



# DP AIRCRAFT I LIMITED

## Semi-Annual Shareholder Report February 2014



### I. THE FUND - DP AIRCRAFT I LIMITED

#### FACT SHEET - DP AIRCRAFT I LIMITED

Ticker	DPA
Company Number	56941
ISIN Number	GG00BBP6HP33
SEDOL Number	BBP6HP3
Traded	SFM
• SFM Admission Date	4 <sup>th</sup> October 2013
• Share Price	1.03 [28 <sup>th</sup> January 2014]
Listed	CISE
• CISE Listing Date	4 <sup>th</sup> October 2013
Country of Incorporation	Guernsey
Current Shares in Issue	113,000,000
Administrator and Company Secretary	Dexion Capital (Guernsey) Limited
Asset Manager	DS Aviation GmbH & Co. KG
Auditor and Reporting Accountant	KPMG
Corporate Broker	Canaccord Genuity Limited
Aircraft Registration (Date of Delivery)	EI-LNA (28th June 2013) EI-LNB (23rd August 2013)
Aircraft Serial Number	35304 35305
Aircraft Type and Model	B787-8
Lessee	Norwegian Air Shuttle ASA
Website	<a href="http://www.dpaircraft.com">http://www.dpaircraft.com</a>



## II. OVERVIEW AND DEVELOPMENT - THE AVIATION MARKET

The outlook for the aviation market and the demand for new aircraft are both positive over the long term. In their latest market outlooks, both Boeing (Current Market Outlook 2013-2032) and Airbus (Global Market Forecast 2013-2032) are of the opinion that the passenger fleet will double by 2032. Boeing estimates that half of prospective aircraft deliveries will contribute to fleet growth and that nearly a quarter of the demand will be for wide-body aircraft. Additionally Airbus believes that the number of passengers will rise by 131 per cent over the same period, and that the low-cost carriers, which still represent the fastest-growing sector, will increase from 17 to 21 per cent in respect of global market share.

Fuel costs have nearly doubled over the past 10 years, and currently constitute the largest percentage of operating costs. Airlines are therefore eager to reduce these costs through the use of new, more fuel-efficient aircraft like the Dreamliner B787. Greater urbanisation is increasing the propensity for people to travel by air; and the fact that there are diverse reasons motivating passengers to fly mitigates the risk of a material market break.

According to the latest Airline Business Confidence Index (January 2014 survey), 70.5 per cent of participating CFOs and Heads of Cargo believe that there will be an improvement in profitability over the next 12 months; this is 7.2 per cent higher than the comparable figure from the last survey in October 2013. On top of that, nearly 75 per cent of respondents believe that passenger yields will remain stable or increase over the next 12 months. Furthermore, the survey highlights the widely-held view that cargo volume will increase at rates not seen since the middle of 2010.

As stated in its press release of 12th December 2013, the International Air Transport Association ("IATA") expects the airline industry to hit global net profits of USD 19.7 billion in 2014, up from USD 12.9 billion in 2013. Tony Tyler, Director General and CEO of IATA, says that "Overall, the industry's fortunes are moving in the right direction. Jet fuel prices remain high, but below their 2012 peak. Passenger demand is expanding in the 5-6 per cent range - in line with the historical trend. Efficiencies gained through mergers and joint ventures are delivering value to both passengers and shareholders. And product innovations are growing ancillary revenues."

## III. THE ASSETS - TWO BOEING DREAMLINER B787-8s

Alongside the Airbus A350 (which is expected to enter into service by the end of this year), the Boeing B787 Dreamliner is the latest technological, mid-size wide-body aircraft available in the market. Because of its fuel-efficiency and lower emission- and noise-levels, which are all best in their class, the Dreamliner remains in high demand. In November 2013 Boeing achieved its 1000th order for the B787-family; and production is fully sold out until 2019. More than 60 airlines such as British Airways, Qatar Airways and American Airlines have placed orders, and already 16 airlines are commercially operating B787s, 117 have been delivered, around 67,000 flights have been undertaken and nearly 115,000,000 miles have been flown, as well as more than 12 million passenger transported (as at 27th January 2014).

DP Aircraft I Limited took title of both of its aircraft (LNA and LNB) on 9th October 2013 and took over the lease with

Norwegian Air Shuttle ASA through a lease assignment. Since that date Norwegian has met all of its lease obligations in full.

Norwegian Air Shuttle ASA is operating a long-haul fleet which currently consists of three B787-8s, and reports that both the airline and its customers are highly satisfied with this type of aircraft. The delivery of four more aircraft is scheduled to take place this year so that Norwegian's minimum target fleet size of five aircraft will be reached, enabling the carrier to operate the long-haul network on a fully economically efficient basis. The carrier operates the aircraft in a two-class configuration seating 32 premium economy plus 259 economy passengers. Summarised operating and technical data are displayed in the chart below.



