

10 July 2020

DP Aircraft I Limited

Shareholder Q&A - Annual Report and Financial Statements for the year ended 31 December 2019 and the Annual General Meeting

Detailed below for your reference are the most frequent questions that we have received from shareholders regarding the Annual Report and Financial Statements for the year ended 31 December 2019 (the “**Accounts**”) and the Annual General Meeting, along with the Company’s responses.

A. Profit and Loss

Q1 Due to the shareholders’ loss of dividend and the significant reduction in the market value of the Company, will there be a reduction in the fees of the Asset Manager and the Directors?

A1 Unlike other funds we have not appointed an investment manager; and while this results in the Company having lower costs overall compared to most companies, it does necessitate a greater degree of input from the Board than would otherwise be the case. Nevertheless, we have sought to keep directors’ fees in line with market rates in full observation of the relevant corporate governance code requirements; and we have limited the size of the Board to three directors.

With disrupted markets, defaulting airlines and the need to negotiate and execute a prudent restructuring of the Company’s lease and debt arrangements in short order, the time and dedication required of the management team (both directors and Asset Manager) has increased to a level far beyond the norm. Over the past three months, the Board and the asset manager have liaised frequently (at times on a daily basis) with each other and with key stakeholders, and expect to continue to have to do so for some time yet to protect the interests of the Company. While we appreciate that the question of Board and manager remuneration will always be a sensitive one for investors, and particularly so at this point in time given the market backdrop, it is difficult to regard the current fee levels as anything other than commensurate with the efforts being made by everyone on behalf of the Company and its shareholders.

Q2 Who were the legal and professional fees of \$297,000 paid to?

A2 The legal and professional fees of \$297,000 relate to payments to the main service providers of the Company including Investec Bank Plc (as Broker), KPMG (as Auditor), Norton Rose Fulbright LLP (as UK legal counsel) and Aztec Financial Services (Guernsey) Limited (as Company Secretary and Administrator).

Q3 Who were the additional professional fees of \$30,000 paid to?

A3 Other fees of \$30,000 constitute miscellaneous expenses incurred by the Company for a variety of services including London Stock Exchange fees, recruitment fees and printing costs.

Q4 Given the change in aircraft value, will the accrual for the Asset Manager’s disposal fee (including the historic accrual) be removed from the profit and loss account?

A4 Unrelated to the current market value, a sale of aircraft may become necessary (e.g. following a material and non-remedied default under a lease agreement) and as such it is prudent and advisable that the disposal fee continues to be accrued for. This is reviewed as part of the audit.

Q5 Can you please explain how the Board reconciles the accrual of the Disposal Fee whilst using a much lower residual value for the aircraft for calculating depreciation?

A5 *Accrual of fee*

Covid-19 is a non-adjusting post balance sheet event and is therefore not factored into the numbers as at 31 December 2019. The impact of Covid-19 will of course need to be taken into

account in the 2020 period; and it is likely that this will impact the calculation of the disposal fee in a number of ways (e.g. realisation price of assets, dividends paid out, liquidity reserve).

Residual value assumption

The apparent discrepancy between the residual value assumed in calculating the disposal fee, and the residual value used for depreciation purposes, simply comes down to whether or not the value of the assets has been discounted by inflation. Aircraft valuations essentially value today and then incorporate an assumed level of inflation over the relevant remaining period. As stated in Note 3a of the latest report and accounts, a residual value of US\$265.66m has been used in determining the appropriate level of depreciation; this figure represents the aircraft valuation with that element of inflation discounted, and reflects a prudent approach to the depreciation calculation. In contrast, the disposal fee calculation uses the future undiscounted price (i.e. with inflation factored in) as this is what the residual valuation is expected to be at the date of disposal.

