DP Aircraft

DP AIRCRAFT I LIMITED

Shareholder Report 26th January 2016

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	4th October 2013
• Share Price	1.01 [26th January 2016]
Country of Incorporation	Guernsey
Current Shares in Issue	209,333,333
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) HS-TQC (29th October 2014) HS-TQD (9th December 2014)
Aircraft Serial Number	35304 35305 36110 35320
Aircraft Type and Model	B787-8
Lessees	Norwegian Air Shuttle ASA Thai Airways International PCL
Website	http://www.dpaircraft.com

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II. THE AVIATION MARKET – OVERVIEW AND DEVELOPMENT

2015 proved to be a successful year in the airline market. In December 2015, the International Air Transport Association (IATA) raised its outlook for global airline profits for 2015 from USD 29.3 billion to USD 33.0 billion. In October 2015, air traffic – measured in Revenue Passenger Kilometres (RPK) – of airlines in the Asia-Pacific region increased by 8.6 per cent and the load factor was up 1.5 percentage points compared to the same month in 2014. Although trade activity to and from Asia decreased and the growth of the Chinese economy was behind expectations, it seems that these factors have not impacted passenger demand for air transportation. Passenger traffic in Europe saw 6.7 per cent growth, with the passenger load factor increasing by 1.9 percentage points to 83.8 per cent, which is the highest among the geographic regions. As the majority of European large carriers are hedging most of their fuel demand, the positive effect of low crude oil prices has been delayed into 2016. In the first ten months of 2015, compared to the same period in the previous year, global capacity – measured in Available Seat Kilometres (ASK) – grew by 6.0 per cent whereas global traffic increased by 6.8 per cent. This resulted in a global average load factor of 80.7 per cent.

Although crude oil prices have dropped markedly, there has been a delay in airlines enjoying the benefits of that fall as a result of pre-existing hedging contracts. On top of that, the strength of the US-dollar and the associated exchange rate effects have tempered the gains from lower oil prices. As future oil prices (as well as the market trend) remain uncertain and the business environment stays competitive, the demand for aircraft benefitting from the latest technology, such as the Dreamliner Boeing 787 and the Airbus A350, is expected to stay strong. The aircraft manufacturers Airbus and Boeing expect air travel to grow by an average of 4.6 per cent and 4.9 per cent respectively within the next 20 years according to their Global Market Forecast (Airbus) and Current Market Outlook (Boeing) for the period spanning 2015 to 2034. Airbus assumes that the growth in air traffic will result in demand for 32,600 aircraft worth USD 4.7 trillion during that period; while Boeing expects deliveries of 38,050 aircraft worth USD 5.6 trillion in the next 20 years. With both manufacturers predicting that more than 13,000 aircraft will be retired due to lower fuel efficiency or older technology, the global passenger and freighter aircraft fleets would, on their forecasts, double in size to 38,500 and 43,560 aircraft respectively by 2034.

For 2016, IATA expects a modest improvement in global economic activity which it is assumed will have a positive effect on air transport demand and airlines` profits. The organisation is of the opinion that emerging markets will continue to see a slow-down in growth in the short term, but remain robust over the medium term. Both the European and North American economies are expected to improve in 2016, and global airline profits are therefore expected to grow further to USD 36.3 billion. Air travel is forecast to grow by 6.9 per cent over the year, which would be the strongest growth since 2010 and would raise passenger numbers up to 3.8 billion. The number of destinations, as well as the frequency of flights, are expected to grow by 2.2 per cent, while tourist travel alone is expected to account for around USD 634 billion of spending for air transportation and its services in 2016.

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

By the end of December 2015, 1,142 Dreamliner Boeing 787 had been ordered and 363 Boeing 787 aircraft delivered to 35 different customers. The number of deliveries includes 289 aircraft of the B787-8 variant, whereas the current backlog of all three different B787 types counts for 779 aircraft. In 2015, six of the 35 customers received their first B787 aircraft, amongst others American Airlines, Korean Air and Privatair.

