



# DP AIRCRAFT I LIMITED

Semi-Annual Shareholder Report 30<sup>th</sup> January 2017



## I. THE FUND - DP AIRCRAFT I LIMITED

### FACT SHEET - DP AIRCRAFT I LIMITED

Ticker	DPA
Company Number	56941
ISIN Number	GG00BBP6HP33
SEDOL Number	BBP6HP3
Traded	SFM
<ul style="list-style-type: none"> <li>SFM Admission Date</li> </ul>	4 <sup>th</sup> October 2013
<ul style="list-style-type: none"> <li>Share Price</li> </ul>	1.02 [30 <sup>th</sup> January 2017]
Country of Incorporation	Guernsey
Current Shares in Issue	209,333,333
Administrator and Company Secretary	Aztec Financial Services (Guernsey) Limited
Asset Manager	DS Aviation GmbH & Co. KG
Auditor and Reporting Accountant	KPMG
Corporate Broker	Canaccord Genuity Limited
Aircraft Registration (Date of Delivery)	LN-LNA (28 <sup>th</sup> June 2013) LN-LNB (23 <sup>rd</sup> August 2013) HS-TQC (29 <sup>th</sup> October 2014) HS-TQD (9 <sup>th</sup> December 2014)
Aircraft Serial Number	35304 35305 36110 35320
Aircraft Type and Model	B787-8
Lessees	Norwegian Air Shuttle ASA Thai Airways International PCL
Website	<a href="http://www.dpaircraft.com">http://www.dpaircraft.com</a>



## II. THE AVIATION MARKET - OVERVIEW AND DEVELOPMENT

2016 is anticipated to mark the highest absolute amount of net profit by the airline industry, although in December, the International Air Transport Association (IATA) lowered its expectations of global net profits for 2016 from USD 39.4 billion to USD 35.6 billion due to a slower growth in GDP and an increase in costs. The regions of Europe and Asia-Pacific will only be outperformed by airlines in North-America. In the first ten months of 2016, capacity (Available Seat Kilometres (ASK)) and demand (Revenue Passenger Kilometres (RPK)) worldwide grew by 6.2 per cent and 6.0 per cent respectively with a slightly decreased passenger load factor of 80.5 per cent. According to Alexandre de Juniac, CEO and Director General of IATA since September 2016, airlines are better positioned to adjust to the cyclic up-and-downs of the industry and to remain profitable during challenging times. However, conditions for airlines will tighten in 2017; mainly as it is assumed that the price for jet fuel is expected to rise and to count for 18.7 per cent of airlines' costs. Likewise changes in infrastructural charges and taxes as well as in currency and interest rates have an impact on airline profitability. Furthermore, overcapacity is rising and market competition is fierce. According to the International Civil Aviation Organization (ICAO) around 28 per cent of scheduled passengers globally had been transported by low cost carriers in 2016.

The organisation projects that nearly 4 billion passengers and 55.7 million tonnes of cargo will be transported by air in 2017. Total goods transported by air would represent around 35 per cent in value of goods traded and amount to USD 5.7 billion. The money spent for air transport would nearly equal 1 per cent of global GDP, whereas global GDP is expected to increase by 2.5 per cent compared to a growth of 2.2 per cent in 2016. Nevertheless, IATA expects airline profits to decline to USD 29.8 billion in 2017, amongst others due to above mentioned reasons. Though, this would imply that the airline industry would generate an aggregated profit for the 8th year in a row. Moody's outlook on the aviation industry in 2017 remains stable which covers a range of -20 to +20 per cent. They expect airline operating margins to drop in 2017 as well but anticipate them to stay strong compared to historic levels.

