

## **HALF YEARLY FINANCIAL REPORT**

The Board of the Company is pleased to announce its results for the period from 1 April 2018 to 30 September 2018.

To view the Company's half yearly financial report please visit the Company's website, <http://www.dnairthree.com>.

In addition, to comply with DTR 6.3.5(1) please find below the full text of the half yearly financial report.

Enquiries:

For further information, please contact:

For administrative and company information:

JTC Fund Solutions (Guernsey) Limited

+44 (0) 1481 702400

For shareholder information:

Nimrod Capital LLP

Richard Bolchover

Marc Gordon

+44 (0) 20 7382 4565

E&OE – in transmission

Doric Nimrod Air Three Limited

# **Half-yearly Financial Report**

For the period from 1 April 2018 to 30 September 2018

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## DORIC NIMROD AIR THREE LIMITED

### SUMMARY INFORMATION

|                                     |  |
|-------------------------------------|--|
| Listing                             | Specialist Fund Segment of the London Stock Exchange's Main Market   |
| Ticker                              | DNA3   |
| Share Price                         | 103.0p (as at 30 September 2018)<br>103.0p (as at 12 November 2018)  |
| Market Capitalisation               | £226.6 million (as at 30 September 2018)   |
| Aircraft Registration Number        | A6-EEK, A6-EEL, A6-EEM, A6-EEO   |
| Current/Future Anticipated Dividend | Current dividends are 2.0625p per quarter per share (8.25p per annum) and it is anticipated this will continue until the aircraft leases begin to terminate in 2025. |
| Dividend Payment Dates              | April, July, October, January  |
| Currency                            | Sterling   |
| Launch Date/Price                   | 2 July 2013 / 100p   |
| Incorporation and Domicile          | Guernsey   |
| Asset Manager                       | Amedeo Management Limited  |
| Corporate and Shareholder Advisor   | Nimrod Capital LLP   |
| Administrator                       | JTC Fund Solutions (Guernsey) Ltd  |
| Auditor                             | Deloitte LLP   |
| Market Makers                       | Canaccord Genuity Ltd,<br>finnCap Ltd,<br>Jefferies International Ltd,<br>Numis Securities Ltd,<br>Shore Capital Limited,<br>Winterflood Securities Ltd              |
| SEDOL, ISIN                         | B92LHN5, GG00B92LHN58  |
| Year End                            | 31 March   |
| Stocks & Shares ISA                 | Eligible   |
| Website                             | <a href="http://www.dnairthree.com">www.dnairthree.com</a>   |

## **DORIC NIMROD AIR THREE LIMITED**

### **COMPANY OVERVIEW**

#### **Doric Nimrod Air Three Limited**

Doric Nimrod Air Three Limited (LSE Ticker: DNA3) ("**DNA3**" or the "**Company**") is a Guernsey company incorporated on 29 March 2012. Its Ordinary Shares were admitted to trading on the Specialist Fund Segment ("**SFS**") of the London Stock Exchange ("**LSE**") on 2 July 2013.

The Company's total issued share capital consists of 220,000,000 Ordinary Shares (the "**Shares**"). As at 12 November 2018, the latest practicable date prior to publication of this report, the Shares were trading at 103.0 pence per Share.

#### **Investment Objectives and Policy**

The Company's investment objective is to obtain income returns and a capital return for its shareholders (the "**Shareholders**") by acquiring, leasing and then selling aircraft (each an "**Asset**" or "**Assets**" and together the "**Assets**" or "**Aircraft**"). To pursue its investment objective, the Company has used the net proceeds of placings and other equity capital raisings, together with debt facilities (or instruments), to initially acquire four Airbus A380 Aircraft which are leased to Emirates Airline ("**Emirates**"), the national carrier owned by The Investment Corporation of Dubai based in Dubai, United Arab Emirates.

#### **DNA Alpha**

The Company has one wholly owned subsidiary, DNA Alpha Limited ("**DNA Alpha**") which holds the Assets for the Company. Together the Company and DNA Alpha are known as the ("**Group**").

The first Asset was acquired by DNA Alpha on 29 August 2013 for a purchase price of 245 million US dollars. Upon delivery, DNA Alpha entered into an operating lease with Emirates, pursuant to which the first Asset has been leased to Emirates for an expected initial term of 12 years, with fixed lease rentals for the duration.

The second Asset was acquired by DNA Alpha on 29 October 2013 for a purchase price of 245 million US dollars. Upon delivery, DNA Alpha entered into an operating lease with Emirates, pursuant to which the second Asset has been leased to Emirates for an expected initial term of 12 years, with fixed lease rentals for the duration.

The third Asset was acquired by DNA Alpha on 14 November 2013 for a purchase price of 245 million US dollars. Upon delivery, DNA Alpha entered into an operating lease with Emirates, pursuant to which the third Asset has been leased to Emirates for an expected initial term of 12 years, with fixed lease rentals for the duration.

The fourth Asset was acquired by DNA Alpha on 27 November 2013 for a purchase price of 245 million US dollars. Upon delivery, DNA Alpha entered into an operating lease with Emirates, pursuant to which the fourth Asset has been leased to Emirates for an expected initial term of 12 years, with fixed lease rentals for the duration.

DNA Alpha acquired the Assets using a combination of a portion of the proceeds of the issue of the Shares by the Company together with the proceeds of the sale of Equipment Notes issued by DNA Alpha (the "**Equipment Notes**") and the initial rent payment pursuant to the relevant operating leases. The Equipment Notes were acquired by two separate pass through trusts using the proceeds of their issue of enhanced equipment trust certificates (the "**Certificates**") as detailed within the Offering Circular issued by DNA

## **DORIC NIMROD AIR THREE LIMITED**

Alpha dated 10 July 2013. The Certificates, with an aggregate face amount of approximately 630 million US dollars, were admitted to the official list of the Irish Stock Exchange and to trading on the Main Securities market thereof on 12 July 2013 and will mature on 30 May 2025.

### **Distribution Policy**

The Company aims to provide its 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 of the Assets.

The Group receives income from the lease rentals paid by Emirates pursuant to the leases. Income distributions are made quarterly, subject to compliance with applicable laws and regulations. The Company currently targets a distribution of 2.0625 pence per Share per quarter. Emirates bears all costs (including maintenance, repair and insurance) relating to the aircraft during the lifetime of the leases.

There is no guarantee that dividends will be paid to Shareholders, nor is there a guarantee of the timing or amount of any such dividend. There is also no guarantee that the Company will, at all times, satisfy the solvency test required by section 304 of The Companies (Guernsey) Law, 2008, as amended, enabling the Directors to effect the payment of dividends.

### **Performance Overview**

All payments by Emirates have to date been made in accordance with the terms of the respective leases.

During the period under review and in accordance with the Distribution Policy the Company declared two interim dividends of 2.0625 pence per Share. One interim dividend of 2.0625 pence per Share was declared after the reporting period. Further details of dividend payments can be found on page 26.

### **Return of Capital**

If and when the Group is wound up (pursuant to a shareholder resolution, including the liquidation resolution) the Company intends to return to Shareholders the net capital proceeds upon the eventual sale of the Assets subject to compliance with the Company's Articles of Incorporation (the "**Articles**") and the applicable laws (including any applicable requirements of the solvency test contained therein).

### **Liquidation Resolution**

Although the Group does not have a fixed life, the Articles require that the Directors convene a General Meeting of the Company in 2026 where an ordinary resolution will be proposed that the Company proceed to an orderly wind-up at the end of the last lease and the directors will consider (and if necessary, propose to Shareholders) alternatives for the future of the Company, including re-leasing the Assets, or selling the Assets and reinvesting the capital received from the sale of the Assets in other aircraft.

## DORIC NIMROD AIR THREE LIMITED

### CHAIRMAN'S STATEMENT

I am pleased to present shareholders ("**Shareholders**") with the Company's half-yearly consolidated financial report, covering the period from 1 April 2018 until 30 September 2018 (the "**Period**").

I am happy to report that during the Period the Company has performed as anticipated and has declared and paid two quarterly dividends of 2.0625 pence per share, as expected, equivalent to 8.25 pence per share per annum.

The Group owns four Airbus A380 aircraft (the "**Assets**"). The lease payments received by the Company from Emirates cover repayment of the debt as well as income to pay operating expenses and dividends to Shareholders. Emirates bears all costs (including maintenance, repair and insurance) relating to the aircraft during the lifetime of the lease and all payments thus far by Emirates have been made in accordance with the terms of the leases.

The Company's Asset Manager, Amedeo Management Limited ("**Amedeo**"), continues to monitor the leases and to report regularly to the Board. Nimrod Capital LLP ("**Nimrod**"), the Company's Corporate and Shareholder Adviser, continues to liaise between the Board and Shareholders, and also communicates with Shareholders regularly regarding relevant news flow and the Company's quarterly fact sheets.

The Airbus A380 has enjoyed significant press coverage over the Period following the first secondary market re-lease of the model to Hi Fly for a period of almost six years. The Board remain cognisant of the future outlook for the A380. Amedeo, in its role as the Company's Asset Manager, is in regular contact with Emirates and is charged with remarketing the Asset ahead of the expiry of the lease period if Emirates do not exercise their option to purchase the aircraft. Alongside Amedeo's discussions with Emirates and following discussion with the Board, Nimrod will consult with shareholders about the potential options to otherwise sell or re-lease the Asset. All these discussions will be relayed to the Board to inform its deliberations. The recent news from Dr Peters Group that they intend to part-out two of the first A380s entered into service has also been noted, with Dr Peters estimating proceeds from the process of around \$80m per aircraft, which would provide a profitable result for the German fund investors. Both of these events have given rise to increased interest in the Company's shares and investment strategy. Shareholders should also consider the Emirates publicly stated reliance on the A380 as well as comments earlier this year by both Emirates President Tim Clark and Chief Executive His Highness Sheikh Ahmed bin Saeed Al Maktoum highlighting the vital role the aircraft performs within its network and the success the airline has experienced operating it. The secondary market for the A380 is not yet fully developed so it is still too early to make predictions and uncertainty over future residual values remain. However, some foundations have been laid following the Hi Fly transaction and we hope to report further progress on this in due course. Shareholders should note there is still almost seven years to run until the first lease expires in August 2025.

Finally, it is worthy of note that August 2018 marked the tenth anniversary of Emirates' first ever A380 flight. Over the last decade the airline has carried more than 105 million passengers on 115,000 A380 flights, clocking the equivalent to 39,000 trips around the globe. Further details on Emirates as well as the continued growth in air passenger traffic around the globe can be found in the Asset Managers Report.

