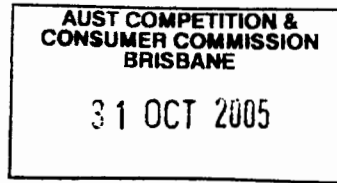


CLAYTON UTZ

Sydney Melbourne Brisbane Perth Canberra Darwin

31 October 2005

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Australian Competition & Consumer Commission
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Dear Sir or Madam

**LoyaltyCo Pty Ltd as trustee for the Loyalty Trust
Establishment of Virgin Blue Loyalty Program
Third Line Forcing Notifications**

Introduction

A.C.N. 116 089 448 Pty Ltd ACN 116 089 448 ("LoyaltyCo") is a newly incorporated wholly owned subsidiary of Virgin Blue Holdings Limited ACN 100 686 226. As such LoyaltyCo is a part of the group of companies ("the Virgin Blue Group") that includes Virgin Blue Airlines Pty Ltd ACN 090 670 965 ("VBA"), which operates domestic airline passenger services in Australia. Other companies in the Virgin Blue Group operate international airline passenger services in Australia.

LoyaltyCo, in its capacity as trustee of the Loyalty Trust, proposes to establish, administer and manage a Loyalty Program ("Loyalty Program") associated with the Virgin Blue Group. The Loyalty Program will be launched initially in Australia and New Zealand, and then possibly extended to other countries.

The Loyalty Program

The Loyalty Program will provide benefits to its members ("Members") based on the Members' use of, or expenditure on, goods or services provided by VBA, its associated companies or participating program partners (collectively "Earn Partners"). It is designed to reward the loyalty of Members to the program when using or acquiring the goods or services of VBA (or its associated companies) or those goods or services of other Earn Partners. It is proposed that the Earn Partners will include a major Australian bank as the exclusive financial services provider, as well as car hire, hotel, international airline and other Earn Partners.

The Loyalty Program will be open to all persons aged 2 and above who wish to become Members. LoyaltyCo will offer membership in the Loyalty Program on its terms and conditions, which will be provided to prospective members before they become Members.

Online enrolment in the Loyalty Program is free of charge. Enrolment through the Loyalty Program membership contact centre will incur an administrative fee, initially \$20. The terms and conditions provide that Members may be charged a fee for continued participation in the Loyalty Program at a future date.

The costs of participating in the Loyalty Program, and any other amounts that will or may be payable by a Member in respect of the Loyalty Program and the times at which those amounts will or may be payable, will be included in a written document that will be provided to Members when they apply to join the Loyalty

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Program. This information will be provided to the Member to enable them to reasonably assess the merits and risks of participating in the Loyalty Program.

In the course of the conduct of the Loyalty Program:

- (a) LoyaltyCo will enter into agreements with VBA, its associated companies and other Earn Partners who wish to promote their goods and services through the Loyalty Program;
- (b) Members will be allocated rewards points for purchases of goods and services from Earn Partners, including flights of VBA and associated companies but extending to the purchases of goods and services of other Earn Partners. LoyaltyCo anticipates that the Loyalty Program will promote spending on the goods or services of Earn Partners;
- (c) LoyaltyCo will administer the allocation of rewards points to Members;
- (d) Earn Partners will pay amounts to LoyaltyCo as a participation charge for participating in the Loyalty Program, calculated by reference to the rewards points allocated to Members in respect of Members' purchases of the goods or services of the Earn Partner; and
- (e) LoyaltyCo will enter into agreements with VBA, its associated companies and other businesses (collectively "Redemption Partners") who will agree to provide rewards to Members at LoyaltyCo's request by allowing Members to redeem rewards points in exchange for selected goods and services. LoyaltyCo will procure the supply of rewards by Redemption Partners and pay the Redemption Partners for those goods and services, using funds contributed by the Earn Partners.

Proposed aspects of the offering of the Loyalty Program

LoyaltyCo will, at or soon after the launch of the Loyalty Program, offer to allocate rewards points to Members who:

- (a) purchase flights from the Virgin Blue Group, or
- (b) purchase car rental services from CLA Trading Pty Ltd ACN 082 220 399 trading as Europcar ("Europcar").

