DP Aircraft

# DP AIRCRAFT I LIMITED

## Shareholder Report January 2018



## I. THE FUND – DP AIRCRAFT I LIMITED

| FACT SHEET – DP AIRCRAFT I LIMITED | |
|---|---|
| Ticker | DPA |
| Company Number | 56941 |
| ISIN Number | GG00BBP6HP33 |
| SEDOL Number | BBP6HP3 |
| Traded | SFS |
| • SFM Admission Date | 4th October 2013 |
| • Share Price | 1.06 [30th January 2018] |
| Country of Incorporation | Guernsey |
| Current Shares in Issue | 209,333,333 |
| Administrator and Company Secretary | Aztec Financial Services (Guernsey) Limited |
| Asset Manager | DS Aviation GmbH & Co. KG |
| Auditor and Reporting Accountant | KPMG |
| Corporate Broker | Canaccord Genuity Limited |
| Aircraft Registration (Date of Delivery) | LN-LNA (28th June 2013)<br>LN-LNB (23rd August 2013)<br>HS-TQC (29th October 2014)<br>HS-TQD (9th December 2014) |
| Aircraft Serial Number | 35304<br>35305<br>36110<br>35320 |
| Aircraft Type and Model | B787-8 |
| Lessees | Norwegian Air Shuttle ASA<br>Thai Airways International PCL |
| Website | http://www.dpaircraft.com |

## II. THE AVIATION MARKET – OVERVIEW AND DEVELOPMENT

The outlook for 2018 is positive, the International Air Transport Association (IATA) expects 2018 to be the fourth year in a row of sustainable global airline profits. Performance drivers include passenger and cargo development as well as changes in costs and debt structure. The positive outlook is based on an anticipated growth of 3.1 per cent in global GDP. Global passenger demand is expected to increase by 6 per cent in 2018. Although this is a slower growth rate than in 2017, it is still above global average of the previous 10 to 20 years (5.5 per cent) and is assumed to exceed the increase of capacity of 5.7 per cent. IATA anticipates that load factors and yields are increasing and the number of total passengers amounting to 4.3 billion. This year´s cargo demand is expected to increase slower than in 2017 with some recovery in yields, considering that performance in 2017 had been at its strongest level the past 10 years.

According to the International Civil Aviation Organization (ICAO) growth in travel demand in 2017 was mainly induced by the economic recovery in emerging markets, an increased demand of imports and exports in the developing markets, growing investments in advanced economies as well as lower air fares resulting from low fuel prices. Last year, 4.1 billion passengers had been transported, an increase of 7.1 per cent compared to the previous year. More than 50 per cent of 1.2 billion international tourists travelled by air. IATA expects these international tourist to spend around USD 750 billion in 2018, an increase of 15 per cent over two years. Although according to ICAO jet fuel prices increased by around 25 per cent in 2017 compared to the previous year, prices remain significant lower than during the last 10 years prior to 2016. Low-cost carriers continuously increased their market share and carried 1.2 billion passengers in 2017. Furthermore, they transported 33 per cent of all passengers in Europe and 31 per cent of all passengers in the Asia-Pacific region respectively. The global average load factor of all carriers grew by 0.9 percentage points and reached a record high of 81.2 per cent.

Although costs will challenge profitability in 2018 according to IATA, global revenues are anticipated to increase by 9.4 per cent compared to 2017 and global net profit to amount to USD 38.4 billion benefitting from strong demand, improved efficiency and reduced interest payments. Cargo demand is expected to increase by 4.5 per cent, partly profiting from the growing e-commerce business. Costs will remain a challenge in the competitive air transportation market. Average unit costs are anticipated to increase by 4.3 per cent and average unit revenue by 3.5 per cent respectively compared to 2017. It is expected that on average fuel expenses will amount to 20.5 per cent and labour costs to 30.9 per cent of total costs. The former can be minimised by fuel efficient aircraft of new technology and the latter by higher productivity; both cost positions can be lowered by higher load factors in terms of unit costs.

