

**DP AIRCRAFT I LIMITED**

**ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2016**

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## **COMPANY OVERVIEW**

DP Aircraft I Limited (the 'Company') was incorporated with limited liability in Guernsey under the Companies (Guernsey) Law, 2008 on 5 July 2013 with registered number 56941.

The Company was established to invest in aircraft. The Company is a holding company, and makes its investment in aircraft through four wholly owned subsidiary entities, DP Aircraft Guernsey I Limited, DP Aircraft Guernsey II Limited, DP Aircraft Guernsey III Limited and DP Aircraft Guernsey IV Limited (collectively and hereinafter, the 'Borrowers'), each being a Guernsey incorporated company limited by shares and two intermediate lessor companies, DP Aircraft Ireland Limited and DP Aircraft UK Limited (the 'Lessors'), an Irish incorporated company limited by shares and a UK incorporated private limited company respectively. The Company and its subsidiaries (the Borrowers and the Lessors) comprise the Group.

Pursuant to the Company's Prospectus dated 27 September 2013, the Company offered 113,000,000 Ordinary Shares of no par value in the capital of the Company at an issue price of US\$1.00 per Share by means of a Placing. The Company's Shares were admitted to trading on the Specialist Fund Segment (previously the Specialist Fund Market) of the London Stock Exchange on 4 October 2013 and the Company was listed on the Channel Islands Securities Exchange until 27 May 2015.

On 5 June 2015, the Company offered 96,333,333 Ordinary Shares (the 'New Shares') of no par value in the capital of the Company at an issue price of US\$ 1.0589 per Share by means of a Placing. The Company's New Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 12 June 2015.

In total there are 209,333,333 Ordinary Shares in issue with voting rights.

## **INVESTMENT OBJECTIVE & POLICY**

The Company's investment objective is to obtain income and capital returns for its Shareholders by acquiring, leasing and then, when the Board considers it appropriate, selling aircraft (the 'Asset' or 'Assets').

## **THE BOARD**

The Board comprises independent non-executive directors. The directors of the Board are responsible for managing the business affairs of the Company in accordance with the Articles of Incorporation and have overall responsibility for the Company's activities, including portfolio and risk management while the asset management of the Group is undertaken by DS Aviation GmbH & Co. KG (the 'Asset Manager').

## **THE ASSET MANAGER**

The Asset Manager has undertaken to provide the asset management services to the Company under the terms of an asset management agreement but does not undertake any regulated activities for the purpose of the UK Financial Services and Markets Act 2000.

## **DISTRIBUTION POLICY**

The Company aims to provide Shareholders with an attractive total return comprising income, from distributions through the period of the Company's ownership of the Assets, and capital, upon any sale of the Assets. The Company targets a quarterly distribution in February, May, August and November of each year. The target distribution is US\$ 0.0225 per share per quarter. Four quarterly dividends have been paid during the year ended 31 December 2016 and one has been paid subsequent to the year end, each meeting the US\$ 0.0225 per share target. The target dividends are targets only and should not be treated as an assurance or guarantee of performance or a profit forecast. Investors should not place any reliance on such target dividends or assume that the Company will make any distributions at all.

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**FACT SHEET**

<b>Ticker</b>	DPA
<b>Company Number</b>	56941
<b>ISIN Number</b>	GG00BBP6HP33
<b>SEDOL Number</b>	BBP6HP3
<b>Traded</b>	Specialist Fund Segment ('SFS') of the London Stock Exchange
<b>SFM Admission Date</b>	4-Oct-13
<b>Share Price</b>	US\$ 1.0525 at 31 December 2016
<b>Earnings per share</b>	US\$ 0.09046 for the year ended 31 December 2016
<b>Country of Incorporation</b>	Guernsey
<b>Current Shares in Issue</b>	209,333,333
<b>Administrator and Company Secretary</b>	To 18 July 2016: Fidante Partners (Guernsey) Limited From 19 July 2016: Aztec Financial Services (Guernsey) Limited
<b>Asset Manager</b>	DS Aviation GmbH & Co. KG
<b>Auditor</b>	KPMG, Chartered Accountants
<b>Corporate Broker</b>	Canaccord Genuity Limited
<b>Aircraft Registration</b>	LN-LNA LN-LNB HS-TQD HS-TQC
<b>Aircraft Serial Number</b>	35304 35305 35320 36110
<b>Aircraft Type and Model</b>	B787-8
<b>Lessees</b>	Norwegian Air Shuttle ASA ('Norwegian' or 'NAS') Thai Airways International Public Company Limited ('Thai Airways')
<b>Website</b>	<a href="http://www.dpaircraft.com">www.dpaircraft.com</a>

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## HIGHLIGHTS

### PROFIT FOR THE YEAR

Profit for the year ended 31 December 2016 is US\$ 18,937,185 (Earnings per Share US\$ 0.09046 per Share) (2015: US\$ 14,998,572 (Earnings per Share US\$ 0.08990 per Share)).

### NET ASSET VALUE ('NAV')

The NAV excluding swap liabilities was US\$ 1.00927 per Share at 31 December 2016 (2015: US\$ 1.00897).

Although the fair values of the derivatives will move over their terms, at maturity the derivatives will reduce to nil. The NAV excluding swap liabilities is therefore presented to provide what the Directors consider to be a more relevant assessment of the Group's net asset position.

	As at 31 December 2016		As at 31 December 2015	
	US\$	US\$ per share	US\$	US\$ per share
NAV per the financial statements	207,778,853	0.99257	205,653,468	0.98242
Add back:				
Derivative instrument liabilities and swap interest payable	3,496,199	0.01670	5,557,227	0.02655
NAV excluding swap liabilities	211,275,052	1.00927	211,210,695	1.00897

### DIVIDENDS

Dividends were declared on:

Date	Dividend reference period	Dividend per Share	Payment date
20 January 2016	Quarter ended 31 December 2015	US\$ 0.0225 per Share	12 February 2016
20 April 2016	Quarter ended 31 March 2016	US\$ 0.0225 per Share	20 May 2016
17 July 2016	Quarter ended 30 June 2016	US\$ 0.0225 per Share	15 August 2016
21 October 2016	Quarter ended 30 September 2016	US\$ 0.0225 per Share	14 November 2016
20 January 2017	Quarter ended 31 December 2016	US\$ 0.0225 per Share	13 February 2017

### OFFICIAL LISTING

The Company's Shares were first admitted to trading on the Official List of the Channel Islands Securities Exchange and to trading on the Specialist Fund Segment of the London Stock Exchange on 4 October 2013. The Company's Shares were delisted from the Official List of the Channel Islands Securities Exchange on 27 May 2015.

### PLACING OF SHARES

The Company placed no shares during 2016.

On 12 June 2015, 96,333,333 Shares were issued at a price of US\$ 1.0589 per Share pursuant to a Placing Agreement, dated 5 June 2015, between the Company, DS Aviation, JS Holdings GmbH & Co. KG (DS Aviation and JS Holdings together the 'Asset Manager Parties') and Canaccord Genuity (the Company's Corporate Broker) whereby Canaccord Genuity acted as agent for the Company, to procure subscribers for Shares under the Placing of Shares at the Issue Price (the 'Placing'). The Placing raised gross proceeds of US\$ 102m.

## **CHAIRMAN'S STATEMENT**

I am pleased to present Shareholders with the Annual Report and Audited Consolidated Financial Statements for the year ended 31 December 2016.

The Lessees, Norwegian and Thai Airways, have continued to meet their lease obligations and are continuing to perform as expected. There are no incidents to bring to the attention of the Shareholders concerning the operation of the aircraft and the Company continues to report a healthy performance.

The earnings per share for the year was US\$ 0.09046 per share compared to US\$ 0.08990 per share last year. The Company continued to meet its target dividends of US\$ 0.0225 per Share for the year. The Net Asset Value per Share as at 31 December 2016 was US\$ 0.99257 per share (2015: US\$ 0.98242 per share).

2016 is expected to report the highest absolute amount of net profit for the airline industry as 2017 may prove to be more challenging due to ongoing cost pressures including the expected rise in jet fuel prices. Both Norwegian and Thai Airways have announced improving results over the past year. The Asset Manager's report that follows provides a detailed overview of 2016 and the expectations for 2017.

As I indicated in the June statement, Angela Behrend-Goernemann was appointed to the Board on 1 May 2016. Angela's wealth of experience in aircraft finance and lease management now fully complement the existing areas of expertise of the other board members.

Aztec Financial Services (Guernsey) Limited was appointed as Administrator to the Company on 19 July 2016 (following the closure of Fidante Partners (Guernsey) Limited) and has continued to provide a good level of service.

The Company's annual general meeting (AGM) is scheduled for 17 July 2017.

I would like to thank our shareholders for their continued support in the Company and I and my fellow Directors are available via our Company Secretary, whose details can be found at the end of this report.

**Jon Bridel**  
**Chairman**  
**5 April 2017**

## **ASSET MANAGER'S REPORT**

### **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 US\$ 39.4 billion to US\$ 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 US\$ 5.7 trillion. The money spent for air transport is projected to equal nearly 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 US\$29.8 billion in 2017 for a number of reasons, including those mentioned above. That does still imply though that the airline industry is on course to generate an aggregated profit for the eighth year in a row. Moody's outlook on the aviation industry in 2017 remains stable, meaning movement in the range of - 20 to +20 per cent. They also expect airline operating margins to drop in 2017, but anticipate that they will remain strong in the context of historic levels.

In Europe, during the first ten months of 2016 capacity grew by 3.9 per cent and demand by 3.9 per cent. 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 US\$ 5.6 billion compared to a projected net profit of US\$ 7.5 billion in 2016.

The region of Asia-Pacific is anticipated to post an aggregated net profit of US\$ 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.

## **ASSET MANAGER'S REPORT (CONTINUED)**

### **The Aviation Market - Overview and Development (continued)**

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 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 by 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.

### **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 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 500<sup>th</sup> 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 over 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.



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**ASSET MANAGER'S REPORT (CONTINUED)**

**The Assets - Four Dreamliner Boeing 787-8s (continued)**

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 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:

AIRFRAME STATUS (31 December 2016)	Norwegian Air Shuttle			
	LN-LNA		LN-LNB	
	TOTAL	December 2016	TOTAL	December 2016
Flight Hours	16,155	489	17,493	496
Flight Cycles	1,946	53	2,123	58
Average Monthly Utilisation	383 hours 46 cycles	---	434 hours 53 cycles	---
Flight Hours/Flight Cycles Ratio	8.30 : 1	9.23 : 1	8.24 : 1	8.55 : 1
ENGINE DATA (31 December 2016)				
	10118	10119	10130	10135
Engine Serial Number	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

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**ASSET MANAGER'S REPORT (CONTINUED)**

**The Assets - Four Dreamliner Boeing 787-8s (continued)**

AIRFRAME STATUS (31 December 2016)	Thai Airways International			
	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
ENGINE DATA (31 December 2016)				
Engine Serial Number	10239	10240	10244	10248
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

**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 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 30th 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 was finalised at the beginning of December 2016. However, the pending final approval of the UK subsidiary does not affect the carrier's current long-haul schedule.

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**ASSET MANAGER'S REPORT (CONTINUED)**

**The Lessees (continued)**

***Norwegian Air Shuttle ASA (continued)***

In the third quarter, operating revenues increased by 15 per cent to NOK 8,360 million (US\$ 1,039 million) and EBITDAR grew by 26 per cent to an amount of NOK 2,573 million (US\$ 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 (US\$ 171 million), an increase of 16 per cent while net profit rose by 19 per cent to NOK 993 million (US\$ 123 million). Norwegian Air Shuttle continues to grow and had a passenger surplus 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 September 2016 were NOK 2,233 million (US\$ 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 (US\$ 184 million), an increase of 51 per cent. The net profit improved by 51 per cent to NOK 938 million (US\$ 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 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, has confirmed 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. On top of that, the carrier has announced to start operations in Argentina by late 2017 with the objective to open three bases and to which between six and ten aircraft will be devoted. Norwegian considers South America to be interesting market with still little competition, especially in the low-cost market.

***Thai Airways International PCL***

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 95 aircraft as at 31 December 2016, including six B787-8s. Two B787-9s are on order as part of its fleet renewal plan. The carrier currently flies from Bangkok to over 60 destinations in 32 countries.

## **ASSET MANAGER'S REPORT (CONTINUED)**

### **The Lessees (continued)**

#### ***Thai airways International PCL (continued)***

Third quarter results for 2016 suggest that the restructuring programme (Transformation Plan) is progressing as anticipated. Although total revenues decreased by 0.5 per cent from the previous year to THB 44.1 billion (US\$ 1,273 million), total expenses declined by 7.2 per cent to THB 43.6 billion (US\$ 1,259 million) over the same period. Interest payments decreased by 11.3 per cent and operating loss decreased from THB 4.2 billion (US\$ 115 million) to THB 0.8 billion (US\$ 23 million). This is an improvement of 80.3 per cent. The net loss was THB 1.6 billion (US\$ 46 million) compared to THB 9.9 billion (US\$ 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 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 improved by 7.4 per cent compared to the same quarter the previous year.

In the first three quarters of 2016, Thai Airways reported 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. Non-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 (US\$ 133 million) after a loss of THB 4.5 billion (US\$ 124 million) while net profit amounted to THB 1.5 billion (US\$ 43 million) after a loss of THB 18.1 billion (US\$ 497 million) in the same period 2015. The net result was impacted by one-off expenses and impairment losses of US\$ 4.3 billion. Capacity rose by 0.9 per cent and demand by 1.3 per cent. 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. Cash and cash equivalents stood at THB 13.7 billion (US\$ 395 million). 70 per cent of Thai Airways' liabilities were in Euro (39 per cent) and Thai Baht (31 per cent) as at 30 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 kinds 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 issued a THB 7 billion (US\$ 199 million) debenture sliced in 5 tranches with tenors ranges 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 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 is entering 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 other things, Thai Airways aims to work closer with Thai Smile (wholly-owned subsidiary) and NOK (stake of 39.2 per cent). It is in process of integrating Thai smile more fully in order 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 on the role of developing new short-haul markets. In regard to NOK, Thai Airways intends to introduce interlining. This would allow Thai's passengers to fly out from both airports in Bangkok (depending on the flight destination).

