareholders; and
- VAIH will have the ongoing long term financial support of VAH in the event that it requires such assistance.

Foreign investors should note that, as set out above, the foreign ownership levels of VAH are sitting only marginally below 49%. If foreign investors acquire shares in VAH before the Ex-Date for the In Specie Dividend, and as a result foreign ownership levels in VAH exceed 49%, those shareholders may be required to dispose of their interest in VAIH Shares under the cure mechanism in the VAIH Constitution (see Questions and Answers and Section 4.1(e) for details).

Key Dates

VAH has announced an intention to determine and distribute the In Specie Dividend, subject to the satisfaction or waiver by VAH of certain conditions (see Section 1.4 for further details).

Subject to the satisfaction or waiver of those conditions, VAH intends to determine, announce and distribute the In Specie Dividend in accordance with the dates outlined below. An announcement will be made by VAH to ASX if the In Specie Dividend is determined by VAH.

All dates and times are indicative only. VAH reserves the right to vary these dates and times.

All times in this Information Statement refer to AEST.

VAH will make an announcement to the ASX regarding any changes to these dates and times should they occur.

Announcement of intention to determine In Specie Dividend, subject to conditions	23 February 2012
Information Statement lodged with ASX	23 February 2012
Determination and announcement of In Specie Dividend (if conditions are satisfied or waived)	16 March 2012 (or such later date as announced on ASX by VAH not later than 3 business days prior to 21 March 2012)*
Ex-entitlement Date for In Specie Dividend	21 March 2012 (or third business day after determination and announcement of In Specie Dividend)
Record Date for In Specie Dividend	27 March 2012 (or seventh business day after determination and announcement of In Specie Dividend)
Distribution Date for In Specie Dividend	28 March 2012 (or first business day after Record Date for In Specie Dividend)

*See Section 1.4 for further details.

QUESTIONS AND ANSWERS

Question	Answer	Section
Why is VAH proposing the New Structure?	<p>The New Structure is intended to separate the ownership and control of the International Airline Business from VAH so that VAH Shareholders are able to trade in their VAH Shares without being subject to the foreign ownership restrictions under the ANA whilst ensuring ANA compliance by the International Airline Business.</p> <p>The reason for the intended separation is because VAH is subject to Australian regulatory requirements under the ANA that limits the foreign ownership of Australian international airlines to 49%. VAH's foreign ownership levels have been marginally below 49% for some time and as a result VAH has been investigating options to ensure ongoing compliance with the ANA.</p>	1.2, 1.3, 2.5
How will the New Structure be effected?	If certain conditions are satisfied or waived by VAH, the New Structure will be effected by VAH making the In Specie Dividend, which involves an in specie distribution of VAIH Shares to the Trustee, the beneficiaries of which will be Eligible VAH Shareholders. VAIH has been incorporated for the purpose of holding the International Airline Business.	1.3, 1.4
What is the In Specie Dividend?	<p>Subject to the satisfaction or waiver by VAH of certain conditions, Eligible VAH Shareholders will receive a beneficial interest in one VAIH Share for every VAH Share held as at the Record Date.</p> <p>As a result, you will have an investment in VAH and a separate beneficial interest in VAIH if the In Specie Dividend is distributed.</p>	1.4
Is the decision to determine and distribute the In Specie Dividend subject to conditions?	<p>Yes, the decision to determine and distribute the In Specie Dividend is subject to various conditions. If those conditions are not satisfied or waived by VAH, the In Specie Dividend will not be determined or distributed.</p> <p>The determination and announcement date for the In Specie Dividend may be extended by VAH by providing prior notice to ASX.</p>	1.4
What is the role of the Trustee?	<p>Eligible VAH Shareholders will hold their interest in VAIH through the Trustee.</p> <p>Accordingly, the Trustee will be the legal owner of VAIH Shares, and Eligible VAH Shareholders will be the beneficial owners of the VAIH Shares.</p>	1.4, 4.2
What is VAIH?	VAIH is a proprietary limited company incorporated under the laws of Queensland, Australia. It was established as a wholly owned subsidiary of VAH Sub (being a wholly owned subsidiary of VAH) for the purpose of holding the International Airline Business.	2

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Question	Answer	Section
What will the relationship be between VAH and VAIH after the New Structure?	<p>Following the implementation of the New Structure, VAIH will not be controlled by, or be a Related Body Corporate of, VAH. However, VAH will continue to provide long term economic and operational support to VAIH.</p> <p>It is intended that VAH and VAIH will remain closely affiliated under the New Structure through the following arrangements:</p> <ul style="list-style-type: none"> • under the terms of the Service Agreement, VAIH will appoint VAA to exclusively manage all of VAIH Group's operations. This long term agreement will ensure that VAIH has access to all the resources (including aircraft, management personnel and expertise) it requires to carry on the International Airline Business; • VAA will also make funds available to VAIH under the Loan Agreement to ensure that VAIH has access to sufficient funding to carry on the International Airline Business; and • VAH Sub will retain a small shareholding in VAIH, and will be entitled to appoint two of five directors to the VAIH Board. 	1.2, 4.3, 4.4
What do I need to do?	You do not need to do anything, nor do you need to pay anything, for the beneficial interests in VAIH Shares that you will receive.	1.4
What is the value of the In Specie Dividend?	The deemed value of the In Specie Dividend is \$0.000001 per VAH Share. However, Eligible VAH Shareholders do not need to pay anything for the beneficial interests in VAIH Shares they will receive.	1.4
What if I do not want the In Specie Dividend?	If you hold VAH Shares as at 7.00pm AEST on the Record Date, you will receive a beneficial interest in one VAIH Share for every VAH Share held through the In Specie Dividend.	Key dates, 1.4
Can I sell my VAH Shares and still retain my interest in VAIH Shares?	Yes, you can sell your VAH Shares. However, your interest in VAIH Shares is non-transferable, except in very limited circumstances (see below).	1.4, 4.2
Can I offer my interest in VAIH Shares for sale?	<p>Your interest in VAIH Shares is non-transferable, except for very limited circumstances including:</p> <ul style="list-style-type: none"> • transmission on death, mental incapacity, insolvency or to ensure compliance with the ANA. • transfer to VAH Sub (its nominee or a nominee approved by VAH Sub) on terms agreed by you and VAH Sub (subject to compliance with the ANA). <p>However, where an Eligible VAH Shareholder holds</p>	1.4, 4.2

Question	Answer	Section
	<p>VAH Shares as at the Record Date in its capacity as a nominee or custodian for another person or through a trustee in connection with a VAH employee share plan, any such person may be recorded as the beneficial holder for the VAIH Shares.</p>	
<p>What if a shareholder is not permitted to hold shares in an unlisted entity?</p>	<p>For a period of 60 days from the Distribution Date, shareholders will be permitted to transfer their beneficial interests in VAIH Shares to VAH Sub (or its nominee) at the deemed price of \$0.000001 per share, provided that:</p> <ul style="list-style-type: none"> • VAH is reasonably satisfied that the relevant shareholder is not permitted to hold interests in VAIH Shares; and • any such transfer would not result, or be reasonably likely to result in the ownership of VAH Sub and Foreign Persons in VAIH exceeding (in aggregate) 49%. <p>This means that such shareholders will not be required to dispose of their VAH Shares prior to the Ex-entitlement Date for the In Specie Dividend.</p>	4.2(c)
<p>What are the material risks of holding beneficial interests in VAIH Shares?</p>	<p>As VAIH Shares are considered to have minimal value, beneficial holders of VAIH Shares should not expect to receive any distributions of income or capital from VAIH. In addition, for so long as there are amounts outstanding under the Loan Agreement, VAIH is required to pay to VAA (as lender) any surplus amount of cash held by VAIH at the end of each month for the purpose of making repayments under the terms of the Loan Agreement.</p> <p>There may be tax consequences (see below).</p>	4.4(f)
<p>How is the In Specie Dividend treated for tax purposes?</p>	<p>VAH is of the opinion that the dividend will be considered a demerger dividend, and will therefore not form part of your assessable income.</p> <p>Consequently, VAH does not believe you will need to declare the dividend in your income tax return.</p> <p>The Commissioner of Taxation may determine to treat all or part of the dividend as assessable income. In the unlikely event that the Commissioner of Taxation seeks to treat the dividend as assessable income to you, you should contact VAH's Investor Relations team immediately, to seek advice on the most appropriate course of action for you.</p>	3
<p>Will investors resident outside Australia receive beneficial interests in VAIH Shares?</p>	<p>Yes. Investors resident outside Australia will receive beneficial interests in VAIH Shares if they hold VAH Shares as at 7.00pm AEST on the Record Date.</p>	Key Dates