In economic reality and in cash flow terms, the Group has performed well, and as expected. However, the financial statements do not, in the Board's view, properly convey this

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economic reality due to the accounting treatments for foreign exchange, rental income and finance costs, as required by International Financial Reporting Standards (“IFRS”).

IFRS require that transactions denominated in currencies other than the presentation currency, (including, most importantly, the cost of the aircraft) are translated into the presentation currency at the exchange rate ruling at the date of the transaction whilst monetary items (principally the outstanding borrowings) are translated at the rate prevailing on the reporting date. The result is that the figures sometimes show very large mismatches which are reported as unrealised foreign exchange differences.

On an on-going basis and assuming the lease and loan payments are made as anticipated, such exchange differences do not reflect the commercial substance of the situation in the sense that the key transactions denominated in US dollars are in fact closely matched. Rental income received in US dollars is used to pay loan repayments due which are likewise denominated in US dollars. US dollar lease rentals and loan repayments are furthermore fixed at the outset of the Company’s life and are very similar in amount and timing.

In addition to this, lease rental income receivable is credited evenly to the Statement of Comprehensive Income over the planned life of the lease. Conversely, the methodology for accounting for interest cost means that the proportion of the loan repayments which is treated as interest, and is debited to the Statement of Comprehensive Income, varies over the course of the loan with a higher proportion of interest expense recognised in earlier periods, so that the differential between rental income and interest cost (as reported in the Statement of Comprehensive Income) reduces. In reality however, the amount of rental income is fixed so as to closely match the interest and principal components of each loan repayment instalment and allow for payments of operating costs and dividends.

The Board encourages Shareholders to read the Company’s quarterly fact sheets which we believe provide a great deal of interesting information and we hope these regular reports, in addition to the communication you receive from Nimrod are useful and informative. We welcome Shareholder engagement and feedback and encourage you to contact Nimrod to request a meeting.

On behalf of the Board, I would like to thank our service providers for all their help and Shareholders for their continuing support of the Company. I look forward to keeping all Shareholders up to date with further progress.

**Charles Wilkinson**

**Chairman**

**13 November 2018**

## DORIC NIMROD AIR THREE LIMITED

### ASSET MANAGER'S REPORT

At the request of the Directors of the Company, this commentary has been provided by the Asset Manager of the Company.

#### 1. The Assets

The Group 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 630 million US dollars. DNA Alpha used the proceeds from both the Equity and the Certificates to finance the acquisition of the four new Airbus A380 aircraft.

The four Airbus A380 aircraft bearing manufacturer's serial numbers (MSN) 132, 133, 134 and 136 recently visited Amsterdam, Auckland, Bangkok, Brisbane, Christchurch, Houston, Melbourne, Milan, New York JFK, Perth, Sydney, Tokyo, Vienna and Zurich.

Aircraft utilisation for the period from delivery of each Airbus A380 until the end of September 2018 was as follows:

| MSN | Delivery Date | Flight Hours | Flight Cycles | Average Flight Duration |
|-----|---------------|--------------|---------------|-------------------------|
| 132 | 29/08/2013    | 25,798       | 3,029         | 8 h 30 min              |
| 133 | 27/11/2013    | 24,723       | 2,636         | 9 h 25 min              |
| 134 | 14/11/2013    | 24,955       | 2,691         | 9 h 15 min              |
| 136 | 29/10/2013    | 24,969       | 2,691         | 9 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 36 months or 18,000 flight hour intervals, whichever occurs first. The increased C check interval allows for a higher aircraft availability due to lower downtime.

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

#### Inspections

The asset manager performed physical inspections of the aircraft with MSNs 133 and 136 in August and MSN 134 in September 2018. The physical condition of the aircraft were in compliance with the provisions of the respective lease agreements.

### 2. Market Overview

Growth in passenger traffic, measured in global revenue passenger kilometres (“**RPKs**”), has remained in line with the forecast of the International Air Transport Association (“**IATA**”). The industry body expected the pace of RPK growth to slow slightly during this calendar year relative to that of last year. This is largely due to upward pressure on airline input costs, particularly from higher fuel prices, which has translated into a reduced boost to demand from lower airfares. Nevertheless, RPKs increased by 6.9 per cent over the first seven months of 2018 compared to the same period in 2017, continuing the above-trend RPK growth.

Industry-wide capacity, measured in available seat kilometres (“**ASK**”), increased by 6.1 per cent during the first seven months of this year, resulting in a 0.7 percentage point increase in worldwide passenger load factors (“**PLFs**”) to 81.9 per cent compared to the same period last year. Between January and July 2018, passenger load factors of Middle East based carriers remained unchanged at 74.7 per cent.

RPK growth in the Middle East has increased by 4.7 per cent since the beginning of the year. While the region has been adversely impacted by a number of policy measures in recent years, including the temporary ban on portable electronic devices and travel restrictions for certain categories of passengers, IATA notes that there are tentative signs of a pick-up in the upward trend in passenger volumes, which could develop in the coming months.

Asia/Pacific-based operators remain the top performers in overall market demand. Through July 2018, RPKs increased by 9.7 per cent compared to the previous period. Latin America ranked second with 6.4 per cent followed closely by Europe with 6.3 per cent. North America saw an increase of 5.1 per cent. Africa experienced the slowest growth at a rate of 2.8 per cent.

In 2018, IATA forecasts that airlines’ fuel bill will increase to 188 billion US dollars representing 24.2 per cent of average operating costs. IATA expects an average price of 84 US dollars per barrel for jet fuel for this year, according to its mid-year report released in June, as jet fuel prices continue to rise with oil prices.

© International Air Transport Association, 2018. Air Passenger Market Analysis July 2018 Economic Performance of the Airline Industry, 2018 Mid-Year Report. All Rights Reserved. Available on the IATA Economics page.

### 3. Lessee – Emirates Key Financials

In the 2017/18 financial year ending on 31 March 2018, Emirates recorded its 30<sup>th</sup> consecutive year of profit with a net result of AED 2.8 billion (762 million US dollars), an improvement of 124 per cent compared to the previous financial year, leading to a profit margin of 3.0 per cent. Despite continuing political challenges impacting traveller demand and fare adjustments due to a highly competitive business environment, Emirates increased its revenue to AED 92.3 billion (25.2 billion US dollars). This was aided by the decline of the US dollar against currencies in most of Emirates’ key markets, which had an AED 661 million (180 million US dollars) positive impact on the airline’s bottom line.

Emirates’ overall passenger traffic continued to grow during the 2017/18 financial year. The airline carried a record 58.5 million passengers (a 4 per cent increase over last financial year) and achieved a passenger load factor of 77.5 per cent compared to last year’s 75.1

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per cent. The increase in the passenger load factor was the result of capacity management in response to political uncertainty and strong competition in many markets despite a moderate 2 per cent increase in seat capacity.

Total operating costs increased by 7 per cent over the previous financial year, largely due to the 15 per cent increase in the average price of jet fuel during the financial year. Including a 3 per cent uplift in line with capacity expansion, the airline's fuel bill increased by 18 per cent to AED 24.7 billion (6.7 billion US dollars) compared to the previous financial year. Fuel now accounts for 28 per cent of operating costs, compared to 25 per cent in the 2016/17 financial year, and it remains the largest cost category for the airline.

As of 31 March 2018, Emirates' balance sheet amounted to AED 127.6 billion (34.8 billion US dollars), an increase of 5 per cent compared to the previous financial year. Total equity increased by 5.6 per cent to AED 37.0 billion (10.1 billion US dollars) due to higher profit. Dividend payments to the owners amounting to AED 1.0 billion (272 million US dollars) were made. The equity ratio remained stable at nearly 29 per cent. The airline's cash balance amounted to AED 20.4 billion (5.6 billion US dollars) at the end of the period, up by AED 4.7 billion (1.3 billion US dollars) compared to the previous financial year. Proceeds from the Sukuk financing of AED 2.2 billion (600 million US dollars) issued in the last quarter of the financial year have been invested in short term bank deposits and will be used to finance aircraft deliveries in 2018/19. The current ratio stood at 0.84, meaning the airline would be able to meet over 80 per cent of its current liabilities by liquidating all its current assets. Changes on the liabilities' side of the balance sheet included the financing of seven new aircraft and the Sukuk issue, which were offset by repayments of finance lease liabilities, bonds and term loans.

Maintaining its strategy to operate a young and efficient fleet, Emirates received 17 new aircraft, comprising of eight A380s and nine Boeing 777-300ERs. During this time, eight older aircraft were phased out, leading to a total fleet count of 268 at the end of March. This fleet roll-over resulted in an average fleet age of 5.7 years. Due to the more moderate fleet renewal pace compared to the previous year, the figure increased by around six months. Funding has come from the Japanese structured finance market in conjunction with debt from a wide-ranging group of institutions in China, France, the United Kingdom, and Japan. Emirates raised over AED 3.7 billion (1 billion US dollars) during the year from this source. Emirates has also refinanced a commercial bridge facility (due to non-availability of ECA cover) of AED 3.8 billion (1.0 billion US dollars) using a finance lease structure for five A380 aircraft, accessing an institutional investor and bank market base from Korea, Germany, the United Kingdom, and the Middle East. In total, Emirates raised AED 17.9 billion ( 4.9 billion US dollars) using a variety of financing structures.

In the 2017/18 financial year, Emirates launched two new passenger services (Phnom Penh in Cambodia and Zagreb in Croatia) and added capacity on 15 existing routes. Additionally, Emirates entered into strategic partnerships with flydubai and Cargolux, increasing its global connectivity and expanding the choice of air services on offer to passenger and cargo customers respectively. Emirates also received authorisation to extend its partnership with Qantas until 2023. Its global route network spanned 155 destinations in 83 countries by fiscal year end.

In May 2018 FlightGlobal lists several Emirates aircraft - including seven A380s and 13 Boeing 777 - as having been temporarily stored. Already in April the airline acknowledged that it had been reducing frequencies to cope with a shortfall in cockpit crews, but expects to return to an adequate supply of crew by September. Emirates further states that its operations are going through its seasonal low period: "We do have some aircraft units on the ground over slower periods, which is common industry practice."

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In July 2018 Emirates and JetBlue announced the expansion of their codeshare on flights to Mexico City with new flights from both Boston and New York JFK. The announcement followed the close of a years-long dispute between the Gulf carriers and the US mainline carriers over open skies agreements. According to FlightGlobal, Emirates markets more than 3,200 flights weekly operated by Alaska Airlines and JetBlue under existing codeshare agreements. Emirates also plans to extend its partnership with Qantas-affiliated Jetstar Group through a codeshare covering domestic services in Vietnam as well as flights from Ho Chi Minh City to Singapore, Bangkok, and Australia.