IATA anticipates that profitability will improve for all regions in 2018. Net profits for the Asia-Pacific region are expected to amount to USD 9.0 billion and for Europe to amount to USD 11.5 billion. The ASEAN countries (Association of Southeast Asian Nations) are anticipated to face new low cost market entrants resulting in stronger competition. However, overall passenger demand in the Asia Pacific region is expected to rise by 7.0 per cent and to outperform the anticipated growth in capacity of 6.8 per cent. The increase of cargo performance is projected to be offset by increasing fuel prices. Europe´s passenger demand is anticipated to grow by 6. per cent and to outperform a rise in capacity of 5.5 per cent. Europe´s break-even load factors are the highest amongst all regions due to high competition and regulatory costs. However, airlines will profit from a rebound from terrorism events in 2016 as well as a strengthened economy.

The latest Boeing Outlook (Current Market Outlook 2017-2036) expects deliveries of 41,030 aircraft with a total market value of USD 6.1 trillion within the next 20 years. Both Boeing and Airbus (Global Market Forecast 2017-2036) continue to forecast that the global passenger and freighter fleet will at least double by 2036. According to Boeing, airlines´ fleets will grow by 3.5 per cent per annum, within the next 20 years. As said by Boeing and Airbus, 57 per cent and 60 per cent respectively of new deliveries are anticipated to be used for fleet growth. According to Airbus, world annual traffic more than doubled since September 9/11. Boeing forecasts that the current share of the global airlines´ fleet from the Asia-Pacific region will increase from 29 per cent to 37 per cent. European airline fleet growth is anticipated to be lower than the global average, with an average annual growth rate of 2.7 per cent.

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## III. THE ASSETS – FOUR DREAMLINER BOEING 787-8s

As at 31 December 2017, Boeing had delivered 636 Boeing 787 Dreamliner aircraft, of which 350 aircraft are B787-8s and 286 aircraft are B787-9s. The total order for this aircraft family amounts to 1,294 aircraft by 67 customers. In 2017, 107 new orders had been placed for the B787 family by new customers such as Okay Airways (China) and WestJet (Canada) as well as by existing customers such as Royal Air Maroc (Airline) and Air Lease Cooperation (Lessor). The manufacturer had delivered 136 Dreamliner aircraft in 2017.

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 and America, amongst others, New York, Los Angeles, Las Vegas 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. 14th January 2018, aircraft LNA was inspected by DS Skytech Limited in Birmingham at the Monarch maintenance facilities during a Base Check (every 6,000 flight hours). Aircraft LNB was inspected on 6 April 2017 at the British Airways Maintenance facilities in Cardiff during Base Maintenance. Our inspector considers both aircraft and its records to be in good condition with no significant defects or airworthiness related issues.

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 to destinations within the Asia-Pacific region such as Jakarta, Beijing, Ho Chi Minh City, Perth and Brisbane. Since DP Aircraft I Limited acquired the two aircraft TQC and TQD in 2015, Thai Airways has met all of its lease obligations in full. The annual inspection was carried out on 6 September 2017 at Bangkok International Airport. In the context of an upgrade of the Trent 1000 engines to the latest modification standards, aircraft TQD had not been in operations for several weeks due to a shortage of spare parts and spare engines, which are provided by Rolls-Royce. During this period, DS Skytech Limited inspected TQD and TQC, the latter being in scheduled commercial service. TQD returned back in scheduled commercial service 17th October. Lease Rental Payments had not been affected by the downtime of TQD. Our inspector considers both aircraft and its records to be in good condition with no significant defects or airworthiness related issues. Modifications of TQC, including the instalment of a Wi-Fi antenna and a crew rest compartment, had been performed in December 2017. The modification of TQD is scheduled to be completed mid-February 2018.

The charts below give a short overview of the utilisation of airframe and engines of each of the four aircraft.