Question	Answer	Section
<p>What happens if VAIH exceeds the 49% cap on foreign ownership?</p>	<p>The VAIH Constitution will contain mechanisms to remedy any breach of the foreign ownership restrictions that may occur from time to time. These mechanisms will include a power vested in the VAIH Directors to procure the disposal of VAIH Shares.</p> <p>Immediately following the Distribution Date, VAIH will undertake a foreign ownership analysis to determine the exact extent of its foreign ownership. If this analysis indicates that foreign ownership in VAIH exceeds 49%, the VAIH Directors will invoke the mechanisms in the VAIH Constitution to reduce foreign ownership in VAIH. This may mean that some foreign Eligible VAIH Shareholders will be required to dispose of their interests in VAIH Shares.</p> <p>In order to determine which shares are required to be disposed of the VAIH Directors will have regard to the chronological order in which Foreign Persons acquired a relevant interest in VAIH Shares prior to the Record Date on the basis that VAIH Shares held by the Trustee on behalf of an Eligible VAIH Shareholder, who acquired a relevant interest in the last registered VAIH Shares, are the first to be treated as requiring disposal.</p>	4.1(e)
<p>Will VAIH be listed on a stock exchange?</p>	<p>No. It is intended that VAIH will be an unlisted proprietary limited company.</p>	
<p>What will be the impact on employees and operations?</p>	<p>Due to the Service Agreement, there will be no visible change to the day-to-day operations of the International Airline Business. Under the Service Agreement, VAIH employees will continue to operate international flights on behalf of VAIH.</p>	4.3
<p>Who will be on the VAIH Board following the New Structure?</p>	<p>The VAIH Board will be comprised of five non-executive directors of which two will be nominees of VAIH (indirectly, through VAIH Sub) and three will be independent of VAIH, including the chairman. Management personnel for VAIH will be provided pursuant to the Service Agreement.</p>	2.4

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1. DETAILS OF THE NEW STRUCTURE

1.1 Introduction

This Information Statement has been prepared for the information of VAH Shareholders in connection with the New Structure.

1.2 Background to the New Structure

VAH is subject to Australian regulatory requirements under the ANA that limits the foreign ownership of Australian international airlines to 49%. More details regarding restrictions on ownership and control of Australian international airlines are set out in Section 2.5. VAH's foreign ownership levels have been marginally below 49% for some time, and as a result VAH has been investigating options to ensure ongoing compliance with the ANA.

The current structure of VAH is such that VAH's international and domestic businesses are effectively subject to the restrictions under the ANA. The New Structure is intended to separate the ownership and control of the International Airline Business from VAH so that VAH Shareholders are able to trade in their VAH Shares without being subject to the foreign ownership restrictions under the ANA whilst ensuring ANA compliance by the International Airline Business. Further details of the New Structure are set out in Section 1.3.

1.3 Overview of the New Structure

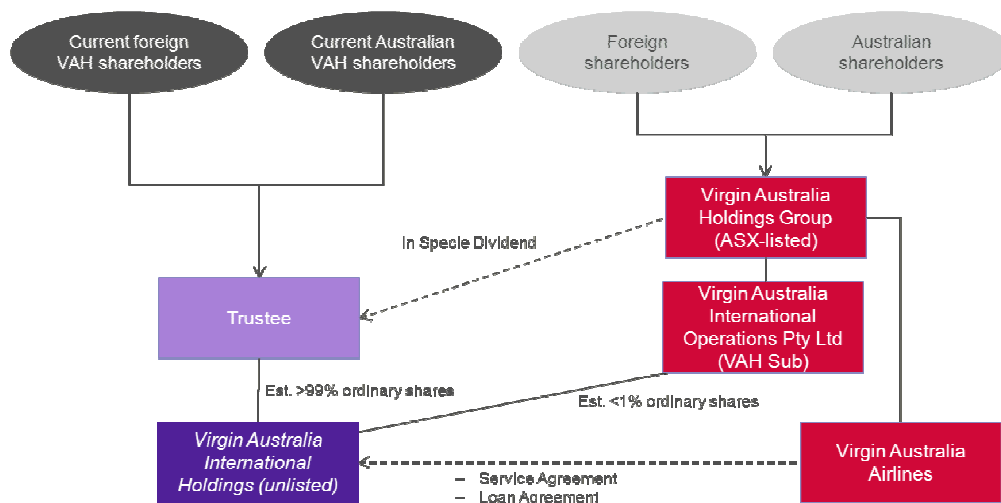
The New Structure involves the separation of the International Airline Business from VAH, and will be implemented through an in specie dividend of shares in VAIH. VAIH has been incorporated for the purpose of holding the International Airline Business. Further information on the In Specie Dividend is set out in Section 1.4.

Following the New Structure, VAH (through its wholly owned subsidiary, VAA) will continue to provide long term economic and operational support to VAIH under the terms of the Service Agreement and the Loan Agreement. These agreements are designed to ensure VAIH has access to all of the resources and funding it requires to continue to carry on the International Airline Business. Further details of these agreements are set out in Sections 4.3 and 4.4.

Another important feature of the New Structure is that the shares distributed under the In Specie Dividend will be bought back by VAIH no later than the business day prior to the 25th anniversary of the Distribution Date, and there is flexibility for the structure to be unwound at an earlier date in certain circumstances where to do so would be compliant with the ANA. The VAIH Constitution sets out the circumstances in which VAIH will buy back the VAIH Shares held by all VAIH Shareholders other than VAH Sub. Further details on the buy back provisions are set out in Section 4.1(i).

1.4 Information on the In Specie Dividend

The New Structure will be effected pursuant to the In Specie Dividend, which involves an in specie distribution of VAIH Shares to VAH Shareholders on a 1:1 basis. The shares will be vested in the Trustee to hold beneficially for Eligible VAH Shareholders. VAH will retain a small shareholding in VAIH (indirectly, through its wholly owned subsidiary, VAH Sub). The structure of VAH and VAIH following implementation of the New Structure will be as follows:



VAH has announced an intention to determine and distribute the In Specie Dividend subject to fulfilment or waiver by VAH of certain conditions. The conditions precedent to the determination and distribution of the In Specie Dividend are:

- no temporary restraining order, preliminary or permanent injunction or other order of any court of competent jurisdiction or public authority is issued or in effect which prohibits, materially restricts, makes illegal or restrains the implementation of the New Structure in accordance with its terms and no matter, event or circumstance occurs which might reasonably be expected to have a material adverse impact on the ability of VAA (SE Asia), VAA (NZ) or VAIA to continue to operate the International Airline Business in the ordinary course; and
- obtaining the consent, waiver or approval (as applicable) of relevant counterparties to change of control or similar provisions in material contracts, leases and other relevant agreements or documents to which VAH or a member of the VAH Group is a party which may be triggered by the New Structure.

This means that

- VAH will not be obliged to determine, announce or distribute the In Specie Dividend if the conditions precedent are not satisfied or waived by VAH.
- If the In Specie Dividend is not determined and distributed by VAH, Eligible VAH Shareholders will not receive any beneficial interests in VAIH Shares and VAIH will remain a wholly owned subsidiary of VAH (indirectly, through VAH Sub).