In Europe, during the first ten months of 2016 capacity grew by 3.9 per cent and demand by 3.8 per cent respectively. The passenger load factor stayed relatively stable at 82.3 per cent. In addition to increasing fuel prices, Europe is a highly competitive market with a high level of costs and taxes. The percentage of scheduled passengers transported by low-cost carriers in this region was

approximately 32 per cent in 2016 and therefore above the global average. In 2017, capacity is expected to grow by 4.3 per cent and demand by 4.0 per cent. Aggregated net profits in Europe are anticipated to decrease to an amount of USD 5.6 billion compared to a projected net profit of USD 7.5 billion in 2016.

The region of Asia-Pacific is anticipated to post an aggregated net profit of USD 6.3 billion in 2017, down by one billion compared to 2016. In the first ten months of 2016, demand increased by 8.9 per cent while capacity rose by 8.0 per cent. In 2017, capacity is expected to outperform demand and the average load factor to drop by 0.5 percentage points to 68.2 per cent. This would be above the anticipated break-even load factor of 63.0 per cent. Competition in the Asia-Pacific region is growing as liberalisation is further progressing.

New and improved technologies influence passengers' needs, and require airlines to adopt these changes to keep up with competitors. The IATA Global Passenger Survey this year revealed that passengers increasingly wish to have the same connectivity on board an airplane as they have on the ground. The number of participants wishing to use their own device on board (even to access the airlines on-board entertainment programmes), increased by 12 per cent to 51 per cent compared to the same survey a year ago. 85 per cent of the participating passengers would even be willing to share personal information for a more customised travel experience and improved time efficiency by taking advantage of offered digital self-service options substituting the traditional airport services on site (e.g. baggage self-tagging).

Both Airbus (Global Market Forecast 2016-2035) and Boeing (Current Market Outlook 2016-2035) continue to forecast that the global passenger and freighter fleet will at least double until 2035. According to Airbus the fleet in 2035 would account for 39,820 aircraft and 33,070 aircraft would be delivered within the next 20 years to either grow the fleet or to replace older aircraft. Boeing forecasts an even larger fleet of 45,240 aircraft in 2035 and expects 5,100 small wide-body aircraft (e.g. B787-8 and B787-9) to be delivered within the next 20 years. The manufacturer assumes that the biggest share of small wide-body aircraft will be delivered to the Asia-Pacific region, with 38 per cent delivered to carriers based in the Asia-Pacific region, 21 per cent to North American carriers and 19 per cent to airlines in Europe. IATA expects that in 2017 some 1,700 aircraft will be delivered and that the global commercial fleet will grow by 3.6 per cent.



**III. THE ASSETS - FOUR DREAMLINER BOEING 787-8s**

By the end of 2016, the aircraft manufacturer Boeing had delivered 748 aircraft in total and received 668 net orders. As at 31<sup>st</sup> December 2016, Boeing had a total backlog of 5,715 aircraft. In regard to the B787 family, the manufacturer had delivered 137 aircraft and received gross orders of 80 aircraft during 2016. In the week before Christmas, Boeing delivered its 500th Dreamliner after five years of delivery. This is another milestone for the manufacturer and the B787 programme as it had been worldwide the fastest commercial wide-body aircraft to reach this mark. As at the end of 2016, the B787 was in service by 48 operators spread on all continents and applying different business models. The aircraft is deployed on more than 530 routes of which 120 have been new non-stop routes.

Norwegian has equipped its B787 fleet with a total of 291 seats, of which 32 are premium economy and 259 economy class seats. This type of aircraft is used to fly from Europe to destinations in Asia, America and the Caribbean including, amongst others, New York, Las Vegas, San Juan and Bangkok. Since the acquisition by DP Aircraft I Limited of the two aircraft LNA and LNB in 2013, Norwegian has met all of its lease obligations in full. In December 2016, aircraft LNA was inspected by DS Skytech Limited at the Boeing maintenance facilities at Copenhagen International Airport. The aircraft

and its technical records were found to be in good condition with no significant defects or airworthiness related issues. The inspections are dependent on the operational schedule of the airlines and are subject to short term changes. Accordingly, the inspection of aircraft LNB could not be concluded at the same time as LNA and is scheduled for April 2017 when the aircraft will undergo a regular check in the hangar.