- Q6 Are the residual values based upon an average of the three valuations used and can you explain who the mainstream appraisers are?
- A6 The residual values are used to check the reasonableness of the depreciation charge. The Company does not account for the aircraft at valuation and the valuations are considered as a whole. The mainstream appraisers are recognised professionals whose names we are unfortunately not in a position to disclose for commercial reasons. We can confirm to you though by way of reassurance that the valuers have been accepted by our auditors, KPMG, from the outset as being leading and reputable aircraft valuers.
- Q7 Can you provide an update on the progress of returning the Norwegian Air Shuttle aircraft back to flight ready condition? Can you please also provide an update on the progress of the asset manager's action on behalf of the Board against Rolls-Royce due to the loss in residual value of the aircraft?
- A7 There has been no residual value loss identified at this stage. The engine issue with Rolls Royce is currently under review and any material updates will be released to shareholders once known.

B. Balance Sheet

- Q8 The valuation of the assets are based upon, amongst other things, the Net Present Value of the future lease rentals. Given the recent restructuring of the Norwegian Air Shuttle lease rentals, it is likely that the forecasted rentals upon which the valuations were based has significantly reduced. As no impairment adjustment has been incorporated, is the Profit & Loss mis-stated due to the forecasted rentals being materially overstated and should the valuations in the Balance Sheet be reduced? If so, will these adjustments to the Profit & Loss and Balance Sheet be implemented for the financial year ending 31 December 2019?
- A8 The valuations within the accounts reflect the market conditions and circumstances as at 31 December 2019, prior to the current Covid-19 environment, and were thus based upon Norwegian and Thai performing in accordance with their respective lease obligations.

Impairments to the aircraft values are only to be made in accordance with generally accepted accounting principles; and it should be noted that, following extensive engagement with our auditors, we received a clean audit report.

Having said that, we do note that the backdrop to the industry is changing and that the recovery rate for air travel is unpredictable at present and difficult to project with any degree of certainty.

- Q9 Will there be a Post Balance Sheet Event note added to the accounts with regards to the aircraft valuations having materially declined?
- A9 As the aircraft valuations are based on longer-term assumptions and data points, there is not sufficient evidence as yet to conclude that the values have declined. Valuations are usually prepared on an annual basis; however, due to the exceptional circumstances the valuers are

being engaged to prepare a valuation as at 30 June 2020, for inclusion within the Company's Interim Report and Financial Statements.

- Q10 As Restricted Cash is within the control of the Company, why can they not be used in these exceptional circumstances to fund a dividend to the shareholders?
- A10 The Company is only able to use restricted cash where it has a claim. The majority of the restricted cash relates to maintenance reserves.
- Q11 The Asset Manager's commentary states there may be strong demand for the 787-8 aircraft as operators switch to lower capacity aircraft. Should this be true, would it be in the shareholders' best interest to terminate the Norwegian Air Shuttle lease and place the aircraft with another carrier, to protect the value of the investment?
- A11 It is difficult to be definitive about the marketability of the 787 series. We and the Asset Manager are reviewing what demand currently exists for 787 aircraft. We generally note though that four engine passenger aircraft are likely to be early casualties in a post-Covid recovery period.

A termination of leases followed by a remarketing of the aircraft in a non-active secondary market is unlikely to be in the best interests of the Company and its shareholders (putting aside the fact that such a course of action would also require the prior consent of the financing banks). Terminating the lease would result in additional costs to the Company for maintenance, inspection, storage materials, parking and insurance at a time when the chances of transferring the responsibility for such costs to a new lessee are minimal. Consequently, we believe that it is in the best interests of shareholders and the Company to restructure the leases with the existing lessees where possible. In the case of Norwegian, the proposed restructuring, if it proves successful, will allow the Company to recover at least some of the forborne lease payments through the eventual sale of the 5% of Norwegian shares now owned by the Company; and if the restructuring of Norwegian ultimately fails, we will have at least bought sufficient time to make a remarketing of the assets after a market recovery a valid and feasible option.