## **DIRECTORS**

### **Jonathan (Jon) Bridel, Non- Executive Chairman (52)**

Jon is a Guernsey resident and is currently a non-Executive Director of The Renewables Infrastructure Group Limited (FTSE 250), Alcentra European Floating Rate Income Fund Limited, Starwood European Real Estate Finance Limited, Sequoia Economic Infrastructure Income Fund Limited and Funding Circle SME Income Fund Limited which are listed on the Main Market of the London Stock Exchange. Other companies include Fair Oaks Income Fund Limited. Jon was previously Managing Director of Royal Bank of Canada's investment businesses in the Channel Islands and served as a Director on other RBC companies including RBC Regent Fund Managers Limited. Prior to joining RBC, Jon served in a number of senior management positions in banking, specialising in credit and corporate finance and private businesses as Chief Financial Officer in London, Australia and Guernsey having previously worked at Price Waterhouse Corporate Finance in London.

Jon graduated from the University of Durham with a degree of Master of Business Administration, holds qualifications from the Institute of Chartered Accountants in England and Wales (1987) where he is a Fellow, the Chartered Institute of Marketing and the Australian Institute of Company Directors. Jon is a Chartered Marketer and a member of the Chartered Institute of Marketing and the Institute of Directors and a Chartered Fellow of the Chartered Institute for Securities and Investment.

### **Jeremy Thompson, Non- Executive Director (61)**

Jeremy Thompson is a Guernsey resident with sector experience in Finance, Telecoms, Aerospace and Oil & Gas. He acts as a consultant to a number of businesses which include independent non-executive directorships for three private equity funds and to an Investment Manager serving the listed NextEnergy Solar Fund Limited. In addition Jeremy is also a non-executive director of Riverstone Energy Limited (FTSE 250). Between 2005 and 2009 he was a director of multiple businesses within a London based private equity group. This entailed board positions on both private, listed and SPV companies and highly successful exits. Prior to that he was CEO of four autonomous global businesses within Cable & Wireless PLC and earlier held CEO roles within the Dowty Group. Jeremy has studied and worked in the UK, USA and Germany.

Jeremy currently serves as chairman of the States of Guernsey Renewable Energy Team and is a commissioner of the Alderney Gambling Control Commission. He is also an independent member of the Guernsey Tax Tribunal panel. Jeremy is a graduate of Brunel (B.Sc) and Cranfield (MBA) Universities and was an invited member to the UK's senior defence course (Royal College of Defence Studies). He holds the Institute of Directors (IoD) Certificate and Diploma in Company Direction and is an associate of the Chartered Institute of Arbitration. He successfully completed an M.Sc in Corporate Governance in 2016.

### **Angela Behrend-Görnemann, Non-Executive Director (59)**

Angela started her career with Hapag-Lloyd AG and was, from 1984 until 2015, employed with HSH Nordbank AG, Hamburg, Germany as the Global Head of Aviation Finance and Global Head of Transportation Finance. In this function she was responsible for Aviation, Rail and Infrastructure Finance with more than 100 employees in teams in New York, London, Hamburg, Kiel, Singapore and Shanghai. She initiated the foundation of the Dublin based Aviation Asset Manager Amentum Capital. Between 2007 and 2011 she was Class B Manager and member of the Investment Committee of HSH Global Aircraft I S.a.r.l, Luxembourg, a closed ended Aircraft Fund. She has extensive experience in the transportation and banking industries with more than 20 years experience in aviation. Angela is resident in Germany. Angela was appointed as a non-executive director of the Company with effect from 1 May 2016.

## **DIRECTORS' REPORT**

The Directors present their Annual Report and Audited Consolidated Financial Statements for DP Aircraft I Limited for the year ended 31 December 2016.

### **Principal Activity and Review of the Business**

The Company's principal activity is to purchase, lease and then sell Boeing 787-8 Aircraft (the 'Assets'). The Company wholly owns six subsidiaries, DP Aircraft Guernsey I Limited, DP Aircraft Guernsey II Limited, DP Aircraft Guernsey III Limited, DP Aircraft Guernsey IV Limited, DP Aircraft Ireland Limited and DP Aircraft UK Limited (together the 'Group').

The investment objective of the Group is to obtain income and capital returns for the Company's shareholders by acquiring, leasing and then, when the Board considers it appropriate, selling the Assets.

The Company has made its investments in the Assets through its subsidiaries. The Ordinary Shares of the Company are admitted to trading on the Specialist Fund Segment of the London Stock Exchange.

### **Results and Dividends**

The profit for the year ended 31 December 2016 was US\$ 18.94m (year ended 31 December 2015 US\$ 15.00m). The increase is associated with this being the first full year of rental income from Thai Airways.

The Company aims to provide Shareholders with an attractive total return comprising income, from distributions through the period of the Company's ownership of the Assets, and capital, upon any sale of the Assets. The Company targets a quarterly distribution in February, May, August and November of each year. The target distribution is US\$ 0.0225 per Share per quarter. Four quarterly dividends have been paid during the year ended 31 December 2016. All the dividends paid to date have met the US\$ 0.0225 per share target. The target dividends are targets only and should not be treated as an assurance or guarantee of performance or a profit forecast.

The debt to equity ratio was 1.27 as at 31 December 2016 (2015: 1.39).

### **Subsequent Events**

On 18 January 2017 the Company declared a quarterly dividend in respect of the quarter ended 31 December 2016 of US\$ 0.0225 per ordinary share to holders of shares on the register at 29 January 2017. The ex-dividend date was 26 January 2017 with payment on 13 February 2017.

### **Directors**

The Directors of the Company, who served during the year and to date, are as shown below:

Jonathan Bridel

Jeremy Thompson

Didier Benaroya (until 21 January 2016)

Angela Behrend-Görnemann (appointed 1 May 2016)

The Board notes with regret the death of Didier Benaroya on 21 January 2016.

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**Year ended 31 December 2016**

**2016**

**DIRECTORS' REPORT (CONTINUED)**

**Directors interests**

The Directors' interests in the shares of the Company as at 31 December 2016 are set out below and there have been no changes in such interests up to the current date:

	<b>Number of ordinary shares 31 December 2016</b>	<b>Number of ordinary shares 31 December 2015</b>
Jonathan Bridel	7,500	7,500
Jeremy Thompson	15,000	15,000
Angela Behrend-Görnemann	-	-

**Principal Risks and Uncertainties**

The Statement of Principal Risks and Uncertainties are as described on page 25.

**Substantial Shareholdings**

The directors note the following substantial interests in the Company's share capital as at 31 December 2016 (10% or more shareholding):

M&G Investment Management 49,190,421 – 23.50%  
CCLA Investment Management 27,640,308 – 13.20%

As at the date of this report there have been no significant changes in the above list of substantial shareholdings.

**The Board**

The Board comprises three non-executive directors each of whom are independent.

During the year ended 31 December 2016, the Board had a breadth of experience relevant to the Company and a balance of skills experience and age. Following the sad loss of Mr Benaroya in January 2016, the Directors identified Angela Behrend-Görnemann as a suitable replacement and she was duly appointed with effect 1 May 2016.

The Board recognises the importance of diversity and will evaluate applicants to fill vacant positions regardless of gender and without prejudice. Applicants will be assessed on their broad range of skills, expertise and industry knowledge, and business and other expertise. In view of the long-term nature of the Company's investments, the Board believes that a stable board composition is fundamental to run the Company properly. The Board has not stipulated a maximum term of any directorship.

As the Company is not a FTSE 350 company, Directors are currently not subject to annual election by the shareholders nor for the requirement for the external audit contract to be put out to tender every 10 years. The Directors will offer themselves by rotation for re-election at each annual general meeting ('AGM'). Jeremy Thompson and Angela Behrend-Görnemann were re-elected at the AGM on 18 July 2016. Jonathan Bridel is offering himself for re-election at the forthcoming AGM.

The Directors are on a termination notice of three months.



## **DIRECTORS' REPORT (CONTINUED)**

### **Directors' Duties and Responsibilities**

The Board of Directors has overall responsibility for the Company's affairs and is responsible for the determination of the investment policy of the Company, resolving conflicts and for monitoring the overall portfolio of investments of the Company. To assist the Board in the day-to-day operations of the Company, arrangements have been put in place for the performance of certain of the day-to-day operations of the Company to third-party service providers, such as the Administrator and Company Secretary, under the supervision of the Board. The Board receives full details of the Company's assets, liabilities and other relevant information in advance of Board meetings.

The Board undertakes an annual evaluation of its own performance and the performance of its audit committee and individual Directors, to ensure that they continue to act effectively and efficiently and to fulfil their respective duties, and to identify any training requirements. The results of the most recent evaluation have been reviewed by the Chairman and his fellow directors. No significant corporate governance issues arose from this review.

The Board will also undertake an annual review of the effectiveness of the Company's system of internal controls and the safeguarding of shareholders' investments and the Company's assets. At each quarterly meeting the Board will table and review a risk matrix. There is nothing to highlight from the reviews of these reports as at the date of this report.

Jeremy Thompson was appointed as Senior Independent Director on 1 April 2016.

### **Board Meetings**

The Board meets at least four times a year to consider the business and affairs of the Company for the previous quarter. Between these quarterly meetings the Board keeps in contact by email and telephone as well as meeting to consider specific matters of a transactional nature. There is regular contact with the Secretary.

The Directors are kept fully informed of investment and financial controls and other matters that are relevant to the business of the Company. The Directors also have access, where necessary in the furtherance of their duties, to professional advice at the expense of the Company.

The Board considers agenda items laid out in the Notice and Agenda which are formally circulated to the Board in advance of any meeting as part of the board papers. Such items include but are not limited to; investment performance, share price performance, review of marketing and shareholder communication. The Directors may request any Agenda items to be added that they consider appropriate for Board discussion. In addition, each Director is required to inform the Board of any potential or actual conflict of interest prior to Board discussion. Board meetings are attended by representatives of the Asset Manager. The Company's corporate brokers also attend to assist the Directors in understanding the views of major shareholders about the Company.

### **Directors Remuneration**

The remuneration of the non-executive directors is reviewed on an annual basis and compared with the level of remuneration for directorships of other similar funds.

In March 2016 the board reviewed the current director fee levels (inclusive of all subsidiaries) and whilst it recognised there was a trend for increased fees over the past year it was decided to maintain total annual fees as the group currently stands for the next twelve months subject to currency movements if any fees are not paid in Sterling. However, it was agreed to restructure and simplify the fees to better reflect the seniority, experience and responsibilities of the board with effect from 1 April 2016. On this basis, the revised base fee for the Chairman is £35,000 (previously £27,500) with the Audit Chairman receiving £25,000 (£22,500) with a base director fee of £20,000 (£20,000). The fees for all subsidiary positions including the leasing companies would be set at £5,000 each, reducing the total fee for subsidiaries by £10,000 per annum. The total fees in Sterling terms are £150,000 (£150,000). On appointment of Angela Behrend-Görnemann on 1 May 2016, it was agreed to pay her fees in Euro.



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**DIRECTORS' REPORT (CONTINUED)**

**Directors Remuneration (continued)**

Following the annual review of Directors fees applicable from 1 April 2017, fees are to be increased by 2.5 per cent per annum subject to approval at the forthcoming AGM.

During the current and prior year each Director received the following remuneration in the form of Director fees from Group companies:

	Year ended 31 December 2016		Year ended 31 December 2015	
	£	US\$ equivalent	£	US\$ equivalent
Didier Benaroya (until 21 January 2016)	3,333	4,869	57,000	86,368
Jonathan Bridel (Chairman)	53,125	71,924	47,424	73,328
Jeremy Thompson (Audit Committee Chairman)	44,375	60,185	42,424	65,614
Angela Behrend-Görnemann (appointed 1 May 2016)	33,333	48,391	-	-
	£ 134,166	US\$ 185,369	£ 146,848	US\$ 225,310

There are no executive director service contracts in issue.

**Internal Controls and Risk Management Review**

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board confirms that there is an ongoing process for identifying, evaluating and monitoring the significant risks faced by the Company.

The Board carries out an annual review of internal controls. The internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against misstatement and loss.

Administration and Secretarial duties for the Company were performed by Fidante Partners (Guernsey) Limited until 18 July 2016 and Aztec Financial Services (Guernsey) Limited from 19 July 2016.

The Directors of the Company clearly define the duties and responsibilities of their agents and advisors. The appointment of agents and advisers is conducted by the Board after consideration of the quality of the parties involved and the Board monitors their ongoing performance and contractual arrangements.

**Dialogue with Shareholders**

All holders of Shares in the Company have the right to receive notice of, and attend, all general meetings of the Company, during which the Directors are available to discuss issues affecting the Company. The Directors are available to enter into dialogue with shareholders and make themselves available for such purpose when reasonably required. The Company believes such communications to be important. Reports are provided to the Board of Directors on shareholders' views about the Company and any issues or concerns they might have.

**Board Policy on Tenure and Independence**

The Board has not yet formed a policy on tenure however, it does consider the independence of each Director on an annual basis during the performance evaluation process.

**Auditor**

KPMG, Ireland, Chartered Accountants have indicated their willingness to continue in office. Accordingly a resolution proposing their reappointment will be submitted at the Company's next annual general meeting.