Thai Airways' B787 fleet offers a total of 264 seats, of which 24 are business and 240 economy class seats. The carrier operates this aircraft type on routes within the Asia-Pacific region such as Ho Chi Minh City, Nagoya and Denpasar, as well as to and from destinations in Australia such as Brisbane and Perth. Since DP Aircraft I Limited acquired the two aircraft TQC and TQD in 2015, Thai Airways has met all of its lease obligations in full. In July 2016, both aircraft, TQC and TQD, were inspected by DS Skytech Limited at Bangkok International Airport. The inspection found the aircraft to be in good condition with no significant defects or airworthiness related issues and their records are being maintained to an acceptable standard.

The two charts below give a short overview of the utilisation of airframe and engines of each of the four Aircraft:

<b>NORWEGIAN AIR SHUTTLE</b>				
<b>AIRFRAME STATUS (31<sup>th</sup> December 2016)</b>	<b>LN-LNA</b>		<b>LN-LNB</b>	
	<b>Total</b>	<b>December 2016</b>	<b>Total</b>	<b>December 2016</b>
Flight Hours	16,155	489	17,493	496
Flight Cycles	1,946	53	2,123	58
Average Monthly Utilisation	383 hours	---	434 hours	---
	46 cycles	---	53 cycles	---
Flight Hours/Flight Cycles Ratio	8.30 : 1	9.23 : 1	8.24 : 1	8.55 : 1
<b>ENGINE DATA (31<sup>th</sup> December 2016)</b>				
<b>Engine Serial Number</b>	<b>10118</b>	<b>10119</b>	<b>10130</b>	<b>10135</b>
Engine Manufacturer	Rolls-Royce	Rolls-Royce	Rolls-Royce	Rolls-Royce
Engine Type and Model	Trent 1000	Trent 1000	Trent 1000	Trent 1000
Total Time [Flight Hours]	14,393	11,880	9,828	12,418
Total Flight Cycles	1,758	1,495	1,089	1,471
Location	LNA	LNF	In shop	LNB



**THAI AIRWAYS INTERNATIONAL**

AIRFRAME STATUS (31 <sup>th</sup> December 2016)	HS-TQC		HS-TQD	
	Total	December 2016	Total	December 2016
Flight Hours	8,884	366	8,095	373
Flight Cycles	2,195	85	2,039	76
Average Monthly Utilisation	341 hours 84 cycles	---	332 hours 84 cycles	---
Flight Hours/Flight Cycles Ratio	4.05 : 1	4.31 : 1	3.97 : 1	4.91 : 1
<b>ENGINE DATA (31<sup>th</sup> December 2016)</b>				
Engine Serial Number	<b>10239</b>	<b>10240</b>	<b>10244</b>	<b>10248</b>
Engine Manufacturer	Rolls-Royce	Rolls-Royce	Rolls-Royce	Rolls-Royce
Engine Type and Model	Trent 1000	Trent 1000	Trent 1000	Trent 1000
Total Time [Flight Hours]	8,564	8,475	8,059	8,095
Total Flight Cycles	2,102	2,099	2,034	2,039
Location	TQB	In shop	In shop	TQD

**IV. THE LESSEES**

**NORWEGIAN AIR SHUTTLE ASA**

Norwegian Air Shuttle, with its headquarters in Fornebu near Oslo and offering commercial air services since 1993, is the third largest low cost carrier in Europe. In 2013, Norwegian launched long-haul services and had a fleet of 114 passenger aircraft including twelve Boeing 787s as at 30<sup>th</sup> September 2016. The airline received two Boeing 787-9s in the first and another two B787s in the second half of 2016. At the end of 2017, the airline targets to have a fleet of 21 B787s. Norwegian Air Shuttle operated as at 30<sup>th</sup> September 2016 a total of 460 routes to 130 destinations on four continents. The continuous extension of the network helps to connect people from intercontinental flights to cities across Europe. In 2016, the airline had nearly 30 million passengers transported whereby 30 per cent of intercontinental passengers transferred to intra-European flights. In the third quarter, Norwegian was elected “Europe’s Leading Low-Cost Airline” by the World Travel Awards.

