



DP Aircraft

# DP AIRCRAFT I LIMITED

Shareholder Board Report 20<sup>th</sup> July 2015



## 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	1.063 [20 <sup>th</sup> July 2015]
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 (28 <sup>th</sup> June 2013) EI-LNB (23 <sup>rd</sup> August 2013) HS-TQC (29 <sup>th</sup> October 2014) HS-TQD (9 <sup>th</sup> December 2014)
Aircraft Serial Number	35304 35305 36110 35320
Aircraft Type and Model	B787-8
Lessees	Norwegian Air Shuttle ASA Thai Airways International PCL
Website	<a href="http://www.dpaircraft.com">http://www.dpaircraft.com</a>

## II. THE AVIATION MARKET - OVERVIEW AND DEVELOPMENT

The positive outlook for the airline industry has strengthened as the year has gone on. The International Air Transport Association (IATA) has raised its projections for global net profits in 2015 from USD 25.0 billion to USD 29.3 billion; expects air travel to grow by 6.7 per cent.; forecasts that 1 per cent. of global GDP will be spent on air transport over the year, representing an amount in excess of USD 760 billion; and believes that both total employment and productivity will rise by more than 3 per cent.

European airlines have had to deal with high levels of competition and significant regulatory costs. Nevertheless, the region has achieved the second highest load factors and is generating solid growth. IATA expects net profits for European airlines to grow to USD 5.8 billion in 2015. In May 2015, international air travel for European carriers increased by 5.9 per cent compared to the same month in the previous year.

Air traffic in the Asia-Pacific region is forecast to grow by 8.1 per cent in 2015 and net profit to increase to USD 5.1 billion. With Revenue Passenger Kilometres (RPK) in the first five months of 2015 growing by 8.6 per cent. on the same period last year, and Available Seat Kilometres (ASK) increasing by only 6.7 per cent. over the equivalent period, this had a positive impact on load factors. According to Airbus (Global Market Forecast 2015-2034), the Asia-Pacific region will continue to take the lead in world traffic over the next 20 years. Currently, this region has a 29 per cent. share of world traffic measured in RPK.

Lower crude oil prices have had a positive impact on the aviation business, but this has been offset to a large extent by the strength of the US Dollar. However, airlines remain prudent, and IATA's air passenger market analysis of May 2015

shows that airlines have been adding capacity at a slower rate than the expansion in demand, leading to improved load factors. In any event, given the uncertainty as to future oil prices, aircraft benefitting from the latest technology, such as the Dreamliner Boeing B787, will stay in strong demand.

The long-term outlook remains positive for both the aviation market and the levels of demand for new aircraft. According to their latest published market outlooks, both Boeing (Current Market Outlook 2015-2034) and Airbus remain of the opinion that passenger fleets will double by 2034. Airbus estimates that the current aircraft fleet of around 19,000 will grow to 38,500 aircraft in 2034 and that wide-body aircraft will represent 55 per cent. of value. According to IATA, around 1,700 aircraft valued at USD 180 billion will be delivered to commercially operating airlines in 2015 to replace older aircraft and to further the growth of the global fleet. Boeing forecasts that 54 per cent. of twin aisle aircraft deliveries over the next twenty years will be within the 200-300 seat category. On top of that, Boeing estimates annual growth rates of airline traffic (RPK) at 4.9 per cent. on average over the next 20 years. The manufacturer made its forecast based upon the assumption of an average annual increase of 3.1 per cent. in global GDP over the same period.

IATA has calculated that the aviation sector provides 58 million jobs as well as USD 2.4 trillion in GDP. In 2015, it is anticipated that 3.5 billion passengers and nearly 55 million tonnes of cargo will be transported by air - over half of all international tourists and a third of world trade travels in this way. All these numbers emphasise the importance of the aviation and airline market in connecting people and supporting global trade and economic growth.





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

As at 5<sup>th</sup> June 2015, a total of 1,105 Dreamliner B787s had been ordered from 60 customers, and 283 aircraft of these had been delivered to 31 operators. 50 Dreamliners were ordered in the first half of 2015 and, with a current backlog of around 800 aircraft orders and production fully sold out until 2019, it is clear that the aircraft remains in high demand. The Dreamliner Boeing 787 still ranks alongside the Airbus A350 (which entered into commercial service on 15th January 2015) as the latest technological, mid-size wide-body aircraft available in the market.