## **DIRECTORS' REPORT (CONTINUED)**

### **Going Concern**

The lease rental income has been set at an aggregate absolute income stream in excess of the Group's expenses, distributions and financing costs. The Directors are of the opinion that the affairs of the company are suitably structured to enable the Going Concern basis to be adopted in the preparation of these financial statements.

### **Viability Statement**

The Financial Reporting Council's, UK Corporate Governance Code ("FRC") requires boards to include a 'viability statement' in the strategic report to investors. The viability statement is to provide an improved and broader assessment of long-term solvency and liquidity. It is expected that the statement will look forward significantly longer than 12 months and the Board has therefore deemed a three year period of review is appropriate.

The Directors have therefore conducted a robust assessment of the viability of the Company over a three year period, taking account of the Company's current position and the potential impact of the principal risks outlined below.

In making this statement, the Directors have considered the resilience of the Company, taking into account its current position, the principal risks facing the Company in severe but reasonable scenarios and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

These factors were subjected to a review of different scenarios based on the key assumptions underlying the forecast. Where appropriate, this analysis was carried out to evaluate the potential impact of the Company's principal risks actually occurring, primarily non payment of leases or significant impairment of aircraft values. The Board of Directors have also considered the investment strategy of the Company and the disclosure made in the Prospectus issued during 2015.

The Directors continue to consider that an investment in the Company should be regarded as long term in nature and is suitable only for sophisticated investors, investment professionals, high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts and private clients (all of whom will invest through brokers), in each case, who can bear the economic risk of a substantial or entire loss of their investment and who can accept that there may be limited liquidity in the Shares.

The Directors regularly review the timeliness of receipt of the aircraft rental income. The Directors consider quarterly consolidated management accounts that include the cash flow required for dividend purposes and for the purposes of establishing suitable working capital requirements.

The Directors consider that the Notes to the Financial Statements are integral to the support of the Viability Statement. Note 4 discloses the expected rental income up to and in excess of five years hence. Note 18 contains the expected liability flows and when netted off demonstrates significant net assets, prior to any future dividend declarations under normal circumstances.

From the information provided to, and questions posed by the Directors, the Directors have concluded that there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 December 2019.

### **Annual General Meeting**

The Annual General Meeting of the Company will be held in Guernsey on 17 July 2017 at East Wing, Trafalgar Court, Les Banques, St Peter Port, Guernsey. The meeting will be held to receive the Annual Report and Audited Consolidated Financial Statements, re-elect Directors, propose the reappointment of the auditor and that the Directors be authorised to determine the auditor's remuneration and approve the Directors remuneration.

## **DIRECTORS' REPORT (CONTINUED)**

### **Corporate Governance**

The Company is not required to comply with any particular corporate governance codes in the UK or Guernsey (since it is not authorised or regulated by the FCA or GFSC) but the Directors take corporate governance seriously and will have regard to relevant corporate governance standards in determining the Company's governance policies including without limitation in relation to corporate reporting, risk management and internal control procedures.

The Directors intend to comply, and ensure that the Company complies, with any obligations under the Companies (Guernsey) Law, 2008 and the Articles to treat shareholders fairly as between themselves.

### *Directors' Share Dealings*

The Board has agreed to adopt and implement a Model Code for Directors' dealings. The Board will be responsible for taking all proper and reasonable steps to ensure compliance with the Model Code by the Board.

### **Board Committees**

The Board of Directors has established an audit committee, which operates under detailed terms of reference, copies of which are available on request from the Company Secretary.

### **Alternative Investment Fund Managers Directive ("AIFMD")**

In July 2013 the European Alternative Investment Fund Management Directive ('AIFMD') came into effect with transitional provisions until July 2014. The Company has elected to be a 'self-managed' Guernsey Alternative Investment Fund ('AIF') and as such will be treated as a non-EU AIFM for the purposes of the Directive. The Company has registered with the Financial Conduct Authority (and notified the Guernsey Financial Services Commission) under the AIFMD (Marketing) Rules, 2013.

For a non-EEA AIFM that has over EUR100K (equivalent to US\$ 105k at 31 December 2016) of net assets under management and also utilises leverage, certain Annual Investor Disclosures are required.

For the purpose of AIFMD, the Company is a Self-Managed Alternative Investment Fund Manager with assets above the EUR100k (equivalent to US\$ 105k at 31 December 2016), with leverage, threshold.

AIFMD does not prescribe use of any one particular accounting standard however, the accounts must be audited by an auditor empowered by law to audit the accounts in accordance with the EU Statutory Audit Directive.

The required disclosures for investors are contained within the Financial Conduct Authority checklist and the Company's compliance therewith can be found on page 62, Appendix 1 to these financial statements.

### **Brexit**

The Directors do not expect the decision of the UK to withdraw from the EU to have a significant impact on the Company given the nature of its operations. They will, however, continue to monitor the airline industry and any impact on the Company as the process for leaving the EU progresses.

By order of the Board

Jon Bridel  
Director

Jeremy Thompson  
Director

## **REPORT OF THE AUDIT COMMITTEE**

On the following pages, we present the Audit Committee (the 'Committee') Report for 2016, setting out the Committee's structure and composition, principal duties and key activities during the year. The Committee has reviewed the Company's financial reporting, the independence and effectiveness of the independent auditor (the 'auditor') and the internal control and risk management systems of service providers.

The Board is satisfied that for the period under review and thereafter the Committee has recent and relevant commercial and financial knowledge sufficient to satisfy the requirements of the Committee's remit.

### **Structure and Composition**

The Committee is chaired by Mr Thompson and its other members are Messrs Bridel, Benaroya (until 21 January 2016) and Ms Behrend-Görnemann (from 1 May 2016). The Committee operates within clearly defined terms of reference.

The Committee conducts formal meetings not less than three times a year. There were five meetings during the period under review. All Directors were present and forming part of the quorum. The auditor is invited to attend those meetings at which the annual and interim reports are considered.

### Principal Duties

The role of the Committee includes:

- monitoring the integrity of the published financial statements of the Group;
- keeping under review the consistency and appropriateness of accounting policies on a year to year basis.
- satisfying itself that the annual accounts, the interim statement of financial results and any other major financial statements issued by the Group follow International Financial Reporting Standards and give a true and fair view of the Group and its subsidiaries affairs; matters raised by the external auditors about any aspect of the accounts or, of the Group's control and audit procedures, are appropriately considered and, if necessary, brought to the attention of the board, for resolution;
- monitoring and reviewing the quality and effectiveness of the auditor and their independence;
- considering and making recommendations to the Board on the appointment, reappointment, replacement and remuneration of the Group's auditor;
- monitoring and reviewing the internal control and risk management systems of the service providers; and
- considering at least once a year whether there is a need for an internal audit function.

The complete details of the Committee's formal duties and responsibilities are set out in the Committee's terms of reference, a copy of which can be obtained from the Secretary.

### Independent Auditor

The Committee is also the forum through which the auditor reports to the Board of Directors. The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the terms under which it is appointed to perform non audit services including fees. The Committee has established pre-approval policies and procedures for the engagement of KPMG, Ireland ('KPMG') to provide non-audit services. KPMG has been the independent auditor from the date of the initial listing on the Specialist Fund Segment of the London Stock Exchange.

## **REPORT OF THE AUDIT COMMITTEE (CONTINUED)**

### Independent Auditor (continued)

The audit fees proposed by the auditor each year are reviewed by the Committee taking into account the Group's structure, operations and other requirements during the year and the Committee make appropriate recommendations to the Board. The Committee considers KPMG to be independent of the Company. The Committee also met with the external auditors without the Asset Manager or Administrator being present so as to provide a forum to raise any matters of concern in confidence.

### Evaluations or Assessments made during the year

The following sections discuss the assessments made by the Committee during the year:

### Significant Areas of Focus for the Financial Statements

The Committee's review of the interim and annual financial statements focused on:

- Valuation of the Company's Assets
- Lease and loan cash flows
- The financial statements giving a true and fair view and being prepared in accordance with International Financial Reporting Standards and the Companies (Guernsey) Law, 2008

The Company's investment in the four aircraft represents substantially all of the net assets of the Company and as such is the biggest factor in relation to the accuracy of the financial statements. The 31 December 2016 valuations of the four aircraft have been independently obtained from three independent expert valuers (all certified by the International Society of Transport Aircraft Trading 'ISTAT'). Two of the independent expert valuers included encumbered economic full-life valuations in their valuations. These were in excess of the encumbered depreciated value indicated within the Company's Statement of Financial Position. An encumbered valuation assesses the value of an aircraft with a lease attached and therefore incorporates the value of the revenue stream into the aircraft valuation. As a result of the valuations obtained, the Directors resolved to adhere to the straight-line depreciated value method as at 31 December 2016.

### Effectiveness of the Audit

The Committee had formal meetings with KPMG during the period under review:

- 1) Before the start of the audit to discuss formal planning, discuss any potential issues and agree the scope that will be covered, and
- 2) After the audit work was concluded to discuss any significant matters such as those stated above.

The Board considered the effectiveness and independence of KPMG by using a number of measures, including but not limited to:

- the audit plan presented to them before the start of the audit;
- the audit results report;
- changes to audit personnel;
- the auditor's own internal procedures to identify threats to independence;
- feedback from both the Asset Manager and Administrator.

### **Internal Audit**

There is no internal audit function. As all of the Directors are non-executive and all of the Company's administration functions have been delegated to independent third parties, the Audit Committee considers that there is no need for the Company to have an internal audit function. However, this matter is reviewed periodically.

## **REPORT OF THE AUDIT COMMITTEE (CONTINUED)**

### **Conclusion and Recommendation**

After reviewing various reports such as the operation and risk management framework and performance reports from management, liaising where necessary with KPMG, and assessing the significant areas of focus for the financial statements listed on page 24, the Committee is satisfied that the financial statements appropriately address the critical judgements and key estimates (both in respect to the amounts reported and the disclosures).

The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust. The independent auditor reported to the Committee that no material misstatements were found in the course of its work. Furthermore, the Administrator confirmed to the Committee that they were not aware of any material misstatements including matters relating to presentation.

The Committee confirms that it is satisfied that the independent auditor has fulfilled its responsibilities with diligence and professional scepticism. Following the completion of the accounts review process on the effectiveness of the independent audit and the review of audit services, the Committee will recommend that KPMG be reappointed at the next Annual General Meeting.

For any questions on the activities of the Committee not addressed in the foregoing, a member of the Committee will attend each Annual General Meeting to respond to such questions.

By order of the Audit Committee

Jeremy Thompson  
Audit Committee Chairman

## **STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES**

### **Asset risk**

The Company's Assets comprise of four Boeing 787-8 aircraft.

The Boeing 787-8 is a newly developed generation of aircraft and therefore there is insufficient experience and data currently available to be able to give a complete assessment of the long-term use and operation of the aircraft. The Group is exposed to the used aircraft market of the 787-8, which at this time is untested.

### **Market risk**

The airline industry is particularly sensitive to changes in economic conditions and is highly competitive; risks affecting the airline industry generally could affect the ability of Norwegian or Thai Airways to comply with its obligations under the Leases (or any subsequent lease).

There is no guarantee that, upon expiry of the leases, the Assets could be sold for an amount that would enable shareholders to realise a capital profit on their investment or to avoid a loss. Costs regarding any future re-leasing of the assets would depend upon various economic factors and would be determinable only upon an individual re-leasing event.

### **Key personnel risk**

The ability of the Company to achieve its investment objective is significantly dependent upon the advice of certain key personnel at DS Aviation GmbH & Co. KG; there is no guarantee that such personnel will be available to provide services to the Company for the scheduled term of the Lease or following the termination of the Lease. However, Key Man clauses within the Asset Management agreement do provide a base line level of protection against this risk.

### **Credit risk & Counterparty risk**

Credit risk is the risk that a significant counterparty will default on its contractual obligations. The Group's most significant counterparties are Norwegian and Thai Airways as lessees and providers of income and Norddeutsche Landesbank Girozentrale ('NordLB') and DekaBank Deutsche Girozentrale ('DekaBank') as holder of the Group's cash and restricted cash. The lessees do not maintain a credit rating. The credit rating of NordLB is Baa1 (2015: Aa3) and the credit rating of DekaBank is Aa3 (2015: Aa3).

Norwegian's stated strategy of providing low-cost long haul flights may not be successful; failure of this strategy, or of any other material part of Norwegian's business, may adversely affect Norwegian's ability to comply with its obligations under the leases.

There is no guarantee that the business model of Thai Airways will be successful. Failure of any material part of the business model may have an adverse impact on its ability to comply with its obligations under the leases.

Any failure by Norwegian or Thai Airways to pay any amounts when due would have an adverse effect on the Group's ability to comply with its obligations under the loan agreements, could ultimately have an impact on the Company's ability to pay dividends and could result in the lenders enforcing their security and selling the relevant Assets on the market potentially negatively impacting the returns to investors. In mitigation, Norwegian is the second largest airline in Scandinavia and the third largest low-cost airline in Europe and Thai Airways is an International full service carrier.

**STATEMENT OF PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

**Liquidity risk**

In order to finance the purchase of the Assets, the Group has entered into four separate loan agreements pursuant to which the Group has borrowed an initial amount of US\$ 316,600,000 in total. Pursuant to the loan agreements, the lenders are given first ranking security over the Assets. Under the provisions of each of the loan agreements, the Borrowers are required to comply with loan covenants and undertakings. A failure to comply with such covenants or undertakings may result in the relevant lenders recalling the relevant loan. In such circumstances, the Group may be required to sell the relevant Asset to repay the outstanding relevant loan.

