DORIC NIMROD AIR THREE LIMITED

LSE: DNA3

The Company

Doric Nimrod Air Three Limited ("the Company") is a Guernsey domiciled company, which was listed on the Specialist Fund Market (SFM) of the London Stock Exchange and the Channel Islands Stock Exchange on 2 July 2013 with the admission of 220 million Ordinary Shares ("the Equity") at an issue price of 100p per share. The market capitalisation of the Company was GBP 231.6 million as of 30 June 2015.

Investment Strategy

The Company's investment objective is to obtain income returns and a capital return for its shareholders by acquiring, leasing and then selling aircraft.

The Company acquired four Airbus A380 aircraft by the end of November 2013. Since delivery, each of the four aircraft has been leased to Emirates Airline ("Emirates") – the national carrier owned by the Investment Corporation of Dubai, based in Dubai, United Arab Emirates – for an initial term of 12 years with fixed lease rentals for the duration. In order to complete the purchase of the aircraft, DNA Alpha Ltd ("DNA Alpha"), a wholly owned subsidiary of the Company, issued two tranches of enhanced equipment trust certificates ("the Certificates" or "EETC") – a form of debt security – in July 2013 in the aggregate face amount of USD 630 million. DNA Alpha used the proceeds from both the Equity and the Certificates to finance the acquisition of the four new Airbus A380 aircraft.

The Company receives income from the leases and its directors are targeting a gross distribution to the shareholders of 2.0625p per share per quarter (amounting to a yearly distribution of 8.25% based on the initial placing price of 100p per share).

The total return for a shareholder investing today (30 June 2015) at current share price consists of future income distributions during the remaining lease duration and a return of capital at dissolution of the Company. The latter payment is subject to the future value and the respective sales proceeds of the aircraft, quoted in US dollars and the USD/GBP exchange rate at that point in time. Since launch three independent appraisers provide the Company with their future values for the aircraft at the end of each financial year. The latest appraisals available are dated the end of March 2015. The table below summarizes the total return components, calculated on different exchange rates and using the average value of the aircraft as provided by the three independent external appraisers. Regarding the following two tables, there is no guarantee that the aircraft will be sold at such a sale price or that such capital returns would be generated. It is also assumed that the lessee will honour all its contractual obligations during the entire anticipated lease term.

I. Implied Future Total Return Components Based on Appraisals[1]

The implied return figures are not a forecast and assume the Company has not incurred any unexpected costs.

Aircraft portfolio value at lease expiry according to

- Prospectus appraisal USD 556 million
- Latest appraisal USD 510 million

Per Share	Income Distributions	Return of Capital		Total Return[2]	
		Prospectus Appraisal	Latest Appraisal[3]	Prospectus Appraisal	Latest Appraisal[3]
Prospectus FX Rate[4]	87p	169p	157p	256p	244p
Current FX Rate[5]	87p	159p	148p	246p	235p

[1]See final sentences of Investment Strategy [2]Excluding earned dividend [3]Average of the three appraisals as at the Company's year-end in the expiry year of the respective lease [4]1.4800 USD/GBP [5]1.5719 USD/GBP (31 June 2015)

II. Company Facts (30 June 2015)

Listing	LSE
Ticker	DNA3
Current Share Price	105.25p (closing)
Market Capitalisation	GBP 231.6 million
Initial Debt	USD 630 million
Outstanding Debt Balance	USD 531.9 million (84% of Initial Debt)
Current/Future Anticipated Dividend	2.0625p per quarter (8.25p per annum)
Earned Dividends	12.2p
Current Dividend Yield	7.84%
Dividend Payment Dates	April, July, October, January
Expected Future Total Cash Multiple[1]	2.23 (based on the Current Share Price)

[1]See final sentences of Investment Strategy

II. Company Facts (continued)	
Currency	GBP
Launch Date/Price	2 July 2013/100p
Average Remaining Lease Duration	10 years 4 months
Incorporation	Guernsey
Aircraft Registration Numbers (Lease Expiry Dates)	A6-EEK (29.08.2025), A6-EEL (27.11.2025), A6-EEM (14.11.2025), A6-EEO (29.10.2025)
Asset Manager	Amedeo Management Ltd
Corp & Shareholder Advisor	Nimrod Capital LLP
Administrator	JTC (Guernsey) Ltd
Auditor	Deloitte LLP
Market Makers	Jefferies International Ltd, Numis Securities Ltd, Shore Capital Ltd, Winterflood Securities Ltd
SEDOL, ISIN	B92LHN5, GG00B92LHN58
Year-End	31 March
Stocks & Shares ISA	Eligible
Website	www.dnairthree.com

Asset Manager's Comment

1. The Assets

In November 2013, the Company completed the purchase of all four Airbus A380 aircraft, bearing manufacturer's serial numbers (MSN) 132, 133, 134 and 136. All four aircraft are leased to Emirates for an initial term of 12 years from the point of delivery with fixed lease rentals for the duration.