The advantages of the Boeing 787 are numerous. Alongside lower operational costs and a better environmental performance, the aircraft has interchangeable engines and shares a common pilot type rating with Boeing 777 aircraft. Furthermore the Boeing 787, especially the B787-8, is a suitable aircraft for point-to-point routes and a

market opener. Worldwide, there are over 55 new non-stop markets connected with the B787.

Since DP Aircraft I Limited took title of both LNA and LNB in 2013, Norwegian has met all of its lease obligations in full. The same applies to Thai Airways where title transfer of TQC and TQD took place this June. Both carriers operate their aircraft in a two-class configuration. Norwegian's cabins provide 32 premium economy plus 259 economy seats, while Thai Airways' cabins offer seating for 24 business ("Royal Silk Class") and 240 economy passengers. Whereas Norwegian uses its B787 aircraft to serve Bangkok and destinations in the U.S., Thai Airways currently deploys its B787s on routes within the Asia-Pacific region as well as to and from destinations in Australia. The two charts below give a short overview of the utilisation of airframe and engines of each of the aircraft:

#### NORWEGIAN AIR SHUTTLE

AIRFRAME STATUS (30 <sup>th</sup> June 2015)	EI-LNA		EI-LNB	
	Total	June 2015	Total	June 2015
Flight hours	7,949:58	365:17	9,371:11	441:30
Cycles	989	44	1,167	48
Block hours	10:85	12:17	13:84	14:71
Flight hours/Cycles Ratio	8.04 : 1	8.30 : 1	8.03 : 1	9.19 : 1
<b>ENGINE DATA (30<sup>th</sup> June 2015)</b>				
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]	6,862:30	4,146:40	4,947:30	4,630:00
Total Cycles	881	596	509	559
Location	Workshop	LNA	LNA	LNC

#### THAI AIRWAYS INTERNATIONAL

AIRFRAME STATUS (30 <sup>th</sup> June 2015)	HS-TQC		HS-TQD	
	Total	June 2015	Total	June 2015
Flight hours	2,748:55	344:68	2,101:16	293:22
Cycles	776	103	570	92
Block hours	11:26	11:49	10:35	9:77
Flight hours/Cycles Ratio	3.54 : 1	3.35 : 1	3.69 : 1	3.19 : 1
<b>ENGINE DATA (30<sup>th</sup> June 2015)</b>				
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]	2,748:55	2,748:55	2,101:16	2,101:16
Total Cycles	776	776	570	570
Location	TQC	TQC	TQD	TQD

DS Skytech Limited provides the technical asset management for all four of the B787 aircraft owned by DP Aircraft I Limited.



#### IV. THE LESSEES

##### **NORWEGIAN AIR SHUTTLE ASA**

Norwegian Air Shuttle is the first low-cost carrier offering non-stop flights from Scandinavia to the U.S. In 2014, the airline transported nearly 24 million passengers. As at 30<sup>th</sup> June 2015, the carrier operated 434 scheduled routes to 130 destinations in 39 countries. This includes 18 non-stop long-haul routes between Europe and the U.S., as well as Thailand. In autumn 2015, Norwegian will add three new long-haul destinations from the UK and Scandinavia, operating flights to Puerto Rico, St. Croix (in the US Virgin Islands) and Las Vegas. In May 2016, Norwegian will open a new route between London-Gatwick and Boston. The total fleet comprises 100 aircraft at the end of the second quarter 2015. The carrier was awarded "Europe's Best Low Cost Airline" and "World's Best Low Cost, Long Haul Airline" by Skytrax in 2015.

