



PE 009/2559

25 February 2016

President
The Stock Exchange of Thailand
62 Ratchadaphisek Road,
Bangkok 10110
Thailand

Subject: Management Discussion and Analysis for year 2015

Dear Sir/Madam,

According to financial performance report of Nok Airlines Public Company Limited (the Company) at the end of 31 December 2015, the Company and its subsidiaries reported that net loss was 1,662.29 million Baht. Net Loss is consisted of loss from owner of parent and Non-Controlling interest in amount of 723.90 million Baht and 938.39 million Baht. As a consequence, the Company would like to clarify the causes of change in overall operational results as following:

Executive summary

For year 2015, the Company and its subsidiaries generated total revenue of 14,296.20 million Baht and reported net loss of 1,662.29 million Baht which can be categorized to loss of 723.90 million Baht from the Company and the rest is from Non-controlling interest in amount of 938.39 million Baht. Operating loss of the firm caused by fierce competition among airlines, a significant shortage of pilots which cut the Company's flight frequencies. Moreover, the Company had an extra expense for engine shop visit (a maintenance program for engine) which is one-time expense and loss recognition from NokScoot Airlines in the proportion of shareholding.

The Company's revenue in year 2015 was 13,386.72 million Baht, 10.11 percent increase from the same period last year. The increase in revenues were mainly due to the fleet expansion and more flight frequencies added as a result of 15.70 percent increase in Available Seat Kilometers (ASK), Revenue Passenger Seat-Kilometers (RPK) grew by 19.52 percent and number of passenger carried hike by 14.96 percent from the same period last year. However, from an extended intense pricing competition, Revenue per Available Seat-Kilometers (RASK) decreased to 2.11 Baht/Seat/Kilometer, 6.64 percent shrank. Cost per Available Seat-Kilometers (CASK) improved to 2.24 Baht/Seat/Kilometer, 5.08 percent reduce. For year 2015, the Company recorded net loss of 421.74 million Baht, comparing to net loss of 398.90 million Baht of same period last year.

Key factors and events affect company's performance

During the period, domestic low-cost carrier faced challenges from over supply and sluggish economic growth. Office of National Economic and Social Development (NESDB) has revised Thailand's GDP Growth in 2015 down to 2.90 percent. However, the number of foreign tourists has continuously increased. According to information from Ministry of Tourism and Sport, foreign tourist visiting to Thailand in year 2015 grew by 20.44 percent



from same period last year. Number of Chinese tourist 7.93 million, ranking number 1, increased 71.14 percent approximately comparing to year 2014. However, most of Chinese tourist group travel by Chinese airline either schedule flight or charter flight via travel agent.

Number of air travel passengers in Thailand

	2014	2015	Change	
			PAX million	Percentage
Overall passengers	24.53	30.26	5.73	23.35%
Nok Air passengers	7.15	7.95	0.80	11.14%
Nok Air Market share	29.15%	26.26%	(2.89) pts.	-

Source: The Civil Aviation Authority of Thailand

Based on above statistic, overall air travel passengers grew significantly. Number of passengers in year 2015 rose 23.35 percent. Though, the Company's passenger growth at 11.14 percent is lower than the market's growth because of new-comer airlines as well as capacity expansion of existing airlines. As a result, the domestic air travel market was oversupplied which brought the Company's market share down 2.89 percentage point.

USDTHB exchange rate and jet fuel price are key factors of operating costs and expenses, in year 2015 USDTHB was 34.25 in average, weakened by 5.44 percent from 32.48 comparing to same period last year and in line with neighboring countries as a result of the capital outflow following the anticipated increase of the US policy interest rate in December 2015 and a concern of economic slowdown in China. The Company's USD exposure costs accounted for around 70.10 percent of total operating costs. Expenses in USD is mainly comprised of fuel cost, aircraft maintenance, aircraft lease rental and aircraft insurance.

