



Ref: PE 034/2560

11 May 2017

Subject: Management Discussion and Analysis for the first quarter of 2017

Attention: President
The Stock Exchange of Thailand

According to the financial reports of Nok Airlines Public Company Limited (the Company) for the first quarter of 2017 (Q1/2017) ended on 31 March 2017, the Company and its subsidiaries reported that a net comprehensive loss was 289.86 million Baht, compared to 465.95 million Baht in the same quarter last year. This net loss was divided into the loss from the parent company 295.56 million Baht and the net profit of non-controlling interests 5.70 million Baht. The Company would like to clarify the following causes:

Executive Summary of the financial reports in the first quarter of 2017

In Q1/2017, the Company and its subsidiaries generated total revenue of 5,409.52 million Baht and reported the net loss of 289.86 million Baht. This net loss was attributable to the loss from the parent company 295.56 million Baht and net profit of non-controlling interests 5.70 million Baht. The Company's operating loss of the parent company was a result of increasing operating cost than passenger revenues. The increase of operating expense was due to Jet fuel price adjustment as well as networking expansion, affecting in the operating cost for Jet fuel increase in this period as compared to the same period last year.

For separated financial statements, the Company's revenue in Q1/2017 was 4,087.50 million Baht, a 20.88 percent increase from the same period last year. The main result came from a network expansion and both domestic and international flight frequency increase. Available Seat-Kilometer (ASK) increased 20.86 percent and total passengers went up 16.27 percent. However, Passenger Yield decreased slightly 1.71 percent, due to a decrease of air-ticket prices from the higher competitive among airlines. Accordingly, Revenue per Available Seat-Kilometer (RASK) decreased from 2.27 Baht per seat-kilometer to 2.18 Baht per seat-kilometer.

Regarding company's expenditures, the Company had total operating cost total 4,381.57 million Baht, rising by 16.51 percent as compared to the same period last year. This resulted from increase of Jet fuel price including an increase of the company's human resources to support the fleet expansion and network expansion in both domestic and international routes. However, due to higher increase of passenger productivity rate than the increase of overall operating cost, cost per available seat-kilometer (CASK) decreased to 2.36 Baht per seat-kilometer, dropping by 8.17 percent.

Key Factors and Events affecting the Company performance

Regarding competitive budget domestic airline businesses, they still faced challenges on the price war. However, tourism business was gradually expanded and the domestic economy was growing slowly due to the domestic demand and the expansion of domestic tourists, compared to the same period



last year. Expanding charter flights to Republic of China increased from 281 flights in Q4/2016 to 512 flights in Q1/2017 rising by 82.21 percent.

As the external factors that affected the Company's operating expenses substantially such as foreign exchange rates and Jet fuel prices

The fluctuation of foreign exchange rates affected 67.97% on total operating costs, including Jet fuel price, aircraft operating lease, aircraft maintenance and aircraft insurance. In Q1/2016, an average foreign exchange rate was 35.83 USD per THB, and reduced to 35.29 USD per THB in Q1/2017.

Jet fuel price in Q1/2017 was averaged at 64.32 USD per barrel, increased from 42.29 USD per barrel in the same period last year. The Company had increasing fuel costs at 1,057.23 million Baht, accounting for 24.27 percent of total operating costs, which increased 81.25 percent.

Key Statistics and Business Ratio (excluding Subsidiaries)

	Unit	Q1/2016	Q1/2017	Change	
				Amount	Percent
Number of Aircrafts (at the end of period)					
- Boeing 737-800 Next Generation	Aircraft	21	21	0	0.00
- ATR 72-500	Aircraft	2	2	0	0.00
- Q400 NextGen	Aircraft	6	8	2	33.33
- Average Number of Aircraft	Aircraft	28.77	31.26	2.49	8.65
Available Seat Kilometers: ASK	Mil. Seat-Km	1,456.27	1,759.98	303.71	20.86
Revenue Passenger Kilometers: RPK	Mil. Seat-Km	1,299.09	1,544.25	245.16	18.87
No. of Sectors	Flights	14,891	17,785	2,894	19.43
Cabin Factor	%	89.21	87.74	(1.47) pts	(1.65)
Passenger Carried	Million	2.09	2.43	0.34	16.27
Passenger Yield	Baht/Seat-Km.	2.34	2.30	(0.04)	(1.71)
Revenue per Available Seat Kilometers: RASK	Baht/Seat-Km.	2.27	2.18	(0.09)	(3.96)
Cost per Available Seat Kilometers: CASK	Baht/Seat-Km.	2.57	2.36	(0.21)	(8.17)
Cost per Available Seat Kilometers exclude Fuel: CASK ex-fuel	Baht/Seat-Km.	2.17	1.76	(0.41)	(18.89)