In April 2016, the U.S. Department of Transportation (DOT) tentatively decided to grant a foreign air carrier permit to the carrier’s Irish subsidiary, whereas a tentative approval for Norwegian’s UK subsidiary was rejected this June. Final

decision of the application of the UK subsidiary is under review by the DOT and supported by the European Commission and the British Government respectively. The decision in regard to the Irish subsidiary had been finalised beginning on December 2016. However, the pending final approval of the UK subsidiary does not affect the carrier’s current long-haul schedule.

In the third quarter, operating revenues increased by 15 per cent to NOK 8,360 million (USD 1,039 million) and EBITDAR grew by 26 per cent to an amount of NOK 2,573 million (USD 320 million) compared to the same quarter in the previous year. Ancillary revenues per passenger increased by 10 per cent. Operating profit was NOK 1,374 million (USD 171 million), an increase of 16 per cent while net profit rose by 19 per cent to NOK 993 million (USD 123 million). Norwegian Air Shuttle continues to grow and had a passenger plus of 12 per cent in the third quarter 2016 compared to the same quarter 2015. Both capacity and demand grew by around 17 per cent and the load factor remained stable at 91 per cent. Cash and cash equivalents as at 30<sup>th</sup> September 2016 were NOK 2,233 million (USD 277 million).



In the first nine months of 2016, Norwegian Air Shuttle's operating revenue increased by 16 per cent while the EBITDAR was up 35 per cent compared to the same period the previous year. The operating profit was NOK 1,485 million (USD 184 million), an increase of 51 per cent. The net profit improved by 51 per cent to NOK 938 million (USD 117 million). The carrier had a surplus of 13 per cent in passenger numbers and of 6 per cent in ancillary revenue per passengers. Capacity rose by 15 per cent while demand increased by 18 per cent and the load factor improved by 1.7 percentage points to 88.4 per cent.

According to Norwegian, bookings and pre-sales were at a satisfactory level at the beginning of the fourth quarter. The carrier achieved the projected 18 per cent growth in ASKs for 2016 compared to the previous year. In 2017, it targets to increase ASKs by 30 per cent. The airline intends to increase its cost efficiency through the delivery of B787-9 aircraft. Whereas the B787-8 variant is an adequate aircraft to open new routes and

to be operated on routes with lower traffic volume or on routes between secondary airports, the bigger model B787-9 is suitable on established routes with strong demand and high traffic volumes. These two variants of the same aircraft family provide Norwegian with an increasing flexibility in network planning and with the ability to maximise profits with only a minor rise of fleet complexity. Furthermore, Bjorn Kjos, CEO of Norwegian Air Shuttle, confirms that the routes between the United States and London as well as Paris are in high demand. In July 2017, the carrier will add Orlando and increase frequencies on long-haul routes out of Paris. Norwegian will start long-haul operations out of Barcelona this year. Besides, the carrier announced to start operations in Argentina by late 2017 with the objective to open up to three bases and to devote 6 to 10 aircraft. Norwegian considers South America as interesting market with still little competition, especially in the low-cost market.

## THAI AIRWAYS INTERNATIONAL

Thai Airways International Public Company Limited, with its headquarters in Bangkok, is a full-service network carrier and flag carrier of the Kingdom of Thailand. It is majority-owned by the Thai Government (51.03 per cent) and had a fleet of 94 aircraft as at 30th September 2016, including six B787-8s. Two B787-9s are on order as part of its fleet renewal plan. The carrier flies from Bangkok to over 60 destinations in 34 countries.