Average 2015 jet fuel price was 64.23 USD a barrel, decreased by 43.31 percent from the same period last year. Cost of jet fuel in year 2015 accounted 24.42 percent of total operating costs, decreased 34.98 percent from the same period last year.

Although the Company was able to maintain its 2015 cabin factor at a very high rate of 84.03 percent, but the intense pricing competition brought RASK down to 2.11 Baht/Seat/Kilometer or 6.64 percent comparing to the same period last year. CASK improved 5.08 percent to 2.24 Baht/Seat/Kilometer. For year 2015, the Company recorded a net loss of 421.74 million Baht comparing to net loss of 398.90 million Baht for year 2014 or 5.73 percent decrease.

Operating performance of NokScoot Airlines Co., Ltd.

For year 2015 performance of NokScoot Airlines Co., Ltd, total revenue was 952.93 million Baht, total cost and expenses were 2,176.26 million Baht, and net loss was 1,223.32 million Baht. NokScoot's plan to fly to North Asia was considerably impacted by the assessment result of Department of Civil Aviation Thailand (Thai DCA) announced by International Civil Aviation Organization (ICAO) in March 2015.

Nonetheless, NokScoot changed its plan heading to China where is not affected by ICAO audit issue of Thai DCA, for instance, Don Mueang-Nanjing v.v. 6 weekly roundtrips, Don Mueang-Taipei v.v. 4 weekly roundtrips, Don Mueang-Qingdao v.v. 4 weekly roundtrips and Don Mueang- Tianjin v.v. 4 weekly roundtrips. Besides, NokScoot ceased its



operation to Singapore (Don Mueang-Singapore v.v.) in August 2015. Also, NokScoot scrutinized all possible cost and expense savings in order to survive in such tough situation i.e. renegotiating with the lessor and its Maintenance, Repair, and Overhaul (MRO) providers for temporary discount on aircraft lease rental and MRO service fees.

For year 2016, NokScoot aim to expand more regional routes in term of both scheduled flights and charter flights. Currently, NokScoot operates 3 Boeing 777-200 and will not expand its fleet until ICAO audit issue of Thai DCA and CAAT resolved.

Key milestones in year 2015

1. Fleet Acquisition

- a. Nok Air acquired 2 Boeing 737-800 NG in August 2015 and November 2015.
- b. Nok Air acquired 2 Q400 NextGen in September 2015.
- c. As of the end of December 2015, Nok Air has 28 aircrafts; 20 Boeing 737-800 NG with average age at 7.8 years, 2 ATR 72-500 with average age at 8.6 years and 6 Q400 NextGen with average age at 0.9 year. All aircrafts are under operating lease.

2. New Route Expansion and Flight Frequency Increase

In year 2015, the Company launched 2 new international routes and increase flight frequency of 1 existing international route as the followings;

New Route Expansion:

o To China

- Don Mueang – Hefei v.v. with 4 weekly roundtrips between February and October.
- Don Mueang – Nanning v.v. with 3 weekly roundtrips from March 2015.
- Krabi – Chengdu – Phuket v.v. with 7 weekly roundtrips between July and October.
- Phuket – Chengdu v.v. with 7 weekly roundtrips from October 2015.
- Don Mueang – Yinchuan v.v. with 2 weekly roundtrips from July 2015.

o To Vietnam

- Don Mueang – Ho Chi Minh v.v. with 14 weekly roundtrips, commencing from 1st October 2015.
- Don Mueang – Hanoi v.v. with 7 weekly roundtrips, commencing from 1 December 2015.

Flight frequency Increase:

- o Don Mueang – Yangon v.v. increased from 2 flights daily to 3 flights daily, commencing from 2 September 2015.