In the second quarter of 2015, ASKs and RPKs increased by 8 per cent. and 15 per cent. respectively compared to the same period in the preceding year. The load factor increased by 5 percentage points to 85 per cent. and operating revenues increased by 16 per cent. EBITDAR (excluding other gains and losses) improved by 122 per cent. The operating profit for the first quarter was NOK 520.5 million (USD 66.1 million) compared to an operating loss of NOK 85.1 million (USD 13.9 million) over the equivalent period, while net profit increased by 153 per cent. Ancillary revenues per scheduled passenger increased in the same period by 14 per cent. At 30 June 2015,

cash and cash equivalents amounted to NOK 3,045.4 million (USD 386.9 million). In June 2015, Norwegian Air Shuttle transported 7 per cent. more passengers than in the same month in the previous year. Furthermore the unit revenue (Revenue per ASK) increased by 6 per cent.

Norwegian's Q2 2015 results have been affected by the weak Norwegian currency but this has been outweighed by the lower fuel price. The load factor of long-haul operations was 91 per cent. and passenger numbers have more than doubled compared to the equivalent period last year. Norwegian's strongest passenger growth was at London Gatwick. Since starting long-haul operations two years ago with two B787 aircraft, the carrier has transported 1.7 million passengers on routes to and from Bangkok and the United States. In April 2015, Norwegian took delivery of its eighth B787-8. The carrier will receive another four Dreamliners in 2016, three in 2017 and a further two B787s in 2018 so that it will operate a fleet of 17 Boeing Dreamliner 787s by the end of 2018. Last but not least, Norwegian is targeting growth of 30 per cent. in ASKs on its long-haul routes by the end of this year and expects positive contribution from long-haul operations going forward.







#### IV. THE LESSEES

##### THAI AIRWAYS INTERNATIONAL

Thai Airways International Public Company Limited is a global full-service carrier with 55 years of experience, and is one of the founding members of the Star Alliance airline alliance. As at 31 March 2015, Thai Airways (including its subsidiary Thai Smile) had an active fleet of 93 aircraft. The fleet consists of 20 narrow-body aircraft and 73 wide-body aircraft, of which 4 aircraft are Boeing 787-8s. The carrier transported more than 19 million passengers in 2014. The airline serves over 70 international and domestic destinations across four continents. The flag carrier of the Kingdom of Thailand is market-listed and majority-owned by the Thai Government (51.03 per cent). Thai Airways is a member of IATA as well as IOSA certified (IATA Operational Safety Audit – the benchmark for global safety management in airlines). Moreover, Thai Airways is rated a four star airline by Skytrax.

Thai's network as at 28<sup>th</sup> March 2015 served 66 international destinations in 34 countries and 7 cities within Thailand. Its subsidiary Thai Smile served 10 regional routes. As a result of its dense network within Thailand and South-East Asia as well as a result of its rewarded service, Thai Airways attracts a high percentage of holiday travellers. Moreover, owing to its aforementioned excellent service and customer-orientation the airline is also attracting the higher yield traveller segment of international, less price-sensitive, business customers. In 2015, Thai Airways was placed first in "World's Best Airline Lounges Spa Facility" by the Skytrax World Awards.

The results for the first quarter of 2015 show that ASKs increased by 4.5 per cent. whereas RPKs grew by 12.3 per cent. and consequently the load factor increased by 5.3 percentage points compared to the equivalent quarter in the previous year. Operating revenues increased by 3.4 per cent. while operating expenses decreased by 11.71 per cent. EBIT was THB 5,825 million (USD 171.6 million) and net profit augmented to THB 4,541 million (USD 133.8 million). However, the net profit was influenced by gains on foreign exchange as well as by an impairment charge because of the phase out of 12 aircraft. In May 2015 compared to the same month in the previous year, the number of carried passengers increased by 13.4 per cent. and cabin load factor grew by more than 6 percentage points. ASKs remained stable and RSKs increased by 11 per cent. in this period.

The airline's recently implemented restructuring plan is intended to improve both profitability and cost-efficiency as well as customer-orientation. Thai Airways has started to offer Wi-Fi-connectivity on board selected aircraft and has increased the free baggage allowance. Further initiatives which have already been implemented include the reduction of the fleet and its complexity, as well as the adjustment of the network and the discontinuation of unprofitable routes. Currently the carrier operates a fleet of five B787-8s which form part of the move towards fleet restructuring and modernisation. Thai Airways plans to increase its Dreamliner fleet to eight aircraft in 2017.

