DORIC NIMROD AIR TWO LIMITED

LSE: DNA2

The Company

Doric Nimrod Air Two Limited ("the Company") is a Guernsey domiciled company, which was listed on the Specialist Fund Segment (SFS) of the London Stock Exchange's Main Market on 14 July 2011 with the admission of 72.5 million Ordinary Shares at an issue price of 200p per share. On 27 March 2012, the Company issued 100,250,000 C Shares at 200p per share. With effect from 6 March 2013 C Shares were converted into Ordinary Shares. One Ordinary Share has been received for every one C Share, resulting in 172,750,000 Ordinary Shares in total. The market capitalisation of the Company was GBP 379.2 million as of 30 September 2016.

The Company has four wholly-owned subsidiaries: MSN077 Limited, MSN090 Limited, MSN105 Limited and Doric Nimrod Air Finance Alpha Limited ("DNAFA").

The Company acquired a total of seven Airbus A380-861 aircraft between October 2011 and November 2012. Each aircraft is 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 from the point of delivery, with fixed lease rentals for the duration. In order to complete the purchase of the first three aircraft, MSN077 Limited, MSN090 Limited and MSN105 Limited entered into three separate loans, each of which will be fully amortised with quarterly repayments in arrear over 12 years.

The net proceeds from the C Share issue ("the Equity") were used to partially fund the purchase of four of the seven Airbus A380s. In order to help fund the acquisition of these final four aircraft, DNAFA issued two tranches of enhanced equipment trust certificates ("the Certificates" or "EETC") - a form of debt security - in June 2012 in the aggregate face amount of USD 587.5 million. DNAFA used the proceeds from both the Equity and the Certificates to finance the acquisition of four new Airbus A380 aircraft leased to Emirates.

Investment Strategy

The Company's investment objective is to obtain income returns and a capital return for its shareholders by acquiring, leasing and then selling a portfolio of aircraft. The Company receives income from the leases and its directors are targeting a gross distribution to the shareholders of 4.5 pence per share per quarter (amounting to a yearly distribution of 9.0% based on the initial placing price of 200p per share). It is anticipated that income distributions will continue to be made quarterly.

The total return for a shareholder investing today (30 September 2016) at the current share price consists of future income distributions during the remaining lease duration and a return of capital at dissolution of the Company. The latter payment is subject to the future value and the respective sales proceeds of the aircraft, quoted in US dollars and the USD/GBP exchange rate at that point in time. Since launch three independent appraisers provide the Company with their future values for the aircraft at the end of each financial year. The latest appraisals available are dated the end of March 2016. The table below summarizes the total return components, calculated on different exchange rates and using the average value of the aircraft as provided by the three independent external appraisers. Regarding the following two tables, there is no guarantee that the aircraft will be sold at such a sale price or that such capital returns would be generated. It is further assumed that the lessee will honour all its contractual obligations during the entire anticipated lease term.

The contracted lease rentals are calculated to satisfy interest and principal in US dollars and distributions and Company running costs in sterling. The Company is therefore insulated from foreign currency market volatility during the term of the leases.

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

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

Aircraft portfolio value at lease expiry according to

- Prospectus appraisal USD 863 million
- Latest appraisal[2] USD 823 million

Per Share	Income Distributions	Return of Capital		Total Return[3]	
		Prospectus Appraisal	Latest Appraisal[4]	Prospectus Appraisal	Latest Appraisal[4]
Prospectus FX Rate[5]	144p	322p	312p	467p	456p
Current FX Rate[6]	144p	382p	369p	526p	513p

[1]See final sentences in the second paragraph of Investment Strategy [2]Date of valuation: 31 March 2016 [3]Excluding earned dividend [4]Average of the three appraisals as at the Company's year-end in the respective expiry year of the respective lease [5]1.56 USD/GBP Initial Admission / 1.53 USD/GBP C Shares Admission [6]1.2970 USD/GBP (30 September 2016)