The Company's Performance for Q1/2017

Revenue for the first quarter of 2016 and 2017 (Excluding subsidiaries)

Unit : million Baht	Q1/2016		Q1/2017		Change	
	Amount	Percent to total revenue	Amount	Percent to total revenue	Amount	Percent to total revenue
Passenger Revenue	3,037.52	89.83	3,548.42	86.81	510.90	16.82
Service Revenue	208.18	6.16	293.68	7.18	85.50	41.07
Other Income	135.68	4.01	245.40	6.00	109.72	80.87
Total Revenue	3,381.38	100.00	4,087.50	100.00	706.12	20.88

Data: Revenue

In Q1/2017, the Company had total revenue 4,087.50 million Baht with an increase of 20.88 percent of the same period in 2016. This total revenue was divided by the passenger revenue 3,548.42 million Baht or 86.81 percent of total revenue, service revenues 293.68 million Baht or 7.18 percent of total revenue, and other income 245.40 million Baht or 6.00 percent of total revenue. Therefore, revenue per available seat-kilometer (RASK) was at 2.18 Baht per seat-kilometer, dropping by 3.96 percent from the same period last year.

Passenger revenue increased in line with capacity of passengers: In Q1/2017, passenger revenue increased 16.82 percent in the same period last year, because of the increase of domestic routes which increased 15.65 percent, according to 19.43 percent increased capacity of passengers. Additionally, the increase of revenue for international charter flights was 72.37 percent led to increased capacity of passengers in 42.77 percent or 61 million seat-kilometer of the same period last year.

Passenger Yield decreased owing to competitive fare prices: In Q1/2017, the Company had revenue passenger kilometers to 2.30 Baht per seat/Kilometer which was decreased to 1.71 percent of the same period in last year due to higher competitive prices among other low-cost airlines. Revenue passenger kilometers for both domestic and international routes also increased to 245 million seat-Kilometer with an increase of 18.87 percent.

Service revenues increased from baggage load and subleased aircrafts under operating leases: In Q1/2017, service revenues increased to 85.50 million Baht or 41.07 percent, because the Company had changed the policy of baggage allowance fee including Processing fee in the payment channel. Additionally, the Company subleased aircrafts to other airlines for improving aircraft utilization efficiently.

Other income increased due to indemnity insurance income: Other income comprised of interest income and income from indemnity income for aircraft maintenance, increased to 109.72 million Baht with an increase of 80.87 percent as compared to the same period last year.



Expense for the first quarter (Q1) of 2016 and 2017 (excluding subsidiaries)

Unit : million Baht	Q1/2016		Q1/2017		Change	
	Amount	Percent to total expenses	Amount	Percent to total expenses	Amount	Percent to total expenses
Costs of passenger and services	3,554.90	94.53	4,082.56	93.18	527.66	14.84
Selling expenses	30.82	0.82	20.66	0.47	(10.16)	(32.97)
Administrative expenses	125.25	3.33	263.59	6.01	138.34	110.45
Finance Costs	49.82	1.32	14.77	0.34	(35.05)	(70.35)
Total Expenses	3,760.79	100.00	4,381.57	100.00	620.78	16.51

In Q1/2017, the Company had total expenses of 4,381.57 million Baht, rising 16.51 percent from that of 2016. Variable and fixed costs increased due to an increase of Jet fuel price and the fleet expansion respectively. In Q1/2017, Cost per available seat-kilometer (CASK) was 2.36 Baht per seat-kilometer with decrease of 8.17 percent, as compared to the same period last year and Cost per available seat-kilometer (CASK) excluding fuel cost per unit decreased to 1.76 Baht per seat-kilometer with a decrease 18.89 percent.

