

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 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 229.9 million as of 31 December 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 (31 December 2015) at the 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 Appraisals¹

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	83p	169p	157p	252p	240p
Current FX Rate ⁵	83p	169p	157p	252p	240p

¹See final sentences of Investment Strategy ²Excluding earned dividend
³Average of the three appraisals as at the Company's year-end in the expiry year of the respective lease ⁴1.4800 USD/GBP ⁵1.4804 USD/GBP (31 December 2015)

II. Company Facts (31 December 2015)

Listing	LSE
Ticker	DNA3
Current Share Price	104.5p (closing)
Market Capitalisation	GBP 229.9 million
Initial Debt	USD 630 million
Outstanding Debt Balance	USD 497.7 million (79% of Initial Debt)
Current/Future Anticipated Dividend	2.0625p per quarter (8.25p per annum)
Earned Dividends	16.3p
Current Dividend Yield	7.89%
Dividend Payment Dates	April, July, October, January
Expected Future Total Cash Multiple ¹	2.29 (based on the Current Share Price)

¹See final sentences of Investment Strategy

II. Company Facts (continued)	
Total Expense Ratio	0.8% (based on Average Net Assets)
Currency	GBP
Launch Date/Price	2 July 2013/100p
Average Remaining Lease Duration	9 years 10 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-EE0 (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, Barcelona, Brisbane, Dallas, Houston, Jeddah, Kuwait, Melbourne, Munich, New York JFK, Rome, Sydney, and Zurich. Aircraft utilisation for the period from delivery of each Airbus A380 until the end of November 2015 was as follows:

Aircraft Utilization				
MSN	Delivery Date	Flight Hours	Flight Cycles	Average Flight Duration
132	29/08/2013	11,808	1,349	8 h 45 min
133	27/11/2013	10,667	1,063	10 h
134	14/11/2013	10,702	1,056	10 h 10 min
136	29/10/2013	10,823	1,086	10 h

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 first. Emirates bears all costs (including for maintenance, repairs and insurance) relating to the aircraft during the lifetime of the leases.

Inspections

During the period under review no physical inspection of the aircraft was conducted. The asset manager undertook records audits for all aircraft. Final reports were not available at the editorial deadline.

2. Market Overview

From January to October 2015 passenger demand, measured in revenue passenger kilometres (RPKs), increased by 6.8% compared to the year before. The recent softening in economic growth, mostly in emerging markets, has had no adverse impacts on RPK volumes so far. Lower fares fuelled demand in air travel, particularly in the leisure travel segment. Despite the recent moderation in economic activity in a number of emerging markets, particularly China, growth in passenger travel is expected to continue into the New Year. Improved conditions in developed economies and persistent low fuel prices are supporting factors. In its latest forecast released in December, IATA expects an RPK growth of 6.7% for 2015 – an increase of 0.7 percentage points compared to the previous year's growth rate. Between January and October 2015 airlines increased their capacities, measured in available seat kilometres (ASKs), by 6.0%. The Middle East (+14.5%) and Asia/Pacific (+7.0%) were the most active regions in terms of capacity growth. The only shrinking market was Africa again.

The average passenger load factor in the first ten months of 2015 was 80.7%. This is an increase of 0.5 percentage points compared to the same period the year before. IATA estimates an average worldwide passenger load factor of 80.6% for the full year 2015.

A regional breakdown reveals that Middle East airlines continue to outperform the overall market in 2015. By the end of October RPKs had increased by 11.9% compared to the first ten months in 2014. Asia/Pacific-based operators followed with 9.1%. Latin America grew by 6.2%, and Europe by 5.7%. North American market participants recorded 4.1% more RPKs and growth in Africa was 0.4%.

After a sharp decline in oil prices starting in the autumn of 2014, IATA has revised its fuel price target several times. In its latest report released in December, the industry association expects an average price per barrel of USD 67.7 during 2015. 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 27%. This could result in a significant boost of the industry-wide net profit to an estimated USD 33 billion in 2015. The net profit margin of 4.6% would be the highest for more than a decade. For 2016 the industry net profit is expected to further increase to USD 36.3 billion resulting in a net profit

margin of 5.1%. This will heavily depend on the oil price level. IATA has observed forecasts performed by third parties with a range between USD 20 and USD 60 per barrel.

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3. Lessee – Emirates Key Financials

During the first half of the current financial year ending on 31 March 2016 Emirates recorded revenues, including other operating income, of USD 11.5 billion. This is 4% below the previous year's figure. According to a company statement the unfavourable currency environment and lower average fares – some of the fuel costs savings were passed on to passengers – were contributing factors. The carrier was further challenged by continued regional unrest and increased competition which added downward pressure on its yields.

However the airline posted a net profit of USD 849 million, representing an increase of 65% compared to the same period last year. Lower fuel prices more than compensated for the adverse external factors and improved the airline's bottom line significantly. The average fuel price in the reporting period was 41% below the one in the first six months of the previous financial year. Fuel costs remained the largest component in Emirates' operating costs, but decreased by 10 percentage points to 28%. The airline's profitability was also fostered by its continued ability to grow passenger demand.

As of 30 September 2015, the balance sheet total amounted to USD 30 billion, a decrease of 1.3% compared to the beginning of the financial year. Total equity increased by 10.1% to USD 8.5 billion with an equity ratio of 28.3%. The current ratio stood at 0.67, meaning the airline would be able to meet about two thirds 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 30 September 2015, the carrier's cash balance was USD 3.2 billion, down by USD 1.4 billion compared to the beginning of the 2015/16 financial year. This was largely caused by continued investment in new aircraft, ancillary infrastructure projects and acquisitions.