Subject to the satisfaction or waiver by VAH of the conditions outlined above, the proposed date for the determination and announcement of the In Specie Dividend is 16 March 2012. However, VAH has reserved the right to extend this date to a later date as announced to ASX not later than 3 business days prior to 16 March 2012. Without limiting the circumstances in which VAH may extend this, it may do so having regard to the status of the satisfaction of the conditions precedent to the determination and distribution of the In Specie Dividend.

If you hold VAH Shares as at 7.00pm AEST on the Record Date, you will (subject to the satisfaction or waiver of the conditions) receive beneficial interests in VAIH Shares through the In Specie Dividend.

You do not need to do anything, nor do you need to pay anything, for the beneficial interests in VAIH Shares that you will receive.

(a) **Financial position of VAIH Group and deemed value of Dividend Shares**

VAH has made significant investment in its international airline business, including the funding of development, launch and losses to date. This investment is currently an intra-group debt, owed by the International Airline Business to VAH. As the manager of VAIH's airlines, VAH will be charging VAIH on an arm's length basis for the leasing of all its aircraft operated by VAIH and management services provided. This is expected to lead to VAIH being loss-making in the initial period.

On the Distribution Date the existing intercompany debt of the International Airline Business will be refinanced under Facility A of the Loan Agreement (see section 4.4), and is reflected as a liability in the pro-forma balance sheet of the VAIH Group (see section 1.4(b) below).

To provide some financial stability for the VAIH Group, and to provide VAIH with a prepaid asset to assist its cashflow position, VAH will undertake a recapitalisation of the balance sheet of the international operations prior to the Distribution Date. This recapitalisation will include:

- VAH subscribing for the Dividend Shares for a subscription price of \$330 million; and
- VAIH applying the proceeds of the equity subscription to make a prepayment for future services under the Service Agreement. This \$330 million prepayment is reflected as an asset in the pro-forma balance sheet of the VAIH Group (see section 1.4(b) below). This \$330 million amount will reduce over time based on an agreed repayment profile under the Service Agreement, with \$200 million to be allocated over the first 10 years of the Service Agreement and the remaining \$130 million over 25 years.

As a result of the recapitalisation of the balance sheet of the international operations, it is anticipated that the VAIH Group will have a net asset position of approximately zero on the Distribution Date. This financial position is based on information available to VAH as at 23 February 2012. Although there may be some change in the amounts of the individual line items in the pro-forma balance sheet, it is not expected that there will be any material change in the overall net asset position of the VAIH Group on the Distribution Date.

As a result of the expected financial position of the VAIH Group, the Dividend Shares are considered to have minimal value due to the following factors:

- the estimated financial position of the VAIH Group on the Distribution Date;
- the amount of the loan from VAA to VAIH under the Loan Agreement; and
- the short term operating losses forecast for the International Airline Business.

Please note that as VAIH Shares are considered to have minimal value, Eligible VAH Shareholders should not expect to receive any distributions of income or capital from VAIH. In addition, for so long as there are amounts outstanding under the Loan Agreement, VAIH is required to pay to VAA (as lender) any surplus amount of cash held by VAIH at the end of each month for the purpose of making repayments under the terms of the Loan Agreement (see Section 4.4(f)).

The VAH Board proposes to assign a nominal value to VAIH shares (\$0.000001 per share) on the implementation date. The deemed value is based on an analysis of the expected financial position of the VAIH Group on the Distribution Date,

expected future cash flows and the strategic value of the International Airline Business. This means that the aggregate value of the In Specie Dividend will be approximately \$2,210.

(b) **Indicative Opening Financial position of the VAIH Group**

	\$m
Cash & Cash Equivalents	83
Prepayment - Management Services	25
Receivables, Inventories, Other Prepayments	63
TOTAL CURRENT ASSETS	171
Prepayment - Management Services	305
DTA	30
TOTAL NON CURRENT ASSETS	335
TOTAL ASSETS	506
Total Payables	106
Unearned Revenue	174
Other	(1)
TOTAL CURRENT LIABILITIES	279
Debt	200
Other	27
TOTAL NON CURRENT LIABILITIES	227
TOTAL LIABILITIES	506
NET ASSETS	0

(c) **Share distribution and entitlement ratio**

Subject to VAH determining and distributing the In Specie Dividend, the VAH Directors propose to determine that Eligible VAH Shareholders will receive a beneficial interest in one VAIH Share for every VAH Share held on the Record Date.

(d) **The In Specie Dividend**

In Specie Dividend will consist of 2,210,197,600 VAIH Shares with a value of approximately \$0.000001 per VAH Share. VAH will retain (indirectly through VAH Sub) its shareholding. Following implementation of the New Structure, VAIH will have 2,210,197,601 shares on issue.

(e) **Taxation consequences of the In Specie Dividend for VAH Shareholders**

VAH is of the opinion that the In Specie Dividend will be considered a demerger dividend, and will therefore not form part of your assessable income. Consequently, VAH believes that you will not need to declare the dividend in your income tax return. The Commissioner of Taxation may determine that all or part of the dividend as assessable income. In the unlikely event that the Commissioner of Taxation seeks to treat the dividend as assessable income to you, you should contact VAH's Investor Relations team immediately, to seek advice on the most appropriate course of action for you.

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2. INFORMATION ON VAIH

2.1 Introduction

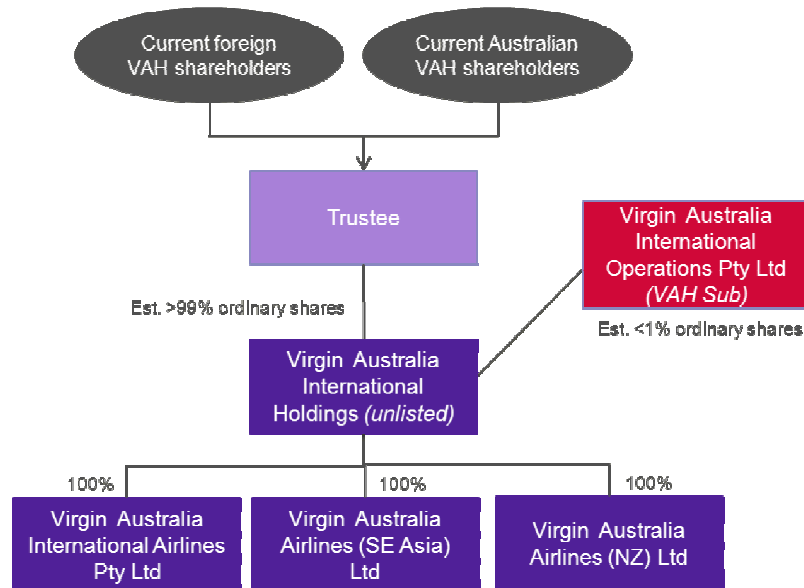
VAIH is a proprietary company and was incorporated under the laws of Queensland, Australia. VAIH is currently a wholly owned subsidiary of VAH Sub and was established for the purpose of holding the International Airline Business. Further information regarding the International Airline Business is set out in Section 2.3.

2.2 Ownership structure of VAIH

As at the date of this Information Statement, the issued share capital of VAIH is one ordinary share held by VAH Sub. VAIH will also issue 2,210,197,600 ordinary shares to VAH, which will be distributed under the In Specie Dividend.

As at the Distribution Date, the shareholders of VAIH will be VAH Sub and the Trustee. On the Distribution Date, 2,210,197,601 VAIH Shares will be transferred to the Trustee under the In Specie Dividend, to hold beneficially for Eligible VAH Shareholders on a 1:1 basis. VAH Sub will retain the balance of VAIH Shares.