The B787 is a favoured aircraft which is operated on all continents across different climatic conditions and by airlines with different business models. Thai Airways' decision to select the B787 and make it an important part of its fleet strategy is reflected in the statement by Thai´s acting president Siwakiat Jayema that "The Dreamliner is a perfect fit for THAI in terms of its range, size and fuel efficiency". The CEO of Ethiopian Airlines, Tewolde Gebremariam, said of the Dreamliner that "passengers love it and whenever we introduce the Dreamliner on a route then our load factor improves". These testimonials underline the high level of operator and customer satisfaction for this aircraft. Since 2011, 10 per cent of new routes operated by wide-bodies have been launched with B787 aircraft. The B787-8 in particular has been used as a market opener and, due to its efficiency and capability, can be operated economically between hubs and secondary markets. According to Boeing, airlines from the Asia-Pacific region will have especially high demand for small and medium wide-body aircraft. It seems obvious that the Dreamliner B787 will remain a sought-after aircraft.Since DP Aircraft I Limited took title of the two aircraft LNA and LNB in 2013, Norwegian has met all of its obligations in full. The carrier´s B787 fleet offers a total of 291 seats in premium economy and economy class. The airline deploys its Dreamliner fleet out of Scandinavia and the UK both to Bangkok and to destinations in the US such as Orlando and Los Angeles, as well as to Caribbean destinations like Puerto Rico and St. Croix. In November 2015, both aircraft LNA and LNB were inspected by DS Skytech at the Boeing maintenance facilities at Copenhagen International Airport. This inspection took place during overnight checks and included a review of the technical records. Both aircraft and their technical records were found to be in good condition with no significant defects or airworthiness related issues. Thai Airways equipped its B787 fleet with a total of 264 seats in business and economy class. The carrier operates this aircraft type on routes within the Asia-Pacific region such as Kuala Lumpur, Singapore and Denpasar, as well as to and from destinations in Australia such as Brisbane and Perth. Both aircraft, TQC and TQD, were inspected by DS Skytech Limited on the 8th and 9th July 2015 at Bangkok International Airport. The inspection found the aircraft to be in good condition with no significant defects or airworthiness related issues and the records are being maintained to an acceptable standard. Since DP Aircraft I Limited took title of both TQC and TQD, Thai Airways has met all of its lease obligations in full.

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

NORWEGIAN AIR SHUTTLE

AIRFRAME STATUS (30th November 2015)	EI-LNA		LN-LNB	
	Total	November 2015	Total	November 2015
Flight Hours	10,154:54	398:54	11,584:00	468:45
Cycles	1,244	90	1,419	55
Average Monthly Utilisation	353.8 hours 42.9 cycles	---	426.2 hours 52.0 cycles	---
Flight Hours/Cycles Ratio	8.16 : 1	8.13 : 1	8.16 : 1	8.52 : 1
ENGINE DATA (30th November 2015)				
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]	8,392:20	5,970:40	6,003:30	6,508:60
Total Cycles	1,056	804	636	767
Location	LNA	Workshop	LNA	LNB

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THAI INTERNATIONAL AIRWAYS

AIRFRAME STATUS (30th November 2015)	HS-TQC		HS-TQD	
	Total	November 2015	Total	November 2015
Flight Hours	4,433:32	345:00	3,779:93	360:78
Cycles	1,216	84	1,015	88
Average Monthly Utilisation	339.9 hours	---	332.2 hours	---
	93.3 cycles		89.6 cycles	
Flight Hours/Cycles Ratio	3.65 : 1	4.11 : 1	3.72 : 1	4.10 : 1
ENGINE DATA (30th November 2015)				
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]	4,433:32	4,433:32	3,779:93	3,779:93
Total Cycles	1,216	1,216	1,015	1,015
Location	TQC	TQC	TQD	TQD

IV. THE LESSEES

NORWEGIAN AIR SHUTTLE ASA

Norwegian Air Shuttle transported 25.7 million passengers in 2015, which represents a growth in number of 2 million passengers compared to 2014. The airline received eleven new aircraft during the course of last year, and the majority of newly-launched routes were long-haul destinations. The load factor increased by 5 percentage points to 86 per cent in 2015. The airline is the third largest carrier by passenger numbers operating out of London-Gatwick where ten aircraft (as well as 130 pilots and 300 cabin crew members) are based. In addition to receiving several awards which highlighted the airline´s convincing performance, Norwegian Air Shuttle was named the "most fuel-efficient airline on transatlantic routes" by a study of the ICCT (International Council on Clean Transportation); for the purposes of that award, the top 20 airlines on transatlantic routes were compared on their relative fuel efficiency and the associated carbon footprint. Furthermore, Norwegian is the first airline to offer live TV on board European flights.

