

# AA4P QUARTERLY REPORT

Amedeo Air Four Plus Limited

LSE: AA4

Report to Shareholders for the quarter ending 31 March 2019

## THE COMPANY

Amedeo Air Four Plus Limited (“the Company”), a Guernsey domiciled company, commenced business in May 2015 and has its shares listed on the Specialist Fund Segment of the London Stock Exchange’s Main Market. Initially 202 million Ordinary Shares were issued at a price of 100p per share and subsequently the Company has concluded additional placings of shares at issue prices of 100p, 101p, 102p and 104p resulting in a total of 642,250,000 shares in issue as at 29 March 2019 (the “equity”).

With the share price on 29 March 2019 closing at 91.5p the market capitalisation then of the Company was GBP 587,658,750.

## COMPANY INVESTMENT STRATEGY

The Company's investment objective is to obtain income and capital returns for its Shareholders by acquiring, leasing and selling aircraft. The Company seeks to use the net proceeds of placings and/or other equity capital raisings, together with debt facilities (or instruments), to acquire aircraft which will be leased to one or more major airlines (each aircraft an “Asset”). 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 the sale, or other disposition of the Assets.

The Company's Articles provide that the Company may only acquire further aircraft with the approval of Shareholders by ordinary resolution in relation to each proposed acquisition. Where such approval for a new acquisition is obtained, it is the current intention of the Directors to offer Shareholders the opportunity to participate in any equity financing on

a broadly pre-emptive basis, although other approaches to financing may also be considered and pursued if the Directors consider it appropriate to do so to diversify the funding sources of the Company.

The Board’s intention is that, subject to finding suitable deals and obtaining subsequent Shareholder approval, the Company be grown into a larger vehicle owning a range of aircraft leased to more major airlines. The aim of such a strategy is to diversify the risk profile of the Company’s portfolio of Assets and lease credits whilst maintaining its target investor returns of a quarterly dividend of 2.0625p per share and a double digit total return.

The Asset Manager has not come across any suitable transactions to present to the Board in Q1 2019 that would not be dilutive to the Company’s return profile and revenue currency balance in favour of GBP. The Asset Manager, in conjunction with Nimrod Capital LLP, the Company’s Corporate & Shareholder Advisor, will be discussing with the Board the scope for potential opportunities throughout 2019.

## CURRENT INVESTMENTS

Since launch in May 2015 the Company has acquired eight Airbus A380, two Boeing 777-300ER and four A350-900 aircraft. Eight of these aircraft are leased to Emirates, two aircraft are leased to Etihad and four aircraft are leased to Thai Airways.

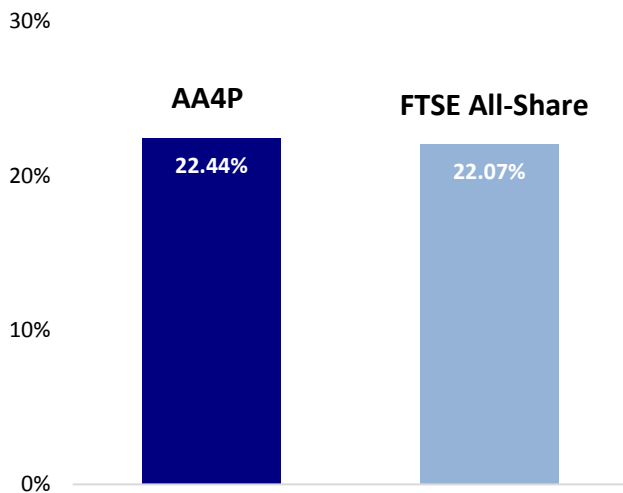
All aircraft are leased for a period of 12 years from each respective delivery date. To complete the purchase of these aircraft, subsidiaries of the Company entered into debt financing arrangements which together with the equity proceeds were used to finance the acquisition of the fourteen aircraft.

## OVERVIEW (29 March 2019)

Listing	LSE
Ticker	AA4
Initial Share Price	100p
Share Price	91.5p (Closing)
Current Targeted Distribution	8.25 pence per share p.a.
Market Capitalisation	GBP 587,658,750
Initial Debt	USD 2,440,757,240
Outstanding Debt Balance	USD 2,066,599,634
Current Dividend Yield (based on the Current Share Price)	9.02%
Currency	GBP

Dividend Payment Dates	April, July, October, January
Launch Date / Price	13 May 2015 / 100p
Incorporation	Guernsey
Asset Manager	Amedeo Limited
Corp & Shareholder Advisor	Nimrod Capital LLP
Administrator	JTC Fund Solutions (Guernsey) Limited
Auditor	KPMG
SEDOL, ISIN	BWC53H4, GG00BWC53H48
Year End	31-Mar
Stocks & Shares ISA	Eligible
Website	<a href="http://www.aa4plus.com">www.aa4plus.com</a>

## AA4P TOTAL RETURNS SINCE IPO VS. FTSE ALL-SHARE INDEX



\*The FTSE All-Share Index is not intended to be used as the benchmark for the Company. It is shown for illustrative purposes to indicate the performance of the Company for an equity investor whose portfolio may be benchmarked against the FTSE All-Share Index. FTSE All-Share returns account for all dividends to date being reinvested.