- Q12 Please advise what legal agreement or impediment is in place to prevent the Company accessing the Maintenance Reserves.
- A12 Under the Lease Agreement, the maintenance reserves can only be used for the maintenance of the aircraft and we therefore cannot access this account in order to use the funds for any other reason.
- Q13 Regarding the independent expert valuers; (1) which three appraisers are being used?; (2) does the Company use the same appraisers each year; and (3) what methodology do the Directors use in assessing the value of the assets in the Balance Sheet? In the 2015 prospectus it states an average is used, does this still apply?
- A13 We can confirm that the Company uses the same appraisers each year and that the appraisals are used to review residual valuations to support the depreciation charge. We confirm that these are all mainstream appraisers, with no concerns raised by the auditors either this year or in previous years. As noted in the IPO prospectus, the Board takes into account a range of factors when considering the estimated residual value of the aircraft, and hence an appropriate valuation of the assets.

C. Company update as of 13 May 2020

- Q14 Please advise what the exact status of Thai Airways is, with regards to the recent market commentary that they are not in bankruptcy but the Government stating they are?
- A14 The Board will continue to ensure that all material updates on the new Thai arrangements are disclosed to the shareholders via a market announcement as soon as the Company is provided with definitive information.

Q15 With regards to the restructuring of the Norwegian Air Shuttle leases, the Accounts state there “may be changes in relation to lease modifications or concessions as well as other forms of compensation”. Please confirm there have been no other changes to the lease terms and conditions or compensation matters since the company update as of 13 May 2020, specifically in relation to returning the aircraft to flight ready condition at the end of the lease.

Please also advise what security the Company has over the Total Care arrangements and whether the Company has sought compensation from Rolls Royce for the non-performance of the Trent engines under the warranty agreement?

A15 The Company has made timely market announcements regarding the negotiations with NAS which provide transparency as to the respective arrangements, with the latest announcement having been made on 21 May 2020. The announcement of 13 May included a high degree of explanation of the basis upon which the Company was prepared to countenance an equity swap with Norwegian. Any material changes to lease terms, including with regard to the condition of the aircraft at the end of the lease, would be announced to the market by the Company.

The Company, as lessor, has the benefit of the Total Care Agreement through contractual arrangements with Rolls Royce.

The Company has not to date suffered any loss of revenue as a result of the Trent 1000 low pressure turbine issues. However, clearly our respective lessees have done so, and it is they who have contractual arrangements with Rolls Royce and they who have sought compensation for having to lease other aircraft. With aircraft being grounded due to the impact on our lessees, our Asset Manager is reviewing what (if any) redress we might have.

Q16 What is the current liquidity state of the Company and what is the outlook for the upcoming financial year?

A16 Liquidity for the Company is of paramount importance and this has been disclosed; and we will continue to provide updates on a regular basis. We have announced to the market how we have responded to the NAS restructuring. We await formal notification from Thai as to the progress they have made on their restructuring options. Dialogue with Thai, legal counsel and with our banks on this matter is being maintained through the Board and our Asset Manager; but at this time we do not have definitive information on the final restructuring concept.

Q17 Regarding Thai Airways, why did the announcement on 2 June 2020 not mention there being a breach of the loan agreements as a result of the Company not receiving any revenue from Thai for perhaps many months?

A17 Currently there is no breach to report to shareholders in connection with the loan agreements relating to Thai Airways. Negotiations are ongoing with the lending bank to restructure the facilities and the Company will announce any material information to shareholders once negotiations have concluded.

Q18 Regarding Norwegian Air Shuttle, please confirm the amount of the lease rentals by aircraft from 1 April 2021.

A18 Following consultation with the Company’s advisers, it was decided that with the revised lease rental numbers yet to be finalized and agreed, and in light of the commercial sensitivities around any new numbers (having particular regard to the potentially detrimental effect disclosure might have for the Company in its ongoing negotiations with Thai Airways), the better course of action was to expedite the announcement that the lease arrangements with Norwegian were to be revised, so that the market was at least apprised of that fact in a timely fashion.

Q19 Can the board please confirm light of the difficult financial circumstances the company finds itself in that they will implement a significant overhead cost reduction programme?

A19 A number of the key service providers are now providing considerable additional support without charge. The Company has successfully negotiated discounted rates for some professional services to date, however the Board is conducting an ongoing review of the cost base to analyse whether any further reductions can be sourced.