II. Company Facts (30 September 2016)	
Listing	LSE
Ticker	DNA2
Current Share Price	219.5p (closing)
Market Capitalisation	GBP 379.2 million
Initial Debt	USD 1.03 billion
Outstanding Debt Balance	USD 665.3 million (64% of Initial Debt)
Current/Future Anticipated Dividend	4.5p per quarter (18p per annum)
Earned Dividends	80p
Current Dividend Yield	8.20%
Dividend Payment Dates	April, July, October, January
Expected Future Total Cash Multiple[1]	2.34 (based on the Current Share Price)
Total Expense Ratio	1.1% (based on Average Net Assets)
Currency	GBP
Launch Date/Price	14 July 2011 / 200p
Average Remaining Lease Duration	7 years 10 months
C Share Issue Date/Price	27 March 2012 / 200p
C Share Conversion Date/Ratio	6 March 2013 / 1:1
Incorporation	Guernsey
Aircraft Registration Numbers (Lease Expiry Dates)	A6-EDP (14.10.2023), A6-EDT (02.12.2023), A6-EDX (01.10.2024), A6-EDY (01.10.2024), A6-EDZ (12.10.2024), A6-EEB (09.11.2024), A6-EEC (30.11.2024)
Asset Manager	Doric GmbH
Corp & Shareholder Advisor	Nimrod Capital LLP
Administrator	JTC (Guernsey) Ltd
Auditor	Deloitte LLP
Market Makers	Jefferies International Ltd, Numis Securities Ltd, Shore Capital Ltd, Winterflood Securities Ltd
SEDOL, ISIN	B3Z6252, GG00B3Z62522
Year End	31 March
Stocks & Shares ISA	Eligible
Website	www.dnairtwo.com

[1]See final sentences in the second paragraph of Investment Strategy

Asset Manager's Comment

1. The Assets

In November 2012, the Company completed the purchase of all seven Airbus A380 aircraft bearing manufacturer's serial numbers (MSN) 077, 090, 105, 106, 107, 109 and 110. All seven aircraft are leased to Emirates for an initial term of 12 years from the point of delivery with fixed lease rentals for the duration.

The seven A380s owned by the Company recently visited Amsterdam, Auckland, Barcelona, Beijing, Frankfurt, Hong Kong, Jeddah, London Gatwick, Manchester, Melbourne, Milan, New York JFK, Paris, Perth, Prague, Rome, Seoul, Singapore, Sydney, and Taipei.

Aircraft utilisation for the period from delivery of each Airbus A380 until the end of August 2016 was as follows:

Aircraft Utilization

MSN	Delivery Date	Flight Hours	Flight Cycles	Average Flight Duration
077	14/10/2011	22,975	2,694	8 h 30 min
090	02/12/2011	20,262	3,381	6 h
105	01/10/2012	17,113	2,789	6 h 10 min
106	01/10/2012	18,783	2,146	8 h 45 min
107	12/10/2012	18,544	2,130	8 h 40 min
109	09/11/2012	16,122	2,622	6 h 10 min
110	30/11/2012	16,720	2,813	5 h 55 min

Maintenance Status

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

Inspections

Doric, the asset manager, performed inspections of MSNs 077, 106 and 109 at Dubai International Airport. The physical condition of the aircraft were in compliance with the provisions of the respective lease agreement.

In September 2016 Doric also undertook records audits for MSNs 105, 106 and 107. The lessee was again very helpful in the responses given to the asset manager's technical staff and the technical documentation was found to be in good order.

2. Market Overview

During the first seven months of 2016 passenger demand, measured in revenue passenger kilometres (RPKs), increased by 6.0% compared to the same period the year before. Adjusted for the extra day, as 2016 is a leap year, traffic grew by 5.5%. "Passenger demand has broadly grown in line with the average of the past 10 years but the industry faces some potential headwinds, including lingering impacts from the series of terrorist attacks and the fragile economic backdrop", said Alexandre de Juniac, IATA's (International Air Transport Association) Director General and CEO. But entering the peak travel months, July and August, RPK growth accelerated in July with the fastest pace in five months and, according to IATA, passenger traffic is set for another year of solid growth. In its latest forecast released in June, it expects an RPK growth of 6.2% in 2016.