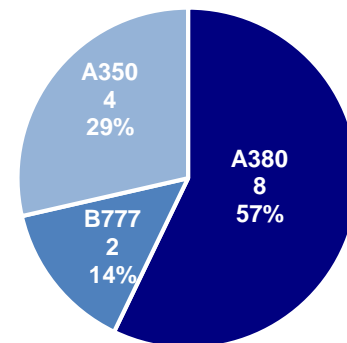
Past performance cannot be relied on as a guide to future performance. The value of an investment may go down as well as up and some or all of the total amount invested may be lost.

Returns calculated as of 31-Mar-2019.

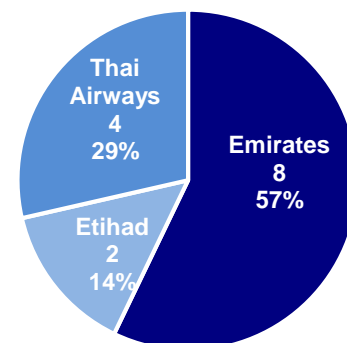
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## AA4P PORTFOLIO BREAKDOWN

### By Aircraft Type



### By Operator



## AMEDEO'S ASSET INSPECTION REPORT TO AA4P

Lessee	Model	MSN	REG	Delivery Date	Lease Expiry Date	Flight Hours	Flight Cycles
Emirates	A380-861	157	A6-EEY	04/09/2014	04/09/2026	19,238	3,067
	A380-861	164	A6-EOB	03/11/2014	03/11/2026	19,077	3,019
	A380-861	187	A6-EOM	03/08/2015	03/08/2027	18,739	1,729
	A380-861	201	A6-EOQ	27/11/2015	27/11/2027	13,554	2,142
	A380-861	206	A6-EOV	19/02/2016	19/02/2028	13,123	2,079
	A380-861	208	A6-EOX	13/04/2016	13/04/2028	12,261	1,944
	777-300ER	42334	A6-EPO	28/07/2016	28/07/2028	11,374	2,880
	777-300ER	42336	A6-EPQ	19/08/2016	19/08/2028	11,699	2,625
Etihad	A380-861	233	A6-API	24/03/2017	24/03/2029	10,478	1112
	A380-861	237	A6-APJ	24/05/2017	24/05/2029	9,650	987
Thai	A350-900	123	HS-THF	13/07/2017	13/07/2029	7,754	1,294
	A350-900	130	HS-THG	31/08/2017	31/08/2029	7,313	1149
	A350-900	142	HS-THH	22/09/2017	22/09/2029	7,061	1132
	A350-900	177	HS-THJ	26/01/2018	26/01/2030	5,334	895

*The utilisation figures above represent the totals for each aircraft from first flight to 28-Feb-2019*

### Recent Technical Activity:

- Emirates A380s MSNs 157, 187 and 201 were inspected during this period and aircraft are maintained to a very high maintenance standard. The cabin is in very good standard with no modifications.
- MSN 157 A check performed in January 2019 and MSN 206 performed a C check in February 2019.
- Aircraft are operating normally and due to high traffic demand Emirates have requested that the annual inspections of MSN 164, 206, 208 which were scheduled in April 2019 be postponed to July 2019.
- Emirates A380 fleet operated normally with no technical event reported during the period.
- Emirates 777-300ER fleet operated normally and a planned Airframe Check was performed on MSN 42336 in March. No technical event reported during the period.
- Etihad A380 fleet operated normally with no technical event reported during the period.
- Thai A350 fleet operated normally with no technical event reported during the period.

## RECENT EVENTS

On February 14<sup>th</sup>, Airbus announced that it will stop production of the A380 aircraft in 2021. Emirates will take additional 14 A380 units, all Rolls Royce powered, bringing its current total of 109 A380s to 123.

All other outstanding orders, including Amedeo's, were terminated by mutual agreement. Emirates stated that the A380 will remain a pillar in their fleet well into the 2030s. The Asset Manager of the Company estimates that the long-term core Emirates A380 fleet will comprise in excess of 100 A380 units, which the Asset Manager expects will continue to be operated by Emirates for the entirety of their useful economic lives.