The structure of VAIH Group as at the Distribution Date will be as follows:



The relationship between VAIH, VAIH Shareholders and the Eligible VAH Shareholders will be regulated by the VAIH Constitution and the Trust Deed. In particular, these documents have been designed to ensure ongoing compliance with the ANA, including by limiting ownership of VAIH by Foreign Persons to the level prescribed by the ANA. The material provisions of the VAIH Constitution and the Trust Deed are summarised in Sections 4.1 and 4.2, respectively.

2.3 Overview of VAIH's businesses

VAIH will be the holding company for VAA (SE Asia), VAA (NZ), and VAIA, which carry on the International Airline Business. VAA (SE Asia), VAA (NZ) and VAIA each hold the international airline licences necessary for the operation of the International Airline Business.

VAIH will be the holding company for the International Airline Business and for so long as the Service Agreement is in place VAIH will operate under the Virgin Australia branding.

The international business comprises of a short-haul and long-haul division, which currently flies to 17 international destinations including Los Angeles, Abu Dhabi, New Zealand, Fiji, Vanuatu, Tonga and Cook Islands. The short haul operations was launched in 2004 and previously operated under the Pacific Blue branding. The long-haul business, previously branded V-Australia was established in 2007. Virgin Australia has also recently established several alliances and code share relationships with partner airlines, including Etihad, Delta, Air New Zealand and Singapore Airlines creating a global network of over 400¹ destinations.

2.4 Corporate Governance

(a) Overview

The VAIH Board will be responsible for the overall management of VAIH.

Following the implementation of the New Structure, VAA will be appointed by VAIH to provide services to VAIA, VAA (SE Asia) and VAA (NZ) under the terms of the Service Agreement. VAA will also provide financial support to VAIH Group under the Loan Agreement. The material terms of these arrangements are summarised in Sections 4.3 and 4.4 respectively, and are designed to ensure that VAIH Group has access to sufficient resources and funding to continue to operate the International Airline Business of VAIA, VAA (SE Asia) and VAA (NZ) following the implementation of the New Structure.

(b) Board composition

One of the benefits of the New Structure is to ensure that VAIH has an appropriate degree of independence from VAH, whilst having the benefit of the skills and experience of two VAH Directors.

Following the implementation of the New Structure, it is intended that the VAIH Board will be comprised of three independent directors (including an independent Chairman) and two nominees of VAH. VAIH will not employ any directors in an executive capacity owing to the management services provided under the Service Agreement.

(c) Profiles of the VAIH Directors

As at the Distribution Date, the proposed VAIH Board will consist of five directors:

<p>Graham Bradley (Independent Chairman)</p>	<p>Graham is a professional company director and is currently Chairman of HSBC Bank Australia, Stockland Corporation and Anglo American Australia. He is a director of GI Dynamics, and chairs listed gas explorer, Po Valley Energy.</p> <p>He is a member of the Advisory Board of the Crawford School of Government at ANU and the Australian School of Business at UNSW and a director of the European Australian Business Council and is currently Vice President of the Business Council of Australia having stepped down as President in November 2011. Graham also devotes time to several non-profit organisations, including the Australian Brandenburg Orchestra and the State Library of NSW.</p>
<p>Neil Chatfield (VAH nominee)</p>	<p>Neil is an established executive and non-executive director with experience across a range of industries.</p>

¹ Unique code share and interline destinations, once Singapore Airlines alliance is fully implemented

	<p>Neil has extensive experience in financial management, capital markets, mergers and acquisitions and risk management, and until 2009 was Executive Director and Chief Financial Officer of Toll Holdings Limited for over 10 years.</p> <p>Neil has been a director of Seek Ltd since 2005, Whitehaven Coal Limited since 2007 and Transurburban Group and Grange Resources Ltd Since 2009.</p>
<p>John Borghetti (VAH nominee)</p>	<p>John commenced as Chief Executive Officer and Managing Director of the Virgin Australia Group of Airlines in May 2010. Under his leadership, the Group is undergoing a strategic repositioning.</p> <p>Mr Borghetti has had 38 years' experience in aviation, including a long career at Qantas where he was appointed Executive General Manager Qantas in November 2003, responsible for Qantas Domestic, International and QantasLink.</p> <p>Mr Borghetti has served as a Director of Jetset Travelworld, Sydney FC, Piper Aircraft (USA), The Australian Ballet and CARE Australia.</p>
<p>Anthony Shepherd (Independent director)</p>	<p>Anthony is the President of the Business Council of Australia, Chairman of Transfield Services and a Director of Victorian Rail Track (VicTrack).</p> <p>He is also Chairman of the Australian Football League's new club, the Western Sydney Football Club and a Trustee of the Sydney Cricket and Sports Ground Trust.</p> <p>Anthony is a member of the Australian Institute of Company Directors and a Patron of Infrastructure Partnerships Australia.</p>
<p>Lindsay Tanner (Independent director)</p>	<p>Lindsay was former Federal Minister for Finance and Deregulation who has extensive experience in aviation industry issues.</p> <p>Since leaving politics in 2010, he has worked as a special advisor at Lazard Australia and as adjunct professor at Victoria University.</p>

2.5 Regulatory considerations

Following the implementation of the New Structure, VAIH will continue to be subject to the restrictions under the ANA, which impose foreign ownership restrictions and control criteria on Australian International Airlines.

The VAIH Constitution and the Trust Deed include provisions to ensure compliance with these requirements. See Sections 4.1 and 4.2 for further details.

(a) Ownership restrictions

The ownership restrictions under the ANA require that foreign ownership in VAIH is limited to no more than 49%. The ANA also effectively limits Foreign Persons having a relevant interest in more than 49% of the total value of the issued share capital of VAA (NZ), VAA (SE Asia), VAIA, being the entities that carry on the

International Airline Business. A "relevant interest" is defined by reference to the Corporations Act and a person has a relevant interest in a share if the person:

- is the holder of the shares;
- has the power to exercise, or control the exercise of a right to vote attached to the shares; or
- has the power to dispose of, or control the exercise of a power to dispose of, the shares.

A person also has the same relevant interest in a share as a body corporate that it controls.

Consistent with these requirements, from the Distribution Date the VAIH Constitution, and the constitutions to be adopted by VAIA, VAA (SE Asia) and VAA (NZ), will limit foreign ownership of VAIH to no more than 49%.

(b) Control criteria

The control criteria under the ANA require that:

- at least two-thirds of the board members are Australian citizens;
- the chairman of the board is an Australian citizen;
- the head office of the Australian International Airline Business is located in Australia; and
- the operational base of the Australian International Airline Business is located in Australia.

These control criteria have been legislated for in the VAIH Constitution and will be legislated for in the Constitutions to be adopted by VAIA, VAA (SE Asia) and VAA (NZ).

3. TAX IMPLICATIONS

3.1 Australian income tax implications of the New Structure

The taxation summary contained in this Information Statement sets out general comments on the major Australian income tax consequences for VAH Shareholders who hold their VAH Shares on capital account and who are residents of Australia for income tax purposes. As the income tax consequences of the In Specie Dividend will depend on the precise personal circumstances of each VAH Shareholder, VAH Shareholders should seek independent advice that is relevant to their own particular circumstances.

This taxation summary does not address the consequences that arise for VAH Shareholders that hold their VAH Shares on revenue account or as trading stock or are non-residents. Further, this taxation summary does not address the consequences for VAH employees who may have an interest in VAH through their participation in the Key Employee Performance Plan. VAH will provide further guidance for VAH employees who participate in this plan.

3.2 Treatment of the In Specie Dividend

VAH is of the opinion that the In Specie Dividend should be regarded as a demerger for the purposes of the income tax law. As the In Specie Dividend is a demerger dividend, no franking credits will attach to the In Specie Dividend and it will not form part of your assessable income. The Commissioner of Taxation may determine that all or part of the In Specie Dividend as assessable income. In the unlikely event that the Commissioner of Taxation seeks to treat the In Specie Dividend as assessable income to you, you should contact VAH's Investor Relations team immediately to seek advice on the most appropriate course of action for you.