The A380s owned by the Company recently visited Amsterdam, Auckland, Bangkok, Jeddah, London Heathrow, Munich, Sydney, and Zurich. Aircraft utilisation for the period from delivery of each Airbus A380 until the end of May 2015 was as follows:

Aircraft Utilization

MSN	Delivery Date	Flight Hours	Flight Cycles	Average Flight Duration
132	29/08/2013	9,426	1,060	8 h 55 min
133	27/11/2013	8,234	798	10 h 20 min
134	14/11/2013	8,427	828	10 h 10 min
136	29/10/2013	8,680	849	10 h 15 min

Maintenance Status

Emirates maintains its A380 aircraft fleet based on a maintenance programme according to which minor maintenance checks are performed every 1,500 flight hours, and more significant maintenance checks (C checks) at 24 month or 12,000 flight hour intervals, whichever occurs sooner. Emirates bears all costs (including for maintenance, repairs and insurance) relating to the aircraft during the lifetime of the leases.

Inspections

A physical inspection of MSN 132 has been performed in June 2015. The final inspection report was not available at the editorial deadline.

2. Market Overview

From January to April 2015 passenger demand, measured in revenue passenger kilometres (RPKs), increased by 6.3% compared to the year before. April results confirm that passenger growth remains robust. In its latest forecast released in June IATA expects an RPK growth of 6.7% for the current year – an increase of 0.8 percentage points compared to last year's growth rate. The fall in oil prices since autumn 2014 is supporting the economic outlook. Business confidence has however not further improved due to weaknesses in the emerging markets. Until April 2015 airlines increased their capacities, measured in available seat kilometres (ASKs), by 5.8%. The Middle East (+13.4%) and Asia/Pacific (+7.6%) were by far the most active regions in terms of capacity growth. All other regions expanded their capacities below the overall average with a shrinking market in Africa.

The average passenger load factor in the first four months of this year was 79.0%. This is an increase of 0.3 percentage points compared to the same period the year before. IATA expects an average worldwide passenger load factor of 80.2% for the full year 2015.

A regional breakdown reveals that the Middle East airlines continue to outperform the overall market in 2015. Until the end of April RPKs increased by 10.9% compared to the first four months in 2014. Asia/Pacific-based operators followed with 9.5%. Latin America grew by 6.0% and Europe by 4.6%. North American market participants recorded 3.0% more RPKs. Africa shrank by 1.3%.

After a sharp decline in oil prices starting in the autumn of 2014, IATA has revised its fuel price target several times in the recent past. In its latest outlook, released in June, the industry association expects an average price per barrel of USD 78 during this year. Fuel is the single largest operating cost of airlines and has significant effects on the industry's profitability. Comparatively low oil prices could drive the average share of fuel costs in operating expenses down to 28%. This could result in a significant boost of the industry-wide net profit to an estimated USD 29.3 billion. The net profit margin of 4.0% would be the highest for more than a decade. This outlook is supported by IATA's latest quarterly survey on business confidence of airlines, which was released in June. The airline CFOs expect expanding air transport volumes over the next 12 months and further growth in profitability.

Source: IATA

3. Lessee – Emirates Key Financials

Emirates recorded steady performance and significant growth during the 2014/15 financial year which ended on 31 March 2015. Revenue, including other operating income, reached a record high of USD 24.2 billion, up by 7.5% compared to the previous financial year.

The airline posted a net profit of USD 1.2 billion, representing an increase of 40% over last year's results. This was Emirates' 27th consecutive year of profit and one of the best performances to date according to His Highness Sheikh Ahmed bin Saeed Al Maktoum, Chairman and Chief Executive of Emirates Airline and Group. Nonetheless the company faced many global and operational challenges. Revenues were impacted by flight plan adjustments made to address the Ebola outbreak in Africa, armed conflicts in several regions, and the 80-day runway upgrading work at Dubai International Airport. Emirates' net profit was impacted by the strong rise of the US dollar against many revenue generating currencies of the airline. The bottom line has improved due to a significant drop in jet fuel prices during the second half of the 2014/15 financial year. Overall, the airline's fuel bill decreased by 6.5% compared to the period before and currently represents 34.6% of operating costs, remaining the biggest component for the carrier.

As of 31 March 2015, the balance sheet total amounted to USD 30.3 billion, an increase of 9.6% compared to the beginning of the financial year. Total equity increased by 11.1% to USD 7.7 billion with an equity ratio of 25.4%. The current ratio stood at 0.80, meaning the airline would be able to meet most of its current liabilities by liquidating all of its current assets. Significant items on the liabilities side of the balance sheet included current and non-current borrowings and lease liabilities in the amount of USD 13 billion. As of 31 March 2015, the carrier's cash balance was USD 4.6 billion, down by USD 88 million compared with the beginning of the 2014/15 financial year.