3. New Services

- In May 2015, the Company presented “Nok Sky Café” service, a new onboard experience for passengers with premium cups of Nespresso. Nok Sky Café is exclusively served during Q400 flights to Nan, Loei, Lampang, Phrae, Buri Ram, Ranong and Roi Et. Price starts from 85 Baht per cup.
- In May 2015, the Company introduced “Nok Premium Seat” service that make passengers feel more convenience or more legroom. The prices are following:
 - Seat 31A 31B 31C and seats in the rows 32 – 35 in Boeing 737-800 at 240 Baht (VAT included) per seat per flight per passenger.
 - Seat 31H 31J 31K and seats in the rows 44 – 45 in Boeing 737-800 at 300 Baht (VAT included) per seat per flight per passenger.
- The Company had continuously launched new marketing campaigns and sales promotion to build brand awareness to all customer segmentations. For example, Nok Air introduced sales promotion campaign to Thai government officers with extra privileges offered such as free extra baggage allowance of 30 kilograms and 20 kilograms for sport equipment, free Nok Premium Seat, free changing of travel itinerary 24 hours before departure, free subscription fee for Nok Fan Club, etc.
- In June 2015, the Company installed Wi-Fi on Nok Thong Chompoo, one of a Boeing 737-800 NG in the fleet. At the present, free wi-fi onboard is available in 3 aircrafts.
- In 2015, the Company introduced 4 additional destinations under Fly’n’Ride service as the following;
 - Don Mueang – Phitsanulok – Uttaradit v.v., commencing from January 2015.
 - Don Mueang – Khon Kaen – Maha Sarakham v.v., commencing from March 2015.
 - Don Mueang – Sakon Nakhon – Sawang Daen Din v.v., commencing from May 2015.
 - Don Mueang - Nakhon Si Thammarat - Thong Song v.v., commencing from November 2015.

In addition to Fly’n’Ride service, the Company also introduced ‘Airport-to-Town’ and ‘On-Island Transfer’ service in the following routes;

Airport-to-Town transfer service

- Chumphon Airport-to-Town v.v., commencing from March 2015.
- Buri Ram Airport-to-Town v.v., commencing from May 2015.
- Nakhon Si Thammarat Airport-to-Town v.v., commencing from June 2015.
- Ranong Airport-to-Town v.v., commencing from October 2015.

On-Island transfer service

- Koh Samui (Nar Ton Pier)-to-Chaweng beach or Lami beach or the place of stay v.v., commencing from March 2015.

4. Change in service fees

- Nok Air increased service fee charge for booking via Call Center from 139.10 Baht (VAT included) to 200 Baht (VAT included) with effective from 2 June 2015. Nok Smile Plus member receives fee exemption for the service.



- Nok Air increased service fee charge for excess baggage purchasing at check-in counter at the airport with effective from 7 October 2015. The prices are following:
 - For domestic flights, the fee was increased from 200 Baht per kilogram (VAT included) to 300 Baht per kilogram (VAT included).
 - For international flights, the fee was increased from 300 Baht per kilogram (VAT included) to 400 Baht per kilogram (VAT included).

Key statistics and business ratio (excluding subsidiaries)

	Unit	2014	2015	Change	
				Amount	Amount
Number of aircrafts (at the end of period)					
- Boeing 737-800 NG	-	18	20	2	11.11%
- ATR 72-500	-	2	2	-	-
- Q400 NextGen	-	4	6	2	50.00%
- Average no. of aircrafts	-	18.39	24.99	6.60	35.89%
Available Seat-Kilometers: ASK	Mil. seat-Km.	5,375	6,219	844	15.70%
Revenue Passenger Seat-Kilometers: RPK	Mil. seat-Km.	4,372	5,226	853	19.52%
Number of Sectors	-	56,553	64,176	7,623	13.48%
Cabin factor	-	81.35%	84.03%	2.68 pts.	-
Passenger carried	Million	7.62	8.76	1.14	14.89%
Passenger yield	Baht/Pax/Km.	2.57	2.30	(0.27)	(10.51%)
Revenue per Available Seat- Kilometer: RASK	Baht/Seat/Km.	2.26	2.11	(0.15)	(6.64%)
Cost per Available Seat-Kilometer: CASK	Baht/Seat/Km.	2.36	2.24	(0.12)	(5.08%)
Cost per Available Seat-Kilometer exclude fuel cost : CASK exc. fuel	Baht/Seat/Km.	1.54	1.70	0.16	10.70%