At 79.9% passenger load factors have remained close to the historic high – in a narrow band around 80% since February – as airlines have slowed capacity growth in line with the moderation in demand growth. IATA estimates an average worldwide passenger load factor of 80.0% for the full year 2016.

A regional breakdown reveals that Middle East airlines, including Emirates, continued to outperform the overall market again this year. Between January and July RPKs increased by 10.9% compared to the previous period. Asia/Pacific-based operators ranked second with 8.7%, followed by Africa with 7.7%. Europe grew by 3.7%. Latin American and North American market participants each recorded 3.6% more RPKs.

Fuel is the single largest operating cost of airlines and has significant effects on the industry's profitability. According to its latest report released in June, IATA expects an average fuel price of USD 55.6 per barrel in 2016. This would be 17% lower compared to the previous year. It could drive the average share of fuel costs in operating expenses down to less than 20% for the first time since 2004. The industry-wide net profit could be further boosted to an estimated USD 39.4 billion. The net profit margin of 5.6% would be the highest for more than a decade. In 2015 the revised industry net profit reached USD 35.3 billion, compared to a revised net profit of USD 13.7 billion the year before. The profit development during this year will heavily depend on the oil price level. IATA has based its calculations on an average crude oil price of USD 45 per barrel. This includes a rising profile during the course of the year to just above USD 50 per barrel by the end of 2016.

3. Lessee – Emirates Key Financials

In the financial year 2015/16 ending on 31 March 2016 Emirates made its highest profit ever with USD 1.9 billion – an increase of 56% compared to the previous period. The profit margin of 8.4% is the greatest since 2010/11. At the same time, the 28th consecutive year of profit provided a number of global and operational challenges to the company. The rise of the US dollar against currencies in most of Emirates' key markets only had a USD 1.1 billion impact on the airline's bottom line. As a result of this and fare adjustments following the reduction in fuel prices there was a 4% drop in revenue to USD 23.2 billion. During the financial year, the airline had to deal with weak consumer confidence in a slow global economic environment, terror threats and geopolitical instability in many regions it serves. Nevertheless, the company was able to maintain its strategy of a diversified revenue base which limited the carrier's exposure to single geographical regions.

The airline's operating costs were significantly influenced by the drop in oil prices with a 39% lower average fuel price compared to the previous period. As Emirates remained largely unhedged on jet fuel prices, this significantly paid off. Fuel costs remained the largest component in operating costs, but significantly decreased by 9 percentage points to 26%. Total operating costs decreased by 8% over the 2014/15 financial year.

As of 31 March 2016, the balance sheet total amounted to USD 32.5 billion, an increase of 7% compared to the beginning of the financial year. Total equity increased by 14.6% to USD 8.8 billion with an equity ratio of 27.2%. The current ratio stood at 0.82, meaning the airline would be able to meet about four-fifths of its current liabilities by liquidating all its current assets. Significant items on the liabilities side of the balance sheet included current and non-current borrowings and lease liabilities in the amount of USD 13.7 billion. As of 31 March 2016, the carrier's cash balance was USD 5.4 billion, up by USD 846 million compared to the beginning of the financial year.

New destinations, larger aircraft deployment and increased frequencies to existing destinations boosted the transport capacities for passengers (measured in ASKs) by 12.8% compared to the previous financial year. Passenger demand (in RPKs) grew by 8.4%, resulting in a passenger load factor of 76.5%. The economy class seat factor stood at 79.2%. About 32% of the 51.9 million passengers carried in the 2015/16 financial year travelled aboard an A380. Premium and overall seat factors for Emirates' flagship aircraft outperformed the network.

During the financial year 2015/16 Emirates added eight new passenger destinations to its network and added services and capacity to another 34 cities on its existing route network across Africa, Asia, Europe, the Middle East and North America. The increasing number of A380 aircraft joining the fleet allowed the airline to introduce superjumbo services to a further four destinations during the course of the 2015 calendar year. At the same time A380 services to nine existing routes were increased. This means one out of every four destinations on the carrier's passenger network is served by an A380.

During the first six months of 2016 Emirates' aircraft travelled 432 million kilometres on over 96,000 flights.