More detailed explanations of the above risks can be found within note 18 to the Audited Consolidated Financial Statements on pages 50 to 55 of this report.



## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Directors' Report and the Financial Statements in accordance with applicable law and regulations.

The Companies (Guernsey) Law, 2008 permits the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements are required by law to comply with the Companies (Guernsey) Law, 2008.

The Company is also responsible for ensuring its Annual Report and Audited Consolidated Financial Statements meet the requirements of the UK's FCA Disclosure and Transparency Rules.

The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements are properly prepared and comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

So far as each of the Directors is aware, there is no relevant information of which the Company's auditor is unaware, and they have taken all the steps they ought to have taken as Directors to make themselves aware of any relevant information and to establish that the Company's auditor is aware of that information.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for the maintenance and integrity of the Corporate and Financial information included on the Company's website. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES**

In accordance with the UK's FCA Disclosure and Transparency Rules, the Directors, who are listed on page 14, confirm that to the best of each person's knowledge and belief:

- (a) The Directors' Report includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that the Group faces; and
- (b) The financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group.

Signed on behalf of the Board by

Jon Bridel  
Director

Jeremy Thompson  
Director

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DP AIRCRAFT I LIMITED**

We have audited the consolidated financial statements (the "financial statements") of DP Aircraft I Limited (the "Company") and subsidiaries (together and hereinafter the "Group") for the year ended 31 December 2016 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the statement of directors' responsibilities set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2016 and of its profit for the year then ended;
- are in accordance with International Financial Reporting Standards as adopted by the EU; and
- comply with the Companies (Guernsey) Law, 2008.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DP AIRCRAFT I LIMITED (CONTINUED)**

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the Company has not kept proper accounting records; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations, which to the best of our knowledge and belief are necessary for the purpose of our audit.

**Killian J. Croke**

5 April 2017

for and on behalf of

**KPMG**

**Chartered Accountants, Statutory Audit Firm**

*1 Harbourmaster Place*

*IFSC*

*Dublin 1*

*Ireland*

**DP AIRCRAFT I LIMITED**

**ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 December 2016**

**2016**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
<b>Revenue</b>			
Lease rental income	4	57,208,260	44,449,970
<b>Expenses</b>			
Asset management fees	21	(935,238)	(730,131)
Asset Manager's disposal fee	21	(251,274)	(349,238)
General and administrative expenses	5	(807,553)	(791,416)
Depreciation	9	(18,783,026)	(15,031,252)
Amortisation	9	(4,362,020)	(1,606,841)
		(25,139,111)	(18,508,878)
Operating profit		32,069,149	25,941,092
Finance costs	6	(13,170,838)	(10,916,726)
Finance income		79,460	5,344
<b>Net Finance Costs</b>		(13,091,378)	(10,911,382)
Profit before tax		18,977,771	15,029,710
Taxation	7	(40,586)	(31,138)
Profit for the year		18,937,185	14,998,572
<b>Other Comprehensive Income / (Expense)</b>			
<b>Items that are or may be reclassified to profit or loss</b>			
Cash flow hedges – changes in fair value	18	(639,574)	(3,547,741)
Cash flow hedges – reclassified to profit or loss	18	2,667,774	3,296,872
<b>Total Other Comprehensive Income / (Expense)</b>		2,028,200	(250,869)
<b>Total Comprehensive Income for the year</b>		<b>20,965,385</b>	<b>14,747,703</b>
		US\$	US\$
Earnings per Share for the year – basic and diluted	8	0.09046	0.08990

All the items in the above statement derive from continuing operations.

All income is attributable to the Ordinary Shares of the Company.

The notes on pages 32 to 58 form an integral part of these financial statements.

**DP AIRCRAFT I LIMITED**

**ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 December 2016**

**2016**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 31 December 2016

	Note	2016 US\$	2015 US\$
<b>NON-CURRENT ASSETS</b>			
Property, Plant and Equipment – Aircraft	9	430,502,974	449,286,000
Intangible Asset – Aircraft Lease Premium	9	39,465,539	43,827,559
Total non-current assets		469,968,513	493,113,559
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		9,011,045	7,777,349
Restricted cash	10	35,918,011	24,941,300
Trade and other receivables		50,733	33,000
Total current assets		44,979,789	32,751,649
<b>TOTAL ASSETS</b>		<b>514,948,302</b>	<b>525,865,208</b>
<b>EQUITY</b>			
Share Capital	14	210,556,652	210,556,652
Retained Earnings	15	616,483	519,298
Hedging Reserve	15	(3,394,282)	(5,422,482)
Total equity		207,778,853	205,653,468
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	13	240,239,740	263,559,583
Maintenance reserves		22,569,978	11,672,259
Security deposits	11	13,264,420	13,264,420
Derivative instrument liabilities	18	3,394,282	5,422,482
Share based disposal fee	21	600,512	349,238
Total non-current liabilities		280,068,932	294,267,982
<b>CURRENT LIABILITIES</b>			
Bank borrowings	13	23,986,255	22,910,919
Deferred income	4	2,681,426	2,598,554
Trade and other payables	12	432,836	434,285
Total current liabilities		27,100,517	25,943,758
<b>TOTAL LIABILITIES</b>		<b>307,169,449</b>	<b>320,211,740</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>514,948,302</b>	<b>525,865,208</b>

The financial statements on pages 28 to 58 were approved by the Board of Directors and were authorised for issue on 5 April 2017. They were signed on its behalf by:

**Jon Bridel**  
Chairman

**Jeremy Thompson**  
Director

The notes on pages 32 to 58 form an integral part of these financial statements.

**DP AIRCRAFT I LIMITED**

**ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 December 2016**

**2016**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2016

	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Profit for the year	18,937,185	14,998,572
<i>Adjusted for:</i>		
Depreciation	18,783,026	15,031,252
Amortisation	4,362,020	1,606,841
Amortisation of deferred finance costs	292,825	228,530
Finance costs	12,878,013	10,688,196
Income tax expense	40,586	31,138
<i>Changes in:</i>		
Increase in maintenance reserve	10,897,719	10,630,167
Increase in security deposit	-	6,864,420
Increase in deferred income	82,872	1,475,790
Increase in Asset Manager's disposal fee	251,274	349,238
Increase in accruals and other payables	8,026	100,452
Increase in receivables	(17,733)	(3,067)
Income taxes paid	(17,233)	(1,395)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>66,498,580</b>	<b>62,000,134</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of Aircraft	-	(256,129,654)
Restricted cash	(10,976,711)	(17,499,208)
<b>NET CASH FLOW USED IN INVESTING ACTIVITIES</b>	<b>(10,976,711)</b>	<b>(273,628,862)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(18,840,000)	(14,505,000)
Share issue proceeds	-	102,007,365
Share issue costs	-	(2,335,933)
New bank borrowings	-	157,000,000
Bank loan principal repaid	(22,520,131)	(15,708,387)
Bank loan interest paid	(10,227,440)	(7,181,903)
Swap interest paid	(2,700,602)	(3,313,827)
Deferred finance costs paid	-	(1,603,158)
<b>NET CASH FLOW (USED IN) / FROM FINANCING ACTIVITIES</b>	<b>(54,288,173)</b>	<b>214,359,157</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>7,777,349</b>	<b>5,046,920</b>
Increase in cash and cash equivalents	1,233,696	2,730,429
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>9,011,045</b>	<b>7,777,349</b>

The notes on pages 32 to 58 form an integral part of these financial statements.

**DP AIRCRAFT I LIMITED**

**ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Year ended 31 December 2016**

**2016**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2016

	Note	Share capital US\$	Retained Earnings US\$	Hedging Reserve US\$	Total Equity US\$
As at 1 January 2016		210,556,652	519,298	(5,422,482)	205,653,468
<b>Total comprehensive income for the year</b>					
Profit for the year		-	18,937,185	-	18,937,185
Other comprehensive income		-	-	2,028,200	2,028,200
Total comprehensive income		-	18,937,185	2,028,200	20,965,385
<b>Transactions with owners of the Company</b>					
Dividends	16	-	(18,840,000)	-	(18,840,000)
As at 31 December 2016		210,556,652	616,483	(3,394,282)	207,778,853
As at 1 January 2015		110,885,220	25,726	(5,171,613)	105,739,333
<b>Total comprehensive income for the year</b>					
Profit for the year		-	14,998,572	-	14,998,572
Other comprehensive expense		-	-	(250,869)	(250,869)
Total comprehensive income		-	14,998,572	(250,869)	14,747,703
<b>Transactions with owners of the Company</b>					
Issue of ordinary shares	14	102,007,365	-	-	102,007,365
Share issue costs	14	(2,335,933)	-	-	(2,335,933)
Dividends	16	-	(14,505,000)	-	(14,505,000)
As at 31 December 2015		210,556,652	519,298	(5,422,482)	205,653,468

The notes on pages 32 to 58 form an integral part of these financial statements.

**2016**

**DP AIRCRAFT I LIMITED**  
**ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL**  
**STATEMENTS**  
**Year ended 31 December 2016**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2016

**1) GENERAL INFORMATION**

The consolidated audited financial statements ('financial statements') incorporate the results of the Company and that of wholly owned subsidiary entities, DP Aircraft Guernsey I Limited, DP Aircraft Guernsey II Limited, DP Aircraft Guernsey III Limited, DP Aircraft Guernsey IV Limited (collectively and hereinafter, the 'Borrowers'), each being a Guernsey Incorporated company limited by shares and two intermediate lessor companies, DP Aircraft Ireland Limited and DP Aircraft UK Limited (the 'Lessors'), an Irish incorporated company limited by shares and a UK incorporated private limited company respectively.

DP Aircraft I Limited (the 'Company') was incorporated on 5 July 2013 with registered number 56941. The Company was listed on the Channel Islands Securities Exchange until 27 May 2015 and is admitted to trading on the Specialist Fund Segment of the London Stock Exchange.

The Share Capital of the Company comprises 209,333,333 Ordinary Shares (2015: 209,333,333) of no par value and one Subordinated Administrative Share of no par value.

The Company's investment objective is to obtain income and capital returns for its Shareholders by acquiring, leasing and then, when the Board considers it appropriate, selling aircraft.

The financial statements were approved by the Board of Directors and authorised for issue on 5 April 2017.

**2) SIGNIFICANT ACCOUNTING POLICIES**

**a) *Basis of preparation***

These financial statements are prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) issued by the International Accounting Standards Board ('IASB') and to the extent they have been adopted by the European Union.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 3.

The financial statements are presented in United States Dollars (US\$) which is also the functional currency of the Company and its subsidiaries.

**Basis of Measurement**

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value and designated as hedging instruments.

**Going concern**

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors believe the Group is well placed to manage its business risks successfully as the interest on the Group's loans have been fixed with the bank or via an interest rate swap and the lease rental income and supplemental rental income have been set at an aggregate absolute income stream in excess of the Group's expenses, distributions and financing costs. Accordingly, the Directors have prepared the financial statements on the going concern basis. The Directors are not aware of any material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**a) Basis of preparation (continued)**

New standards, interpretations and amendments effective from 1 January 2016

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 January 2016 that impacted the Group's accounting policies.

New standards, interpretations and amendments in issue but not yet effective

There are a number of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2017 which will be adopted from their effective date. Those which may have an effect on the Group's future financial statements are set out below:

*IFRS 9 Financial Instruments*

IFRS 9 Financial Instruments is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. The package of improvements introduced by IFRS 9 includes a new model for classification and measurement, a single, forward-looking 'expected loss' impairment model for financial assets held at amortised cost and a substantially-reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after 1 January 2018.

IFRS 9 is not expected to require any changes in the classification or measurement of the group's financial instruments. Furthermore, given the Group's only financial assets are restricted cash and cash and cash equivalents, the replacement of the incurred loss model in IAS 39 with a forward looking approach is not expected to have a material or significant impact on the Group.

Hedge accounting under IFRS 9 adopts a more principle based approach than that under IAS 39. The quantitative effectiveness test under IAS 39 has been removed and replaced with a number of other effectiveness requirements which must all be met. The Directors fully expect the interest rate swap derivatives to meet the effectiveness requirements in IFRS 9 and the Group will therefore be able to continue to hedge account for these instruments.

*IFRS 15 Revenues from Contracts with customers*

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations and is effective for annual periods beginning on or after 1 January 2018. As the Group's revenue is solely derived from leases, the application of IFRS 15 is not expected to change the nature or timing of revenue recognised.

*IFRS 16 Leases*

IFRS 16 Leases is the IASB's replacement of IAS 17 Leases which eliminates the classification by a lessee of leases as either operating or finance. Instead all leases are treated in a similar way to finance leases in accordance with IAS 17. The standard's approach to lessor accounting is substantially unchanged from IAS 17 and as such is not expected to have a significant impact on the Group. The standard has not yet been endorsed by the EU and is effective for annual periods beginning on or after 1 January 2019.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Basis of consolidation**

The financial statements incorporate the financial statements of the Company and the subsidiary undertakings controlled by the Company made up to 31 December each year. Control is achieved where the Company has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of the investor's returns.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**c) Taxation**

The Company and the Guernsey subsidiaries are exempt from taxation in Guernsey and are charged an annual exemption fee of £1,200 (2015: £1,200).

DP Aircraft Ireland Limited is subject to resident taxes in Ireland. DP Aircraft UK Limited is subject to income tax in the United Kingdom.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

**d) Property, plant and equipment – Aircraft and related premium**

Upon delivery, aircraft (the 'Assets') are initially recognised at cost plus initial direct costs which may be capitalised under IAS 16. In accounting for property, plant and equipment, the Group makes estimates about the expected useful lives, the fair value of attached leases and the estimated residual value of aircraft. In estimating useful lives, fair value of leases and residual value of aircraft, the Group relies upon actual industry experience, supported by estimates received from independent appraisers, with the same or similar aircraft types and considering anticipated utilisation of the aircraft.