Importantly, you should retain all information and details pertaining to the nature of your VAIH shareholding and the treatment of your In Specie Dividend for taxation purposes.

3.3 CGT consequences in relation to VAH Shares

The In Specie Dividend will not result in a CGT Event occurring for VAH Shareholders. As the In Specie Dividend is regarded as a demerger, VAH Shareholders will be required to adjust the cost base of all their shares in VAH following the New Structure. Broadly, this means the VAH Shareholders must reallocate the total cost base of their VAH Shares (before the New Structure) across their original VAH Shares and the VAIH Shares they received as a result of the New Structure. This allocation is based on the relative market value of VAH Shares and VAIH Shares just after the In Specie Dividend is paid. VAH will provide VAH Shareholders with more information as appropriate.

3.4 CGT consequences in relation to VAIH Shares

(a) Acquisition of VAIH Shares

VAH has received advice that VAH Shareholders will be deemed to have acquired their VAIH Shares at the same time they acquired their VAH Shares.

As discussed above, the cost base of VAIH Shares is determined by reference to the relative market value of VAIH Shares and VAH Shares just after the New Structure. VAH will provide VAIH Shareholders with more information as appropriate.

(b) Entitlement to VAIH Shares

All VAH Shareholders will be absolutely entitled to their VAIH Shares as against the Trustee. Accordingly, for CGT purposes, VAH Shareholders will essentially be treated as the owners of the VAIH Shares.

(c) Disposal of VAIH Shares

On the Buy Back of the VAIH Shares, any gain will be treated as a gain of the VAIH Shareholders. We recommend that VAIH Shareholders seek advice in relation to the taxation implications of any gain at the time of the disposal of their VAIH Shares.

3.5 Dividends paid by VAIH

Any dividends paid by VAIH should be included in the assessable income of VAIH Shareholders. Franking credits will not be able to be attached to any dividend.

3.6 Other income tax consequences

No income should be required to be included in the assessable income of VAH Shareholders (other than any dividends paid by VAIH) prior to the Buy Back.

3.7 Goods and Services Tax ("GST")

VAH Shareholders will not be liable for (or be required to pay) GST on the receipt of VAIH Shares.

3.8 Stamp Duty

VAH Shareholders will not pay stamp duty on the issue of VAIH Shares.

4. ADDITIONAL INFORMATION

4.1 VAIH Constitution

(a) **Capital structure**

There are only ordinary shares on issue in VAIH. Following implementation of the New Structure, the VAIH Shareholders will be VAH Sub and the Trustee (on behalf of Eligible VAH Shareholders). As a proprietary limited company, VAIH is prohibited under the Corporations Act from having more than 50 shareholders.

(b) **Location of head office**

The head office of VAIH and the principal operational centre of its facilities are, and are required under the VAIH Constitution to be, located in Australia.

(c) **Transfer and transmission of shares**

The VAIH Shares (and any legal or beneficial interest in them) may not be transferred except:

- to facilitate a change in Trustee;
- in respect of the death or insolvency/mental incapacity of a VAIH Shareholder;
- to enforce compliance with the foreign ownership restrictions under the ANA;
- to give effect to the Buy Back;
- pursuant to the terms of the Trust Deed provided the transfer does not breach any of the provisions of the VAIH Constitution and otherwise complies with applicable laws (see Section 4.2); or
- a transfer effected pursuant to any agreement entered into between VAH Sub (or its nominee) and an Eligible VAH Shareholder from time to time (subject to compliance with the ANA).

(d) **Foreign ownership restrictions**

The VAIH Constitution contains foreign ownership restrictions which restrict Foreign Persons from acquiring or holding interests in VAIH exceeding the foreign ownership levels prescribed by the ANA. The restrictions are included to ensure VAIH's ongoing compliance with the ANA.

A VAIH Shareholder or applicant for VAIH Shares must notify the directors of VAIH as to whether the VAIH Shareholder (or any person on whose behalf the VAIH Shareholder holds VAIH Shares), or the applicant (or any person on whose behalf the applicant is to hold the VAIH Shares), is or is not, or becomes or ceases to be a Foreign Person. The obligations to provide information do not apply directly to the Trustee, as the Eligible VAH Shareholders are subject to obligations under the Trust Deed to provide similar information to VAIH. Notice must be provided within 5 business days of the application for shares, the registration of a transfer or transmission application, or of the member (or any person on whose behalf the member holds shares becoming or ceasing to be a Foreign Person, as applicable).

(e) **Cure mechanism**

The VAIH Directors may, for the purpose of preventing or curing a breach of the foreign ownership restrictions under the ANA, at any time procure the disposal of VAIH Shares in accordance with the procedure set out in the VAIH Constitution.

In order to determine which VAIH Shares are required to be disposed of to prevent or cure a breach of the foreign ownership restrictions (**Offending Shares**), the VAIH Directors must, unless in their opinion it would be inequitable or not in the best interests of VAIH to do so, have regard to:

- in the event that VAIH exceeds the restrictions on foreign ownership levels prescribed by the ANA as a result of the In Specie Dividend, the chronological order in which Foreign Persons acquired a relevant interest in VAIH Shares prior to the Record Date on the basis that VAIH Shares held by the Trustee on behalf of an Eligible VAIH Shareholder who acquired a relevant interest in the last registered VAIH Shares are to be the first treated as Offending Shares; or
- in any other case, the chronological order in which the VAIH Shares became registered, on the basis that the last registered Share in which a Foreign Person (other than VAIH Sub) has a relevant interest is to be the first treated as an Offending Share, unless the breach of the foreign ownership restrictions (in the Directors' opinion) has been caused by a Foreign Person acquiring a relevant interest in a Share (other than a VAIH Share held by VAIH Sub), in which case, such VAIH Shares are to be first treated as Offending Shares.

Before any disposal of Offending Shares can take place, the VAIH Directors may first provide a warning notice to the holder of Offending Shares (or, in the case of the Trustee, the relevant Eligible VAIH Shareholder), in order to provide that person with a period of up to 30 days to make representations as to why the shares should not be regarded as Offending Shares. A person on whom a warning notice has been served and not withdrawn is prevented from exercising any voting rights attached to Offending Shares but is entitled to attend the meeting and be heard. The votes attached to the Offending Shares will vest in the chairman of the VAIH Board who must exercise those votes in accordance with the recommendation of the VAIH Directors. If the warning notice is not withdrawn within 30 days of service, the VAIH Directors may take steps under the VAIH Constitution to require disposal of the Offending Shares. The proceeds of any such disposal will be paid to the person who was the registered holder of the shares before the disposal (or, in the case of the Trustee, the relevant Eligible VAIH Shareholder), net of any reasonable costs and expenses of, or incidental to the sale.

Immediately following the Distribution Date, VAIH will undertake a foreign ownership analysis to determine the exact extent of its foreign holdings. If this analysis indicates that foreign ownership in VAIH exceeds 49%, the VAIH Directors will invoke the mechanisms in the VAIH Constitution to reduce foreign ownership in VAIH. This may mean that some foreign Eligible VAIH Shareholders will be required to dispose of their interests in VAIH Shares.

(f) **Other restrictions**

VAIH Shareholders are prohibited from entering any agreement, arrangement or understanding that would result in a person or someone else increasing their voting power in VAIH to more than 20%, or if the person's voting power was already above 20%, any increase at all. This prohibition is subject to certain limited exceptions. The prohibition also applies to any proxy, attorney, sub-attorney or representative of a VAIH Shareholder.

(g) **Shareholder meetings**

The Trustee will appoint each beneficiary as its attorney at all meetings of VAIH and the beneficiaries will be entitled to vote on its behalf all shares in which each beneficiary has a beneficial interest.

A member, attorney or sub-attorney may appoint not more than one proxy in respect of the same shares to attend and act for the member at a meeting of members.