As of 1 October 2018 Emirates will resume a daily service to Edinburgh, the second most visited city by tourists in the United Kingdom (UK) and the capital of Scotland. This will bring the number of destinations serviced in the UK to eight.

Source: ch-aviation, CNN, Emirates, FlightGlobal

### **4. Aircraft – A380**

As of mid-September 2018, Emirates operated a fleet of 105 A380s, which currently serve 47 destinations within its global network via its hub in Dubai. A380 destinations include: Amsterdam, Auckland, Bangkok, Barcelona, Beijing, Birmingham, Brisbane, Casablanca, Christchurch, Copenhagen, Dusseldorf, Frankfurt, Guangzhou, Hong Kong, Houston, Johannesburg, Kuala Lumpur, Kuwait, London Gatwick, London Heathrow, Los Angeles, Madrid, Manchester, Mauritius, Melbourne, Milan, Moscow, Mumbai, Munich, New York JFK, Nice, Paris, Perth, Prague, Rome, San Francisco, Sao Paulo, Seoul, Shanghai, Singapore, Sydney, Taipei, Tokyo Narita, Toronto, Vienna, Washington and Zurich. In October 2018 Emirates will add Hamburg and Osaka to its A380 network.

As of mid-September 2018, the global A380 fleet consisted of 226 commercially operated planes in service. The fourteen operators are Emirates (105), Singapore Airlines (19), Deutsche Lufthansa (14), Qantas (12), British Airways (12), Korean Air Lines (10), Etihad Airways (10), Air France (10), Qatar Airways (10), Malaysia Airlines (6), Thai Airways (6), Asiana Airlines (6), China Southern Airlines (5) and Hi Fly (1). Another two are listed as in storage. In addition, two A380s are earmarked for part-out after the owners of the aircraft voted for such a solution. The number of undelivered A380 orders stood at 101.

Following the redelivery of its second A380 to come off lease from Singapore Airlines, German asset manager Dr Peters Group announced plans to part out two of its four Airbus A380s, while continuing to lease the engines to Rolls Royce. Dr Peters Group anticipate that during the two year process the funds will generate proceeds of around 80m US dollars per aircraft. However, Dr Peters Group has not ruled out the secondary market for future A380s. It had an additional two A380s on lease to Singapore Airlines, which were returned only recently, and has five with Air France.

In April 2018 Emirates president Tim Clark told journalists that Emirates could operate its A380s until the end of their service life, despite the airline's previous record of phasing out aircraft at an earlier stage.

In July 2018 the Portuguese wet-lease operator Hi Fly showcased its A380 at the Farnborough International Airshow. After being in service with Singapore Airlines for more than ten years, this is the first A380 ever to be placed through the secondary market. Since then it has been flying for carriers such as Thomas Cook Airlines Scandinavia, Norwegian and Air Austral to destinations in Europe, North America and the Indian Ocean.

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While constantly adding new A380s to its fleet, the Dubai-based operator counts more than 80 daily departures from its hub, including the world's shortest and the world's longest A380 non-stop route.

Emirates has announced it will operate the A380 between Dubai and St. Petersburg for a limited period in October this year. The decision was made in response to increased demand for travel during the autumn school holidays and marks the first time an A380 has operated to St. Petersburg.

Source: Emirates, FlightGlobal, Hi Fly

## **DORIC NIMROD AIR THREE LIMITED**

### **DIRECTORS**

#### **Charles Edmund Wilkinson - Chairman (Age 75)**

Charles Wilkinson is a solicitor who retired from Lawrence Graham LLP in March 2005. While at Lawrence Graham he specialised in corporate finance and commercial law, latterly concentrating on investment trust and fund work.

Charles is currently Chairman of Doric Nimrod Air One Limited, Chairman of the Audit Committee of Doric Nimrod Air Two Limited, and a director of Landore Resources Ltd, a Guernsey based mining exploration company. He is resident in Guernsey.

#### **Geoffrey Alan Hall (Age 70)**

Geoffrey Hall has extensive experience in asset management, having previously been Chief Investment Officer of Allianz Insurance plc, a major UK general insurance company and an investment manager at HSBC Asset Management, County Investment Management, and British Railways Pension Funds. Geoffrey is also currently a director of Doric Nimrod Air One Limited and Doric Nimrod Air Two Limited.

Geoffrey earned his masters degree in Geography at the University of London. He is an associate of the CFA Society of the UK.

#### **John Le Prevost (Age 66)**

John Le Prevost is the Chief Executive Officer of Anson Group Limited and Chairman of Anson Registrars Limited (the Company's Registrar). He has spent over 30 years working in offshore trusts and investment business during which time he was Managing Director of County NatWest Investment Management (Channel Islands) Limited, Royal Bank of Canada's mutual fund company in Guernsey and Republic National Bank of New York's international trust company. John is a director of Guaranteed Investment Products I PCC Limited, Guernsey's largest protected cell company. He is a director of a number of other companies associated with Anson Group's business as well as being a trustee of the Guernsey Sailing Trust. John is also currently a director of Doric Nimrod Air One Limited, Doric Nimrod Air Two Limited and Amedeo Air Four Plus Limited. He is resident in Guernsey.

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### **INTERIM MANAGEMENT REPORT**

There were no material related party transactions which took place in the Period, other than those disclosed at Note 22 of the Notes to the Financial Statements.

#### **Principal Risks and Uncertainties**

The principal risks and uncertainties faced by the Company for the remaining six months of the financial year are unchanged from those disclosed in the Company's annual financial report for the year ended 31 March 2018.

#### **Going Concern**

The Group's principal activities are set out within the Company Overview on pages 2 to 3. The financial position of the Group is set out on pages 15. In addition, Note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Equipment Note payments have been fixed and the fixed rental income under the relevant operating lease means that the rent should be sufficient to repay the debt and provide surplus income to pay for the Group's expenses and permit payment of dividends.

After making reasonable enquiries, and as described above the Directors have a reasonable expectation that the Group has adequate resources to continue in its operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing these financial statements.

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### **Responsibility Statement**

The Directors jointly and severally confirm that to the best of their knowledge:

- (a) the financial statements, prepared in accordance with IFRS give a fair, balanced and understandable view of the assets, liabilities, financial position and profits of the Company and performance of the Company; and
- (b) this Interim Management Report includes or incorporates by reference:
  - a. an indication of important events that have occurred during the Period, and their impact on the financial statements;
  - b. a description of the principal risks and uncertainties for the remaining six months of the financial year; and
  - c. confirmation that there were no related party transactions in the Period that have materially affected the financial position or the performance of the Company during that period.

Signed on behalf of the Board of Directors of the Company on 13 November 2018

**Charles Wilkinson**  
**Chairman**

**DORIC NIMROD AIR THREE LIMITED (the "Company")**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the period from 1 April 2018 to 30 September 2018

|  | Notes | 1 Apr 2018 to<br>30 Sep 2018<br>GBP | 1 Apr 2017 to<br>30 Sep 2017<br>GBP |
|--|-------|-------------------------------------|-------------------------------------|
| <b>INCOME</b>  |       |                                     |                                     |
| A rent income  | 4     | 26,543,509                          | 27,121,820                          |
| B rent income  | 4     | 10,236,192                          | 10,264,235                          |
| Bank interest received   |       | <u>38,961</u>                       | <u>48,172</u>                       |
|  |       | 36,818,662                          | 37,434,227                          |
| <b>EXPENSES</b>  |       |                                     |                                     |
| Operating expenses   | 5     | (764,491)                           | (752,034)                           |
| Depreciation of Aircraft   | 9     | <u>(14,973,332)</u>                 | <u>(8,957,245)</u>                  |
|  |       | (15,737,823)                        | (9,709,279)                         |
| Net profit for the period before<br>finance costs and foreign exchange<br>(losses) / gains   |       | <u>21,080,839</u>                   | <u>27,724,948</u>                   |
| Finance costs  | 10    | (7,400,827)                         | (9,080,371)                         |
| Net profit for the period after finance<br>costs before foreign exchange<br>(losses) / gains |       | <u>13,680,012</u>                   | <u>18,644,577</u>                   |
| Unrealised foreign exchange (loss) /<br>gain   | 19    | <u>(24,027,151)</u>                 | <u>25,063,046</u>                   |
| (Loss) / Profit for the period   |       | <u>(10,347,139)</u>                 | <u>43,707,623</u>                   |
| Other Comprehensive Income   |       | <u>-</u>                            | <u>-</u>                            |
| Total Comprehensive (Loss) /<br>Income for the period  |       | <u>(10,347,139)</u>                 | <u>43,707,623</u>                   |
|  |       | <b>Pence</b>                        | <b>Pence</b>                        |
| (Loss) / Earnings per Ordinary<br>Preference Share for the period -<br>Basic and Diluted     | 8     | (4.70)                              | 19.87                               |

In arriving at the results for the financial period, all amounts above relate to continuing operations.

The notes on pages 18 to 42 form an integral part of these Consolidated Financial Statements.

**DORIC NIMROD AIR THREE LIMITED (the "Company")**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at 30 September 2018

|   | Notes | 30 Sep 2018<br>GBP        | 31 Mar 2018<br>GBP        |
|---|-------|---------------------------|---------------------------|
| <b>NON-CURRENT ASSETS</b>   |       |                           |                           |
| Aircraft  | 9     | <u>499,566,367</u>        | <u>514,539,699</u>        |
| <b>CURRENT ASSETS</b>   |       |                           |                           |
| Receivables   | 12    | 36,049                    | 56,765                    |
| Cash and cash equivalents   | 17    | <u>12,841,555</u>         | <u>12,408,778</u>         |
|   |       | 12,877,604                | 12,465,543                |
| <b>TOTAL ASSETS</b>   |       | <u><u>512,443,971</u></u> | <u><u>527,005,242</u></u> |
| <b>CURRENT LIABILITIES</b>  |       |                           |                           |
| Borrowings  | 14    | 61,767,593                | 55,951,956                |
| Deferred income   |       | 3,184,479                 | 3,626,290                 |
| Rebates   | 15    | 354,625                   | 334,108                   |
| Payables - due within one year  | 13    | <u>53,601</u>             | <u>65,779</u>             |
|   |       | 65,360,298                | 59,978,133                |
| <b>NON-CURRENT LIABILITIES</b>  |       |                           |                           |
| Borrowings  | 14    | 179,104,029               | 195,177,667               |
| Deferred income   |       | 110,726,251               | 95,112,870                |
| Rebates   | 15    | <u>1,442,447</u>          | <u>1,503,487</u>          |
|   |       | 291,272,727               | 291,794,024               |
| <b>TOTAL LIABILITIES</b>  |       | <u><u>356,633,025</u></u> | <u><u>351,772,157</u></u> |
| <b>TOTAL NET ASSETS</b>   |       | <u><u>155,810,946</u></u> | <u><u>175,233,085</u></u> |
| <b>EQUITY</b>   |       |                           |                           |
| Share capital   | 16    | 208,953,833               | 208,953,833               |
| Retained earnings   |       | <u>(53,142,887)</u>       | <u>(33,720,748)</u>       |
|   |       | 155,810,946               | 175,233,085               |
|   |       | <b>Pence</b>              | <b>Pence</b>              |
| Net Asset Value per Share based on<br>220,000,000 (31 Mar 2018: 220,000,000)<br>shares in issue |       | 70.82                     | 79.65                     |

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 13 November 2018 and are signed on its behalf by:

**Charles Wilkinson**  
Director

**John Le Prevost**  
Director

The notes on pages 18 to 42 form an integral part of these Consolidated Financial Statements.