In the Emirates A380 fleet, 90 units are Engine Alliance powered, and 33 units will have Rolls Royce engines, including 19 aircraft already in service and 14 on order.

In addition, Emirates agreed to acquire 40 A330-900s and 30 A350-900s.

It has been reported that Air France plans to reduce its A380s fleet from ten to five aircraft. The carrier plans to return the first two to the lessor when their contract expires in 2019. The carrier will continue to operate the remaining three aircraft until their lease expiration.

Lufthansa is reported to have concluded a new purchase agreement with Airbus for 20 A350-900 aircraft (and 20 787s with Boeing). As a part of the order Airbus has agreed to buy back from Lufthansa 6 of its A380s in 2022 and 2023.

Dr. Peters, the asset manager for ex-Singapore Airlines A380s, reported that MSNs 3 and 5 will be parted out for sale by VAS Aero Services. Dr. Peters estimates \$45 million in parts proceeds over a two-year period, in addition to maintaining a lease agreement with Rolls Royce for the engines until 2020, with Rolls Royce paying rent of \$480,000 per month for each four engine sets, after which time it plans to sell the engines. Dr. Peters has stated that

this will produce US\$80 million per aircraft and an investment return of 145-155%.

Hi Fly, a wet lease operator who provides capacity with its own flight and cabin crew to airlines like Norwegian and Air New Zealand continues using ex Singapore Airlines MSN 6, on lease from a Doric managed fund and contemplates taking additional A380s.

The Japan based airline ANA received its first A380 on March 21<sup>st</sup>, the first of its three A380s on order, that will ultimately operate on the Tokyo – Honolulu route.

In February, Malaysia Airlines launched a new brand called Amal that will run Malaysia A380 flights from South East Asia to Saudi Arabia for Islamic Pilgrimage flights.

Furthermore, Boeing postponed the roll out of the new B777X aircraft. It is unclear if the certification of this new large jet will be delayed by the certification process review after the grounding of the 737 Max aircraft.

It is fair to say that the reporting about A380s during this quarter has been negative, culminating in the Airbus announcement of the termination of the program in 2021.

The Asset Manager continues to engage with the airline regarding future fleet planning. Considering that the earliest lease termination is in 2026, this process does not need to be rushed.

## IMPLIED FUTURE TOTAL RETURN

Aggregated aircraft portfolio appraised residual value at lease expiry USD 1,565.86 million.

	<b>Income</b>	<b>Return of Capital</b>	<b>Total Return</b>
	Targeted Distributions (p)	Latest Appraisal (p)	Latest Appraisal (p)
<b>Future Return</b>	77.7	151.6	229.3

The Total Return of a share is for illustrative purposes only and calculated using the following assumptions:

Latest appraisal values at each lease expiry for the portfolio being the average of three appraisers are as of 31-Mar-2018 and quoted in US Dollars. This residual value at lease expiry takes inflation into account and is the most reliable estimate available in the Company's Asset Manager's opinion. Due to accounting standards, the values used in the Company's financial reports differ from this disclosure as they exclude the effects of inflation and are converted to Sterling at the prevailing exchange rate on the reporting date (31-Mar-2018).

The lease expirations for all current aircraft in the portfolio are spread out between September 2026 and January 2030, so are not coterminous and as such their aggregated appraised residual value is assumed to be realised in stages.

Targeted Distributions illustrates the future income distributions including all dividends payable from March 2019, inclusive. Upon lease expiry and sale of each aircraft sale proceeds are returned to Shareholders reducing the number of outstanding shares on a pro-rata basis on which distribution are paid.

The implied Total Return is not a forecast and assume the Company has not incurred any unexpected costs. The implied Total Return includes all currently known annual costs of the Company, including disposition fees. The Total Return is prepared on the assumption that each aircraft is sold at its Latest Appraisal value at the end of the lease term, all extant debts are paid off and proceeds immediately returned to Shareholders as a Return of Capital.

The implied Total Return assumes that no further aircraft will be acquired, but there may well be further acquisitions of aircraft (any such being subject to prior Shareholder approval).

The implied Total Return assumes that each lessee will honour its contractual obligations during each lease term and income distributions include all future targeted dividends.

There is no guarantee that the assets will be sold at Latest Appraisal values or that such implied Total Returns will be generated.