### NORWEGIAN AIR SHUTTLE

| AIRFRAME STATUS (31st December 2017) | LN-LNA | | LN-LNB | |
|---|---|---|---|---|
| | Total | December 2017 | Total | December 2017 |
| Flight Hours | 21,700 | 440 | 22,896 | 505 |
| Flight Cycles | 2,573 | 45 | 2,766 | 57 |
| Average Monthly Utilisation | 401 hours | --- | 438 hours | --- |
| | 47 cycles | --- | 53 cycles | --- |
| Flight Hours/Flight Cycles Ratio | 8.43 : 1 | 9.78 : 1 | 8.28 : 1 | 8.86 : 1 |
| **ENGINE DATA (31st December 2017)** | | | | |
| **Engine Serial Number** | **10118** | **10119** | **10130** | **10135** |
| 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] | 15,936 | 17,545 | 12,952 | 17,076 |
| Total Flight Cycles | 1,941 | 2,134 | 1,451 | 2,015 |
| Location | In shop | LN-LNF | LN-LNB | LN-LNA |

## THAI AIRWAYS INTERNATIONAL

| AIRFRAME STATUS (31st December 2017) | HS-TQC | | HS-TQD | |
|---|---|---|---|---|
| | Total | December 2017 | Total | December 2017 |
| Flight Hours | 13,015 | 129 | 10,975 | 281 |
| Flight Cycles | 3,102 | 24 | 2,707 | 66 |
| Average Monthly Utilisation | 342 hours | --- | 301 hours | --- |
| | 81 cycles | --- | 74 cycles | --- |
| Flight Hours/Flight Cycles Ratio | 4.20 : 1 | 5.38 : 1 | 4.05 : 1 | 4.26 : 1 |
| **ENGINE DATA (31st December 2017)** | | | | |
| **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] | 11,271 | 10,518 | 10,295 | 9,931 |
| Total Flight Cycles | 2,670 | 2,583 | 2,507 | 2,451 |
| Location | HS-TQC | In shop | In shop | In shop |

# IV. THE LESSEES

## NORWEGIAN AIR SHUTTLE ASA

Norwegian Air Shuttle operates long-haul services since 2013. As at 28th November 2017, the airline had a fleet of 145 passenger aircraft, including a fleet of 21 Boeing 787s. The airline will take delivery of 11 Dreamliner in 2018. In 2017, Norwegian launched 54 new routes and took delivery of 32 brand new aircraft, including nine Dreamliner B787s. The carrier celebrated the delivery of its 150th Boeing aircraft (a B787-8) since 2008. As at 30th September 2017, Norwegian Air Shuttle had 23 operational bases globally and operated a total of more than 500 routes to over 150 destinations on four continents. In 2017, the airline transported more than 33 million passengers. This January, Norwegian´s flight from New York JFK Airport to London Gatwick operated by a B787-9 was the fastest ever transatlantic flight by a subsonic passenger aircraft. Flight time was 5 hours and 13 minutes benefitting from strong tailwinds.

In the third quarter of 2017, operating revenues increased by 21 per cent to NOK 10.07 billion (USD 1.27 billion) while ancillary revenues per passenger grew by 10 per cent, compared to the same quarter in the previous year. The operating profit was NOK 1.59 billion (USD 0.20 billion), up by 16 per cent. Net profit increased by 4 per cent to NOK 1.03 billion (USD 0.13 billion). The equity ratio as at 30 September 2017 was 11 per cent, up 1 percentage point compared to the same date in the previous year. Capacity and demand increased by 25 per cent and 26 per cent respectively and the load factor slightly increased to 91.7 per cent. The airline transported 9.80 million passengers during the third quarter, an increase of 14 per cent. In U.S. and Spain passenger numbers grew by 79 per cent and 25 per cent respectively which was the highest increase in Norwegian´s key markets. Cash and cash equivalents as at 30th September 2017 stood at NOK 5.57 billion (USD 0.70 billion).

During the first nine months of 2017 passenger numbers increased by 13 per cent to 25.08 million compared to the same period the previous year while operating revenues increased by 16 per cent to NOK 23.10 billion (USD 2.90 billion). Ancillary revenues per passenger increased by 5 per cent. Norwegian stated an operating loss of NOK 975 million (USD 123 million) compared to an operating profit of NOK 1.49 billion (USD 0.19 billion). Net profit decreased from NOK 938 million (USD 117 million) to NOK 620 million (USD 78 million), though it benefited from the sale of a 2.5 per cent Bank Norwegian shareholding in the second quarter (NOK 2.05 billion (USD 244 million)). However, results were significantly influenced by jet fuel prices as well as by the introduction of new markets and setting up new bases resulting in lower staff efficiencies due to critical mass not having achieved yet under the strong growth phase. In addition, performance has also been impacted by a passenger tax introduced by the Norwegian government in June 2016, by wet leasing costs and compensation paid to passengers affected by delays.