**DORIC NIMROD AIR THREE LIMITED (the "Company")**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**For the period from 1 April 2018 to 30 September 2018**

|   | Notes     | 1 Apr 2018 to<br>30 Sep 2018<br>GBP | 1 Apr 2017 to<br>30 Sep 2017<br>GBP |
|---|-----------|-------------------------------------|-------------------------------------|
| <b>OPERATING ACTIVITIES</b>                             |           |                                     |                                     |
| (Loss) / profit for the period                          |           | (10,347,139)                        | 43,707,623                          |
| Movement in deferred income                             |           | 9,305,279                           | 10,142,374                          |
| Interest received                                       |           | (38,961)                            | (48,172)                            |
| Depreciation of Aircraft                                | 9         | 14,973,332                          | 8,957,245                           |
| Loan interest payable                                   | 10        | 7,206,627                           | 8,886,171                           |
| (Decrease) / Increase in payables                       |           | (12,178)                            | 592                                 |
| Decrease in receivables                                 |           | 20,716                              | 19,874                              |
| Foreign exchange movement                               | 19b       | 24,027,151                          | (25,063,046)                        |
| Amortisation of debt arrangement costs                  | 10        | 194,200                             | 194,200                             |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>               |           | <b>45,329,027</b>                   | <b>46,796,861</b>                   |
| <b>INVESTING ACTIVITIES</b>                             |           |                                     |                                     |
| Interest received                                       |           | 38,961                              | 48,172                              |
| <b>NET CASH FROM INVESTING ACTIVITIES</b>               |           | <b>38,961</b>                       | <b>48,172</b>                       |
| <b>FINANCING ACTIVITIES</b>                             |           |                                     |                                     |
| Dividends paid  | 7         | (9,075,000)                         | (9,075,000)                         |
| Repayments of capital on borrowings                     | 20        | (28,985,009)                        | (28,447,933)                        |
| Payments of interest on borrowings                      | 20        | (7,039,875)                         | (9,025,977)                         |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>            |           | <b>(45,099,884)</b>                 | <b>(46,548,910)</b>                 |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b> |           |                                     |                                     |
|   |           | 12,408,778                          | 12,273,202                          |
| Increase in cash and cash equivalents                   |           | 268,104                             | 296,123                             |
| Effects of foreign exchange rates                       |           | 164,673                             | (175,292)                           |
| <b>CASH AND CASH EQUIVALENTS AT END OF</b>              | <b>17</b> | <b>12,841,555</b>                   | <b>12,394,033</b>                   |

The notes on pages 18 to 42 form an integral part of these Consolidated Financial Statements.

**DORIC NIMROD AIR THREE LIMITED (the "Company")****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the period from 1 April 2018 to 30 September 2018

|   | <b>Notes</b> | <b>Share<br/>Capital<br/>GBP</b> | <b>Retained<br/>Earnings<br/>GBP</b> | <b>Total<br/>GBP</b> |
|---|--------------|----------------------------------|--------------------------------------|----------------------|
| Balance as at 1 April 2018                |              | 208,953,833                      | (33,720,748)                         | 175,233,085          |
| Total Comprehensive Loss for the period   |              | -                                | (10,347,139)                         | (10,347,139)         |
| Dividends paid                            | 7            | -                                | (9,075,000)                          | (9,075,000)          |
| Balance as at 30 September 2018           |              | <u>208,953,833</u>               | <u>(53,142,887)</u>                  | <u>155,810,946</u>   |
|   |              | <b>Share<br/>Capital<br/>GBP</b> | <b>Retained<br/>Earnings<br/>GBP</b> | <b>Total<br/>GBP</b> |
| Balance as at 1 April 2017                |              | 208,953,833                      | (81,377,056)                         | 127,576,777          |
| Total Comprehensive Income for the period |              | -                                | 43,707,623                           | 43,707,623           |
| Dividends paid                            | 7            | -                                | (9,075,000)                          | (9,075,000)          |
| Balance as at 30 September 2017           |              | <u>208,953,833</u>               | <u>(46,744,433)</u>                  | <u>162,209,400</u>   |

The notes on pages 18 to 42 form an integral part of these Consolidated Financial Statements.

# DORIC NIMROD AIR THREE LIMITED (the "Company")

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 April 2018 to 30 September 2018

### 1 GENERAL INFORMATION

The Consolidated Financial Statements incorporate the results of Doric Nimrod Air Three Limited (the "**Company**") and DNA Alpha Limited (the "**Subsidiary**") (together known as the "**Group**").

The Company was incorporated in Guernsey on 29 March 2012 with registered number 54908. The address of the registered office is given on page 71. Its share capital consists of one class of Ordinary Preference Shares ("**Shares**") and one class of Subordinated Administrative Shares ("**Administrative Shares**"). The Company's Ordinary Shares have been admitted to trading on the Specialist Fund Segment of the London Stock Exchange's Main Market (the "**SFS**").

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 principal activities of the Company are set out in the Chairman's Statement and Asset Manager's Report on pages 4 to 5 and 6 to 10 respectively.

### 2 ACCOUNTING POLICIES

The significant accounting policies adopted by the Group are as follows:

#### (a) Basis of Preparation

The consolidated financial statements have been prepared in conformity with the International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union ("**EU**"), and applicable Guernsey law. The consolidated financial statements have been prepared on a historical cost basis.

This report is to be read in conjunction with the annual report for the year ended 31 March 2018 which is prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the EU and any public announcements made by the Group during the interim reporting period.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below:

#### Changes in accounting policies and disclosure

The following Standards or Interpretations have been adopted in the current period. Their adoption has not had any impact on the amounts reported in these consolidated financial statements and is not expected to have any impact on future financial periods, except where stated otherwise:

- IFRS 9, 'Financial Instruments - Classification and Measurement, Impairment of Financial Assets, Hedge Accounting'. Effective for accounting periods commencing on or after 1 January 2018 and is endorsed by the EU.
- IFRS 15 and amendments to IFRS 15 Revenue from contracts with customers - The standard and amendments are effective for annual periods beginning on or after 1 January 2018 and is endorsed by the EU.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**For the period from 1 April 2018 to 30 September 2018**

#### **2 ACCOUNTING POLICIES**

##### **(a) Basis of Preparation (continued)**

The impact of the adoption of the above standards and the new accounting policies are disclosed in Note 22.

- IFRIC 22 'Foreign currency transactions and advance consideration' - this IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The guidance aims to reduce diversity in practice and is effective for annual periods beginning on or after 1 January 2018 and is endorsed by the EU.

The following Standards or Interpretations that are expected to affect the Group have been issued but not yet adopted by the Group. Other Standards or Interpretations issued by the International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee ("**IFRIC**") are not expected to affect the Group.

- IFRS 16 Leases - specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for annual periods beginning on or after 1 January 2019 and is endorsed by the EU.

The Directors have considered the above and are of the opinion that the above Standards and Interpretations are not expected to have an impact on the Group's financial statements except for the presentation of additional disclosures and changes to the presentation of components of the financial statements. These items will be applied in the first financial period for which they are required.

##### **(b) Basis of Consolidation**

The consolidated financial statements incorporate the results of the Company and its Subsidiary. The Company owns 100 per cent of all the shares in the Subsidiary and has the power to govern the financial and operating policies of the Subsidiary so as to obtain benefits from its activities. Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

##### **(c) Taxation**

The Company and its Subsidiary have been assessed for tax at the Guernsey standard rate of 0 per cent.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 1 April 2018 to 30 September 2018

#### 2 ACCOUNTING POLICIES (continued)

##### (d) Share Capital

Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are recognised as a deduction from equity.

##### (e) Expenses

All expenses are accounted for on an accruals basis.

##### (f) Interest Income

Interest income is accounted for on an accruals basis.

##### (g) Foreign Currency Translation

The currency of the primary economic environment in which the Group operates (the functional currency) is Pounds Sterling ("£" or "Sterling"), which is also the presentation currency.

Transactions denominated in foreign currencies are translated into Sterling at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income.

##### (h) Cash and Cash Equivalents

Cash at bank and short term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as call deposits, short term deposits with a term of no more than three months from the start of the deposit and highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

##### (i) Segmental Reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being acquiring, leasing and selling various Airbus A380-861 aircraft (together the "Assets" and each an "Asset").

##### (j) Going Concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors believe the Group is well placed to manage its business risks successfully despite the current economic climate as the loans and Equipment Notes interest has been fixed and the fixed rental income under the operating leases means that the rents should be sufficient to repay the debt and provide surplus income to pay for the Group's expenses and permit payment of dividends. Accordingly, the Directors have adopted the going concern basis in preparing the consolidated financial statements.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)** **For the period from 1 April 2018 to 30 September 2018**

#### **2 ACCOUNTING POLICIES (continued)**

##### **(j) Going Concern (continued)**

Management is not aware of any material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern.

##### **(k) Leasing and Rental Income**

The leases relating to the Assets have been classified as operating leases as the terms of the leases do not transfer substantially all the risks and rewards of ownership to the lessee. The Assets are shown as non-current assets in the Consolidated Statement of Financial Position. Further details of the leases are given in Note 11.

Rental income and advance lease payments from operating leases are recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased Asset and amortised on a straight-line basis over the lease term.