Assumes GBP/USD FX rate and applicable US 3-month LIBOR rate remains constant for the remaining life of the respective leases, at GBP/USD FX Rate: 1.3035 (as at 29-Mar-2019) and 3M USD LIBOR Rate: 2.60% (as at 29-Mar-2019) as sourced from Bloomberg.

Investors should note that the latest appraisal value assumed for the above calculation pre-dates the announcement by Airbus on 14 February 2019 that production of the Airbus A380 will be discontinued in 2021. The Company will publish an updated appraisal value in its forthcoming 2019 annual financial report and also in its quarterly fact sheet (Q2 2019) both due to be released during July 2019.

Bloomberg Finance L.P 2019.

## IATA ECONOMIC ANALYSIS

Annual growth in industry-wide revenue passenger kilometres (RPKs) started 2019 positively, rising by 6.5% y-o-y in January, its fastest pace over the past six months. The seasonally adjusted upward trend in RPKs accelerated in January but it is too soon to think that this represents a change in trend.

Available Seat Kilometres (ASK) grew by 6.4% y-o-y in January, very similar to the RPK growth pace. Load factors remained at 79.8% from last year. The Latin American region recorded the highest passenger load factors during January (82.5%), followed by Asia Pacific (81.0%).

European airlines showed the fastest growth in International passenger demand in January: 7.7% y-o-y. European RPKs show a slower pace than in previous months due to the uncertainty of its economic growth caused by Brexit. Asia Pacific airlines follow closely, showing a 7.1% y-o-y increase in January for international RPKs, a considerable improvement from 5.0% in December 2018. The region's upward trend slowed down over the third quarter of 2018 mainly due to natural disasters that had an impact on air traffic. However, demand recovered rapidly. The characteristic strong demand in the region has been backed by the recent increase in connecting airport pairs and the rise in household income across the middle class.

Middle-East RPK growth became positive again in January, as carriers based in the region flew 1.5% more international RPKs than a year ago, recovering from flat growth seen during the end of 2018.

IATA shows cautious optimism for 2019 due to lower oil prices and a solid but slower economic growth. IATA forecasts that 2019 will be the 10<sup>th</sup> consecutive year of profit and the 5<sup>th</sup> year that airlines deliver a return on capital that exceeds the industry's cost of capital, creating value for its investors.

International Air Transport Association, 2019. Air Passenger Market Analysis (January 2019) © All Rights Reserved. International Air Transport Association, 2018. Cautious Optimism Extends into 2019 – Airlines Heading for a Decade in the Black (December 2018) © All Rights Reserved.

## EMIRATES GROUP

Emirates fleet was comprised of 271 aircraft as of March 2019. In February, Airbus and Emirates reached an agreement on its A380 contract, bringing its total A380 orderbook to 123, with 14 more A380s to be received from 2019 until the end of 2021. Emirates announced an order for 40x A330-900s and 30x A350-900s, that will deliver between 2021 and 2024.

Emirates posted revenue of AED 48.9 billion (USD 13.3 billion) for the first six months of its 2018-19 financial year, up 10% from AED 44.5 billion (USD 12.1 billion) during the same period last year. However, the airline profit was AED 226 million (USD 62 million), down by 86% compared to the same period last year due to the increase in oil prices (up 37% compared to same period last year) and unfavourable foreign exchange movements. Emirates operating costs grew by 13%.

Overall capacity during the first six months of the year increased by 3% to 31.8 billion Available Tonne Kilometres (ATKM). Capacity measured in Available Seat Kilometres (ASKM), grew by 4%, whilst passenger traffic carried measured in Revenue Passenger Kilometres (RPKM) was up 6%. Passenger Seat Factor rose to 78.8%, compared with last year's 77.2% with 30.1 million passengers carried.

Due to the major engineering work at Dubai Airport in April and May 2019 resulting in slot restrictions and a reduced airport capacity, we understand that Emirates may be forced to ground around 48 A380 aircraft for approximately 45 days. The refurbishment will take place at a time when passenger traffic tends to slow down due to a seasonal lull and it is needed to improve capacity and safety, while paving the ground for future growth.

The Emirates Group. © 2018 All Rights Reserved. Emirates Group announces half-year performance for 2018-19

The Emirates Group. © 2019 All Rights Reserved. Emirates signs deal for 40 A330-900s, 30 A350-900s.

## ETIHAD AIRWAYS

As of March 2019, Etihad had a majority widebody fleet of 110 aircraft in service. Its orderbook was reduced during the quarter, having cancelled 40x A350-900, 2x A350-1000 and 19x 777-9.

