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, the 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 355.9 million as of 30 June 2018.

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

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 targets 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 June 2018) 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 have provided 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 2018. The table No I below summarises the total return components, calculated on different exchange rates and using the appraised value of the aircraft, which is the average of valuations provided by three independent external appraisers and quoted in US dollars. This residual value at lease expiry takes inflation into account and is the most reliable estimate available in the Company's Asset Manager's opinion. Due to accounting standards, the values used in the Company's financial reports differ from this disclosure as they exclude the effects of inflation and are converted to sterling at the prevailing exchange rate on the reporting date (e.g. 31 March 2018).

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

With reference to the following two tables, there is no guarantee that the aircraft will be sold at such a sale price or that such capital returns would be generated. It is also assumed that the lessee will honour all its contractual obligations during the entire anticipated lease term:

I. Implied Future Total Return Components Based on Appraisals

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[1] USD 780.4 million

Per Share (rounded)	Income Distributions	Return of Capital		Total Return[2]	
		Prospectus Appraisal	Latest Appraisal[3]	Prospectus Appraisal	Latest Appraisal[3]
Prospectus FX Rate[4]	113p	322p	296p	435p	409p
Current FX Rate[5]	113p	375p	344p	488p	457p

[1]Date of valuation: 31 March 2018 [2]Includes future dividends [3]Average of the three appraisals as at the end of the Company's respective fiscal years in which each of the leases reached the end of their respective 12-year terms [4]1.56 USD/GBP Initial Admission / 1.53 USD/GBP C Shares Admission [5]1.3207 USD/GBP (30 June 2018)

II. Company Facts (30 June 2018)

Listing	LSE
Ticker	DNA2
Current Share Price	206.0p (closing)
Market Capitalisation	GBP 355.9 million
Initial Debt	USD 1.03 billion
Outstanding Debt Balance	USD 472 million (46% of Initial Debt)
Current/ Future Anticipated Dividend	4.5p per quarter (18p per annum)
Earned Dividends	111.5p
Current Dividend Yield	8.74%

II. Company Facts (continued)	
Dividend Payment Dates	April, July, October, January
Cost Base Ratio[1]	1.0% (based on Average Share Capital)
Currency	GBP
Launch Date/Price	14 July 2011 / 200p
Average Remaining Lease Duration	6 years 1 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 Fund Solutions (Guernsey) Ltd
Auditor	Deloitte LLP
Market Makers	Canaccord Genuity Ltd, finnCap Ltd, 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]Calculated as Operating Costs / Average Share Capital as per the latest published Annual Financial Report.

Asset Manager's Comment

1. The Assets

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 value 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.

The seven Airbus A380 aircraft bearing manufacturer's serial numbers (MSN) 077, 090, 105, 106, 107, 109 and 110.

The seven A380s owned by the Company recently visited Amsterdam, Bangkok, Barcelona, Beijing, Christchurch, Hong Kong, Johannesburg, Kuala Lumpur, London Heathrow, Manchester, Melbourne, Moscow, Munich, New York JFK, Paris, Rome, Seoul, Singapore, Sydney, Vienna, and Zurich.

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

Aircraft Utilization

MSN	Delivery Date	Flight Hours	Flight Cycles	Average Flight Duration
077	14/10/2011	30,598	3,620	8 h 25 min
090	02/12/2011	27,396	4,490	6 h 5 min
105	01/10/2012	25,122	4,023	6 h 15 min
106	01/10/2012	27,203	3,170	8 h 35 min
107	12/10/2012	27,180	3,182	8 h 30 min
109	09/11/2012	24,199	3,845	6 h 20 min
110	30/11/2012	24,465	4,001	6 h 5 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 month 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).

2. Market Overview

According to the International Air Transport Association (IATA), falling travel costs have contributed materially to growth in passenger traffic, measured in global revenue passenger kilometres (RPKs), over the past several years. IATA forecast RPK growth to remain robust in 2018 as stronger economic growth partly offsets the drag from the rise in oil prices. However, IATA still expects to see RPK growth slowing slightly during this calendar year relative to that of last year. Reduced stimulus from lower airfares and a moderate slowdown in economic growth ahead of the summer passenger peak were mentioned as contributing factors. Nevertheless, RPKs were up 7.0% between January and April 2018 compared to the same period in 2017, continuing the above-trend RPK growth.