When an aircraft is acquired with a lease attached, an evaluation of whether the lease is at fair value is undertaken. The contractual lease rate is compared to a range of current market lease rates for similar aircraft. A lease premium is recognised when it is determined that the acquired lease terms are above fair value. Lease premiums are recognised as Aircraft Lease Premium in non-current assets and are amortised to profit or loss on a straight line basis over the term of the lease. Lease discounts are recognised in other liabilities and accounted as additional rental revenue on a straight line basis over the term of the lease.

The Group's policy is to depreciate the Assets over their remaining lease life (given the intention to sell the Assets at the end of each respective lease) to an appraised residual value at the end of the lease. Residual values are reviewed annually and such estimates are supported by future values determined by three external valuations and discounted by the inflation rate incorporated into those valuations (2015: 50 per cent of the purchase cost, supported by external valuations), see note 3 for further details.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) *Property, plant and equipment – Aircraft and related premium (continued)***

In accordance with IAS 16 - Property, Plant and Equipment, the Group's aircraft that are to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the aircraft may not be recoverable. An impairment review involves consideration as to whether the carrying value of an aircraft including related assets is not recoverable and is in excess of its fair value. In such circumstances a loss is recognised as a write down of the carrying value of the aircraft to the higher of value in use and fair value less cost to sell. The review for recoverability has a level of subjectivity and requires the use of judgement in the assessment of estimated future cash flows associated with the use of an item of property, plant and equipment and its eventual disposition. Future cash flows are assumed to occur under the prevailing market conditions and assume adequate time for a sale between a willing buyer and a willing seller. Expected future lease rates are based upon all relevant information available, including the existing lease, current contracted rates for similar aircraft, appraisal data and industry trends.

**e) *Financial Instruments***

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations, specified in the contract, expire or are discharged or cancelled. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire, are extinguished, or if the Group transfers the financial assets to a third party and transfers all the risks and rewards of ownership of the asset, or if the Group does not retain control of the asset and transfers substantially all the risk and rewards of ownership of the asset.

Derivative financial instruments

The Group has two interest rate swaps in order to provide for fixed-rate interest to be payable in respect of two of the bank loans, matching the timing of the scheduled fixed rental payments under the two Leases. Interest rate swaps have been entered into to provide for certainty of cash flow and elimination of volatility.

On initial designation of the derivative as a hedging instrument the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the cash flows attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% – 125%.

Fair value movements on the derivative instruments are recorded as other comprehensive income in the consolidated statement of comprehensive income, to the extent they are effective. The fair value of the derivative instruments are recorded as "derivative liabilities" or "derivative assets" in the consolidated statement of financial position.

The swap interest charged in the year is reclassified from other comprehensive income and recognised in profit or loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) *Financial Instruments (continued)***

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, restricted cash, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest rate method, less any impairment losses in the case of financial assets.

Fair values of non-derivative financial instruments, which are determined for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Financial Assets – Loans and receivables

- i. Cash and cash equivalents comprise cash balances held for the purpose of meeting short term cash commitments and investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Where investments are categorised as cash equivalents, the related balance has a maturity of three months or less from the date of acquisition. Cash and cash equivalents are carried at amortised cost.
- ii. Restricted cash comprises cash held by the Group but which is ring-fenced or used as security for specific financing arrangements, and to which the Group does not have unfettered access. Restricted cash is measured at amortised cost and includes monies received in relation to maintenance reserves and security deposits.
- iii. Trade and other receivables are recognised initially at fair value and are thereafter measured at amortised cost using the effective interest rate less any provision for impairment. Trade and other receivables are discounted when the time value of money is considered material. A provision for impairment of trade receivables is recognised when there is objective evidence the Group will not be able to collect all amounts due according to the original terms of the receivables.

Financial Liabilities at amortised cost

- iv. Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised through profit or loss in the consolidated statement of comprehensive income over the period of borrowing using the effective interest rate method. Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the reporting date.

Initial direct costs related to bank borrowings are capitalised, presented net against the bank borrowings in the statements of financial position and amortised to the statement of comprehensive income over the period of the related loan.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) *Financial Instruments (continued)***

Financial Liabilities at amortised cost (continued)

- v. Maintenance reserves are lessee contributions to a retention account held by the lessor which are calculated by reference to the budgeted cost of maintenance and overhaul events (the 'supplemental rentals'). They are intended to ensure that at all times the lessor holds sufficient funds to cover the proportionate cost of maintenance and overhaul of the Asset relating to the life used on the airframe, engines and parts since new or since the last overhaul. During the term of the lease, all maintenance is required to be carried out at the cost of the lessee, and maintenance reserves are required to be released only upon receipt of satisfactory evidence that the relevant qualifying maintenance or overhaul has been completed.

Maintenance reserves are recorded in the consolidated statement of financial position during the term of the lease. Reimbursements will be charged against this liability as qualifying maintenance work is performed. Maintenance reserves are restricted and not distributable until, at the end of the lease, the Group is released from the obligation to make any further reimbursements in relation to the aircraft, and the remaining balance of maintenance reserves, if any, is released through profit or loss.

- vi. Security deposits are paid by the lessee in accordance with the terms of the lease contract, either in cash or in the form of a letter of credit. These deposits are refundable to the lessee upon expiration of the lease and, where such deposits are received in cash, they are recorded in the consolidated statement of financial position as a liability. The cash received related to security deposits is presented as restricted cash in the consolidated statement of financial position.
- vii. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Fair value measurement

The Group measures certain financial instruments such as derivatives at fair value at the end of each reporting period using recognised valuation techniques and following the principles of IFRS 13.

The fair value measurement of the Group's financial assets and liabilities utilises market observable inputs as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f) *Share capital***

Shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognised as a deduction from equity.

**g) *Asset Manager's disposal fee***

Cash settled payment arrangements with the Asset Manager are measured at the fair value of the services acquired. The fair value of the liability is re-measured at each reporting date with changes in fair value being recognised in profit or loss in the consolidated statement of comprehensive income.

**h) *Dividends***

Dividends are recognised as a liability in the financial statements in the period in which they become obligations of the Company.

Dividends become an obligation when the payment of the dividend is no longer at the discretion of the Company and are therefore recognised when they are paid.

**i) *Lease rental income***

Leases relating to the Aircraft are classified as operating leases where the terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Initial direct costs incurred in setting up a lease are capitalised to Property, Plant and Equipment and amortised over the lease term.

**j) *Expenses***

Expenses are accounted for on an accruals basis.

**k) *Finance costs and finance income***

Interest payable is calculated using the effective interest rate method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income and expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments (including all fees or amounts paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or liability or where appropriate a shorter period.

**l) *Foreign currency translation***

Transactions denominated in foreign currencies are translated into US\$ at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into US\$ at the rate of exchange ruling at the reporting date. Foreign exchange gains or losses arising on translation are recognised through profit or loss in the consolidated statement of comprehensive income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**2) SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**m) Segmental reporting**

The Directors are of the opinion that the Group is engaged in a single segment of business, being acquiring, leasing and subsequent selling of Aircraft. All significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

**3) SIGNIFICANT JUDGEMENTS AND ESTIMATES**

The preparation of financial statements in conformity with IFRS requires that the Directors make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Such estimates and associated assumptions are generally based on historical experience and various other factors that are believed to be reasonable under the circumstances, and form the basis of making the judgements about attributing values of assets and liabilities that are not readily apparent from other sources.

**a) Depreciation of aircraft**

As described in Note 2, the Group depreciates the Assets on a straight line basis over the remaining lease life and taking into consideration the estimated residual value. In making a judgement regarding these estimates the Directors will consider previous sales of similar aircraft and other available aviation information. The Group engage three Independent Expert Valuers each year to provide a valuation of the Assets and take into account the average of the three valuations provided. The Group expects that, in performing their valuations, the Independent Expert Valuers will have regard to factors such as the prevailing market conditions (which may impact on the resale value of the Assets), the leases (including the scheduled rental payments and remaining scheduled term of the leases) and the creditworthiness of the lessees. Accordingly, any early termination of the leases may impact on the valuation of the Assets. As at 31 December 2016 there was no indication of impairment in the Group's Assets (2015: nil).

Following the annual review of the Assets residual values, the Directors have updated their assessment of the residual values and considered the Aircraft and lease premium separately. Residual values estimates of the Aircraft were determined by the full life inflated values from three external valuations and discounted by the inflation rate incorporated into those valuations and the lease premium was determined to have a US\$ nil residual value. In 2015 the residual value of the Assets (representing combined assets and related premiums was determined to be 50 per cent of the combined purchase cost, supported by external valuations. The change in the estimate of the residual value of the Aircraft has resulted in a US\$ 696,835 decrease in the depreciation charge and the separate consideration of the lease premium has resulted in a US\$ 2,430,968 increase in the amortisation charge for the year ended 31 December 2016.

**b) Derivative fair value**

The Directors estimate the fair value of derivative contracts based on valuation techniques. These techniques are significantly affected by the assumptions used, including discount rates and estimates of future cash flows.



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**4) LEASE RENTAL INCOME**

	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Deferred income brought forward	2,598,554	1,122,754
Lease rental income received	57,291,132	45,925,770
Deferred income carried forward	(2,681,426)	(2,598,554)
<b>Total lease rental income</b>	<b>57,208,260</b>	<b>44,449,970</b>

All lease rental income is derived from two customers located in Norway and Thailand and all four Assets are Boeing 787-8 aircraft. During the year ended 31 December 2016 the Group earned following amounts of rental income from these two customers:

	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Norway	29,750,580	29,796,017
Thailand	27,457,680	14,653,953
<b>Total lease rental income</b>	<b>57,208,260</b>	<b>44,449,970</b>

The contracted cash lease rental payments to be received under non-cancellable operating leases at the reporting date are:

	Next 12 months US\$	2 to 5 years US\$	After 5 years US\$	Total US\$
<b>31 December 2016</b>				
Boeing 787-8 Serial No: 35304	14,886,012	59,544,048	51,621,835	126,051,895
Boeing 787-8 Serial No: 35305	14,947,440	59,789,760	54,128,161	128,865,361
Boeing 787-8 Serial No: 35320	13,745,640	54,982,560	67,582,730	136,310,930
Boeing 787-8 Serial No: 36110	13,712,040	54,848,160	65,132,190	133,692,390
	<b>57,291,132</b>	<b>229,164,528</b>	<b>238,464,916</b>	<b>524,920,576</b>
<b>31 December 2015</b>				
Boeing 787-8 Serial No: 35304	14,886,012	59,544,048	66,507,847	140,937,907
Boeing 787-8 Serial No: 35305	14,947,440	59,789,760	69,075,601	143,812,801
Boeing 787-8 Serial No: 35320	13,745,640	54,982,560	81,328,370	150,056,570
Boeing 787-8 Serial No: 36110	13,712,040	54,848,160	78,844,230	147,404,430
	<b>57,291,132</b>	<b>229,164,528</b>	<b>295,756,048</b>	<b>582,211,708</b>



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**5) GENERAL AND ADMINISTRATIVE EXPENSES**

	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Legal and professional fees	294,935	200,870
Directors fees and expenses (note 20)	187,767	203,060
Administration fees (note 21)	168,418	151,197
Insurance	47,743	164,006
Audit fees	66,602	54,427
Other fees and expenses	42,088	17,856
<b>Total general and administrative expenses</b>	<b>807,553</b>	<b>791,416</b>

**6) FINANCE COSTS**

	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Loan interest paid and payable	10,210,239	7,391,324
Amortisation of deferred finance costs	292,825	228,530
Total finance costs at effective interest rate	10,503,064	7,619,854
Cash flow hedges reclassified from other comprehensive income	2,667,774	3,296,872
<b>Total finance costs</b>	<b>13,170,838</b>	<b>10,916,726</b>

**7) TAXATION**

With the exception of DP Aircraft Ireland Limited and DP Aircraft UK Limited, all companies within the Group are exempt from taxation in Guernsey and are charged an annual exemption fee of £1,200 each (2015: £1,200).

DP Aircraft Ireland Limited and DP Aircraft UK Limited are subject to taxation at the applicable rate in Ireland and the United Kingdom respectively. The amount of taxation paid during the year ended 31 December 2016 was US\$ 17,233 (2015: US\$ 1,395). The Directors do not expect the taxation payable to be material to the Group.

A taxation reconciliation has not been presented in these financial statements as the effective tax rate is 0.2% (2015: 0.2%).

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**8) EARNINGS PER SHARE**

	Year ended 31 December 2016 US\$	Year ended 31 December 2015 US\$
Profit for the year	18,937,185	14,998,572
Weighted average number of shares	209,333,333	166,841,097
<b>Earnings per share</b>	<b>0.09046</b>	<b>0.08990</b>

There are no instruments in issue that could potentially dilute earnings per Ordinary Share in future years.