During the 2014/15 financial year the airline's ASKs increased by 9.1%. Measured in RPKs passenger traffic grew by 9.4%, resulting in an average passenger load factor of 79.6%. This is above the 79.4% reached in the prior period. A record 49.3 million passengers flew with Emirates between 1 April 2014 and 31 March 2015 – an increase of 10.7% compared to the previous financial year.

During the 2014/15 financial year Emirates took delivery of 24 wide-body aircraft including 12 Airbus A380s, 10 Boeing 777-300ERs and two Boeing 777 freighters. Ten older aircraft were phased out. As of 31 March 2015 the carrier's average fleet age was 75 months, compared to the industry average of 140 months.

As of 31 May 2015 Emirates had 233 wide-body aircraft in operation. According to company sources, Emirates is the world's largest operator of wide-body passenger aircraft. The number of Emirates' orders yet to be delivered at the end of May 2015 was 278 aircraft. The airline operates the world's largest fleets of Airbus A380 and Boeing 777-300ER aircraft.

With its increased fleet and resources, Emirates launched five additional destinations during the last financial year including Abuja, Brussels, Budapest, Chicago, and Oslo. In addition, the operator added frequencies to 34 existing destinations.

Referring to the Dubai World Central airport (DWC), Emirates Airline president Tim Clark expressed his confidence that the carrier could operate upwards of 500 aircraft in the distant future. The all-new facility is expected to commence operations in 2023-25 with an initial capacity of 120 million passengers per year. Emirates' present hub, Dubai International airport (DXB), is apparently constraining the carrier's growth and Tim Clark expects the fleet size to increase to no more than 280-300 aircraft within the next decade. On top of the more than 140 destinations the carrier already serves, another 100 are on its radar. These cannot be serviced due to physical constraints at DXB. In its final stage DWC is expected to host up to 250 million passengers a year.

Source: Ascend, Emirates

4. Aircraft — A380

As of June 2015 Emirates operated a fleet of 62 A380s which currently serve 32 destinations from its Dubai hub: Amsterdam, Auckland, Bangkok, Barcelona, Beijing, Brisbane, Dallas, Frankfurt, Hong Kong, Houston, Jeddah, Kuwait, London Gatwick, London Heathrow, Los Angeles, Manchester, Mauritius, Melbourne, Milan, Mumbai, Munich, New York JFK, Paris, Perth, Rome, San Francisco, Seoul, Shanghai, Singapore, Sydney, Toronto and Zurich. On 1 July 2015 Emirates will add Dusseldorf (Germany) to its A380 network, followed by Madrid (Spain) a month later. As of October 2015, Emirates will provide a second daily A380 service to the Swiss financial capital, Zurich. In December the airline will introduce its new higher-density A380 configuration with 615 seats. The aircraft with a two class layout will initially be deployed between Dubai and Copenhagen. The Danish capital will be the first in Scandinavia to boast a scheduled A380 service.

The global A380 fleet consisted of 165 commercially used planes in service in June 2015. The thirteen operators are Emirates (62 A380 aircraft), Singapore Airlines (19), Deutsche Lufthansa (14), Qantas (12), Air France (10), Korean Airways (10), British Airways (9), Malaysia Airlines (6), Thai Airways (6), China Southern Airlines (5), Qatar Airways (5), Asiana (4) and Etihad Airways (3).

In June 2015 Malaysia Airlines (MAS), following the tragic, much-publicised loss of two aircraft, announced that the airline is looking to remove a number of aircraft from its fleet, including two of its six Airbus A380 aircraft, either through a sale, lease, or a sale and leaseback scheme. This statement was made after the carrier declared it was "technically bankrupt"; the potential disposal is part of its restructuring plan. In the same month Airbus confirmed that the first delivery of an Airbus A380 to the Russian carrier Transaero will probability be delayed past the end of this year. According to Fabrice Bregier, Airbus CEO, the airline is facing commercial issues, mainly due to devaluation of the rouble and the shrinking tourist market in Russia. Transaero had ordered four aircraft in total.

In June 2015 the number of undelivered A380 orders stood at 152. In December 2014 Air France announced its intention to cancel its two outstanding orders for A380s, which would bring the total of undelivered orders to 150.

Ten years after the first A380 take-off on 27 April 2005 the worldwide A380 fleet is transporting nearly three million passengers every month on some 200 flights daily.

Emirates' president Tim Clark believes that the second-hand market for the Airbus A380 will be a good opportunity for carriers to explore the economic capabilities of the jet: "It's clear to me that there are carriers interested in the A380 that can't afford one." He believes the second-hand market for the type will be "fairly strong", especially as passenger demand increases with a recovering global economy. In April 2015 Tim Clark said that used A380s present a "very good value proposition" for customers who "want to come in at a slightly lower price".

Source: Airbus, Ascend, Emirates

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