Norwegian´s third quarter results state operating revenues of NOK 7,277 million (USD 860 million). This is an increase of 15 per cent compared to the same quarter in the previous year. ASKs and RPKs increased by 2 per cent and 9 per cent respectively. The passenger load factor therefore rose to 91 per cent. Operating profits increased by 122 per cent to NOK 1,182 million (USD 140 million). EBT amounted to NOK 1,098 million (USD 130 million), which represented an increase of 117 per cent on the third quarter 2014. The carrier's net profits improved by 123 per cent to NOK 833 million (USD 98 million) and the net profit margin increased to 11.4 per cent. Unit costs increased by 2 per cent whereas unit revenue increased by 13 per cent. Moreover, ancillary revenues grew by 3 per cent. Cash and cash equivalents as at 30th September 2015 counted for NOK 2,297 million (USD 271 million). Norwegian transported 7.7 million passengers during the third quarter, a gain of 9 per cent. The strongest growth in passenger numbers was recorded at London Gatwick.

Traffic figures for December 2015 showed an increase in ASK of 12 per cent and in RPK of 15 per cent compared to the same month in the previous year. The load factor therefore improved by 2 percentage points to 83.3 per cent. In the same period, passenger numbers grew by 9 per cent. The yield remained stable whereas the Revenue per Available Seat Kilometre (RASK) increased by 2 per cent. As at 30th September 2015, Norwegian operated 434 scheduled routes to 130 destinations in 31 countries and had a fleet of 105 aircraft.

Apart from the already announced new routes from Europe to Boston, in December Norwegian disclosed its plans to open a route between Oakland and London Gatwick in May of this year.

In January 2016, Norwegian announced that it had made a deal with a number of tour operators, such as TUI. This renewal of partnerships is worth GBP 40 million and comprises flights from the UK and Scandinavia to destinations mainly around the Mediterranean Sea.

Norwegian currently operates eight Boeing 787-8s. Last year the airline announced plans to further increase the long-haul fleet. Amongst some orders via lease deals, the carrier placed an order for 19 B787-9s, with options for ten further Dreamliners. This is the largest single order placed by a European airline. In 2016, the airline expects to receive another four B787s and by 2020 the Dreamliner fleet will comprise 38 aircraft from the B787 family. The mix of B787-8s and B787-9s will provide the airline with flexibility in regard to route planning and further long-haul commitment. Furthermore, the carrier has been granted both a UK AOC (Air Operator´s Certificate) and an Operating License. This is an essential step towards further growth as it offers the airline the opportunity to extend its network to Africa, South America and Asia.

The fourth quarter results will be published in mid-February. However, Bjørn Kjos, CEO of Norwegian Air Shuttle, said that "[the] long-haul operation has stabilised and contributed significantly to the 2015 figures. It bodes well going forward, as it increases [Norwegian´s] global competitiveness and positions [the carrier] for further growth at London Gatwick". In 2016, Norwegian expects to receive four leased B787-9s and intends to increase capacity in the long-haul market by 40 per cent.

THAI AIRWAYS INTERNATIONAL

The flag carrier Thai Airways International Public Company Limited is a full-service network carrier with 55 years of operational experience. The carrier is market-listed and majority-owned by the Thai Government (51.03 per cent). In 2015, around 18.5 million passengers flew with Thai (including Thai Smile, a fully owned subsidiary of Thai Airways), with the average passenger load factor increasing by 4 percentage points. The carrier (including its subsidiary) currently offers flights from Bangkok to 70 destinations in 60 countries. As at 30th September 2015, Thai's fleet (including Thai Smile) was 95 aircraft in size. Thai itself operates mainly wide-body aircraft from both Airbus and Boeing, whereas Thai Smile operates narrow-body Airbus A320s. Thai Airways has six B787-8s in operation and two more B787-9s on order as part of its fleet renewal plan.