Third quarter results for 2016 suggest that the restructuring programme (Transformation Plan) is further progressing as anticipated. Although total revenues decreased by 0.5 per cent from the previous year to THB 44.1 billion (USD 1,273 million), total expenses declined by 7.2 per cent to THB 43.6 billion (USD 1,259 million) over the same period. Interest payments decreased by 11.3 per cent and operating loss decreased from THB 4.2 billion (USD 115 million) to THB 0.8 billion (USD 23 million). This is an improvement of 80.3 per cent. The net loss was THB 1.6 billion (USD 46 million) compared to THB 9.9 billion (USD 272 million) in the third quarter 2015. The net result was influenced by THB 100 million exchange rate profit and a one-time impairment loss of

THB 600 million. While capacity had been increased by 4.8 per cent, demand rose by 3.4 per cent and therefore the load factor dropped by 0.9 percentage points to 73.5 per cent. Passenger numbers grew by 7.6 per cent and the aircraft utilisation had been improved by 7.4 per cent compared to the same quarter the previous year.

In the first three quarters of 2016, Thai Airways stated a decrease in revenues by 1.6 per cent and in costs by 7.9 per cent compared to the same period of the previous year. Fuel expenses decreased by 26.7 per cent while non-fuel expenses slightly increased by 1.4 per cent. Operating profit was THB 4.6 billion (USD 133 million) after a loss of THB 4.5 billion (USD 124 million) while net profit amounted to THB 1.5 billion (USD 43 million) after a loss of THB 18.1 billion (USD 497 million) in the same period 2015. The net result was impacted by one-off expenses and impairment losses of THB 4.3 billion. Capacity rose by 0.9 per cent and demand by 1.3 per cent respectively. Therefore the load factor slightly increased by 0.3 percentage points to 73.4 per cent. Aircraft utilisation improved by 5.6 per cent and Thai Airways transported 16.5 million passengers, an increase of 4.5 per cent.



**DP AIRCRAFT I LIMITED - SHAREHOLDER REPORT 30<sup>TH</sup> JANUARY 2017**

Cash and cash equivalents stood at THB 13.7 billion (USD 395 million). 70 per cent of Thai Airways's liabilities were in Euro (39 per cent) and Thai Baht (31 per cent) as at 30<sup>th</sup> September 2016. Furthermore, 6 per cent of total revenues and 49 per cent of total expenses were denominated in US-Dollar during the first nine months of 2016. Due to these kind of imbalances in currencies, which can be significant, Thai Airways is focusing as part of the restructuring programme "Transform" on introducing measures to minimise foreign currency losses.

In December 2016, Thai Airways has issued a THB 7 billion (USD 199 million) debenture sliced in 5 tranches with tenors between 3 and 12 years and placed with institutional and wealthy investors. The coupon rate is dependent on the term and between 2.97 and 4.66 per cent. Standard & Poor's rated the debenture with an "A" and a stable outlook. Thai has currently used THB 26 billion of the THB 40 billion programme being in effect until spring 2019. Thai Airways is pursuing its objective of returning to profitability in 2016 and to enter the third and last stage of

the restructuring plan which will put stronger emphasis on sustainable growth. This will include hiring additional cabin crew and retrofitting 6 B777-200ERs, 3 A330s and 6 B787s. The carrier intends further to improve connectivity of transfer flights to attract more foreign passengers travelling to destinations outside of Thailand. Amongst others, Thai Airways aims to closer work with Thai Smile (wholly-owned subsidiary) and the regional low-cost carrier NOK (stake of 39.2 per cent). It is in process of integrating Thai smile more strongly as to offer a more seamless connection. This comprises commercial, operational and planning functions including the move from Bangkok's Don Mueang International airport to Bangkok's new Suvarnabhumi International airport which is the home base for Thai Airways. Thai Smile will continue to operate under its own AOC (Air Operator Certificate) and code but will take the role to develop new short-haul markets. In regard to NOK, Thai Airways intends to introduce interlining. This would allow Thai's passenger to fly out from both airports of Bangkok (depending on the flight destination).