Unit: million Baht	2014		2015		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Passenger revenues	11,229.27	92.37%	12,032.79	89.89%	803.52	7.16%
Service revenues	719.15	5.92%	816.36	6.10%	97.20	13.52%
Other income	208.68	1.72%	537.57	4.02%	328.89	157.60%
Total revenue	12,157.10	100.00%	13,386.72	100.00%	1,229.61	10.11%



Revenue

In 2015, total revenue was 13,386.72 million Baht, increased 10.11 percent from the same period last year. It comprises of passenger revenues 12,032.79 million Baht, 89.89 percent of total revenue, Service revenues 816.36 million Baht, 6.10 percent of total revenue and other income of 537.57 million Baht, 4.02 percent of total revenue. Revenue per Available Seat-Kilometer (RASK) was 2.11 Baht/Seat/Km., declined 6.64 percent.

Passenger revenues grew in line with increased capacity and number of passengers:

In 2015, passenger revenues grew 7.16 percent from same period last year as a result of fleet and capacity expansion. Average number of airplane in 2015 is 24.99, increased 35.89 percent from 2014 and ASK of 6,219 million Seat-Km. in 2015 rose up 15.7 percent from 2014. Therefore, number of passengers in 2015 reached 8.76 million, 14.96 percent increased.

Passenger Yield and Revenue per ASK (RASK) declined from continuously marketing competition:

Passenger Yield was 2.30 Baht/Seat/Km. in 2015, decreased 2.54 percent, and RASK was 2.11 Baht/Seat/Km. in 2015, went down 6.64 percent from previous year. Each player in airline industry launch marketing campaign to stimulate air travelling and tourism of passenger. Furthermore, all airline companies expand their fleet. Although overall industry grew 23.35 percent from prior year, average airfare declined.

ASK and RPK continuously grew up from fleet expansion:

In 2015, RPK increased 19.52 percent from previous year while ASK went up 15.70 percent resulted of fleet expansion. Cabin factor was 84.03 percent in 2015, increased from 2014 and the company is able to maintain Cabin Factor above 80 percent for 6 quarters consecutively. However, the actual flight frequency was 13.60 percent less than planned in 4Q2015 due to an over expected of pilot turnover. A high growth rate of aviation industry in the region caused a turnover of pilot and shortage problem.

Service revenues increased in line with passenger growth, from increasing service fee and launching new services:

Service revenue is a kind of low-hanging fruit product. Passenger growth can drive service revenues tremendously. Outstanding growth of ticket reservation and payment fee, and so on. In addition, launching of Nok Premium Seat since May 2015 is another channel to increase Service revenues.

Other income significantly hike from gain from FX and profit from aircraft sale and lease back:

Other income is consisted of Interest received, coach and boat transfer service - namely Fly'n'Ride and Fly'n'Ferry, gain from THB/USD exchange rate, and profit from aircraft sale and lease back under operating lease agreement. Other revenue increased 157.60 percent comparing to same period last year resulting from acknowledgement of realized and unrealized gain from FX due to Thai Baht depreciation against US Dollar. Average THB/USD exchange rate in 2015 was 34.25, depreciated 5.44 percent from 32.48 in 2014 which is in line with other currencies in the region because of positive interest rate signal from FED. Moreover, the Company acknowledged special profit from selling 4 new aircrafts (Jet 2 aircrafts and Propeller



2 aircrafts) to lessors under Sale and Lease Back transaction. Special profit is considered one-off transaction on the date of aircraft delivery.