Due to the restructuring, the third quarter results for 2015 were heavily impacted by special items such as impairment charges arising in connection with the sale of older and less fuel-efficient aircraft to reduce operating costs and to become more competitive in the long term. In addition, the third quarter results were impacted by losses on foreign exchange, mainly attributable to the strong US dollar. Only 7 per cent of the carrier´s revenues were received in US dollars, while in contrast 53 per cent of its expenses were incurred in that currency. According to Thai, the results were additionally stressed by the attack in Ratchaprasong in downtown Bangkok, after which air travel on key routes such as to China, Japan, Hong Kong, South Korea and Singapore decreased by around 15 to 20 per cent in the short term. For the third quarter of 2015, Thai Airways showed a THB 8,870 million (USD 244 million) loss before tax compared to a THB 922 million (USD 25 million) gain in the same quarter of 2014. The carrier posted a net loss of THB 9,894 million (USD 272 million).

Thai's operational results show a positive trend. Losses before tax decreased by 19.0 per cent and total expenses decreased by 6.1 per cent compared to the same quarter in the previous year. Capacity had been slightly reduced by 0.8 per cent, while passenger traffic increased by 3.9 per cent and the overall number of passengers went up by 8.8 per cent. This resulted in a 3.4 percentage point increase in the load factor. Passenger revenues remained unchanged. Yields suffer from lower fuel surcharges on the air fare and intense competition. While passengers in a highly competitive market profit from lower oil prices relatively quickly, carriers such as Thai, who hedge out a large proportion of their fuel consumption, profit much later from decreasing oil prices as they have to wait for their fuel hedges to fall away. According to the unaudited consolidated financial statement, cash and cash equivalents as at 30th September 2015 were THB 28,251 million (USD 776 million).

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The nine month performance of 2015 seems to provide proof that the measures introduced by the restructuring plan are beginning to have an effect. The operational loss before tax decreased by 72 per cent from the same period in the previous year - after an operational loss before tax of THB 16,224 million (USD 501 million) in the first nine months of 2014, the carrier stated an operational loss before tax of THB 4,536 million (USD 125 million) for the same period in 2015. Even though total revenues decreased by 1.4 per cent, passenger revenues increased slightly by 0.6 per cent. Total expenses decreased by 8.9 per cent whereas non-fuel related costs remained stable. ASK and RPK grew by 1.9 per cent and 9.1 per cent respectively. As a result, the load factor improved by 4.8 percentage points and the number of carried passengers increased by 15 per cent. Last but not least, internet sales as part of the transformation plan´s commercial strategy were up on the previous year. By 30th September 2015, Thai had successfully issued a THB 8,000 million (USD 220 million) unsubordinated and unsecured debenture. The four tranches vary in size and maturities and the fixed coupon rates range between 3.46 and 4.74 per cent. The debentures were placed with both institutional investors as well as high net worth individuals.

In December 2015, after the ICAO (International Civil Aviation Organisation) had previously announced concerns regarding Thailand's civil aviation authority, the FAA (Federal Aviation Administration) downgraded the country of Thailand to category 2. This prevented Thai Airways from adding new US destinations either through its own operations or through code sharing; existing destinations and codeshare agreements were however untouched. Thai´s decision to cancel flights to Los Angeles at the beginning of the winter schedule was not a result of the downgrade, but rather represented part of its network rationalisation and transformation plan, as Thai would have been permitted by the FAA to continue these flights. In contrast, Thai Airways was the first carrier outside the EU to pass the TCO (Third Country Operator) Audit by the EASA (European Aviation Safety Agency) which will become a requirement for all non EU-based carriers as of November 2016 if they wish to undertake operations to, from or within Europe. This supports the high safety standards which Thai Airways has sought to maintain, as the main concern of the ICAO and FAA is not particularly carrier related but applies instead to the civil aviation authority – in the case of Thailand, for example, the approval of AOCs for new operators, as well as the authority´s understaffing, were concerns.

Thai Airways is on track with its transformation plan. This two year restructuring programme, which comprises six strategies and 21 project charters designed to turn the carrier into profitability, follows three steps: to stop losses, to rebuild Thai´s strength and to grow sustainably. Some of the recent measures have included the postponement of the delivery of 14 aircraft which had been scheduled for between 2016 and 2018. In addition, the company completed the identification of unused or underutilised property, as a result of which Thai now plans to offer 19 properties including residences, land and office buildings for sale. In 2016 Thai also intends to complete the transition of the A320 narrow-body operations to its subsidiary Thai Smile whose cost structure is lower and allows for a more favourable position in a highly competitive domestic and regional market. Thai Airways therefore continues to pursue its objective of returning to profitability in 2016.