##### **(l) Property, Plant and Equipment - Aircraft**

In line with IAS 16 Property Plant and Equipment, each Asset is initially recorded at the fair value of the consideration paid. The cost of the Asset is made up of the purchase price of the Assets plus any costs directly attributable to bringing it into working condition for its intended use. Costs incurred by the lessee in maintaining, repairing or enhancing the aircraft are not recognised as they do not form part of the costs to the Group. Accumulated depreciation and any recognised impairment losses are deducted from cost to calculate the carrying amount of the Asset.

Depreciation is recognised so as to write off the cost of each Asset less the estimated residual value over the estimated useful life of the Asset of 12 years, using the straight line method. The estimated residual value of the four planes ranges from £71.5 million to £72.4 million. Residual values have been arrived at by taking into account disposition fees. The depreciation method reflects the pattern of benefit consumption. The residual value is reviewed annually and is an estimate of the fair amount the entity would receive currently if the asset were already of the age and condition expected at the end of its useful life. Useful life is also reviewed annually and for the purposes of the financial statements represents the likely period of the Group's ownership of these Assets. Depreciation starts when the Assets are available for use.

In the 2017 financial year, the residual values of the A380 aircraft were determined using values including inflationary effects. However, following discussions between the Directors, the auditor and the Company's advisors for the year ended 31 March 2018, it was determined that the strict application of IAS 16 Property, Plant and Equipment be applied to the assets of the Group and that the use of forecast values excluding inflation best approximates residual value as required by IAS 16 Property, Plant and Equipment. This resulted in a reduction in US dollar terms in the anticipated residual values of the aircraft since the 2017 financial year.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**For the period from 1 April 2018 to 30 September 2018**

#### **2 ACCOUNTING POLICIES (continued)**

##### **(l) Property, Plant and Equipment - Aircraft**

At each audited Consolidated Statement of Financial Position date, the Group reviews the carrying amounts of its Aircraft to determine whether there is any indication that those Assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the Asset is estimated to determine the extent of the impairment loss (if any). Further details are given in Note 3.

Recoverable amount is the higher of fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the Asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an Asset is estimated to be less than its carrying amount, the carrying amount of the Asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the Asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the Asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

##### **(m) Financial Liabilities**

Financial liabilities consist of payables and borrowings. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics. All financial liabilities are initially measured at fair value, net of transaction costs. All financial liabilities are recorded on the date on which the Group became party to the contractual requirements of the financial liability. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of the financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**For the period from 1 April 2018 to 30 September 2018**

#### **3 SIGNIFICANT JUDGEMENTS AND ESTIMATES**

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimates that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

##### **Estimates**

###### **Residual Value and Useful Life of Aircraft**

As described in Note 2 (I), the Group depreciates the Assets on a straight line basis over the estimated useful life of the Assets after taking into consideration the estimated residual value. IAS 16 Property, Plant and Equipment requires residual value to be determined as an estimate of the amount that the Group would currently obtain from the disposal of the Asset, after deducting the estimated costs of disposal, if the Asset were of the age and condition expected at the end of its useful life. However, there are currently no aircraft of a similar type of sufficient age for the Directors to make a direct market comparison in making this estimation. After consulting with the Auditors and the Company's Advisors, the Directors have concluded that an uninflated value for the Aircraft at the end of its useful life best represents residual value, as required by a strict interpretation of relevant accounting standards. In estimating residual values for 2017/18 the directors referred to uninflated values for the Aircraft obtained by from three independent expert aircraft valuers and determined that the residual values, based on the uninflated valuations, ranged from £71.5 million to £72.4 million at the year end. The residual values for the previous year end, were based on inflated valuations and ranged from £97.2 million to £98.1 million. In both cases the residual values took into account the estimated costs of disposal. The residual value has been changed to reflect the most recent average appraised value of the aircraft excluding the effects of inflation. This has been disclosed in Note 9.

This together with the effect of foreign exchange fluctuations on the residual value, has resulted in a reduction in the anticipated residual values of the aircraft since the prior financial year, details of which have been disclosed in Note 9. Apart from the aforementioned, the Asset Manager has confirmed in the year ending 31 March 2018 that there were no other required changes to the methodology used to determine the residual value in the current year and they believe that the values of the aircraft are, absent the two factors explained above, not substantially different from those of the aircraft as appraised at 31 March 2017.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**For the period from 1 April 2018 to 30 September 2018**

#### **3 SIGNIFICANT JUDGEMENTS AND ESTIMATES (continued)**

##### **Estimates**

###### **Residual Value and Useful Life of Aircraft (continued)**

The estimation of residual value remains subject to inherent uncertainty. If the estimate of residual value had decreased by 20 per cent. with effect from the beginning of this period, the net profit for the period and closing shareholders' equity would have decreased by approximately £3.3 million (30 September 2017: £4.1 million). An increase in residual value by 20 per cent. would have had an equal but opposite effect. This reflects the range of estimates of residual value that the Directors believe would be reasonable at this time. The useful life of each Asset, for the purpose of depreciation of the asset under IAS 16, is estimated based on the expected period for which the Group will own and lease the Aircraft. The Board of Directors expects that the Aircraft will have a working life far in excess of this period.

##### **Judgements**

###### **Operating Lease Commitments - Group as Lessor**

The Group has entered into operating leases on four (31 Mar 2017: four) Assets. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these Assets and accounts for the contracts as operating leases.

The Group has determined that the operating leases on the Assets are for 12 years based on an initial term of 10 years followed by an extension term of two years. Should the lessee choose to exit a lease at the end of the initial term of 10 years a penalty equal to the present value of the remaining two years would be due.

###### **Impairment**

As described in Note 2(l), an impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The Directors review the carrying amounts of its Assets at each audited Consolidated Statement of Financial Position date and monitor the Assets for any indications of impairment as required by IAS 16 Property, Plant and Equipment and IAS 36 Impairment of Assets.

At the 31 March 2018 year end the Directors reviewed the carrying values of the Assets and concluded that there was no indication of any impairments.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 4 RENTAL INCOME

|                                       | 1 Apr 2018 to<br>30 Sep 2018<br>GBP | 1 Apr 2017 to<br>30 Sep 2017<br>GBP |
|---------------------------------------|-------------------------------------|-------------------------------------|
| A rent income                         | 35,848,788                          | 37,292,238                          |
| Revenue received but not yet earned   | (23,760,621)                        | (24,309,110)                        |
| Revenue earned but not received       | 13,006,965                          | 12,685,342                          |
| Amortisation of advance rental income | 1,592,239                           | 1,596,602                           |
| Deduction of rebate monies            | (143,862)                           | (143,252)                           |
|                                       | <u>26,543,509</u>                   | <u>27,121,820</u>                   |
| <br>                                  |                                     |                                     |
| B rent income                         | 10,236,192                          | 10,236,191                          |
| Revenue received but not yet earned   | (27,968)                            | (14,022)                            |
| Revenue earned but not yet received   | 27,968                              | 42,067                              |
|                                       | <u>10,236,192</u>                   | <u>10,264,235</u>                   |
| <br>                                  |                                     |                                     |
| Total rental income                   | <u>36,779,701</u>                   | <u>37,386,055</u>                   |

Rental income is derived from the leasing of the Assets. Rent is split into A rent, which is received in US dollars ("\$\$") and B rent, which is received in Sterling ("£" or "GBP"). Rental income received in US dollars is translated into the functional currency (Sterling) at the date of the transaction.

A and B rental income receivable will decrease / increase respectively, 10 years from the start of each lease. An adjustment has been made to spread the actual total income receivable over the term of the lease on an annual basis. In addition, advance rentals received have also been spread over the full term of the leases.

#### 5 OPERATING EXPENSES

|   | 1 Apr 2018 to<br>30 Sep 2018<br>GBP | 1 Apr 2017 to<br>30 Sep 2017<br>GBP |
|---|-------------------------------------|-------------------------------------|
| Corporate shareholder and adviser fee (Note 22) | 226,282                             | 220,762                             |
| Asset Management fee (Note 22)                  | 305,480                             | 298,032                             |
| Liaison agent fee                               | 33,942                              | 33,115                              |
| Administration fees                             | 59,460                              | 58,159                              |
| Bank interest & charges                         | 21,909                              | 20,465                              |
| Accountancy fees                                | 11,387                              | 11,164                              |
| Registrar fees (Note 22)                        | 7,494                               | 7,907                               |
| Audit fee                                       | 17,650                              | 15,850                              |
| Directors' remuneration (Note 6)                | 37,500                              | 51,000                              |
| Directors' and Officers' insurance              | 13,225                              | 13,209                              |
| Legal and professional expenses                 | 12,769                              | 7,547                               |
| Annual fees                                     | 5,138                               | 4,855                               |
| Travel expenses                                 | 2,279                               | 1,216                               |
| Other operating expenses                        | 9,976                               | 8,753                               |
|   | <u>764,491</u>                      | <u>752,034</u>                      |

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 6 DIRECTORS' REMUNERATION

Under their terms of appointment, each Director is paid a fee of £23,000 per annum by the Group, except for the Chairman, who receives £29,000 per annum. The Chairman of the audit committee also receives an extra £4,000 per annum.

#### 7 DIVIDENDS IN RESPECT OF EQUITY SHARES

| Dividends in respect of Shares | 1 Apr 2018 to<br>30 Sep 2018 |                    |
|--------------------------------|------------------------------|--------------------|
|                                | GBP                          | Pence per<br>share |
| First interim dividend         | 4,537,500                    | 2.06               |
| Second interim dividend        | <u>4,537,500</u>             | <u>2.06</u>        |
|                                | <u>9,075,000</u>             | <u>4.12</u>        |

| Dividends in respect of Shares | 1 Apr 2017 to<br>30 Sep 2017 |                    |
|--------------------------------|------------------------------|--------------------|
|                                | GBP                          | Pence per<br>share |
| First interim dividend         | 4,537,500                    | 2.06               |
| Second interim dividend        | <u>4,537,500</u>             | <u>2.06</u>        |
|                                | <u>9,075,000</u>             | <u>4.12</u>        |

#### 8 (LOSS) / EARNINGS PER SHARE

(Loss) / Earnings per Share ("LPS" / "EPS") is based on the net loss for the period attributable to holders of Ordinary Shares of the Company ("Shareholders") of £10,347,139 (30 September 2017: loss for the period of £43,707,623) and 220,000,000 (30 September 2017: 220,000,000) Ordinary Shares being the weighted average number of Shares in issue during the period.