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**9) PROPERTY, PLANT, EQUIPMENT & INTANGIBLE ASSETS – AIRCRAFT & LEASE PREMIUM**

	Aircraft US\$	Lease Premium US\$	Total US\$
<b>COST</b>			
<b>As at 1 January and 31 December 2016</b>	<b>476,751,161</b>	<b>46,979,793</b>	<b>523,730,954</b>
<b>ACCUMULATED DEPRECIATION</b>			
As at 1 January 2016	27,465,161	3,152,234	30,617,395
Charge for the year	18,783,026	4,362,020	23,145,046
<b>As at 31 December 2016</b>	<b>46,248,187</b>	<b>7,514,254</b>	<b>53,762,441</b>
<b>CARRYING AMOUNT</b>			
<b>As at 31 December 2016</b>	<b>430,502,974</b>	<b>39,465,539</b>	<b>469,968,513</b>
<b>COST</b>			
As at 1 January 2015	238,020,000	29,581,300	267,601,300
Additions	238,731,161	17,398,493	256,129,654
<b>As at 31 December 2015</b>	<b>476,751,161</b>	<b>46,979,793</b>	<b>523,730,954</b>
<b>ACCUMULATED DEPRECIATION</b>			
As at 1 January 2015	12,433,909	1,545,393	13,979,302
Charge for the year	15,031,252	1,606,841	16,638,093
<b>As at 31 December 2015</b>	<b>27,465,161</b>	<b>3,152,234</b>	<b>30,617,395</b>
<b>CARRYING AMOUNT</b>			
<b>As at 31 December 2015</b>	<b>449,286,000</b>	<b>43,827,559</b>	<b>493,113,559</b>

The Boeing 787-8 is a new generation of aircraft. Due to the new type of design, in particular in respect of innovative materials and technology, there is currently insufficient experience and data available to be able to give a complete assessment of the long-term use and operation of the aircraft. There is a risk that the newly developed materials may be found to be less efficient or durable than expected and thereby may lead to higher maintenance and repair costs. Under the terms of the Leases, the cost of repair and maintenance of the Assets will be borne by Norwegian and Thai Airways. However, upon expiry or termination of the leases, the cost of repair and maintenance will fall upon the Group. Therefore upon expiry of the leases, the Group may bear higher costs and the terms of any subsequent leasing arrangement (including terms for repair, maintenance and insurance costs relative to those agreed under the leases) may be adversely affected, which could reduce the overall distributions paid to the Shareholders.

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**9) PROPERTY, PLANT, EQUIPMENT & INTANGIBLE ASSETS – AIRCRAFT & LEASE PREMIUM (CONTINUED)**

The estimated residual value of the Boeing 787-8 Assets as at the end of their respective leases in 2025 and 2026 have been supported by independent experts as at 31 December 2016. The residual value will depend upon a variety of factors including actual or anticipated fluctuations in the results of the airline industry, market perception of the airline industry, general economic and social and political development, changes in industry conditions, fuel prices or rates of inflation. For the 2015 financial statements, the directors determined a residual valuation at the end of the lease life based on 50 per cent of the purchase cost, supported by external valuations.

The future cash in-flows for the Assets (excluding the assets residual value in the event of a sale) have been fixed at a set rate as agreed between the Group, loan providers and the lessees.

The loans entered into by the Group to complete the purchase of the first two aircraft are cross collateralised. Each of the loans are secured by way of security taken over each of the first aircraft and the second aircraft.

The loans entered into by the Group to complete the purchase of the second two aircraft are cross collateralised. Each of the loans are secured by way of security taken over each of the third aircraft and the fourth aircraft.

**10) RESTRICTED CASH**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Security deposits	13,291,363	13,266,651
Maintenance reserves	22,626,648	11,674,649
<b>Total restricted cash</b>	<b>35,918,011</b>	<b>24,941,300</b>

**11) SECURITY DEPOSITS**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Security deposits:		
Refundable to Norwegian	6,400,000	6,400,000
Refundable to Thai Airways	6,864,420	6,864,420
<b>Total security deposits</b>	<b>13,264,420</b>	<b>13,264,420</b>

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**12) TRADE AND OTHER PAYABLES**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Swap interest payable	101,917	134,745
Accruals and other payables	277,823	269,797
Taxation payable	53,096	29,743
<b>Total trade and other payables</b>	<b>432,836</b>	<b>434,285</b>

US\$ 390,788 of interest payable, which was previously included within trade and other payables, has been reclassified to bank borrowings.

**13) BANK BORROWINGS**

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Current liabilities: bank interest payable and bank borrowings	23,986,255	22,910,919
Non-current liabilities: bank borrowing	240,239,740	263,559,583
<b>Total liabilities</b>	<b>264,225,995</b>	<b>286,470,502</b>
<b>The borrowings are repayable as follows:</b>		
Interest payable	373,587	390,788
Within one year	23,612,668	22,520,131
In two to five years	106,051,575	101,291,401
After five years	134,188,165	162,268,182
<b>Total bank borrowings</b>	<b>264,225,995</b>	<b>286,470,502</b>

US\$ 390,788 of interest payable, which was previously included within trade and other payables, has been reclassified to bank borrowings.

The table below analyses the movements in the Group's bank borrowings:

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
Opening balance	286,079,714	146,162,729
Loans advanced	-	157,000,000
Deferred finance costs	-	(1,603,158)
Repayment of loan	(22,520,131)	(15,708,387)
Amortisation of deferred finance costs	292,825	228,530
<b>Total bank borrowings</b>	<b>263,852,408</b>	<b>286,079,714</b>

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**13) BANK BORROWINGS (CONTINUED)**

**Loans**

During the year ended 31 December 2015 the Company utilised the proceeds from the placing and the proceeds of two separate loans from DekaBank as facility agent of US\$ 78,500,000 each to fund the purchase of two Boeing 787-8 aircraft. The balance on the loans at 31 December 2016 was US\$ 140,686,861 (2015: US\$ 151,977,783).

During the period ended 31 December 2014 the Company utilised the proceeds from the initial public offering and the proceeds of two separate loans from NordLB as facility agent of US\$ 79,800,000 each to fund the purchase of two Boeing 787-8 aircraft. The balance on the loans at 31 December 2016 was US\$ 125,895,136 (2015: US\$ 137,124,345).

All of the loans will be fully amortised with monthly repayments in arrears over the term until the scheduled expiry of each respective lease. There have been no defaults or breaches under the loan agreements (2015: none).

**Structure and term**

The committed term of each loan is from the drawdown date until the date falling twelve years from the delivery date of the relevant Asset. Each Loan will be amortised with repayments every month in arrears over the term in amounts as set out in a schedule agreed by the Company and the Lenders. Amortisation will be on an annuity-style (i.e. mortgage-style) basis.

**Interest**

Interest on each DekaBank loan is payable in arrears on the last day of each interest period, which is one month long. Interest on the loan accrues at a fixed rate of 4.10 per cent including a margin of 1.95 per cent per annum. If any amount is not paid by the Borrower when due under the loan agreements, interest will accrue on such amount at the then current rate applicable to the loan plus 2.0 per cent per annum.

Interest on each NordLB loan is payable in arrears on the last day of each interest period, which is one month long (the 'Interest Period'). Interest on each Loan accrues at a floating rate of interest which is calculated using LIBOR for the length of the Interest Period and a margin of 2.6 per cent per annum (the 'Loan Margin') ('Loan Floating Rate'). For the purposes of calculating the Loan Floating Rate, if on the date when LIBOR is set prior to the beginning of an Interest Period it is not possible for LIBOR to be determined by reference to a screen rate at the time that LIBOR is to be set for that Interest Period (a 'Market Disruption Event'), the amount of interest payable to each affected Loan Lender during the Interest Period will be the aggregate of each Lender's cost of funds during that monthly period and the Loan Margin. If any amount is not paid by the Borrower when due under the Loan Transaction Documents, interest will accrue on such amount at the then current rate applicable to the Loan plus 2.0 per cent per annum. The Group has entered into ISDA-standard hedging arrangement with NordLB as hedging provider in connection with the Loans, in order to provide for a fixed interest rate of 5.06% and 5.08% to be payable in respect of the loans throughout the whole term.

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**13) BANK BORROWINGS (CONTINUED)**

**Cross Collateralisation**

The DekaBank loans entered into by the Group to complete the purchase of the third and fourth Assets are cross collateralised. Each of the third and fourth loans is secured by way of security taken over the third and fourth Assets and enforce security over both Assets. This means that a default on one loan places both of the Assets at risk.

Similarly the NordLB loans entered into by the Group to complete the purchase of the first two Assets are cross collateralised. Each of the first and second loans is secured by way of security taken over the first and second Assets and enforce security over both Assets. This means that a default on one loan places both of the Assets at risk.

Following the enforcement of security and sale of the aircraft, the remaining proceeds, if any, may be substantially lower than investors' initial investment in the Company.

**14) SHARE CAPITAL**

**Authorised share capital**

The Company's authorised share capital is unlimited.

**Year ended 31 December 2016**

	<b>Subordinated Administrative Share</b>	<b>Ordinary Shares</b>	<b>Total</b>
Issued and fully paid:	Number	Number	Number
<b>Shares as at 1 January 2016 and 31 December 2016</b>	<b>1</b>	<b>209,333,333</b>	<b>209,333,334</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
<b>Share capital as at 1 January 2016 and 31 December 2016</b>	<b>1</b>	<b>210,556,651</b>	<b>210,556,652</b>

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**14) SHARE CAPITAL (CONTINUED)**

	<b>Subordinated Administrative Share</b>	<b>Ordinary Shares</b>	<b>Total</b>
Issued and fully paid:			
	Number	Number	Number
Shares as at 1 January 2015	1	113,000,000	113,000,000
Shares issued during the year	-	96,333,333	96,333,333
<b>Shares as at 31 December 2015</b>	<b>1</b>	<b>209,333,333</b>	<b>209,333,334</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Share capital as at 1 January 2015	1	110,885,219	110,885,220
Movement for the year:			
Proceeds from the issue of shares	-	102,007,365	102,007,365
Issue costs paid	-	(2,335,933)	(2,335,933)
<b>Share capital as at 31 December 2015</b>	<b>1</b>	<b>210,556,651</b>	<b>210,556,652</b>

Subject to the applicable company law and the Company's Articles of Incorporation, the Company may issue an unlimited number of shares of par value and/or no par value or a combination of both.

On 12 June 2015 a total of 96,333,333 shares were issued under the placing at an issue price of US\$ 1.0589 per share raising gross proceeds of US\$ 102 million. Total issue costs were US\$ 2.3 million which included the 1.5% placing commission paid to Canaccord Genuity as placing agent.

On 10 June 2013 a total of 113,000,000 shares were issued under the initial public offering placing at an issue price of US\$ 1 per share raising gross proceeds of US\$ 113 million. Total issue costs were US\$ 2.1 million which included the 1.5% placing commission paid to Canaccord Genuity as placing agent.

The Subordinated Administrative Share is held by DS Aviation GmbH & Co. KG, (the Asset Manager).

Holders of Subordinated Administrative Shares are not entitled to participate in any dividends and other distributions of the Company. On a winding up of the Company the holders of the Subordinated Administrative Shares are entitled to an amount out of the surplus assets available for distribution equal to the amount paid up, or credited as paid up, on such shares after payment of an amount equal to the amount paid up, or credited as paid up, on the Ordinary Shares to the Shareholders. Holders of Subordinated Administrative Shares shall not have the right to receive notice of and have no right to attend, speak and vote at general meetings of the Company except if there are no Ordinary Shares in existence.

Without prejudice to the provisions of the applicable company law and without prejudice to any rights attached to any existing shares or class of shares, or the provisions of the Articles of Incorporation, any share may be issued with such preferred, deferred or other rights or restrictions, as the Company may be ordinary resolution director, subject to or in default of any such direction, as the Directors may determine.

The Directors are entitled to issue and allot C Shares. No C Shares have been issued since the Company was incorporated.



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**15) RESERVES**

The movements in the Group's reserves are shown on page 31.

Retained earnings comprises any surplus arising from the profit for the year or period and is taken to this reserve which may be utilised for the payment of dividends.

The hedging reserve comprises the cumulative net change in the value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

**16) DIVIDENDS**

During the year ended 31 December 2016 the Company declared and paid the following dividends:

<b>Dividend reference period</b>	<b>Shares</b>	<b>Dividend per share US\$</b>	<b>Paid US\$</b>	<b>Payment date</b>
Quarter ended 31 December 2015	209,333,333	0.0225	4,710,000	12 February 2016
Quarter ended 31 March 2016	209,333,333	0.0225	4,710,000	20 May 2016
Quarter ended 30 June 2016	209,333,333	0.0225	4,710,000	15 August 2016
Quarter ended 30 September 2016	209,333,333	0.0225	4,710,000	14 November 2016
			<b>18,840,000</b>	

A quarterly dividend of US\$ 4,710,000 (US\$ 0.0225 per share) for the quarter ended 31 December 2016 was paid on 13 February 2017. In accordance with IAS 10, this dividend has not been recognised in these financial statements. A dividend becomes an obligation of the Company when its payment is no longer at the discretion of the Company. Dividends are therefore recognised when they are paid.