During the first four months of this year industry-wide capacity, measured in available seat kilometres (ASK), increased by 6.0%. This pushed worldwide passenger load factors (PLFs) higher by 0.8 percentage points to 81.3% compared to the same period last year. During this period, passenger load factors of Middle East based carriers increased similarly by 0.7 percentage points to 76.2%. For the year 2018, IATA estimates an average worldwide PLF of 81.7%.

Seasonally adjusted RPK growth has strengthened in the Middle East since the beginning of the year. Growth on key routes to/from Asia and Europe as well the continued recovery on the market segment to/from North America contributed to this development. RPKs flown by Middle Eastern airlines have increased by 4.9% between January and April 2018 against the same period last year. Given the disruption caused by the since lifted travel bans to the US and the temporary ban on personal electronic devices back in 2017, IATA believes the annual comparison for traffic growth is likely to become more favourable in the coming months.

Asia/Pacific-based operators continued to outperform the overall market demand through the beginning of this year. Between January and April, RPKs increased by 9.5% compared to previous period. Latin America ranked second with 7.0% followed by Europe with 6.6%. North America matched the Middle East at 4.9%. Africa saw an increase of 2.9%.

Fuel remains the single largest operating cost item of airlines and has a significant impact on the industry's profitability. Jet fuel prices have risen with oil prices, and IATA forecasts an average price of USD 70 per barrel for jet fuel for this year, according to its latest report released in June. This would be 25.9% higher than the previous year. Fuel costs are expected to represent 24.2% of average operating costs, a 2.8 percentage point increase over 2017. IATA projects an industry-wide net profit of USD 33.8 billion for 2018, the fourth highest level of profitability on record.

3. Lessee – Emirates Key Financials

In the 2017/18 financial year ending on 31 March 2018, Emirates recorded its 30th consecutive year of profit with a net result of AED 2.8 billion (USD 762 million), an improvement of 124% compared to the previous financial year, leading to a profit margin of 3.0%. 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 (USD 25.2 billion). This was aided by the decline of the US dollar against currencies in most of Emirates' key markets, which had an AED 661 million (USD 180 million) 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% increase over last financial year) and achieved a passenger load factor of 77.5% compared to last year's 75.1%. 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% increase in seat capacity.

Total operating costs increased by 7% over the previous financial year, largely due to the 15% increase in the average price of jet fuel during the financial year. Including a 3% uplift in line with capacity expansion, the airline's fuel bill increased by 18% to AED 24.7 billion (USD 6.7 billion) compared to the previous financial year. Fuel now accounts for 28% of operating costs, compared to 25% 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 (US$ 34.8 billion), an increase of 5% compared to the previous financial year. Total equity increased by 5.6% to AED 37.0 billion (USD 10.1 billion) due to higher profit which was partially offset by dividend payments to the owners amounting to AED 1.0 billion (USD 272 million). The equity ratio remained stable at nearly 29%. The airline's cash balance amounted to AED 20.4 billion (US$ 5.6 billion) at the end of the period, up by AED 4.7 billion (USD 1.3 billion) compared to the previous financial year. Proceeds from the Sukuk financing of AED 2.2 billion (USD 600 million) 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% 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 6 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 (USD 1 billion) 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 (USD 1.0 billion) 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 (US$ 4.9 billion) using a variety of financing structures, including the USD 600 million Sukuk in March.

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."

Source: ch-aviation, CNN, Emirates, FlightGlobal

4. Aircraft — A380

As of the end of June 2018, Emirates operated a fleet of 103 A380s, which currently serve 46 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, 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, Toronto, Vienna, Washington, and Zurich. Emirates also plans to add two new destinations to its A380 network in 2018: Hamburg and Osaka. Both services are scheduled to begin in October.

As of the end of June 2018, the global A380 fleet consisted of 222 commercially operated planes in service. The thirteen operators are Emirates (103), Singapore Airlines (18), 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), and China Southern Airlines (5). Another five were temporarily placed into storage: three for lease return preparations and two were returned to their lessor. The number of undelivered A380 orders stood at 104.

Following the redelivery of its second A380 to come off lease from Singapore Airlines (SIA), 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 USD 80m per aircraft. However, Dr Peters Group has not ruled out the secondary market for future A380s. It has an additional two A380s on lease to Singapore and five with Air France. It will consider its options for these aircraft as they return from lease.

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 May 2018 Hi Fly, according to its own statement the largest widebody aircraft wet lease specialist, announced it is to become the 14th A380 operator. The ex-SIA second hand A380 is expected to join Hi Fly's fleet in mid-2018.

Source: Emirates, FlightGlobal, Hi Fly

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