In July Emirates was named the "World's Best Airline 2016" at the Skytrax World Airline Awards. The ranking is based on the largest airline passenger satisfaction survey in the industry, with a total of 19.2 million completed surveys covering 280 airlines. After 2001, 2002 and 2013 this is the fourth time the top accolade was awarded to Emirates in the 15-year history of this contest. Furthermore, the airline received the "World's Best Inflight Entertainment" award for a record 12th consecutive year, and the "Best Airline in the Middle East" award.

Source: Ascend, Emirates

4. Aircraft — A380

By mid-September 2016 Emirates operated a fleet of 83 A380s which currently serve 41 destinations from its Dubai hub: Amsterdam, Auckland, Bangkok, Barcelona, Beijing, Birmingham, Brisbane, Copenhagen, Dallas, Dusseldorf, Frankfurt, Hong Kong, Houston, Jeddah, Kuala Lumpur, Kuwait, London Gatwick, London Heathrow, Los Angeles, Madrid, Manchester, Mauritius, Melbourne, Milan, Mumbai, Munich, New York JFK, Paris, Perth, Prague, Rome, San Francisco, Seoul, Shanghai, Singapore, Sydney, Taipei, Toronto, Vienna, Washington, and Zurich. During the summer Emirates announced a number of expansions to its A380 operations. This includes a second daily A380 services to Los Angeles (since July 1) and Milan (from October 1) and a third daily A380 services to Munich (since June 20) and Manchester (from January 1, 2017). Furthermore, Guangzhou (China) is scheduled to become an A380 destination on October 1, 2016. Johannesburg (South Africa) will complement Emirates' global list of A380 destinations from February 1, 2017. Already this year the operator will deploy the A380 on its non-stop service between Dubai and Auckland (New Zealand), which was introduced only a few months ago, currently flown by a Boeing 777-200LR and which is reported to be the longest sector served by a commercial carrier. Also from October 30, 2016 another New Zealand city, Christchurch, will be served by an A380, eliminating the current en-route stop in Bangkok.

By mid-September 2016 the global A380 fleet consisted of 195 commercially operated planes in service. The thirteen operators are Emirates (83), Singapore Airlines (19), Deutsche Lufthansa (14), Qantas (12), British Airways (12), Air France (10), Korean Airways (10), Etihad Airways (8) Malaysia Airlines (6), Qatar Airways (6), Thai Airways (6), China Southern Airlines (5), and Asiana (4). The number of undelivered A380 orders stood at 126.

In July 2016 A380 manufacturer Airbus revealed plans to cut A380 production to one aircraft per month from 2018 onwards. According to Airbus CEO, Fabrice Brégier, the company remains committed to the superjumbo and will continue to invest in the jet. "The A380 is here to stay", Brégier was quoted in the press. The adjusted production rate allows Airbus to keep "all [its] options open" for the emergence of future A380 demand.

In August 2016 Australian flag carrier Qantas disclosed that the airline is unlikely to take delivery of the final eight A380s it has on order with Airbus. The airline's CEO Alan Joyce is very happy with the current network accommodating 12 A380s but is struggling to find routes for another eight aircraft. Deliveries have been repeatedly deferred in recent years as a cost-saving measure.

In September 2016 Singapore Airlines (SIA) announced that they had decided not to renew the lease on their first Airbus A380 delivered in 2007. The initial lease term expires in October 2017. No decisions have been made so far on a further four A380 aircraft which were delivered to SIA on similar operating lease terms in 2008. This statement comes only days after Malaysia Airlines' (MAS) reaffirmation to market its six A380s in the near future, as its new focus is more on Asian flights requiring lower capacity aircraft, like the 25 Boeing 737 MAX ordered back in July this year. CEO Peter Bellew said MAS is in talks with carriers in China and other Association of Southeast Asia Nations countries who might be interested in leasing or buying superjumbos. In his view there are a number of airlines in the region "keen to dip their toe in the water". Already in June last year MAS announced plans to remove a number of aircraft from its fleet, including two of its six A380 aircraft, as part of its restructuring plans.

Source: aero.de, Airbus, Ascend, Bloomberg, CAPA, Emirates

Contact Details

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

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