Notifications

LoyaltyCo recognises that arguments could be put, not necessarily accepted by LoyaltyCo, that certain conduct it proposes to undertake in relation to the Loyalty Program may breach section 47(6) or section 47(7) of the *Trade Practices Act 1974*. Such arguments may be put on the basis that LoyaltyCo will allocate rewards point to Members on condition that they acquire goods or services of a particular kind or description from another person, and will not allocate rewards points to Members who have not acquired goods or services of a particular kind or description from another person.

Accordingly, we enclose 2 notifications by LoyaltyCo pursuant to section 93(1) of the *Trade Practices Act*:

- (a) Form G Notification regarding the allocation of rewards points to Members who purchase flights from the Virgin Blue Group; and

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- (b) Form G Notification regarding the allocation of reward points to Members who acquire car hire services from Europcar.

Also accompanying the Forms is the notification lodgement fee for the 2 notifications of \$200.

Allocation of rewards points conditional on purchase of flights from the Virgin Blue Group

Notified conduct

LoyaltyCo will allocate rewards points to Members of the Loyalty Program when they purchase air flights from the Virgin Blue Group.

Lack of anti-competitive effect

The relevant market for assessing the notified conduct is the market for passenger airline services in Australia.

LoyaltyCo considers that the allocation of rewards point in respect of the purchase of flights from the Virgin Blue Group will increase competition in the passenger airline services market. LoyaltyCo notes in particular the most substantial competitor to the Virgin Blue Group, Qantas, operates a rewards program in the form of its "Frequent Flyer" program. The LoyaltyCo Loyalty Program will enable the Virgin Blue Group to compete more effectively with Qantas and other airlines in Australia.

Public benefit

Membership of the Loyalty Program will be open to all members of the public of 2 years of age and above. There is no obligation on Members to purchase flights from the Virgin Blue Group, but those who do so will be allocated rewards points they can redeem for valuable rewards. Members can also earn rewards points by acquiring goods and services from other Earn Partners, even if they do not purchase flights from the Virgin Blue Group. Members will not pay more than other airline customers of the relevant Member of the Virgin Blue Group to purchase flights.

The proposed conduct offers significant benefits to Members by providing them with the opportunity to earn valuable rewards, as a result of purchasing flights from the Virgin Blue Group, at no additional cost.

Allocation of rewards points conditional on purchase of car hire services from Europcar

Notified conduct

LoyaltyCo will allocate rewards points to Members of the Loyalty Program when they purchase car hire services from Europcar.

Lack of anti-competitive effect

The relevant market for assessing the notified conduct is the market for car hire services in Australia.

LoyaltyCo considers that the allocation of rewards points in respect of the purchase of car hire services from Europcar will increase competition in the car hire services market. Examples of car hire services for which account holders can earn rewards points for car hire include:

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Car Company

Details of Loyalty Program

Budget

National Australia Bank - Gold Rewards National Gold Credit Card customers linked to the National Gold Rewards program earn 2 bonus points for every \$1 spent with Budget using a linked Gold Rewards credit card

Qantas Frequent Flyers can earn 3 points per \$1 for all Budget rentals within Australia, and 700 points for rentals outside Australia.

Avis

National Australia Bank - Gold Rewards customers earn 3 points for every \$3 spent at any Avis when using their bank account

Hertz

Woolworths Limited - Ezy Banking Using the Woolworths Ezy Action account (debit) customers earn 1.25 points for every \$1 spent at Hertz. Customers can then choose rewards such as Woolworths Ezy Rewards vouchers or family holidays using frequent flyer points..

Thrifty

ANZ Rewards VISA customers who spend \$350 or more on a single transaction earn double reward points under the ANZ Rewards Visa scheme (ie 6 bonus points for every dollar spent). Customers can redeem their points for various items/benefits.

The Loyalty Program will enable Europcar to compete more effectively by offering competitive car hire services in this highly competitive market.

Public benefits

There is no obligation on Members to acquire car hire services from Europcar, but those who do so will be allocated rewards points they can redeem for valuable rewards. Members can also earn rewards points by acquiring goods and services from other Earn Partners, even if they do not purchase car hire services from Europcar. Members will not pay more than other Europcar customers to purchase car hire services from Europcar.