Decisions of VAIH Shareholders will be determined by a simple majority of votes, except for a limited set of key matters that will require a special majority approval (which will require approval by at least 75% of the shareholders present and voting and VAH Sub). The list of key matters will include:

- changes to the name or company type of VAIH;
- alterations to the share capital of VAIH;
- alterations to any rights attaching to any class of shares or securities;
- authorising VAIH to undertake a scheme of arrangement with VAIH's creditors, appointment of an administrator, winding up VAIH voluntarily and appointment of a liquidator; and
- changes to the Constitution of any VAIH Group member.

(h) **VAIH Board**

Following the implementation of the New Structure, the VAIH Board will be comprised of three independent directors and two VAH Sub nominees. The chair of VAIH will, at all times, be an independent director and an Australian citizen. At least two-thirds of the directors must be Australian citizens at all times.

For so long as the Service Agreement is in force, VAH Sub will be entitled to appoint two directors to the VAIH Board.

VAIH may, by a simple majority in a general meeting, remove a director, however a director who is a nominee of VAH Sub may only be removed by VAH Sub, or if the director's appointment automatically ceases in accordance with the VAIH Constitution.

Decisions of the VAIH Board are to be determined by a simple majority of votes.

(i) **Buy Back**

VAIH Shares held by all VAIH Shareholders (other than VAH Sub) (**Vendor Shareholder**) will be bought back by VAIH no later than the business day prior to the 25th anniversary of the Distribution Date. However, the Buy Back will be effected prior to the business day prior to the 25th anniversary of the Distribution Date if one of the following events occurs:

- if the foreign ownership restrictions in the ANA are modified or removed to permit a Foreign Person to hold all of the issued share capital of VAIH and to control it and carry on the International Airline Business in the ordinary course, provided such ownership and operation would not result in VAA (SE Asia), VAA (NZ) or VAIA ceasing to meet the nationality requirements set out in any international airline licence; or

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- if an Australian person acquires at least 51% of the shares in VAH and the Australian Person provides a buy back notice to VAIH; or
- VAH Sub provides a buy back notice to VAIH (subject to compliance with the ANA).

In order to ensure that the Buy Back does not impact on compliance with the ANA, from the 24th anniversary of the Distribution Date, the directors will undertake any of the following steps, as they see fit, as are necessary to ensure compliance with the ANA on and from the completion of the Buy Back:

- make a pro rata issue of a new series of ordinary shares to all holders of ordinary shares;
- make a distribution of securities prior to completion of the Buy Back;
- enter into an agreement to sell parts of the business to comply with the ANA; or
- do some or all of the above in combination, together with such acts as may be necessary to ensure compliance with the ANA at that time.

Where a Buy Back event occurs, VAIH is required to give notice of the Buy Back to each Vendor Shareholder, and each Vendor Shareholder agrees to sell their VAIH Shares to VAIH. If VAIH serves a Buy Back notice, each Vendor Shareholder is required to do all things necessary to give effect to the Buy Back. Under the Buy Back, Vendor Shareholders will receive the higher of fair market value of the VAIH Shares and the "deemed value" of the VAIH Shares calculated in accordance with the following formula:

$$P \times (1+R)^N$$

where:

$$P = \$0.000001;$$

R = adjusted benchmark rate as defined in section 974-50 of the *Income Tax Assessment Act 1997* (Cth); and

N = x/365, where x equals the number of days between the Distribution Date and the date on which a Buy Back event occurs.

4.2 Trust Deed

The declaration of trust in relation to VAIH Shares has been entered into by the Trustee and VAIH (**Trust Deed**) under which:

- the Trustee agrees to act as trustee of each of the separate trusts described more fully below (**Separate Trusts**); and
- VAIH agrees to indemnify the Trustee and carry out certain obligations.

(a) Separate Trusts

Separate Trusts will be established over that proportion of VAIH Shares held by the Trustee attributable to each Eligible VAH Shareholder as a result of the In Specie Dividend described more fully in Section 1.4. The Trustee will hold the VAIH Shares and any distributions or rights attaching to the VAIH Shares for the benefit of each Eligible VAH Shareholder absolutely.

(b) Trustee's obligations

The Trust Deed operates subject to the VAIH Constitution and the Trustee is bound by the VAIH Constitution and will do all acts required to ensure it complies with the VAIH Constitution, and is not liable to the Eligible VAH Shareholder for such acts.

The Trustee must transfer or otherwise deal with the Trustee's legal right, title and interest in the relevant trust property as the Eligible VAH Shareholder directs. The cost of arranging for any such transfer or dealing is to be borne by the Eligible VAH Shareholder. However, the Trustee is not to be held liable for any failure by it to comply with an Eligible VAH Shareholder's direction if that failure is due to:

- the act of another person (including VAIH) which prevents the Trustee from transferring legal title; or
- restrictions in the VAIH Constitution or operation of law.

Transfers of legal title from the Trustee to an Eligible VAH Shareholder are also subject to the requirement that the Eligible VAH Shareholder provides the Trustee with its written consent to become a VAIH Shareholder.

The Trustee is required to requisition a meeting of shareholders of VAIH at the written request of Eligible VAH Shareholders who in aggregate would hold 10% or more of the issued VAIH Shares if such Eligible VAH Shareholders actually held the relevant VAIH Shares directly. Meetings of the members of the Separate Trusts will not be held.

If the Trustee retires or is removed by VAIH, the Trustee and VAIH must do everything to facilitate the change of trustee. All associated costs will be borne by VAIH.

(c) Restrictions on transfer of beneficial interests

Eligible VAH Shareholders are not permitted to transfer their beneficial interest in VAIH Shares other than by operation of law or if the Eligible VAH Shareholder dies, or in accordance with a disposal notice issued to the Eligible VAH Shareholder by VAIH where the Eligible VAH Shareholder's interest is deemed under the VAIH Constitution to breach the foreign ownership restrictions (see Section 4.1(d)). However, where an Eligible VAH Shareholder holds VAIH Shares as at the Record Date in its capacity as a nominee or custodian for another person or as a trustee in connection with a VAH employee share plan then, at the request of the nominee or custodian, any such person may be recorded as the beneficial holder of the VAIH Shares. A beneficiary may also transfer some or all of the interests it holds in VAIH Shares to VAH Sub (its nominee or a nominee approved by VAH Sub) on such terms as may be agreed by the relevant beneficiary and VAH Sub from time to time (subject to compliance with ANA). Any other purported transfer will be void and will not be registered.

VAH appreciates that some shareholders may not be permitted to hold interests in VAIH shares under their investment mandate. To avoid any requirement for such shareholders to dispose of their VAH Shares before the Ex-entitlement Date for the In Specie Dividend, shareholders will be permitted, for a period of 60 days from the Distribution Date, to transfer their beneficial interests in VAIH Shares to VAH Sub (or its nominee) at the deemed value of \$0.000001, provided that:

- VAH is reasonably satisfied that the relevant shareholder is not permitted to hold interests in VAIH Shares; and

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- any such transfer would not result in, or be reasonably likely to result in the ownership of VAH Sub and Foreign Persons in VAIH exceeding (in aggregate) 49%.

(d) Other restrictions

Eligible VAH Shareholders are also prohibited from, within certain limited exceptions, entering into any transaction if it would result in a person acquiring a relevant interest in VAIH Shares (eg. acquiring the Eligible VAH Shareholder's interest in the shares) if it would result in that person increasing their voting power in VAIH to more than 20% or increasing their voting power if, prior to the transaction, they already held more than 20%. The prohibition also applies to any proxy, sub-attorney or representative appointed by the Eligible VAH Shareholder.

(e) Trusts register

VAIH, rather than the Trustee, will maintain a register of the trusts. Beneficial interests in the Separate Trusts may only be transferred in the circumstances described in Section 4.2(c). Each Eligible VAH Shareholder must promptly notify VAIH of any change to the beneficiary's particulars, including details of any person who has a relevant interest in the relevant VAIH Shares.