Etihad entered into a codeshare agreement with Royal Jordanian in February and Gulf Air in March. Etihad will codeshare on Royal Jordanian's Abu Dhabi-Larnaca and Abu Dhabi Berlin services. Services to Algiers, Tunis, Vienna and Montreal are set to be added to this agreement. Under its agreement with Gulf Air, Etihad will place its code on Gulf Air services from Bahrain to Abu Dhabi, Baghdad, Casablanca, Dhaka, Faisalabad, Larnaca, Malaga, Multan, Najaf, Peshawar, Sialkot and Tbilisi.

Etihad improved core performance in 2018 as its transformation continues. The airline announced in March an improvement in core operating performance of 15% over the year, 7% higher than expected. Passenger yields increased by 4% due to capacity discipline, fleet and network optimisation and growing market share in premium as well as point to point markets. Results show a 3% decrease in unit costs over the year, despite fuel prices being 31% higher. Over the year, the airline has carried 17.8 million passengers and 682,100 leg tonnes of cargo. Etihad reported total revenue of USD 5.9 billion (3% lower than in 2017) and a net loss of USD 1.28 billion (16% improvement y-o-y).

Centre for Aviation, 2019. Etihad Airways and Royal Jordanian announce new codeshare partnership (February 2019) © All Rights Reserved.

Centre for Aviation, 2019. Etihad Airways Improves Core Performance In 2018 As Transformation Continues (March 2019) © All Rights Reserved.

## THAI AIRWAYS INTERNATIONAL

Thai Airways International's fleet is composed of 79 widebody aircraft as of March 2019, of which 8x B747s, 32x B777s, 6x B787s, 15x A330s, 12x A350s & 6x A380s. The majority of its fleet is owned by the airline (72%) and 28% is leased from various lessors. Thai is set to formalise a five-year aircraft acquisition plan to replace its older fleet, although no details were shared with the release of its results. During the FY 2018, Thai took delivery of 3x A350-900s & 2x A330-300s and decommissioned 2x B737-400s.

The group reported 4Q 2018 headline losses of Bt7.5 billion, and a total loss for FY2018 of Bt9.0 billion. This was mainly due to higher fuel expenses and higher depreciation during the quarter, offsetting higher revenues. Thai carried 6.2 million passengers over the quarter, 0.3% less than the same quarter in FY2017. However, passenger yield increased by 0.4%. Over the entire FY2018, the airline carried 24 million passengers, in line with FY2017 numbers. Thai demonstrated a healthy load factor of 76.7% during the 4Q 2018, with an annual load factor of 77.6%. The airline is expecting stronger passenger numbers and load factors this year as the government boosts tourism promotion and fuel prices are expected to fall.

Thai Airways is expecting to improve its financial situation with the Montra Project, a short-term plan with a main goal of stopping the airline's losses and strengthening its financial position. This plan will include more leases instead of acquisitions of aircraft, improving service efficiency, increasing revenue and reducing costs.

Thai Airways International Public Company Limited. Management's Discussion and Analysis for three months ended December, 2018. Centre for Aviation, 2019.

Thai Airways sinks to Bt9.06bn full-year operating loss (March 2019) © All Rights Reserved

This report has been prepared for the Company by Amedeo Limited ("Amedeo") in its capacity as Asset Manager to the Company and is for the sole benefit of the Company. We agree to the disclosure of this report by the Company in its quarterly report to shareholders on the basis that in doing so Amedeo does not assume any responsibility or liability to any person other than the Company. Neither Amedeo nor any of its directors, officers or employees shall be responsible for any loss or damage suffered by any person, other than the Company, as a result of placing reliance on the contents of this report.

<b>Contact Details Company</b>	<b>Corporate &amp; Shareholder Advisor</b>	<b>Asset Manager</b>
Amedeo Air Four Plus Limited Ground Floor, Dorey Court Admiral Park, St. Peter Port Guernsey GY1 2HT	Nimrod Capital LLP 3 St Helen's Place London EC3A 6AB United Kingdom	Amedeo Limited The Oval Shelbourne Road Dublin 4, Ireland
Tel: +44 1481 702400	Tel: +44 2073 824565	Tel: +353 1 205 7960

<b>Contact with the Board</b>			
The Directors think it important that any Shareholder should be able to contact the Board, through the Chairman or any individual Director if they wish to do so. Contact email and telephone numbers for each Director are set out below.			
<b>Robin Hallam</b> Robin.Hallam@aa4plus.com +44 7710 620 168	<b>David Gelber</b> David.Gelber@aa4plus.com +44 7836 378 901	<b>John Le Prevost</b> John.LePrevost@aa4plus.com +44 1481 716 495	<b>Laurence Barron</b> Laurence.Barron@aa4plus.com +86 (137) 0122 4884

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