There are no dilutive instruments and therefore basic and diluted LPS / EPS are identical.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 9 PROPERTY, PLANT AND EQUIPMENT - AIRCRAFT

|                                    | <b>TOTAL<br/>GBP</b> |
|------------------------------------|----------------------|
| <b>COST</b>                        |                      |
| As at 1 Apr 2018                   | 618,050,915          |
| As at 30 Sep 2018                  | <u>618,050,915</u>   |
| <b>ACCUMULATED DEPRECIATION</b>    |                      |
| As at 1 Apr 2018                   | 103,511,216          |
| Depreciation charge for the period | <u>14,973,332</u>    |
| As at 30 Sep 2018                  | <u>118,484,548</u>   |
| <b>CARRYING AMOUNT</b>             |                      |
| As at 30 Sep 2018                  | <u>499,566,367</u>   |
| As at 30 Sep 2017                  | <u>535,447,298</u>   |

The Company is depreciating its aircraft so as to ensure that the carrying value of its aircraft at the termination of its lease equals the uninflated residual dollar value determined at 31 March 2018 in accordance with methodology set out in Note 3, translated into Sterling at the exchange rate prevailing at 31 March 2018.

The Group can sell the Assets during the term of the leases (with the lease attached and in accordance with the terms of the transfer provisions contained therein).

Under IAS 17 the direct costs attributed in negotiating and arranging the operating leases have been added to the carrying amount of the leased asset and therefore will be recognised as an expense over the lease term. The costs have been allocated to each Aircraft based on the proportional cost of the Asset.

#### 10 FINANCE COSTS

|   | <b>30 Sep 2018<br/>GBP</b> | <b>30 Sep 2017<br/>GBP</b> |
|---|----------------------------|----------------------------|
| Amortisation of debt arrangements costs | 194,200                    | 194,200                    |
| Interest payable                        | <u>7,206,627</u>           | <u>8,886,171</u>           |
|   | <u>7,400,827</u>           | <u>9,080,371</u>           |

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 11 OPERATING LEASES

The amounts of minimum future lease receipts at the reporting date under non cancellable operating leases are detailed below:

| <b>30 September 2018</b>    | <b>Next 12 months<br/>GBP</b> | <b>1 to 5 years<br/>GBP</b> | <b>After 5 years<br/>GBP</b> | <b>Total<br/>GBP</b> |
|-----------------------------|-------------------------------|-----------------------------|------------------------------|----------------------|
| Aircraft- A rental receipts | 73,140,802                    | 200,421,257                 | -                            | 273,562,059          |
| Aircraft- B rental receipts | <u>20,472,384</u>             | <u>81,889,536</u>           | <u>40,954,152</u>            | <u>143,316,072</u>   |
|                             | <u>93,613,186</u>             | <u>282,310,793</u>          | <u>40,954,152</u>            | <u>416,878,131</u>   |
| <b>30 September 2017</b>    | <b>Next 12 months<br/>GBP</b> | <b>1 to 5 years<br/>GBP</b> | <b>After 5 years<br/>GBP</b> | <b>Total<br/>GBP</b> |
| Aircraft- A rental receipts | 71,993,871                    | 221,354,963                 | 45,063,212                   | 338,412,046          |
| Aircraft- B rental receipts | <u>20,472,384</u>             | <u>81,889,536</u>           | <u>61,426,536</u>            | <u>163,788,456</u>   |
|                             | <u>92,466,255</u>             | <u>303,244,499</u>          | <u>106,489,748</u>           | <u>502,200,502</u>   |

The operating leases are for four Airbus A380-861 Aircraft. The terms of the leases are as follows:

MSN132 - term of the lease is for 12 years ending August 2025. The initial lease is for 10 years ending August 2023, with an extension period of two years ending August 2025, in which rental payments reduce. The present value of the remaining rentals in the extension period at the end of the initial 10 year lease must be paid even if the option is not taken.

MSN133 - term of the lease is for 12 years ending November 2025. The initial lease is for 10 years ending November 2023, with an extension period of two years ending November 2025, in which rental payments reduce. The present value of the remaining rentals in the extension period at the end of the initial 10 year lease term must be paid even if the option is not taken.

MSN134 - term of the lease is for 12 years ending November 2025. The initial lease is for 10 years ending November 2023, with an extension period of two years ending November 2025, in which rental payments reduce. The present value of the remaining rentals in the extension period at the end of the initial 10 year lease term must be paid even if the option is not taken.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 11 OPERATING LEASES (continued)

MSN136 - term of the lease is for 12 years ending October 2025. The initial lease is for 10 years ending October 2023, with an extension period of two years ending October 2025, in which rental payments reduce. The present value of the remaining rentals in the extension period at the end of the initial 10 year lease term must be paid even if the option is not taken.

At the end of each lease the lessee has the right to exercise an option to purchase the Asset if the Group chooses to sell the Asset. If a purchase option event occurs the Group and the lessee will be required to arrange for a current market value appraisal of the Asset to be carried out by three independent appraisers. The purchase price will be equal to the average valuation of those three appraisals.

#### 12 RECEIVABLES

|                | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|----------------|--------------------|--------------------|
|                | <b>GBP</b>         | <b>GBP</b>         |
| Prepayments    | 36,010             | 56,726             |
| Sundry debtors | 39                 | 39                 |
|                | <hr/>              | <hr/>              |
|                | <b>36,049</b>      | <b>56,765</b>      |

The above carrying value of receivables is equivalent to fair value.

#### 13 PAYABLES (amounts falling due within one year)

|                                  | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|----------------------------------|--------------------|--------------------|
|                                  | <b>GBP</b>         | <b>GBP</b>         |
| Accrued administration fees      | 11,785             | 23,108             |
| Accrued audit fee                | 16,750             | 19,020             |
| Accrued registrar fees (Note 22) | 898                | 985                |
| Other accrued expenses           | 24,168             | 22,666             |
|                                  | <hr/>              | <hr/>              |
|                                  | <b>53,601</b>      | <b>65,779</b>      |

The above carrying value of payables is equivalent to the fair value.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 14 BORROWINGS

|                     | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|---------------------|--------------------|--------------------|
|                     | <b>GBP</b>         | <b>GBP</b>         |
| Equipment Notes     | 243,608,455        | 254,060,656        |
| Associated costs    | (2,736,833)        | (2,931,033)        |
|                     | <u>240,871,622</u> | <u>251,129,623</u> |
| Current portion     | <u>61,767,593</u>  | <u>55,951,956</u>  |
| Non-current portion | <u>179,104,029</u> | <u>195,177,667</u> |

Notwithstanding the fact that £28.9 million capital was repaid during the period, as per the Cash Flow Statement, the value of the borrowings has only decreased by a further £10.3 million due to the 7 per cent. decrease in the Sterling / US dollar exchange rate for the period from 1 April 2018 to 30 September 2018.

The amounts below detail the future contractual undiscounted cashflows in respect of the loans and equipment notes, including both the principal and interest payments, and will not agree directly to the amounts recognised in the Consolidated Statement of Financial Position:

|  | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|--|--------------------|--------------------|
|  | <b>GBP</b>         | <b>GBP</b>         |
| Amount due for settlement within 12 months | <u>73,490,613</u>  | <u>68,561,289</u>  |
| Amount due for settlement after 12 months  | <u>200,382,859</u> | <u>220,370,102</u> |

In order to finance the acquisition of the Assets, the Subsidiary used the proceeds of the August 2013 offering of Pass Through Certificates (the "**Certificates**"). The Certificates have an aggregate face amount of approximately \$630 million, made up of "Class A" certificates and "Class B" certificates. The Class A certificates in aggregate have a face amount of \$462 million with an interest rate of 5.250 per cent. and a final expected distribution date of 30 May 2023. The Class B certificates in aggregate have a face amount of \$168 million with an interest rate of 6.125 per cent. and a final expected distribution date of 30 November 2019. There is a separate trust for each class of Certificate. The trusts used the funds from the Certificates to acquire equipment notes. The equipment notes were issued to Wilmington Trust, National Association as pass through trustee in exchange of the consideration paid by the purchasers of the Certificates.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 14 BORROWINGS (continued)

The equipment notes were issued by the Subsidiary and the proceeds from the sale of the equipment notes financed a portion of the purchase price of the four airbus A380- 861 Aircraft, with the remaining portion being financed through contribution from the Group of the Share issue proceeds. The holders of the equipment notes issued for each aircraft have the benefit of a security interest in such aircraft.

In the Directors' opinion, the carrying values of the equipment notes are approximate to their fair value.

#### 15 REBATES

Upon entering into the leases it was agreed that the lessee would pay to the Group such amount as estimated to be necessary to fund the payment by the Group of certain costs, fees and expenses associated with the transactions arising from the leases. Following payment of the costs, fees and expenses, it was agreed that such amount paid by the lessee exceeded the amount actually necessary. It was agreed that the Group would return the excess to the lessee over the remaining life of the leases in May and November of each year. Upon any termination of a lease prior to its end the Group shall pay the entire remaining unpaid excess relating to such Aircraft to such account as is directed by the lessee, but without any interest accrued thereon.

#### 16 SHARE CAPITAL

The Share Capital of the Company is represented by an unlimited number of shares of no par value being issued or reclassified by the Company as Ordinary Shares or Administrative Shares.

| <b>Issued</b>                          | <b>Administrative<br/>Shares</b>         | <b>Ordinary<br/>Shares</b>         |                      |
|--|--|------------------------------------|----------------------|
| Issued Share Capital as at 30 Sep 2018 | 2  | 220,000,000                        |                      |
| <b>Issued</b>                          | <b>Administrative<br/>Shares<br/>GBP</b> | <b>Ordinary<br/>Shares<br/>GBP</b> | <b>Total<br/>GBP</b> |
| <b>Ordinary Shares</b>                 |  |                                    |                      |
| <b>Share Capital as at 30 Sep 2018</b> | -  | 208,953,833                        | 208,953,833          |

Members holding Shares are entitled to receive and participate in any dividends out of income attributable to the Shares; other distributions of the Group available for such purposes and resolved to be distributed in respect of any accounting period; or other income or right to participate therein.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 16 SHARE CAPITAL (continued)

Upon winding up, Shareholders are entitled to the surplus assets attributable to the Share class remaining after payment of all the creditors of the Group. Members have the right to receive notice of and to attend, speak and vote at general meetings of the Group.

The holders of Administrative Shares are not entitled to receive, and participate in, any dividends out of income; other distributions of the Group available for such purposes and resolved to be distributed in respect of any accounting period; or other income or right to participate therein. On a winding up, holders are entitled to a return of capital paid up on them after the Shares have received a return of their capital paid up but ahead of the return of all additional capital to the holders of Shares.