(f) Obligations of VAIH

VAIH is required to notify the Trustee of certain events, including transfers of beneficial ownership of Shares, either through the death of an Eligible VAH Shareholder or in accordance with the terms of the VAIH Constitution, as well as any purported transfer.

VAIH also agrees to:

- send all VAIH shareholder information directly to the Eligible VAH Shareholders;
- make all distributions and dividend payments directly to the Eligible VAH Shareholders; and
- directly notify all Eligible VAH Shareholders of VAIH shareholder meetings.

The Eligible VAH Shareholder is appointed as the attorney of the Trustee to exercise voting rights attached to the Eligible VAH Shareholder's VAIH Shares and the Eligible VAH Shareholder is given the rights including the right to attend and speak at meetings of VAIH (or to appoint a proxy to do this) and the right to demand a poll.

(g) Limitation of liability and indemnities

VAIH indemnifies the Trustee for any loss incurred as a result of acting as trustee of the Separate Trusts. The Trustee will be entitled to make a claim for indemnity against the assets of the Separate Trusts only to the extent that it is not satisfied by the indemnity provided by VAIH.

The Trustee is not entitled to be indemnified for any loss caused by its fraud, negligence or wilful default. However, because VAIH is responsible for a number of obligations in relation to the Separate Trusts, no act or omission of the Trustee will be considered the fraud, negligence or wilful default of the Trustee to the extent that it was caused by, or contributed to by, any failure of VAIH to satisfy these obligations.

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(h) **Fees and costs**

VAIH must pay:

- the Trustee the agreed fees under the Trust Deed; and
- all duties and taxes (other than goods and services tax) in connection with the Trust Deed.

(i) **Duration**

Each Separate Trust will terminate on the earlier of:

- the date on which an Eligible VAH Shareholder is registered as the legal owner of the VAIH Shares on VAIH's share register;
- in the case of a Separate Trust, the date on which the Trustee is required to dispose of all of the VAIH Shares comprising the Separate Trust Property in accordance with the mandatory disposal provisions of the VAIH Constitution (see Section 4.1(d));
- if VAIH is wound up, the date on which the Eligible VAH Shareholder is paid its entitlement to the proceeds of realisation;
- the date on which the VAIH Shares held by the Trustee are brought back by VAIH pursuant to the Buy Back;
- the date on which the Separate Trusts are terminated by operation of any applicable law; or
- the date that is 80 years from the date of the Separate Trust.

4.3 **Service Agreement**

Under the Service Agreement, VAIH appoints VAA (**Manager**) exclusively as the manager of each of VAA (SE Asia), VAA (NZ) and VAIA to provide comprehensive management services to VAA (SE Asia), VAA (NZ) and VAIA on the terms set out in the Service Agreement.

(a) **Term**

The Service Agreement will automatically terminate when the Buy Back occurs (see section (i)), unless terminated earlier in accordance with its terms.

(b) **Budget and business plans**

The Manager will prepare regular draft budget and business plans for the VAIH Group operations and submit the draft budget and business plans to the VAIH Board for consideration and approval.

The Manager may prepare supplementary or revised budget and business plans for approval by the VAIH Board in certain circumstances including, if the Manager deems it necessary for the good operation of the VAIH Group operations or is directed by the VAIH Board to do so.

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(c) **Services**

The Manager must provide various services to enable VAA (SE Asia), VAA (NZ) and VAIA to meet their operational requirements and continue to operate the Australian International Airline business in substantially the same manner as it is operated prior to the Service Agreement taking effect. The services include the following services (**Services**):

(i) **General services**

- general administrative and secretarial services;
- recommending and appointing advisers;
- assisting with all reporting requirements;
- attending to tax obligations;
- preparing relevant accounts;
- providing contract management services;
- managing and supervising any VAIH Group employees; and
- all other services agreed between the Manager, VAA (SE Asia), VAA (NZ) and VAIA relating to the day to day operations of VAA (SE Asia), VAA (NZ) and VAIA; and

(ii) **Operating services**

- aircraft;
- crew;
- intellectual property;
- IT infrastructure;
- maintenance and engineering;
- lounge access;
- commercial services including distribution, marketing and sales;
- airport-related services including check-in counters, airport managers and office space at airports;
- risk management services with respect to commodity, interest rate and foreign exchange hedging;
- Velocity frequent flyer program;
- insurance;
- station operations services; and
- all other support services necessary for VAIA, VAA (SE Asia) and VAA (NZ) to operate the Australian International Airline business.

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(d) Fees

VAIH will procure that VAA (NZ), VAA (SE Asia) and VAIA pay to the Manager:

- management fees at a commercial, arms' length rate; and
- separation fees, which are designed to reflect the actual cost to the Manager of terminating the management arrangements and separating from the management of the international operations.

VAIH will also procure that VAA (NZ), VAA (SE Asia) and VAIA reimburse the Manager for all costs, expenses and liabilities incurred by the Manager in providing the Services and performing its obligations and duties under the Service Agreement.

(e) Prepayment

On the Distribution Date, VAIH will have procured that management fees are pre-paid in the amount of \$330 million. This \$330 million prepayment will be applied to fees incurred by VAA (NZ), VAA (SE Asia) VAIA and VAIH during the term of the Service Agreement. It will reduce over time based on an agreed repayment profile, with \$200 million to be allocated over the first 10 years of the Service Agreement and the remaining \$130 million over 25 years.

In the event of early termination of the Service Agreement, the Manager will be required to repay any balance of the prepayment amount which has not been applied to management fees rendered by the Manager.

(f) Dispute Resolution

VAIH and the Manager must use their best endeavours to resolve any dispute relating to the Service Agreement.

If VAIH and the Manager cannot resolve the dispute then VAIH and the Manager must mediate the dispute. In the event the dispute is not resolved by mediation, VAIH and the Manager must refer the dispute to determination by an independent expert.

Pending the resolution of the dispute, each party is required to comply with its obligations and may exercise its rights under the Service Agreement and the fact that a party ceases to do anything in dispute is not an admission by that party that it had breached, or had been in breach of the Service Agreement.

(g) Termination

VAIH may terminate the Service Agreement:

- by notice in writing to the Manager if an insolvency event occurs in relation to the Manager; or
- by 6 months' notice in writing to the Manager if the Manager commits a breach of a fundamental term of the Service Agreement and:
 - if capable of remedy, fails to remedy the breach within 6 months of receiving notice of the breach; or
 - if incapable of remedy, fails to pay adequate monetary compensation or as otherwise resolved between the parties within 6 months of receiving notice of the breach.

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The Manager may terminate the Service Agreement by up to 12 months' notice in writing to VAIH if:

- the Loan Agreement is terminated; or
- an insolvency event occurs in relation to VAIH, VAA (SE Asia), VAA (NZ) or VAIA; or
- VAIH, VAA (SE Asia), VAA (NZ) or VAIA commit a breach of a fundamental term of the Service Agreement and:
 - if capable of remedy, fail to remedy the breach within 3 months of receiving notice of the breach; or
 - if incapable of remedy, fails to pay adequate monetary compensation or as otherwise resolved between the parties within 3 months of receiving notice of the breach.

4.4 Loan Agreement

(a) Purpose

Under the Loan Agreement, VAA will provide a loan facility to VAIH at commercial rates to ensure VAIH has access to sufficient funding to continue to carry on the Australian International Airline Business of VAA (SE Asia), VAA (NZ) and VAIA. The loan is divided into three facilities as follows:

- Facility A which is a term loan to be used to refinance the existing debt of the International Airline Business;
- Facility B which is a revolving credit facility to fund the general corporate and working capital purposes of the International Airline Business; and
- Facility C which is a term loan to be utilised to pay the consideration for the Buy Back.

(b) Term

Facility A and Facility B terminate under the Loan Agreement on the date on which the Service Agreement is terminated in accordance with the provisions of that document. Facility C terminates under the Loan Agreement on the date on which VAA notifies VAIH that Facility C is terminated, but this may not occur until after the Buy Back event has occurred.