Expenses (separate financial statements)

Unit: million Baht	3Q2014		3Q2015		Change	
	Amount	Percent to total revenue	Amount	Percent to total revenue	Amount	Percent
Costs of passenger and services	11,796.68	93.86%	12,999.52	94.46%	1,202.84	10.20%
Selling expenses	272.50	2.17%	230.08	1.67%	(42.42)	(15.57%)
Administrative expenses	496.49	3.95%	533.35	3.86%	36.86	7.42%
Finance costs	2.27	0.02%	41.51	0.01%	39.24	1,728.63%
Total Expenses	12,567.94	100.00%	13,804.46	100.00%	1,236.52	9.84%

Expenses

Total expenses in 2015 were 13,804.46 million Baht or increased 9.84 percent from same period last year. The increase in total expenses mainly came from fixed costs as a result of fleet expansion. The unit cost (CASK) stood at 2.24 Baht/Seat/Km. or decreased 5.08 percent and unit cost excluding fuel cost (CASK exc. fuel) was 1.70 Baht/Seat/Km. or up 10.39 percent.

Variable costs slightly increase due to scheduled aircraft maintenance expenses: Total variable costs of 2015 increased 1.84 percent from same period last year to 9,123.89 million Baht caused by an increase in production. ASK increased 16.01 percent. However, the Company has benefited from declining of world crude oil price resulted in fuel cost decreased as mentioned above. In 3Q2015, Nok Air reduced some production level for aircraft maintenance, preparing the aircrafts to be ready for service in coming high season in 4Q2015 and 1Q2016. Excess expenses arising from aircraft maintenance was one-time expense. Other key variable costs, such as airport service fees, per diem expenses, increased according to flight frequency. Total variable costs per unit (VC/ASK) in 2015 was 1.47 Baht/Seat/Km. or decreased 11.98 percent from 2014. Fuel cost per unit (Fuel/ASK) reduced to 0.54 Baht/Seat/Km. or decreased 35.15 percent.

Fixed costs increased mainly due to fleet expansion: Fixed cost increased 34.79 percent to 3,734.04 million Baht, mainly from acquiring brand-new aircrafts. At the end of period, fleet comprises of 28 aircrafts, increased 4 aircrafts from end of 2014. Major increased costs are aircraft operating lease and spare parts lease expenses, crew personnel expenses, aircraft insurance expense. Fixed cost per unit (FC/ASK) was 0.60 Baht/Seat/Km., increased 16.41 percent.

Financial costs increased from financial fees and interest on short term loans: In year 2015, financial costs increased from 2.27 million Baht to 41.51 million Baht last year as the Company has to pay commitment fees to Pre-delivery Payment commitment agreements and interest on short term loans from commercial banks.



Profit (Loss) for the period (separate financial statements)

Unit: million Baht	2014		2015		Change	
	Amount	Percent to total revenue	Amount	Percent to total revenue	Amount	Percent
Profit (Loss) before income tax expense	(410.84)	(3.38%)	(417.75)	(3.12%)	(6.91)	1.68%
Income tax expense (income)	(0.38)	(0.00%)	6.19	0.05%	6.57	(1,728.95%)
Profit (Loss) for the period	(410.45)	(3.37%)	(423.94)	(3.16%)	(13.49)	3.29%
Total comprehensive income (loss) for the period	(398.90)	(3.28%)	(421.74)	(3.15%)	(22.84)	5.73%
Basic Earnings per Share (Baht)	(0.66)	-	(0.68)	-	(0.02)	3.03%

As situation mentioned above, the Company booked 417.75 million Baht loss before income tax expense in 2015, increased 1.68 percent from 2014 and comprehensive loss for the period was 421.74 million Baht, increased 5.73 percent.

In year 2015, the Company expanded more international routes in order to increase RASK and ancillary revenue per passenger. Moreover, the longer flight hours, the more efficiency in cost management. Consequently, unit cost of fixed cost and maintenance cost decreased.