The holders of Administrative Shares shall not have the right to receive notice of and no right to attend, speak and vote at general meetings of the Group, except for the Liquidation Proposal Meeting (general meeting convened six months before the end term of the Lease where the Liquidation Resolution will be proposed) or if there are no Shares in existence.

#### 17 CASH AND CASH EQUIVALENTS

|               | 30 Sep 2018<br>GBP | 31 Mar<br>2018<br>GBP |
|---------------|--------------------|-----------------------|
| Cash at bank  | 8,311,558          | 7,893,384             |
| Cash deposits | <u>4,529,997</u>   | <u>4,515,394</u>      |
|               | <u>12,841,555</u>  | <u>12,408,778</u>     |

Cash and cash equivalents are highly liquid, readily convertible and are subject to insignificant risk of changes in value

#### 18 FINANCIAL INSTRUMENTS

The Group's main financial instruments comprise:

- (a) Cash and cash equivalents that arise directly from the Group's operations; and
- (b) Debt secured on non-current assets.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The following table details the categories of financial assets and liabilities held by the Group at the reporting date:

|   | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|---|--------------------|--------------------|
|   | <b>GBP</b>         | <b>GBP</b>         |
| <b>Financial assets</b>                                 |                    |                    |
| Cash and cash equivalents                               | 12,841,555         | 12,408,778         |
| Receivables (excluding prepayments)                     | <u>39</u>          | <u>39</u>          |
| <b>Financial assets measured at amortised cost</b>      | <u>12,841,594</u>  | <u>12,408,817</u>  |
| <b>Financial liabilities</b>                            |                    |                    |
| Payables  | 53,600             | 65,779             |
| Debt payable  | <u>240,871,622</u> | <u>251,129,623</u> |
| <b>Financial liabilities measured at amortised cost</b> | <u>240,925,222</u> | <u>251,195,402</u> |

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

The following table details the categories of financial assets and liabilities held by the Group at the reporting date:

|   | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|---|--------------------|--------------------|
|   | <b>GBP</b>         | <b>GBP</b>         |
| <b>Financial assets</b>                                 |                    |                    |
| Cash and cash equivalents                               | 12,841,555         | 12,408,778         |
| Receivables (excluding prepayments)                     | <u>39</u>          | <u>39</u>          |
| <b>Financial assets measured at amortised cost</b>      | <u>12,841,594</u>  | <u>12,408,817</u>  |
| <b>Financial liabilities</b>                            |                    |                    |
| Payables  | 53,600             | 65,779             |
| Debt payable  | <u>240,871,622</u> | <u>251,129,623</u> |
| <b>Financial liabilities measured at amortised cost</b> | <u>240,925,222</u> | <u>251,195,402</u> |

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are capital management risk, foreign currency risk, credit risk, liquidity risk and interest rate risk. The Board regularly review and agrees policies for managing each of these risks and these are summarised below:

##### (a) Capital Management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to Shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 14, cash and cash equivalents and equity attributable to equity holders, comprising issued capital and retained earnings.

The Group's Board of Directors reviews the capital structure on a bi-annual basis.

Equity includes all capital and reserves of the Group that are managed as capital.

No changes were made in the objectives, policies or processes for managing capital during the period from 1 April 2018 to 30 September 2018 (None for the period from 1 April 2017 to 30 September 2017).

##### (b) Foreign Currency Risk

The Group's accounting policy under IFRS requires the use of a Sterling historic cost of the Assets and the value of the US dollar debt as translated at the spot exchange rate on every reporting date. In addition US dollar operating lease receivables are not immediately recognised in the statement of financial position and are accrued over the period of the leases. The Directors consider that this introduces an artificial variance due to the movement over time of foreign exchange rates. In actuality, the US dollar operating lease should offset the US dollar payables on amortising debt. The foreign exchange exposure in relation to the Equipment Notes is thus almost entirely hedged.

Lease rentals (as detailed in Notes 4 and 11) are received in US dollar and Sterling. Those lease rentals received in US dollars are used to pay the equipment note repayments due, also in US dollars (as detailed in Note 14). Both US dollar lease rentals and equipment note repayments are fixed and are for similar sums and similar timings. The matching of lease rentals to settle equipment note repayments therefore minimise risks caused by foreign exchange fluctuations.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

|   | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|---|--------------------|--------------------|
|   | <b>GBP</b>         | <b>GBP</b>         |
| Debt (US dollar) - Liabilities                | (243,608,455)      | (254,060,656)      |
| Cash and cash equivalents (US dollar) - Asset | <u>2,213,519</u>   | <u>2,225,652</u>   |

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### (b) Foreign Currency Risk

The following table details the Group's sensitivity to a 25 per cent (31 March 2018: 25 per cent) appreciation in Sterling against US dollar. 25 per cent (31 March 2018: 25 per cent) represents the Directors' assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 25 per cent (31 March 2018: 25 per cent) change in foreign currency rates. A positive number below indicates an increase in profit and other equity where Sterling strengthens 25 per cent (31 March 2018: 25 per cent) against US dollar. For a 25 per cent (31 March 2018: 25 per cent) weakening of the Sterling against US dollar, there would be a comparable but opposite impact on the profit and other equity:

|                | <b>30 Sep 2018</b>  | <b>31 Mar 2018</b> |
|----------------|---------------------|--------------------|
|                | <b>GBP</b>          | <b>GBP</b>         |
| Profit or loss | 48,278,987          | 50,367,001         |
| Assets         | (442,704)           | (445,130)          |
| Liabilities    | <u>(48,721,691)</u> | <u>50,812,131</u>  |

On the eventual sale of the Assets, the Group will be subject to foreign currency risk if the sale will be made in a currency other than Sterling. Transactions in similar assets are typically priced in US dollars.

##### (c) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The credit risk on cash transactions is mitigated by transacting with counterparties that are regulated entities subject to prudential supervision, or with high credit ratings assigned by international credit rating agencies.

The Group's financial assets exposed to credit risk are as follows:

|                                     | <b>30 Sep 2018</b> | <b>31 Mar 2018</b> |
|-------------------------------------|--------------------|--------------------|
|                                     | <b>GBP</b>         | <b>GBP</b>         |
| Receivables (excluding prepayments) | 39                 | 39                 |
| Cash and cash equivalents           | 12,841,555         | 12,408,778         |
|                                     | <u>12,841,594</u>  | <u>12,408,817</u>  |

Surplus cash in the Company is held in RBSI and in various Certificates of Deposit managed by RLAM. Surplus cash in the Subsidiary is held in accounts with RBSI and Wilmington Trust. The banks have credit ratings given by Moody's of Baa2 (stable) and Aa3 (stable) respectively. The banks are shown as having a stable rating.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### (c) Credit Risk (continued)

There is a contractual credit risk arising from the possibility that the lessee may default on the lease payments. This risk is mitigated, as under the terms of the lease agreements between the lessee and the Group, any non payment of the lease rentals constitutes a Special Termination Event, under which the lease terminates and the Group may either choose to sell the asset or lease the Assets to another party.

At the inception of each lease, the Group selected a lessee with a strong balance sheet and financial outlook. The financial strength of Emirates is regularly reviewed by the Board and the Asset Manager.

##### (d) Liquidity Risk

Liquidity risk is the risk that the Group will encounter difficulty in realising assets or otherwise raising funds to meet financial commitments. The Group's main financial commitments are its ongoing operating expenses and payments on equipment notes.

Ultimate responsibility for liquidity risk management rests with the Board, which established an appropriate liquidity management framework at the incorporation of the Group, through the timings of lease rentals and debt repayments. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by monitoring forecast and actual cash flows, and by matching profiles of financial assets and liabilities.

The table below details the residual contractual maturities of financial liabilities. The amounts below are contractual undiscounted cash flows, including both the principal and interest payments, and will not agree directly to the amounts recognised in the statement of financial position:

|  | <b>1-3<br/>months<br/>GBP</b> | <b>3-12<br/>months<br/>GBP</b> | <b>1-2<br/>years<br/>GBP</b> | <b>2-5<br/>years<br/>GBP</b> | <b>over 5<br/>years<br/>GBP</b> |
|--|-------------------------------|--------------------------------|------------------------------|------------------------------|---------------------------------|
| <b>30 Sep 2018<br/>Financial<br/>liabilities</b> |                               |                                |                              |                              |                                 |
| Payables - due<br>within one year                | 53,600                        | -                              | -                            | -                            | -                               |
| Equipment<br>Notes                               | 36,811,996                    | 36,678,617                     | 60,232,918                   | 140,149,940                  | -                               |
|  | <u>36,865,596</u>             | <u>36,678,617</u>              | <u>60,232,918</u>            | <u>140,149,940</u>           | <u>-</u>                        |
| <b>31 Mar 2018<br/>Financial<br/>liabilities</b> |                               |                                |                              |                              |                                 |
| Payables - due<br>within one year                | 65,779                        | -                              | -                            | -                            | -                               |
| Equipment Notes                                  | 34,341,206                    | 34,220,083                     | 68,065,268                   | 130,821,671                  | 21,483,162                      |
|  | <u>34,406,985</u>             | <u>34,220,083</u>              | <u>68,065,268</u>            | <u>130,821,671</u>           | <u>21,483,162</u>               |

**DORIC NIMROD AIR THREE LIMITED (the "Company")**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

For the period from 1 April 2018 to 30 September 2018

**19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**(e) Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows. It is the risk that fluctuations in market interest rates will result in a reduction in deposit interest earned on bank deposits held by the Group.

The Group mitigates interest rate risk by fixing the interest rate on the equipment notes debt and the lease rentals.