Variable costs increased due to the increase of Jet fuel cost and ground handling costs: In Q1/2017, Variable Costs were 2,570.97 million Baht with an increase of 12.80 percent from the same period of last year. The increased variable costs were due to gradually increased Jet fuel price. Furthermore, the Company had an increase of available seat-kilometer (ASK) 20.86 percent from the same period last year, affecting to an increase of ground handling costs. However, the increase of available seat-kilometer (ASK) was higher than the increase of Variable Costs per ASK. Therefore, the variable costs per available seat-kilometer (ASK) decreased 6.31 percent to 1.46 Baht per seat-kilometers.

Fixed costs increased in line with the fleet expansion: In Q1/2017, the Company had fixed costs of 1,320.64 million Baht, rising 15.85 percent as aircraft fleets expanded for an increase of the number of passengers as compared to the same period last year. However, fixed costs per seat-kilometers (FC/ASK) decreased 3.77 percent to 0.75 Baht per Seat-Kilometers.

Finance costs decreased due to the commitment fees for aircraft deposit: The Company had finance costs which decreased by 70.35 percent from that of 2016 to 14.77 million Baht because the Company had less commitment fees for aircraft Pre-Delivery Payment (PDP) as compared to the same period last year.



Profit (Loss) for the period (Separate Financial Statements)

Unit : million Baht	Q1/2016		Q1/2017		Change	
	Amount	Percent to Total Revenue	Amount	Percent to Total Revenue	Amount	Percent
Profit (Loss) before income	(379.41)	(11.22)	(294.07)	(7.19)	85.34	(22.49)
Income tax expense (income)	0.57	0.02	-	-	(0.57)	(100.00)
Profit (Loss) for the period	(379.98)	(11.24)	(294.07)	(7.19)	85.91	(22.61)
Total comprehensive income (loss) for the period	(379.98)	(11.24)	(294.07)	(7.19)	85.91	(22.61)
Basic Earning per Share (Baht)	(0.61)		(0.47)			

According to the above mention, the total operating expenses outstripped the total revenue. Therefore, the Company booked loss 294.07 million Baht for Q1/2017 before income tax expense. Net loss decreased 85.91 million Baht or 22.61 percent compared to the same period last year.

Key milestone for Q1, 2017

(1) Donate relief supplies for flood victim in the Southern of Thailand

From 12 to 20 January 2017, the Company provided transportation to donate relief supplies and survival bags for helping flood victim in the Southern of Thailand.

(2) Cancellation of free baggage 15 kilograms for NOK promotion passengers.

From 20 February 2017 onwards, the Company had cancelled free of charge on loading a 15-kilogram baggage for NOK promotion passengers. However, those can purchase an additional Baggage allowance by NOK website, NOK application or NOK Fan Club website. Nevertheless, a passenger who book either NOK ECO or NOK FLEXI fare, has still received free loading 15-kilogram baggage.

(3) The launch of new routes

The Company launched two additional international charter flights: Don Muang – Linyi and Phuket – Nanning. In Q1,2016, the Company's total international charter flights were as follows:

- i. Phuket-Chengdu v.v. 7 weekly round trips
- ii. Don Muang – Nanning v.v. 4 weekly round trips
- iii. Chiang Mai – Nanning v.v. 3 weekly round trips
- iv. Phuket – Nanning v.v. 3 weekly round trips
- v. Don Muang – Yinchuan v.v. 1 weekly round trips
- vi. Don Muang – Linyi v.v. 3 weekly round trips
- vii. Phuket – Nanthong v.v. 3 weekly round trips



(4) The launch of bus transport to nearby destinations under Fly'n'Ride service

The Company introduced new route from and to nearby destinations where the Company does not directly operate by transferring passengers to the closest airports and transporting via buses to the final destinations (Fly 'n' Ride). The new route was Don Muang – Nakhon Phanom (That Phanom) commencing in March 2017.

(5) Increased Payment channel

The company launched new two additional payment channels; such as, BBL Direct Debit and Payment channel at Big C.

Operating Performance for NokScoot Airlines Co., Ltd.