During the first half of the 2015/16 financial year the airline's ASKs increased by 16%. Measured in RPKs passenger traffic grew by 11%, resulting in an average passenger load factor of 78.3%. This is below the 81.5% reached in the prior period. A record 25.7 million passengers flew with Emirates between 1 April and 30 September 2015 – an increase of 10% compared to the previous financial year.

In 2015 Emirates took delivery of 26 new aircraft and announced an ambitious fleet retirement schedule for 2016. The airline will retire 26 aircraft at an average age of 15.7 years. This is well below the average industry retirement age of 25 years. In the two subsequent years another 26 aircraft are earmarked for retirement. The fleet strategy includes the delivery of 36 new aircraft in 2016, including 20 A380s and 16 Boeing 777-300ERs. The average fleet age is expected to stand at 5.6 years by the end of 2016, a value well below the global average. Increasing the number of state-of-the-art aircraft in its fleet will improve the carrier's environmental performance and passenger comfort. From 2020 on Emirates is set to introduce Boeing's latest model, the 777X.

Emirates is the world's largest operator of wide-body passenger aircraft. As of 31 December 2015 Emirates had 248 wide-body aircraft in operation. The number of Emirates' orders yet to be delivered stood at 258 aircraft. The airline operates the world's largest fleet of Airbus A380 and Boeing 777-300ER aircraft.

Emirates' advancing fleet expansion programme allows the carrier to increase capacities on existing routes and the launch of new destinations. Since the beginning of the current financial year the airline has commenced flights to Bali (Indonesia), Multan (Pakistan), Orlando (USA), Mashhad (Iran) and Bologna (Italy) thus covering 148 destinations in 79 countries by the end of 2015.

In October 2015 Emirates announced a new codeshare and lounge agreement with Alaska Airlines ("AS"). Passengers flying twice daily from Dubai into AS's Seattle hub will be provided with easy connections to 49 cities in the US and Canada. In contrast to some US mainline carriers like Delta Air Lines and United Airlines AS favours the US open-skies policy. "AS has benefited from open skies in the form of new access for both US and foreign carriers to serve numerous international markets," writes Brad Tilden, CEO, in a letter to Secretary of State John Kerry. Tilden assumes that Emirates would probably not have been able to launch a service to Seattle Tacoma without open skies. Emirates currently serves ten US gateways and the new codeshare agreement will allow passengers to purchase connecting flights on both airlines using one reservation, reciprocal lounge access and priority boarding. Governmental approval for this partnership is pending. In addition to AS, Emirates is also working with Jet Blue, Virgin America, WestJet Airlines and Porter Airlines to offer combined tickets within the Americas.

Source: Ascend, Emirates

4. Aircraft — A380

At the end of 2015 Emirates operated a fleet of 72 A380s which currently serve 35 destinations from its Dubai hub: Amsterdam,

Auckland, Bangkok, Barcelona, Beijing, Brisbane, Copenhagen, Dallas, Dusseldorf, Frankfurt, Hong Kong, Houston, Jeddah, Kuwait, London Gatwick, London Heathrow, Los Angeles, Madrid, Manchester, Mauritius, Melbourne, Milan, Mumbai, Munich, New York JFK, Paris, Perth, Rome, San Francisco, Seoul, Shanghai, Singapore, Sydney, Toronto and Zurich.

During the last quarter of 2015 Emirates continued to use the unrivalled space offered by the Airbus A380 to satisfy increasing passenger demand on certain routes. Since mid-December the connection between Dubai and Jeddah has been upgraded to a thrice-daily A380 service. The first double decker service into the Kingdom of Saudi Arabia touched down back in 2010.

Emirates has launched its first Airbus A380 service to Scandinavia having landed in Copenhagen on 1 December 2015. It is also Emirates' first route to be operated with an A380 in a two-class configuration, with a capacity of 615 passengers.

In December 2015 the global A380 fleet consisted of 179 commercially used planes in service. The thirteen operators are Emirates (72), Singapore Airlines (19), Deutsche Lufthansa (14), Qantas (12), Air France (10), Korean Airways (10), British Airways (10), Malaysia Airlines (6), Thai Airways (6), China Southern Airlines (5), Qatar Airways (6), Asiana (4) and Etihad Airways (5). The number of undelivered A380 orders stood at 138. Of these 138 orders four are allocated to Transaero Airlines, which filed for bankruptcy protection in September 2015.

In November 2015 Airbus' CEO Fabrice Bregier confirmed that the planemaker is in advanced talks with several possible

customers to collect orders for new A380 aircraft. Airbus' sales chief John Leahy confirmed at the Dubai Air Show that the company is in negotiations to sell as many as 32 aircraft to two airlines in the near future. This would be the first order since lessor Amedeo firmed up an order for 20 A380s back in February 2014.

In December 2015 the A380 was recognized as the Best Aircraft Type in a major passenger survey conducted by the US publication Global Traveler. It is the first time in the award's history that this category was won by a non-Boeing aircraft.

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".

According to Airbus, the worldwide A380 fleet has accumulated around 295,000 commercial flights to date. The number of passengers flying aboard an Airbus A380 stands at over 100 million. Currently this aircraft type operates between 47 airports; every three minutes an A380 takes off or lands at these destinations.

Source: Airbus, Ascend, ATW Daily News, Bloomberg, Emirates



Contact Details

Company

Doric Nimrod Air Three Limited
Dorey Court, Admiral Park
St Peter Port
Guernsey GY1 2HT
Tel: +44 1481 702400
www.dnairthree.com

Corporate & Shareholder Advisor

Nimrod Capital LLP
3 St Helen's Place
London EC3A 6AB
Tel: +44 20 7382 4565
www.nimrodcapital.com

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