During the year ended 31 December 2015 the Company declared and paid the following dividends:

<b>Dividend reference period</b>	<b>Shares</b>	<b>Dividend per share US\$</b>	<b>Paid US\$</b>	<b>Payment date</b>
Quarter ended 31 December 2014	113,000,000	0.0225	2,542,500	13 February 2015
Quarter ended 31 March 2015	113,000,000	0.0225	2,542,500	18 May 2015
Quarter ended 30 June 2015	209,333,333	0.0225	4,710,000	14 August 2015
Quarter ended 30 September 2015	209,333,333	0.0225	4,710,000	13 November 2015
			<b>14,505,000</b>	

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**17) INVESTMENT IN SUBSIDIARY UNDERTAKINGS**

The Company's investments in subsidiaries, all of which have been included in these consolidated financial statements, are as follows:

<b>Name</b>	<b>Date of Incorporation</b>	<b>Country of Incorporation</b>	<b>Proportion of ownership interest at 31 December 2016</b>
DP Aircraft Guernsey I Limited	10 July 2013	Guernsey	100%
DP Aircraft Guernsey II Limited	10 July 2013	Guernsey	100%
DP Aircraft Guernsey III Limited	21 May 2015	Guernsey	100%
DP Aircraft Guernsey IV Limited	21 May 2015	Guernsey	100%
DP Aircraft Ireland Limited	27 June 2013	Republic of Ireland	100%
DP Aircraft UK Limited	14 April 2015	United Kingdom	100%

**18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The following table details the categories of financial instruments held by the Company at the reporting date:

	<b>2016</b>	<b>2015</b>
	<b>US\$</b>	<b>US\$</b>
<b>Financial assets</b>		
Cash and cash equivalents	9,011,045	7,777,349
Restricted cash	35,918,011	24,941,300
<b>Loans and receivables at amortised cost</b>	<b>44,929,056</b>	<b>32,718,649</b>
<b>Financial liabilities</b>		
Bank borrowings	264,225,995	286,079,714
Maintenance reserves	22,569,978	11,672,259
Security deposit	13,264,420	13,264,420
Trade and other payables (excluding accruals)	98,200	177,174
<b>Financial liabilities measured at amortised cost</b>	<b>300,158,593</b>	<b>311,584,355</b>
Interest rate swaps	3,394,282	5,422,482
<b>Financial liabilities designated as hedging instruments</b>	<b>3,394,282</b>	<b>5,422,482</b>

The primary risks arising from the Group's financial instruments are capital management, credit risk, market risk and liquidity risk. The principal nature of such risks is summarised below. The Group's main financial instruments comprise two separate loan agreements and interest rate swaps.

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**18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Capital Management**

The capital managed by the Group comprises the ordinary shares and the subordinated administrative shares. The Company is not subject to externally imposed capital requirements.

Income distributions are generally made quarterly, subject to compliance with Applicable Law and regulations, in February, May, August and November of each year. The Company aims to make a distribution to investors of US\$ 0.0225 per Share per quarter. There can be no guarantee that dividends will be paid to Shareholders and, if dividends are paid, as to the timing and amount of any such dividend. Any distribution of dividend to Shareholders will be subject always to compliance with the Companies (Guernsey) Law, 2008.

Before recommending any dividend, the Board will consider the financial position of the Company and the impact on such position of paying the proposed dividend. Dividends are declared and paid in US Dollars.

**Credit risk**

Credit risk is the risk that a significant counterparty will default on its contractual obligations. The Group's most significant counterparties are Norwegian and Thai Airways as lessees and providers of income. There are no lease income receivables at 31 December 2016 (2015: US\$ nil). Cash and restricted cash is all held at NordLB and DekaBank. The lessees do not maintain a credit rating. The credit rating of NordLB is Baa1 (2015: Aa3) and the credit rating of DekaBank is Aa3 (2015: Aa3).

During the term of the leases, the returns on an investment in the Shares will depend in large part on the lease rentals received from Norwegian and Thai Airways under the leases. A failure by Norwegian or Thai Airways to comply with their payment obligations under the leases may lead to a reduction in distributions paid on the shares and/or in the value of the shares and have an adverse effect on the Group.

In advance of the commencement of the lease terms under the leases, both Norwegian and Thai have paid to the Group a security deposit in respect of each Asset. However, the security deposits do not cover the full value of the Group's obligations pursuant to the loan agreements in the event of termination of the leases or default by Norwegian or Thai Airways.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

**Market risk – interest rate risk**

Interest rate risk arises on the Group's various interest bearing assets and liabilities from changes in the general economic conditions of the market from time to time. In respect of the floating rate loans advanced by NordLB for the purchase of the first two Assets, the Directors have sought to mitigate this risk by swapping the interest on each loan from a floating rate of interest to a fixed rate of interest. The floating rate of interest is calculated using LIBOR for the length of the interest period and a margin of 2.6 per cent per annum and has been swapped for a fixed rate of 5.06 per cent and 5.08 per cent for the duration of the loans. The Group has entered into ISDA-standard hedging arrangements with NordLB as hedging provider in order to provide for fixed-rate interest for 12 years to be payable in respect of the loan, funded by the fixed rental payments under the corresponding lease. The interest rate swaps are not under a single master netting agreement. As at 31 December 2016 the fair value of the interest rate swaps was a liability of US\$ 3,394,282 (2015: US\$ 5,422,482).

**DP AIRCRAFT I LIMITED**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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**18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Market risk – interest rate risk (continued)**

A 0.25% increase or decrease in interest rates would not have a material impact on the Group due to the derivatives fixing the interest rates paid by the group and the intention to hold the interest rate swaps until maturity.

The following table details the Group's exposure to interest rate risk:

<b>31 December 2016</b>	<b>Fixed rate instruments US\$</b>	<b>Variable rate instruments US\$</b>	<b>Non-interest bearing instruments US\$</b>	<b>Total US\$</b>
Restricted cash	-	26,383,886	9,534,126	35,918,012
Cash and cash equivalents	-	7,155,588	1,855,457	9,011,045
<b>Total financial assets</b>	<b>-</b>	<b>33,539,474</b>	<b>11,389,583</b>	<b>44,929,057</b>
Trade and other payables (excluding accruals)	-	-	(98,200)	(98,200)
Maintenance reserves	-	-	(22,569,978)	(22,569,978)
Security deposits	-	-	(13,264,420)	(13,264,420)
Notional interest rate swap	(126,098,956)	126,098,956	-	-
NordLB loans	-	(124,553,486)	(190,641)	(124,744,127)
DekaBank loans	(139,298,922)	-	(182,946)	(139,481,868)
<b>Total financial liabilities</b>	<b>(265,397,878)</b>	<b>1,545,469</b>	<b>(36,306,185)</b>	<b>(300,158,593)</b>
<b>Total interest rate sensitivity gap</b>	<b>(265,397,878)</b>	<b>35,084,943</b>		
<b>31 December 2015</b>	<b>Fixed rate instruments US\$</b>	<b>Variable rate instruments US\$</b>	<b>Non-interest bearing instruments US\$</b>	<b>Total US\$</b>
Restricted cash	-	16,689,282	8,252,018	24,941,300
Cash and cash equivalents	-	5,916,033	1,861,316	7,777,349
<b>Total financial assets</b>	<b>-</b>	<b>22,605,315</b>	<b>10,113,334</b>	<b>32,718,649</b>
Trade and other payables (excluding accruals)	-	-	(177,174)	(177,174)
Maintenance reserves	-	-	(11,672,259)	(11,672,259)
Security deposits	-	-	(13,264,420)	(13,264,420)
Notional interest rate swap	(137,376,978)	137,376,978	-	-
NordLB loans	-	(135,629,839)	(184,550)	(135,814,389)
DekaBank loans	(150,449,875)	-	(206,238)	(150,656,113)
<b>Total financial liabilities</b>	<b>(287,826,853)</b>	<b>1,747,139</b>	<b>(25,504,641)</b>	<b>(311,584,355)</b>
<b>Total interest rate sensitivity gap</b>	<b>(287,826,853)</b>	<b>24,352,454</b>		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Market risk – foreign currency risk**

The Group's exposure to foreign currency risk is not significant as its cash flows are predominantly in US\$ which is the functional currency of the parent and subsidiaries, and presentation currency of the Group.

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations in respect of its financial liabilities. The Group's main financial commitments are the loans due to NordLB and DekaBank as well as meeting its ongoing operating expenses.

Liquidity risk management

In the event that the Leases are terminated as a result of a default by Norwegian or Thai Airways, there is a risk that the Group will not be able to remarket the Assets successfully within the remarketing period specified in the loan agreements and that (after using the security deposits and the Liquidity Reserve) the Group will not have sufficient liquidity to comply with its obligations under the Loan Agreements. This may lead to a suspension in distributions paid on the shares and/or a reduction in the value of the shares and have an adverse effect on the Group and could ultimately result in the lenders enforcing their security and selling the relevant Asset or Assets on the market. There can be no guarantee that the Group will be able to re-lease the Assets on terms as favourable as the existing leases, which may have an adverse effect on the Group and its ability to meet its investment objective and its dividend target. The price paid by the Group for the Assets partly reflects the terms of the leases to which the Assets are subject. Accordingly, were any or all of the Assets to be re-leased on less favourable terms, this may have an adverse effect on the value of the Assets and therefore the share price.

No right of redemption or repurchase

Shareholders will have no right to have their shares redeemed or repurchased by the Company at any time. Shareholders wishing to realise their investment in the Company may be required to dispose of their shares on the stock market. Accordingly, the ability of shareholders to realise the Net Asset Value of, or any value in respect of, their shares is mainly dependent on the existence of a liquid market in the shares and the market price of such shares.

Liquidity Reserve

In accordance with the Group's financial model, in addition to paying the proposed dividends to shareholders, the Company intends to establish and to build up a liquidity reserve (the "Liquidity Reserve"). The Liquidity Reserve will be accumulated from surplus cash flow from the leases after payment of the Group's costs and after allowing for proposed dividends. The Liquidity Reserve is intended to fund contingencies and to be available to the Group, in addition to the security deposits paid by Norwegian and Thai Airways under the leases, to aid the Group in meeting its loan repayments in the event of a default by Norwegian or Thai Airways and/or to meet costs incurred in connection with a subsequent remarketing of the Assets. In the event of a default on the bank borrowings the accumulation of surplus lease rental by the Group in the Liquidity Reserve will be suspended. In the event of a re-lease of the Assets, the Group may maintain and/or accumulate a Liquidity Reserve in an amount which is considered appropriate by the Directors, having regard to the available security deposits and the other circumstances applicable at such time. Any unused Liquidity Reserve ultimately will be available for distribution to shareholders following the disposal of the Assets and after all loan obligations have been satisfied.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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**18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Liquidity risk (continued)**

Liquidity Proposal

Although the Company does not have a fixed life, the Articles require that the Directors convene a Liquidity Proposal Meeting to be held no later than 30 June 2026 at which a Liquidity Proposal in the form of an ordinary resolution will be put forward proposing that the Company should proceed to an orderly wind-up at the end of the term of the leases. In the event the Liquidity Proposal is not passed, the Directors will consider alternatives for the Company and shall propose such alternatives at a general meeting of the shareholders, including re-leasing the Assets, or selling the Assets and reinvesting the capital received from the sale of the Assets in other aircraft.

The following table details the contractual maturity analysis of the Group's financial liabilities. The amounts are contractual undiscounted cash flows and therefore will not agree directly to the balances in the statement of financial position. Operating lease income is not a financial instrument, however, has been included in the tables below to illustrate the Group's excess liquidity.

<b>31 December 2016</b>	<b>Next 12 months US\$</b>	<b>2-5 years US\$</b>	<b>After 5 years US\$</b>	<b>Total US\$</b>
Bank borrowings and interest	(35,434,812)	(141,599,583)	(151,142,644)	(328,177,039)
Interest rate swaps	(2,789,841)	(8,207,325)	(2,693,081)	(13,690,247)
Maintenance reserves	-	-	(22,569,978)	(22,569,978)
Security deposit	-	-	(13,264,420)	(13,264,420)
Trade and other payables	(379,740)	-	-	(379,740)
<b>Total financial liabilities</b>	<b>(38,604,393)</b>	<b>(149,806,908)</b>	<b>(189,670,123)</b>	<b>(378,081,424)</b>
Operating lease income (note 4)	57,291,132	229,164,528	238,464,916	524,920,576
<b>Liquidity excess prior to ongoing expenses and distributions</b>	<b>18,686,739</b>	<b>79,357,620</b>	<b>48,794,793</b>	<b>146,839,152</b>

<b>31 December 2015</b>	<b>Next 12 months US\$</b>	<b>2-5 years US\$</b>	<b>After 5 years US\$</b>	<b>Total US\$</b>
Bank borrowings and interest	(35,448,174)	(141,656,725)	(186,520,315)	(363,625,214)
Interest rate swaps	(3,064,467)	(9,421,348)	(4,268,899)	(16,754,714)
Maintenance reserves	-	-	(11,672,259)	(11,672,259)
Security deposit	-	-	(13,264,420)	(13,264,420)
Trade and other payables	(567,962)	-	-	(567,962)
<b>Total financial liabilities</b>	<b>(39,080,603)</b>	<b>(151,078,073)</b>	<b>(215,725,893)</b>	<b>(405,884,569)</b>
Operating lease income (note 4)	57,291,132	229,164,528	295,756,048	582,211,708
<b>Liquidity excess prior to ongoing expenses and distributions</b>	<b>18,210,529</b>	<b>78,086,455</b>	<b>80,030,155</b>	<b>176,327,139</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**18) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**

**Liquidity risk (continued)**

In addition to the bank loans, the Group may from time to time use borrowings. To this end the Group may arrange an overdraft facility for efficient cash management. The Directors intend to restrict borrowings other than the bank loans to an amount not exceeding 15 per cent. of the net asset value of the Group at the time of drawdown. Borrowing facilities will only be drawn down with the approval of the Directors on a case by case basis. The Directors may also draw down on an overdraft facility for extraordinary expenses determined by them, on the advice of DS Aviation, to be necessary to safeguard the overall investment objective. With the exception of the loans, the Directors have no intention, as at the date of this report, to use such borrowings or overdraft facility for structural investment purposes.

**19) FAIR VALUE MEASUREMENT**

The accounting policies and basis of measurement in respect of financial instruments are detailed in Note 2.

**Financial assets and financial liabilities at amortised cost**

The fair value of cash and cash equivalents, trade and other receivables, restricted cash and interest payable approximate their carrying amounts due to the short term maturities of these instruments.

The fair value of floating rate borrowings is estimated by discounting future cash flows using rates currently available for debt of similar returns and remaining maturities and therefore the carrying value approximates fair value.

The fair value of fixed rate borrowings is estimated by discounting future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of the loans is US\$ 136,180,566.