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In December 2017, both demand and capacity increased by 32 per cent compared to the same month in the previous year. For the year 2017, the growth rate of demand and capacity was 25 per cent. Load factors remained stable at 84.6 per cent in December 2017 and respectively around 87.5 per cent for the year. Passenger numbers grew by 12 per cent to 2.4 million passengers in December 2017 and respectively by 13 per cent to 33.1 million in 2017. Unit revenue and yield in December 2017 remained stable compared to the same month a year ago.

Early January this year, Norwegian appointed Geir Karlsen as new CFO. He will join Norwegian in April and will replace Tore Ostby, who acts as finance chief on an interim basis following Frode Foss's departure. Geir Karlsen acts as finance chief of London-based shipping group Navig8 and previously worked at Golden Ocean Group and Songa Offshore. Tore Ostby will become vice-president of strategic development within Norwegian.

End of last year, Norwegian purchased 28 weekly summer slots at London Gatwick Airport to further grow its market share and network, including U.S. destinations. The carrier will further extend its network between Europe and the U.S. for the summer schedule and will significantly grow capacity on the transatlantic routes. Destinations will be added between the U.S. and Milan, Amsterdam, Paris, Rome as well as Madrid. In the first quarter 2018, Los Angeles will become the fourth U.S. basis with 150 cabin crew members. In spring, one route between Scotland and the U.S. will be cut and frequencies on other transatlantic routes out of Scotland decreased as the expectation that the Scottish government would dispose air passenger duty did not materialise. In January this year, Norwegian signed an interline agreement with Wideroe. The carrier will place its code on public service obligation routes operated by Wideroe. This enables both carriers to span their respective networks within Norway.

Norwegian would be interested to expand its Asian network, however a 1956 agreement only allows SAS to fly over Russia to Asian destinations. Without this right to fly over Russia, not all Asian destinations could be served efficiently as flight routes to circumvent Russia would be unfavourable in terms of flight time and costs. Talks are ongoing between the Scandinavian and Russian governments but are expected not to materialise before one or two years´ time. Norwegian´s Argentinian subsidiary received its air operators certificate (AOC) at 26th January and its first aircraft, a Boeing 737-800, was received mid-January. The Argentinian subsidiary plans to operate 10 to 12 aircraft until year´s end and to start operations in the second quarter 2018. The fleet is anticipated to grow to 50 to 70 aircraft over the next 12 years and to consist of B737s and B787s offering domestic, regional and international services. In the first move, it is planned to set up domestic and regional routes as well as flights to destinations in the U.S. and Europe. Norwegian Air Argentina will start operations out of Buenos Aires Ezeiza International Airport.

For 2017, Norwegian expects a negative impact from the passenger tax in Norway and weaker demand in the UK. Performance may be negatively influenced by currency movements and increasing unit costs due to fuel price movements. For 2018, Norwegian expects capital expenditures on new aircraft to amount to USD 2.1 billion. The carrier anticipates a negative impact from the introduction of a Swedish passenger tax. However, Norwegian Air Shuttle targets unit costs to decrease by 7.1 per cent to 9.5 per cent and estimates a production growth of 35 per cent in capacity (ASK) for 2018.

## THAI AIRWAYS INTERNATIONAL

Thai Airways International Public Company Limited, full service network carrier and flag carrier of the Kingdom of Thailand, is majority-owned by the Thai Government (Ministry of Finance) (51.03 per cent). As at 31 September 2017, the fleet of Thai Airways, including its subsidiary Thai Smile, was 99 aircraft of which six are Boeing 787- 8s. Two B787-9s had been delivered to Thai during the third quarter and there are no further B787s on order. In 2017, Thai Airways International, excluding any subsidiaries, transported nearly 20 million passengers, an increase of 9.9 per cent. The carrier currently operates 66 destinations in 35 countries, including 11 destinations in 13 European countries. In the third quarter 2017, Thai Airways was rewarded as "Best South East Asian Airline for 10 consecutive years" by the TTG Awards and for "Best Inflight food 2017" by the International Flight Services Association Compass Awards.