(c) Drawdown of funds

Each facility can be drawn by VAIH from the date of signing the Loan Agreement until the occurrence of the following events:

- in relation to Facility A, the fifth business day after the Distribution Date;
- in relation to Facility B, the termination date;
- in relation to Facility C, the date on which Buy Back is implemented; or
- the date VAA's obligation to provide advances under the relevant facility is terminated in accordance with the Loan Agreement.

(d) Conditions to drawing

Conditions precedent to each drawdown under Facility A and Facility B also include that no Event of Default (as described below) or potential Event of Default is subsisting or will result from the drawdown and in respect of all facilities, that the amount outstanding following drawdown does not exceed the commitment under the Loan Agreement.

Facility B may be drawn to the extent there is an evidenced cash shortfall for VAIH. Facility C may only be drawn if an event triggering a Buy Back has occurred.

(e) Default events

The following events constitute an Event of Default under the Loan Agreement:

- non-payment of amounts due under the Loan Agreement;
- breach of an undertaking in the Loan Agreement including restrictions on VAIH making distributions, changes to capital structure, raising financial accommodation, granting security over assets, disposing of all or a material part of certain assets of any VAIH Group member or mergers, acquisitions or joint ventures without the consent of VAA (as lender);
- any misrepresentation by VAIH under the Loan Agreement; and
- the Service Agreement becoming terminable in accordance with the provisions of that agreement.

(f) Prepayment

Voluntary prepayment is not permitted in respect of any of the facilities although Facility B may be paid down and redrawn pursuant to a cash sweep mechanism. Under the cash sweep mechanism, VAIH is required to pay to VAA any surplus amount of cash held by VAIH at the end of each month for the purpose of repaying Facility B.

5. GLOSSARY

5.1 Definitions

In this Information Statement, unless the context requires otherwise:

AEST means Australian Eastern Standard Time.

ANA means the *Air Navigation Act 1920* (Cth), Air Navigation Regulations 1947 (Cth) and the conditions imposed under the International Airline Licences.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or, as the context requires, the financial market operated by it.

Australian International Airline means an airline designated as an Australian international airline by the Australian government under the ANA.

Buy Back means the buy back of VAIH Shares held by all VAIH Shareholders (other VAH) on the occurrence of certain events in accordance with the VAIH Constitution, as described in Section (d).

Corporations Act means the *Corporations Act 2001* (Cth).

Distribution Date means the date that Eligible VAH Shareholders will receive beneficial interests in VAIH Shares pursuant to the In Specie Dividend, being 28th March 2012.

Dividend Shares means the 2,210,197,600 shares subscribed for by VAH for the purpose of the In Specie Dividend.

Eligible VAH Shareholder means a VAH Shareholder as at the Record Date.

Ex-entitlement Date means the date that VAH Shares are to be quoted ex-entitlement in relation to the In Specie Dividend, being 21 March 2012.

Foreign Person has the meaning given to it in the ANA.

In Specie Dividend means the in specie dividend by VAH of VAIH Shares to the Trustee, the beneficiaries of which will be Eligible VAH Shareholders.

Information Statement means this document.

International Airline Business means the Australian International Airline operations carried on by VAA (SE Asia), VAA (NZ) and VAIA.

Key Employee Performance Plan means the employee performance rights plan of VAH.

Loan Agreement means the agreement of that name between VAA and VAIH.

New Structure means the separation of VAIH from VAH to be effected via the In Specie Dividend.

Record Date means the date for determining entitlements under the In Specie Dividend, being 7.00pm AEST on 27 March 2012.

Related Body Corporate has the meaning given in section 50 of the Corporations Act.

Service Agreement means the agreement of that name between VAA, VAA (SE Asia), VAA (NZ), VAIA and VAIH.

Trustee means Trust Company Limited (ACN 004 027 749).

VAA means Virgin Australia Airlines Pty Ltd (ABN 36 090 670 965).

VAA (SE Asia) means Virgin Australia Airlines (SE Asia) Pty Ltd (ABN 79 097 892 389).

VAA (NZ) means Virgin Australia Airlines (NZ) Ltd (ABN 26 313 149 900).

VAH means Virgin Australia Holdings Limited (ABN 54 100 686 226).

VAH Board means the board of directors of VAH from time to time.

VAH Directors means the directors of VAH.

VAH Group means VAH and its related bodies corporate.

VAH Share means an ordinary share in the capital of VAH.

VAH Shareholder means the registered holder of a VAH Share.

VAH Sub means Virgin Australia International Operations Pty Ltd (ACN 155 859 608)

VAIA means Virgin Australia International Airlines Pty Ltd (ABN 63 125 580 823).

VAIH means Virgin Australia International Holdings Pty Ltd (ACN 155 860 021)

VAIH Board means the board of directors of VAIH from time to time.

VAIH Constitution means the constitution of VAIH which will take effect from the Distribution Date.

VAIH Director means a director of VAIH.

VAIH Group means VAIH and its subsidiaries as at the date of this Information Statement.

VAIH Share means an ordinary share in the capital of VAIH.

VAIH Shareholder means the registered holder of a VAIH Share following implementation of the New Structure.

5.2 Interpretation

In this Information Statement, unless the context requires otherwise.

- (a) Headings are for convenience only and do not affect interpretation.
- (b) The singular includes the plural and conversely.
- (c) A reference to a section is to a section of this Information Statement.
- (d) A gender includes all genders.
- (e) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (f) A reference to a person, corporation, trust, partnership, unincorporated body or association or other entity includes any of them.

- (g) A reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns.
- (h) A reference to any legislation or to any provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it and all regulations and statutory instruments issued under it.
- (i) A reference to any instrument or document includes any variation or replacement of it.
- (j) A term not specifically defined in this Information Statement has the meaning given to it in the Corporations Act (being, if any special meaning is given for the purposes of Chapter 6 or 6A of the Corporations Act or a provision of those chapters, that special meaning).
- (k) A reference to time is a reference to Sydney time.
- (l) Mentioning anything after **includes, including, for example**, or similar expressions, does not limit what else might be included.
- (m) A reference to **\$** is a reference to the lawful currency of Australia.
- (n) A reference to **you** is to an Eligible VAH Shareholder.

DISCLAIMER

No prospectus

This Information Statement is not a prospectus for the purposes of Chapter 6D of the Corporations Act and will not be lodged with ASIC.

A copy of this Information Statement has been lodged with the ASX. Neither ASX nor any of its officers takes any responsibility for the content of this Information Statement.

No representations other than in this Information Statement

No person is authorised to provide any information or to make any representation in relation to VAIH which is not contained in this Information Statement. Any information or representation not so contained may not be relied upon as having been authorized by VAH, VAIH or any other person. Except as required by law, and then only to the extent so required, neither VAH, VAIH nor any other person warrants as to the future performance of VAIH.

This is not investment advice. You should seek your own financial advice

The information provided in this Information Statement is not financial product advice. This Information Statement contains general information only, and does not take into account the investment objectives, financial situation or particular needs of individual investors. Accordingly, nothing in this Information Statement should be construed as a recommendation by VAH or VAIH or any other person concerning an investment in VAIH.

It is important that you read this Information Statement in its entirety. You should seek professional advice from your accountant, stockbroker, lawyer or other professional adviser in relation to the transactions contemplated by this Information Statement.

Restrictions on distribution outside Australia

The distribution of this Information Statement (electronically or otherwise) outside Australia may be restricted by law, and persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

No offer or invitation to the public

This Information Statement does not constitute an offer of securities in any jurisdiction in which the In Specie Dividend is being made. No action has been taken to register or qualify the VAIH Shares or otherwise to permit a public offering or sale of the VAIH Shares in any jurisdiction in which the In Specie Dividend is being made.

For personal use only