**DP AIRCRAFT I LIMITED - SEMI-ANNUAL SHAREHOLDER REPORT FEBRUARY 2014**

**THE ASSETS - TWO BOEING DREAMLINER B787-8**

AIRFRAME STATUS (31 <sup>st</sup> Dec 2013)	LNA		LNB	
	Total	Dec 2013	Total	2013
Flight hours	2,458:55	470:23	1,502:30	474:04
Cycles	421	55	184	52
Block hours	13.15	15.2	11.47	15.3
Flight hours/Cycles Ratio	5.84 : 1	8.55 : 1	8.16 : 1	9.12 : 1
ENGINE DATA	LNA		LNB	
Engine Serial Number (ESN)	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]	2,458:44	2,458:55	TBC	1,502:30
Total Cycles	421	421	TBC	184
LLP	Various HPT Components	Various HPT Components	Various HPT Components	Various HPT Components
Cycles to LLP Replacement	3,055	3,055	TBC	3,293
Time since last Shop Visit	Not yet accomplished	Not yet accomplished	Not yet accomplished	Not yet accomplished

LNA and LNB were upgraded with up to 37 Service Bulletins in September 2013. After the upgrade, the dispatch-reliability of each aircraft was significantly improved. Under the Gold Care agreements operated in respect of both planes, Boeing fully covers aircraft maintenance and has put in place a full set of spare parts at every destination on Norwegian's long-haul network; furthermore, a Boeing representative at each of these destinations ensures a "meet-and-greet" for every arrival. Both initiatives have contributed to higher reliability as well.

One of LNB's engines (ESN 10130) is currently undergoing an upgrade at Rolls Royce's Derby facilities. The upgrade extends the maintenance intervals of the engines and will be performed in due course on the remaining engines as well. Besides aircraft LNB suffered a bird strike 4th January 2014 during take-off from Bangkok. There was only minor damage on the engine cowling, whereupon all damaged parts were replaced, and a concluding borescope-inspection did not show any damage to the engine itself.

**IV. THE LESSEE - NORWEGIAN AIR SHUTTLE ASA**

Norwegian Air Shuttle - Scandinavia's second largest airline – has been operating since 1993 and transported more than 20 million passengers in 2013. Since May 2013 the airline has offered long-haul services; currently operating with 3 B787-8s to Bangkok, New York and Fort Lauderdale. The load factor for its long-haul network is close to 92 per cent. Norwegian has managed to attract passengers originating not only in Scandinavia, but also in the United States and Asia. Asia, in particular, is viewed as the fastest growing tourism market for outbound traffic, offering Norwegian an attractive source for new business.

Most passengers on Norwegian long-haul flights are currently travelling for leisure purposes. However, the airline sees high growth potential in the business travel market. Over time it is expected that Norwegian's brand awareness will increase, and as internal travel policies impose more cost-conscious restrictions it is likely that the number of business travellers will rise. With its premium economy class Norwegian is well positioned to attract business travellers who are no longer able to fly business class but would still like to receive a premium service (as against the economy class of a legacy carrier).

Norwegian Air Shuttle ASA continues to grow successfully, with revenues during the first three quarters of 2013 up by 20.9 per cent as against the corresponding period in 2012; over the same period, revenues from domestic routes grew by 11.7 per cent and from international routes by 24.9 per cent. Additionally, passenger numbers increased by 16 per cent, ASK (available seat kilometres) by 30 per cent and RPK (revenue passenger kilometres) by 29 per cent, whereas unit costs decreased by 3 per cent.

A drop in bookings due to the extraordinarily good summer weather in Scandinavia in 2013, higher expenses due to the necessary wet-lease of Airbus A340 as a result of the late delivery of the Dreamliner, as well as start-up investments to establish long-haul operations and its new base in London Gatwick, put Norwegian's yields under pressure, seeing them decrease by 7 per cent. However, the load factor and the net margin were stable at 79 per cent and 4.4 per cent respectively. Ancillary revenues, which are important in Norwegian's business strategy, increased by 4 per cent. Looking at the financial key figures comparing the first three quarters of 2013 to the same period of 2012, EBITDAR excluding extraordinary gains, EBT and net profit increased by 19 to 20 per cent. The income statement shows an increase in equity by 24 per cent and in cash by 33 per cent based on a YTD comparison of the first three quarters of 2013 to 2012. The equity ratio stood at 20 per cent.

Norwegian will expand its long-haul network, adding more aircraft so as to operate a fleet of ten Dreamliners by 2016. The ideal fleet size of the carrier would be 20 to 25 aircraft with a growth rate of 4-5 yearly, but due to high market demand for Boeing's Dreamliner, Norwegian's demand cannot be met. Besides operating long-haul flights from Oslo, Stockholm and Copenhagen to Fort Lauderdale, New York JFK and Bangkok, the carrier will start to fly from London-Gatwick to the United States in July 2014. Furthermore, Norwegian will expand its destination portfolio to include Orlando, Los Angeles and Oakland (San Francisco).