During the third quarter, operating revenues amounted to THB 46.9 billion (USD 1,399 million), an increase of 6.3 per cent compared to the same quarter the previous year. Operating profit was THB 0.7 billion (USD 21 million) compared to an operating loss of THB 0.8 billion (USD 23 million) and net loss increased by 12.5 per cent to THB billion 1.8 (USD 54 million). Results had been impacted by one-time expenses of THB 0.5 billion (USD 16 million), impairment losses of THB 1.5 billion (USD 45 million) and an exchange loss of THB 0.8 billion (USD 25 million). The increase in average jet fuel prices by 11 per cent as well as strong competition and capacity growth by Asian low cost carriers further influenced results. Capacity grew by 7.9 per cent whereas demand increased by 14.9 per cent and therefore the load factor rose by 4.7 percentage points to 78.2 per cent. Passenger yields decreased by 7.5 per cent while passenger numbers and aircraft utilisation increased by 8.9 per cent and 4.3 per cent respectively. The number of foreign tourist arrivals in Thailand increased by 7 per cent in the third quarter 2017.

Revenues in the first nine months of 2017 increased by 4.6 per cent to THB 141.9 billion (USD 4,232 million) compared to the same period in 2016. Operating profit decreased by 54.3 per cent to THB 2.1 billion (USD 63 million) and net loss amounted to THB 3.8 billion (USD 113 million) compared to a net profit of THB 1.5 billion (USD 45 million). Results had been influenced by the above mentioned reasons as well as expenditures resulting from the Transformation Plan and its implemented measurements. Passenger demand growth outperformed capacity growth and the load factor increased by 6.4 percentage points whereas the yield decreased by 10.1 per cent. The total number of passengers increased by 11.3 per cent and aircraft utilisation improved by 5.3 per cent compared to the first nine month of the previous year. Cash and cash equivalents stood at THB 18.6 billion (USD 555 million) and total assets were THB 287.9 billion (USD 8,587 million) as at 31 September 2017.

In December 2017, Thai rolled over a USD 130 million loan provided by Thailand´s finance ministry for one year. In January 2018, TRIS Rating, the Thai partner of Standard & Poor´s reaffirmed Thai Airways an "A" rating. The local agency considered different aspects such as the high financial leverage of the carrier, the sectoral vulnerability to fluctuating fuel prices and the carrier´s state-owned enterprise status.

Thailand is supporting the aviation industry by creating the Eastern Economic Corridor (EEC) which targets ten industries, amongst others the aviation industry, to facilitating foreign investments by special privileges within three Eastern Thai provinces. The development of the U-Tapao International Airport to become a logistic and air cargo centre is a part of the EEC initiative. Thai Airways and Airbus signed a Cooperation Agreement in December 2017 to explore MRO (Maintenance, Repair and Overhaul) business opportunities at the airport which is already one of the three bases of Thai´s MRO arm Thai Technical. The carrier will start to maintain A380s at U-Tapao from 2018 on.

Thai considers its restructuring efforts - summarised in its Transformation Plan - as key to a profitable future in the long run. This year, Thai Airways entered the third and final stage ("sustainable growth"). Part of this stage are measurements and strategic objectives such as the growth of its regional network through Thai Smile and the expansion of its international long-haul network including the launch of a four weekly Bangkok-Vienna services. Moreover, four aircraft had been delivered during the third quarter as part of the fleet renewal plan and Thai Smile received a system upgrade to support code sharing services and facilitate connectivity between carriers. Partnerships are signed to further extend the network as for example with Turkish Airlines or Bangkok Airways. With the launch of the Vienna – Bangkok route the carrier intends not only to profit from about 100,000 Austrian tourists visiting Thailand each year but also to promote Thai for travel to the Asian neighbouring states such as Laos, Cambodia, Myanmar and Vietnam as well as to Australia.