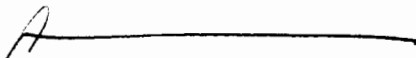
Conclusion

LoyaltyCo submits that the Australian Competition & Consumer Commission should not serve a notice under section 93(3A) of the *Trade Practices Act* in respect of any of the notified proposed conduct because the notified proposed conduct:

- (a) will not lessen competition in any relevant market and so will not create any detriment to the public; and
- (b) will benefit the public by providing the opportunity to obtain valuable rewards

Please do not hesitate to contact the writer if you have any questions or require any further information.

Yours sincerely



Anna Sharpe
Partner

+61 7 3292 7303

asharpe@claytonutz.com

Form G

Commonwealth of Australia
Trade Practices Act 1974 ---- Sub-section 93(1)

EXCLUSIVE DEALING NOTIFICATION

To the Australian Competition and Consumer Commission:

Notice is hereby given, in accordance with sub-section 93(1) of the *Trade Practices Act 1974*, of particulars of conduct or of proposed conduct of a kind referred to in sub-section 47(2), (3), (4), (5), (6) or (7), or paragraph 47 (8) (a), (b) or (c) or (9) (a), (b), (c) or (d) of that Act in which the person giving notice engages or proposes to engage.

1. (a) **Name of person giving notice**

A.C.N. 116 089 448 Pty Ltd ACN 116 089 448 ("LoyaltyCo") as trustee for the Loyalty Trust.

(b) **Short description of business carried on by that person**

Administrator of a reward program associated with the Virgin Blue Group, comprised by Virgin Blue Holdings Limited ACN 100 686 226 and its subsidiaries ("Loyalty Rewards Program").

(c) **Address in Australia for service of documents on that person**

Level 7
Centenary Square
100 Wickham Street
Fortitude Valley Queensland 4006

2. (a) **Description of the goods or services in relation to the supply or acquisition of which this notice relates**

Allocation of rewards points to members of the Loyalty Rewards Program associated with the Virgin Blue Group, and procuring the provision of rewards to such members upon the redemption of allocated rewards points.

(b) **Description of the conduct or proposed conduct**

Allocation of rewards points to Members of the Loyalty Rewards Program when they purchase car hire services from Europcar.

3. (a) **Class or classes of persons to which the conduct relates**

Members of the Loyalty Rewards Program associated with the Virgin Blue Group, comprised by Virgin Blue Holdings Limited ACN 100 686 226 and its subsidiaries.

(b) Number of those persons--

(i) At present time

Nil

(ii) Estimated within the next year

1,200,000

(c) Where number of persons stated in item 3(b)(i) is less than 50, their names and addresses

Not applicable

4. Names and address of person authorised by the person giving this notice to provide additional information in relation to this notice

Ms Leigh Balderson
Lawyer
Virgin Blue Group
Centenary Square
131 Barry Parade
FORTITUDE VALLEY Q 4006
Australia

Tel: (07) 3295 5027

Fax: (07) 3839 4024

Email: leigh.balderson@virginblue.com.au

DATED this 31st day of October 2005

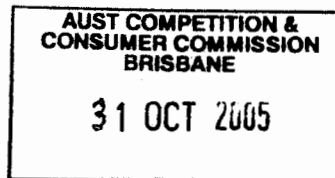
Signed by/on behalf of the applicant giving notice



(Signature)

ANNA SHARPE

Partner,
Clayton Utz,
Solicitors for the Applicant
GPO Box 55
BRISBANE Q 4000
Ref: 12375/80026662



Form G

Commonwealth of Australia
Trade Practices Act 1974 --- Sub-section 93(1)

EXCLUSIVE DEALING NOTIFICATION

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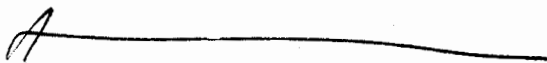
Tel: (07) 3295 5027

Fax: (07) 3839 4024

Email: leigh.balderson@virginblue.com.au

DATED this 31st day of October 2005

Signed by/on behalf of the applicant giving notice



(Signature)

ANNA SHARPE

Partner,
Clayton Utz,
Solicitors for the Applicant
GPO Box 55
BRISBANE Q 4000
Ref: 12375/80026662

AUST COMPETITION &
CONSUMER COMMISSION
BRISBANE

31 OCT 2005