Financial Position

Unit : Million Baht	Consolidated Financial Statements			
	As at 31 December 2014	As at 31 December 2015	Change	Percent
Total Assets	6,569.00	7,110.22	541.22	8.24%
Total Liabilities	2,219.65	4,168.16	1,948.51	87.78%
Total owners of the parent	3,771.12	3,047.22	(723.90)	(19.20%)
Non-controlling interests	578.23	(105.16)	(689.59)	(118.19%)
Total Shareholders' Equity	4,349.35	2,942.06	(1,407.29)	(32.36%)

Assets

As at 31 December 2015, the Company and its subsidiaries' total assets were 7,110.22 million Baht or increased 8.24 percent comparing to 31 December 2014. Total assets consisted of total current assets 6,138.57 million Baht and total non-current assets 971.65 million Baht, accounted as 86.32 percent and 13.68 percent of the total assets respectively.

Cash increased from reimbursement of aircraft deposit resulted from aircraft delivery and Pre-delivery payment commitment agreement: As at 31 December 2015, cash and cash equivalent increased 44.0 percent resulting from Sale and Lease Back agreements under operating lease for aircrafts purchased from manufacturers. The Company received PDP back at the time of delivery in August and September 2015.



Besides that, reimbursement of PDP back under PDP commitment agreements caused an increase of cash and cash equivalent.

Trade and other receivables increased mainly due to advance payments for engine maintenance: In 2015, the Company made an advance payment for engine shop visit and currently in a process of Maintenance Reserve reimbursement from aircraft lessors. As at 31 December 2015, trade and other receivables were 1,119.77 million Baht, increased 160.27 percent, compared with 31 December 2014.

Liabilities and Shareholders' Equity

Revenue growth and fleet expansion increased total liabilities: As at 31 December 2015, total liabilities was 4,168.16 million Baht, increased by 87.78 percent compared with the year ended 31 December 2014. The increase in total liabilities were mainly from trade and other payables which resulted from normal course of business. In addition, increased provisions for aircraft maintenance reflected fleet and production growth.

Operating loss lessen shareholders' equity: Total shareholders' equity were 2,942.06 million Baht or fell 32.36 percent compared with 31 December 2014. 2015 operating loss came from comprehensive loss attributed to owners of the parent 723.90 million Baht and comprehensive loss of non-controlling interests 938.39 million Baht.

Cash flow statement (consolidated)

Unit : million Baht	Consolidated financial statements	
	2014	2015
Net cash provided by (used in) operating activities	(2,450.20)	649.31
Net cash provided by (used in) investing activities	2,717.90	(131.66)
Net cash provided by (used in) financing activities	458.12	775.00
Effect from foreign exchange rate in cash and cash equivalents	7.43	(5.50)
Net increase (decrease) in cash and cash equivalents	733.25	1,287.15
Cash and cash equivalents as at January 1	2,193.36	2,926.61
Cash and cash equivalents as at December 31	2,926.61	4,213.76

For 2015, the Company and its subsidiaries had provided cash in operating activities 649.31 million Baht. The main source of cash was a return of short-term and long-term aircraft deposits and prepayments by entering the aircraft PDP commitment agreements and Sale and Lease Back transaction at the time of aircraft delivery. Main cash outflow activity for operating activities was trade and other receivables due to advance payments for aircraft maintenance.

Cash inflow provided from investing activities principally came from cash received from interest income 43.43 million Baht. The used of cash from investing activities were consisted of cash payment for acquisition of equipment and intangible assets 123.55 million Baht. In addition, Nok Air invested in Air Black Box Asia Pacific Pte Ltd. which was established in Singapore to operate interline reservation system among airlines in which Nok Air holds 25% of the investment fund totaling about 34.75 million Baht.



Net cash provided in financing activities came from short term loan from financial institution amount 520 million Baht and paid up of share subscription in NokScoot Airline Co., Ltd. amount 500 million Baht in 1Q2015, resulting the Company and its subsidiaries received cash amount 255 million Baht from the subsidiary's share subscription by the non-controlling interests shareholders, consisted of 245 million Baht from Scoot Pte. Ltd. and 10 million Baht from other shareholders.