The fixed rate loans have been categorised within level 3 of the fair value hierarchy. The fair value of the fixed rate loans for disclosure purposes have been determined by discounting future cash flows at a rate of 4.87%. An increase in the discount rate would decrease the fair value of the fixed rate loans.

**Financial liabilities designated as hedging instruments**

The fair value of the Group's derivative interest rate swaps are determined by reference to the mid-point on the yield curves prevailing on the reporting date and represent the net present value of the differences between the contracted and the valuation rate when applied to the projected balances to the period from the reporting date to the contracted expiry date.

The interest rate swaps are valued on a recurring basis and have been categorised within level 2 of the fair value hierarchy required by IFRS 13. The contractual undiscounted cash flows of the swaps are disclosed in note 18.

**Transfers between levels**

The Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation based on the lowest level input that is significant to the fair value measurement as a whole at the end of each reporting period.

There were no transfers between level 1 and level 2 fair value measurements and no transfers into or out of level 3 fair value measurements during the year ended 31 December 2016 or in the year ended 31 December 2015.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**20) RELATED PARTY TRANSACTIONS**

The Directors were remunerated for their services at a fee of £22,500 per annum for Jeremy Thompson (as Chairman of the Audit Committee) and £27,500 for Jon Bridel (as Chairman) and fees received by Didier Benaroya are disclosed on page 17.

The Directors received fees of £5,000 each per annum for acting as Director of each of the Company's Guernsey subsidiaries (DP Aircraft Guernsey I Limited, DP Aircraft Guernsey II Limited, DP Aircraft Guernsey III Limited and DP Aircraft Guernsey IV Limited) (total of £20,000 each per annum).

The two Directors of DP Aircraft Ireland Limited who are based in Ireland receive fees of €6,000 per annum in aggregate and Didier Benaroya received fees of £10,000 per annum. The two Directors of DP Aircraft UK Limited who are based in the United Kingdom receive fees of £5,000 per annum in aggregate and Didier Benaroya received fees of £10,000 per annum. Angela Behrend-Görnemann, who succeeded Didier Benaroya in all of his roles, is paid in Euros a total annual fee of €65,000 at an agreed sterling exchange rate of 1.3 inclusive of fees in respect of the six subsidiaries.

The Directors conducted their annual review of the Directors' fees and with effect from 1 April 2016 the Chairman receives £35,000 per annum, the Audit Committee Chairman £25,000 with a base director fee of £20,000. The fee for all subsidiary positions including the leasing companies is set at £5,000, reducing the total fee for subsidiaries by £10,000 per annum.

During the year ended 31 December 2016 Directors' remuneration totalled US\$ 185,369 (year ended 31 December 2015: US\$ 225,310 including fees of £5,000 for each director in respect of the prospectus issued during the year) with US\$ 48,822 due at the year end (2015: US\$ 55,834).

Director's shareholdings in the Company are detailed on page 15.

As described in the Directors' Report on page 17 and subsequent to the year end, the Directors have conducted their annual review of the Directors fees with the changes taking effect from 1 April 2017.

**21) MATERIAL CONTRACTS**

**Asset Management Agreement**

The Asset Management Agreement, dated 19 September 2013, between the Company and DS Aviation was amended on 5 June 2015 to reflect the acquisition of the two new aircraft.

The amended agreement provides a new calculation methodology for the disposal fee which will only become payable when all four of the Assets have been sold after the expiry of the fourth Thai Airways lease in December 2026. The fee will be calculated as a percentage of the aggregate net sale proceeds of the four Assets, such percentage rate depending upon the Initial Investor Total Asset Return per share being the total amount distributed to an initial investor by way of dividend, capital return or otherwise over the life of the Company. If each of the Assets is sold subsequent to the expiry of their respective leases, the percentage rate shall be:

- Nil if the Initial Investor Total Asset Return per share is less than 205%,
- 1.5% if the Initial Total Asset Return per share equals or exceeds 205% but is less than 255%,
- 2% if the Initial Total Asset Return per share equals or exceeds 255% but is less than 305%, or
- 3% if the Initial Total Asset Return per share equals or exceeds 305%.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**21) MATERIAL CONTRACTS (CONTINUED)**

**Asset Management Agreement (continued)**

In the event that any of the Assets is sold prior to the expiry of its lease the percentage hurdles set out above will be adjusted on the following basis:

- (i) an amount will be deducted in respect of each Asset sold prior to the expiry of its lease, equal to the net present value of the aggregate amount of dividends per share that were targeted to be paid but were not paid as a result of the early divestment of the relevant Asset; and
- (ii) a further amount will be deducted, in respect of each Asset sold prior to the expiry of its lease, equal to the amount by which the proportion of the non-dividend component of the relevant percentage hurdle attributable to the relevant Asset would need to be reduced in order to meet its net present value.

The disposal fee is a cash-settled payment to the Asset Manager. In determining the provision for the financial statements, the Directors have estimated the fee that will be payable on disposal of the assets. This has then been discounted using the group's weighted average cost of capital and is then recognised straight line over the period until the estimated payment date. The provision for the disposal fee at 31 December 2016 was US\$ 600,512 (2015: US\$ 349,238) and the discount rate used was 7.74% (2015: 7.59%).

The Asset Manager is paid a base fee which is US\$ 21,354 per month in respect of the first two Assets increasing by 2.5% per annum and US\$ 16,666 per month in respect of the second two Assets increasing by 2.5% per annum from May 2016. In the year ended 31 December 2016 Asset Management fees totalled US\$ 935,238 (2015: US\$ 730,131) of which US\$ 79,035 were due at 31 December 2016 (2015: US\$ 77,107).

In accordance with the prospectus for the share placing issued in June 2015, the Asset Manager was paid an arrangement fee of US\$ 777,000 in respect of the acquisition of the third and fourth Assets.

**Administration Agreement**

In accordance with the Administration Agreement dated 19 September 2013 between the Company and Fidante Partners (Guernsey) Limited, the administrator receives a secretarial fee of £25,000 per annum. The Administrator will also receive an additional £1,640 for each ad hoc board meeting of the Company that is held in addition to the quarterly board meetings and £1,640 for each board meeting of each wholly owned Guernsey subsidiary.

The Company pays the Administrator a fee of £16,000 per annum in respect of the preparation and approval of annual and half year financial statements. In addition the Administrator is also entitled to a minimum administration fee of £1,250 per month and such other remuneration as shall be agreed between the Company and the Administrator from time to time.

On 19 July 2016 the Administration Agreement was novated to Aztec Financial Services (Guernsey) Limited with all terms of the agreement remaining unchanged.

In the year ended 31 December 2016 total fees paid to the administrator were US\$ 90,484 (2015 US\$ 82,360) of which US\$ 12,075 were due at 31 December 2016 (2015: US\$ 33,524).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 31 December 2016

**21) MATERIAL CONTRACTS (CONTINUED)**

**Directors' fees**

Details of the fees paid to the Directors are included in note 20.

**22) SUBSEQUENT EVENTS**

On 18 January 2017 the Company declared a quarterly dividend in respect of the quarter ended 31 December 2016 of US\$ 0.0225 per ordinary share to holders of shares on the register at 27 January 2017. The ex-dividend date was 26 January 2017 with payment on 12 February 2017.

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**COMPANY INFORMATION**

**Registered Office**

To 18 July 2016:  
1 Le Truchot  
St Peter Port  
Guernsey  
GY1 1WD  
Channel Islands

From 19 July 2016:  
East Wing  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 3PP  
Channel Islands

**Asset Manager**

DS Aviation GmbH & Co. KG  
Stockholmer Allee 53  
44269 Dortmund  
Germany

**Solicitors to the Company  
(as to English law)**

Norton Rose Fulbright LLP  
3 More London Riverside  
London  
SE1 2AQ  
United Kingdom

**Advocates to the Company  
(as to Guernsey law)**

Ogier  
Ogier House  
St Julian's Avenue St Peter Port  
Guernsey  
GY1 1WA  
Channel Islands

**Auditor**

KPMG, Chartered Accountants  
1 Harbourmaster Place  
IFSC  
Dublin 1  
Ireland

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**Administrator and Company Secretary**

To 18 July 2016:

Fidante Partners (Guernsey) Limited  
1 Le Truchot  
St Peter Port  
Guernsey  
GY1 1WD  
Channel Islands

From 19 July 2016:

Aztec Financial Services (Guernsey) Limited  
East Wing  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 3PP  
Channel Islands

**Corporate Broker**

Canaccord Genuity Limited  
88 Wood Street  
London  
EC2V 7QR  
United Kingdom

**THE FOLLOWING PAGES DO NOT FORM PART OF THE AUDITED FINANCIAL STATEMENTS**

**APPENDIX 1 – ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE**

REGULATORY REFERENCE	DOCUMENT NAME, PAGE AND REFERENCE
<b>AIFMD Article 23(1)</b>	
(a) a description of the investment strategy and objectives of the AIF;	Prospectus, page 38, Information on the Company.
if the AIF is a feeder AIF, information on where the master AIF is established;	Not applicable.
if the AIF is a fund of funds, information on where the underlying funds are established;	Not applicable.
a description of the types of assets in which the AIF may invest;	Prospectus, page 38, Information on the Company.
the investment techniques that the AIF, or the AIFM on behalf of the AIF, may employ and all associated risks;	Prospectus, page 38, Information on the Company. Prospectus, pages 18-31, disclosure of risk factors.
any applicable investment restrictions;	Prospectus, page 8.
the circumstances in which the AIF may use leverage;	Prospectus, page 20, Risk of Debt Financing.
the types and sources of leverage permitted and the associated risks;	Prospectus, page 20, Risk of Debt Financing.
any restrictions on the use of leverage and any collateral and asset reuse arrangements; and	Prospectus, page 20, Risk of Debt Financing.
the maximum level of leverage which the AIFM is entitled to employ on behalf of the AIF;	Prospectus, page 20, Risk of Debt Financing.
(b) a description of the procedures by which the AIF may change its investment strategy or investment policy, or both;	Prospectus, page 38, Investment Policy.
(c) a description of the main legal implications of the contractual relationship entered into for the purpose of investment, including information on jurisdiction, the applicable law and the existence or absence of any legal instruments providing for the recognition and enforcement of judgments in the territory where the AIF is established;	Prospectus, page 80, Part IX, Loans and Loan Agreements. Prospectus, page 142, Part IV, Definitions.
(d) the identity of the AIFM, the AIF's depositary, the auditor and any other service providers and a description of their duties and the investors' rights;	Prospectus, page 36, Directors and Advisers. Prospectus, page 152 (h).
(e) a description of how the AIFM complies with the AIFMD's requirements relating to professional liability risk;	Prospectus, page 151 (g)

**APPENDIX 1 – ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (CONTINUED)**

REGULATORY REFERENCE	DOCUMENT NAME, PAGE AND REFERENCE
<b>AIFMD Article 23(1)</b>	
(f) a description of:	
any AIFM management function delegated by the AIFM;	Not applicable.
any safe-keeping function delegated by the depositary;	Not applicable.
the identify of each delegate appointed; and	Not applicable.
any conflicts of interest that may arise from such delegations;	Not applicable.
(g) a description of the AIF's valuation procedure and of the pricing methodology for valuing assets, including the methods used in valuing any hard-to-value assets;	Prospectus, page 152 (i).
(h) a description of the AIF's liquidity risk management, including the redemption rights of investors in normal and exceptional circumstances, and the existing redemption arrangements with investors;	Prospectus, page 152 (j).
(i) a description of all fees, charges and expenses, and the maximum amounts directly or indirectly borne by investors;	Prospectus, pages 48-50, Fees and Expenses.
(j) a description of how the AIFM ensures a fair treatment of investors;	Prospectus, page 152 (l).
whenever an investor obtains preferential treatment or the right to obtain preferential treatment, a description of:	
that preferential treatment;	Prospectus, page 152 (l).
the type of investors who obtain such preferential treatment; and	Prospectus, page 152 (l).
where relevant, their legal or economic links with the AIF or AIFM;	Not applicable.
(k) the latest annual report	Contained in this document.
(l) the procedure and conditions for the issue and sale of units or shares;	Prospectus, page 44, Further Issue of Shares.
(m) the latest net asset value of the AIF or the latest market price of the unit or share of the AIF;	The Company's shares are traded on the London Stock Exchange so the latest share price should be available on <a href="http://www.londonstockexchange.com">www.londonstockexchange.com</a> .

**APPENDIX 1 – ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE (CONTINUED)**

REGULATORY REFERENCE	DOCUMENT NAME, PAGE AND REFERENCE
<b>AIFMD Article 23(1)</b>	
(n) where available, the historical performance of the AIF;	Not applicable.
(o) the identity of any prime broker;	Prospectus, page 152 (o).
a description of any material arrangements of the AIF with its prime brokerage firm and the way any conflicts of interest are managed;	Prospectus, page 152 (o).
the provision in the contract with the depositary on the possibility of transfer and reuse of AIF assets; and	Prospectus, page 151 (a).
information about any transfer of liability to the prime brokerage firm that may exist; and	Prospectus, page 152 (o).
(p) a description of how and when the information required under Art. 23(4) and Art. 23(5) of the AIFMD will be disclosed.	Information may be disclosed in the Company's annual report or by the Company publishing the relevant information on the Company's website ( <a href="http://www.dpaircraft.com">http://www.dpaircraft.com</a> ) or by the Company issuing an announcement via a Regulatory Information Service.
<b>AIFMD Article 23(5)</b>	
(a) any changes to the maximum level of leverage which the AIFM may employ on behalf of the AIF as well as any right of the reuse of collateral or any guarantee granted under the leveraging arrangement;	Not applicable as no changes to the maximum level of leverage.
(b) the total amount of leverage employed by that AIF.	The total leverage employed at 31 December 2016 is US\$ 266,581,997.