The following table details the Group's exposure to interest rate risks:

| <b>30 Sep 2018</b>                    | <b>Variable<br/>interest<br/>GBP</b> | <b>Fixed<br/>interest<br/>GBP</b> | <b>Non-<br/>interest<br/>Bearing<br/>GBP</b> | <b>Total<br/>GBP</b> |
|---------------------------------------|--------------------------------------|-----------------------------------|--|----------------------|
| <b>Financial Assets</b>               |                                      |                                   |  |                      |
| Receivables                           | -                                    | -                                 | 39   | 39                   |
| Cash and cash equivalents             | <u>12,841,555</u>                    | <u>-</u>                          | <u>-</u>                                     | <u>12,841,555</u>    |
| <b>Total Financial Assets</b>         | <u>12,841,555</u>                    | <u>-</u>                          | <u>39</u>                                    | <u>12,841,594</u>    |
| <b>Financial Liabilities</b>          |                                      |                                   |  |                      |
| Payables                              | -                                    | -                                 | 53,600                                       | 53,600               |
| Equipment Notes                       | <u>-</u>                             | <u>243,608,455</u>                | <u>-</u>                                     | <u>243,608,455</u>   |
| <b>Total Financial Liabilities</b>    | <u>-</u>                             | <u>243,608,455</u>                | <u>53,600</u>                                | <u>243,662,055</u>   |
| <b>Total interest sensitivity gap</b> | <u>12,841,555</u>                    | <u>243,608,455</u>                |  |                      |
| <br>                                  |                                      |                                   |  |                      |
| <b>31 Mar 2018</b>                    | <b>Variable<br/>interest<br/>GBP</b> | <b>Fixed<br/>interest<br/>GBP</b> | <b>Non-<br/>interest<br/>Bearing<br/>GBP</b> | <b>Total<br/>GBP</b> |
| <b>Financial Assets</b>               |                                      |                                   |  |                      |
| Receivables                           | -                                    | -                                 | 39   | 39                   |
| Cash and cash equivalents             | <u>12,408,778</u>                    | <u>-</u>                          | <u>-</u>                                     | <u>12,408,778</u>    |
| <b>Total Financial Assets</b>         | <u>12,408,778</u>                    | <u>-</u>                          | <u>39</u>                                    | <u>12,408,817</u>    |
| <b>Financial Liabilities</b>          |                                      |                                   |  |                      |
| Payables                              | -                                    | -                                 | 65,779                                       | 65,779               |
| Equipment Notes                       | <u>-</u>                             | <u>254,060,656</u>                | <u>-</u>                                     | <u>254,060,656</u>   |
| <b>Total Financial Liabilities</b>    | <u>-</u>                             | <u>254,060,656</u>                | <u>65,779</u>                                | <u>254,126,435</u>   |
| <b>Total interest sensitivity gap</b> | <u>12,408,778</u>                    | <u>254,060,656</u>                |  |                      |

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### (e) Interest Rate Risk (continued)

If interest rates had been 50 basis points higher throughout the period, and all other variables were held constant, the Group's net assets attributable to shareholders as at 30 September 2018 would have been £64,208 (31 March 2018: £62,044) greater due to an increase in the amount of interest receivable on the bank balances.

If interest rates had been 50 basis points lower throughout the period and all other variables were held constant, the Group's net assets attributable to shareholders as at 30 September 2018 would have been £364,208 (31 March 2018: £62,044) lower due to a decrease in the amount of interest receivable on the bank balances.

#### 20 CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table discloses the effects of the amendments to IAS 7 Statement of Cash Flows which requires additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

|   | <b>30 Sep 2018</b> | <b>31 Mar 2018</b>  |
|---|--------------------|---------------------|
|   | <b>GBP</b>         | <b>GBP</b>          |
| <b>Opening Balance</b>                  | 254,060,656        | 343,142,786         |
| Cash flows paid - capital               | (28,985,009)       | (56,871,877)        |
| Cash flows paid - interest              | (7,039,875)        | (17,026,641)        |
| Non-cash flows                          |                    |                     |
| - Interest accrued                      | 7,206,627          | 16,558,361          |
| - Rebates movement                      | 40,523             | 588,137             |
| - Effects of foreign exchange – Rebates | 135,575            | (233,321)           |
| - Effects of foreign exchange – Loans   | <u>18,189,958</u>  | <u>(32,330,110)</u> |
| <b>Closing Balance</b>                  | <u>243,608,455</u> | <u>254,060,656</u>  |

#### 21 ULTIMATE CONTROLLING PARTY

In the opinion of the Directors, the Group has no ultimate controlling party.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 22 RELATED PARTY TRANSACTIONS AND MATERIAL CONTRACTS

Amedeo Management Limited ("**Amedeo**") has been appointed as the Group's Asset Manager.

During the period, the Group incurred £340,934 (30 September 2017: £331,147) of expenses with Amedeo, of which £305,480 related to asset management fees as shown in note 5, £33,942 (30 September 2017: £33,115) was liaison agent fees and £1,512 (30 September 2017: £nil) was reimbursed expenses. As at 30 September 2018, £16,971 (31 March 2018: £50,913) was prepaid to this related party.

Nimrod Capital LLP ("**Nimrod**") is the Company's Corporate and Shareholder Advisor.

During the period, the Group incurred £231,466 (30 September 2017: £220,762) of expenses with Nimrod, of which £5,184 (30 September 2017: £nil) was reimbursed expenses and £226,282 (30 September 2017: £220,762) related to corporate shareholder and advisor fees as shown in Note 5.

John Le Prevost is a director of Anson Registrars Limited ("**Anson**"), the Group's registrar, transfer agent and paying agent. During the period £7,494 (30 September 2017: £7,907) of costs were incurred by ARL, of which £897 (31 March 2018: £985) was outstanding as at 30 September 2018.

#### 23 CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

##### (a) IFRS 9 'Financial Instruments' – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 'Financial Instruments' from 1 April 2018 only resulted in changes in accounting policies. The new accounting policies are set out in Note 22 (b) below. No adjustments were deemed necessary to the amounts recognised in the financial statements and accordingly there was no impact on the retained earnings as at 1 April 2018

##### Classification Financial Assets and of Financial Liabilities

IFRS 9 contains three principal classification categories for financial assets and liabilities: measured at amortised cost, fair value through other comprehensive income ("**FVOCI**") and fair value through profit or loss ("**FVTPL**"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

Based on the Group's assessment, this standard does not have a material impact on the classification of financial assets and financial liabilities of the Group. This is because:

- financial instruments currently measured at amortised cost are accrued income, short-term investments, cash and cash equivalents, receivables, borrowings, deferred income and payables. These instruments meet the solely principal and interest criterion and are held in a held-to-collect business model. Accordingly, they will continue to be measured at amortised cost under IFRS 9.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the period from 1 April 2018 to 30 September 2018

#### 24 CHANGE IN ACCOUNTING POLICIES (continued)

##### (a) **IFRS 9 'Financial Instruments' – Impact of adoption (continued)**

###### *Impairment of Financial Assets*

IFRS 9 replaces the "incurred loss" model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group has chosen to apply the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Based on the Group's assessment, changes to the impairment model do not have a material impact on the financial assets of the Group. This is because:

- the accrued income and receivables at amortised cost are short-term (i. e. no longer than 12 months) and considered to be of high credit quality as the Group selected a lessee with a strong balance sheet and financial outlook which has no history of defaulting on any rental payments. Under the terms of the lease agreements between the lessee and the Group, any non-payment of the lease rentals constitutes a Special Termination Event, under which the lease terminates and the Group may either choose to sell the Asset or lease the Assets to another party. Accordingly, the identified impairment losses on such assets are expected to be small; and
- while cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is expected to be small as the instruments are held with regulated entities subject to prudential supervision, or with high credit ratings assigned by international credit rating agencies.

##### (b) **IFRS 15 'Revenue from Contracts with Customers' – Impact of adoption**

IFRS 15 deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts', related interpretations. The only contractual receipts which the Group currently has are rental income from Emirates leasing its Aircraft. Rental income is currently recognised in accordance with IAS 17 (which will be replaced by IFRS 16 which is specifically excluded from IFRS 15. The adoption of IFRS 15 'Revenue from Contracts with Customers' from 1 April 2018 does thus not materially impact the financial statements.

## DORIC NIMROD AIR THREE LIMITED (the "Company")

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period from 1 April 2018 to 30 September 2018

#### 23 CHANGE IN ACCOUNTING POLICIES (continued)

##### (c) IFRS 9 'Financial Instruments' – Accounting policies applied from 1 January 2018

###### Investments and other financial assets

###### (i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

###### (ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

###### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains / (losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued) For the period from 1 April 2018 to 30 September 2018**

#### **23 CHANGE IN ACCOUNTING POLICIES (continued)**

##### **IFRS 9 'Financial Instruments' – Accounting policies applied from 1 January 2018 (c) (continued)**

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains / (losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVTPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains / (losses) in the period in which it arises.

##### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

##### **(iii) Impairment**

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

#### **25 SUBSEQUENT EVENTS**

On 10 October 2018, a dividend of 2.0625 pence per Ordinary Share was declared and this was paid on 26 October 2018.

On 22 October 2018, the Company terminated its agreement with RLAM regarding the cash deposits held with them.

## **DORIC NIMROD AIR THREE LIMITED (the "Company")**

### **ADVISORS AND CONTACT INFORMATION**

#### **KEY INFORMATION**

Exchange: Specialist Fund Segment of the London Stock Exchange's Main Market

Ticker: DNA3

Listing Date: 2 July 2013

Fiscal Year End: 31 March

Base Currency: GBP

ISIN: GG00B92LHN58

SEDOL: B92LHN5

Country of Incorporation: Guernsey

Registration number: 54908

#### **MANAGEMENT AND ADMINISTRATION**

##### **Registered Office**

Doric Nimrod Air Three Limited  
Ground Floor  
Dorey Court  
Admiral Park  
St Peter Port  
Guernsey, GY1 2HT

##### **Company Secretary and Administrator**

JTC Fund Solutions (Guernsey) Limited  
Ground Floor  
Dorey Court  
Admiral Park  
St Peter Port  
Guernsey, GY1 2HT

##### **Asset Manager**

Amedeo Management Limited  
The Oval  
Shelbourne Road  
Ballsbridge  
Dublin 4  
Ireland

##### **Liaison Agent**

Amedeo Services (UK) Limited  
29-30 Cornhill  
London  
England  
EC3V 3NF

##### **Corporate and Shareholder Advisor**

Nimrod Capital LLP  
3 St Helen's Place  
London  
EC3A 6AB

##### **Registrar**

Anson Registrars Limited  
PO Box 426, Anson House  
Havilland Street  
St Peter Port  
Guernsey, GY1 3WX

##### **Lease and Debt Arranger**

Amedeo Management Limited  
The Oval  
Shelbourne Road  
Ballsbridge  
Dublin 4, Ireland

##### **Advocates to the Company (as to Guernsey Law)**

Carey Olsen  
Carey House  
Les Banques  
St Peter Port  
Guernsey, GY1 4BZ

##### **Auditor**

Deloitte LLP  
Regency Court  
Gategny Esplanade, St Peter Port  
Guernsey, GY1 3HW

##### **Solicitors to the Company (as to English Law)**

Herbert Smith Freehills LLP  
Exchange House  
Primrose Street  
London, EC2A 2HS