For Q1/2017 performance of NokScoot Airlines Co., Ltd., total revenue was 1,336.82 million Baht, increasing from 870.00 million Baht of the same period last year, or increased by 53.66%. Total operating expenditure was 1,319.61 million Baht, increased from 945.29 million Baht of the same period last year, or increased by 39.6%. It consequences in the result of net income of 9.99 million Baht, significantly improved from net loss of 76.36 million Baht of Q1/2016. The profitability was mainly due to following factors;

- 1) Expansion of international routes and increase of frequency, thus aircraft utilization boost
- 2) Growth of passenger carried, higher cabin factor
- 3) Reduction in unit cost

Currently, NokScoot operates scheduled flight point-to-point to China and Taiwan. Its main base is Don Mueang International Airport, fly directly to several cities in north and northeast part of China comprising of Nanjing (7 weekly), Tianjin (4 weekly), Qingdao (4 weekly), Shenyang (3 weekly), and Dalian (3 weekly). In February 2017, the Company decided to suspend operation in Chongqing and increase daily frequency flights in Taipei from 5 to 7 per week

At the end of Q1/2017, NokScoot's fleet remained unchanged with operating lease of 3 Boeing 777-200. The company plans to increase frequency flights in the same routes and expand new routes later this year.



Financial Position (Consolidated)

Unit : Million Baht	Consolidated Financial Statement			
	As of 31 December 2016	As of 31 March 2017	Change	Percent
Total Assets	6,000.85	5,881.37	(119.48)	(1.99)
Total Liabilities	6,340.58	6,510.95	(170.37)	(2.69)
Total Owners of the Parent	238.92	(56.65)	(295.57)	(123.71)
Non-Controlling Interests	(578.64)	(572.94)	5.70	(0.99)
Total Shareholders' Equity	(339.73)	(629.59)	(289.86)	85.32

Assets

As of 31 March 2017, the Company and its subsidiaries had total assets of 5,881.37 million Baht, decreased by 1.99% from year-end 2016. Total assets could be divided into current assets of 4,445.46 million Baht and non-current assets of 1,435.91 million Baht, accounting for 75.59% and 24.41%, respectively.

Cash and cash equivalents decrease, although the revenue from operating increases: cash and cash equivalents of the company and its subsidiaries reduced by 8.49% from 31 December 2016 mainly due to the increase of cash outflow in operating activities, whereas some cash was pledged for bank's credit facilities.

Deposits at bank pledged as collateral increases: the guaranteed bank deposits of the company and its subsidiaries increased by 113.87% or 286.29 million Baht from 31 December 2016, mainly because the company had pledged deposits to guarantee the credit facilities for aircraft rental and aircraft maintenance in accordance with the operating lease agreements and technical support agreements.

Deposits and prepayments relating to aircraft decrease: as of 31 March 2017, the deposits and prepayments relating to aircraft reduced by 10.93% since the company received returns of insurance for aircraft and engine rental, as well as the weakening of US dollar.

Liabilities and Shareholder's Equities

Total liabilities increased in according with the expansion of aircraft fleet: as of 31 March 2017, the company and its subsidiaries had total liabilities of 6,510.95 million Baht or increased by 2.69% from as of 31 December 2016, which aligned with the increase of 9.84% of the expected short-term and long-term aircraft maintenance, with the expansion of aircraft fleet.

Shareholder's equities decreased regarding to the loss from operating: as of 31 March 2017, the company and its subsidiaries had negative shareholder's equities of 629.59 million Baht or increase 85.32% increased the deficit from 31 December 2016. It was composed of 56.65 million Baht to the parent company and 572.94 million Baht to non-controlling interests.



Cash Flow Statement (Consolidated)

Unit : Million Baht	Consolidate Financial Statement			
	For three months period, as of 31 Mar 2016	For three months period, as of 31 Mar 2017	Change	Percent
Net cash provided by (used in) operating activities	(134.53)	(231.33)	(96.80)	71.95
Net cash provided by (used in) investing activities	(228.71)	(14.48)	214.23	(93.67)
Net cash provided by (used in) financing activities	(528.15)	-	528.15	(100.00)
Effect from foreign exchange rate in cash and cash equivalents	(14.26)	(28.66)	(14.40)	100.98
Net increase (decrease) in cash and cash equivalents	(905.66)	(274.47)	631.19	(69.69)
Cash and cash equivalents as of 1 January	4,213.76	3,231.22	(982.54)	(23.32)
Cash and cash equivalents as of 31 March	3,308.09	2,956.75	(351.34)	(10.62)

For the first quarter 2017, the company and its subsidiaries had cash flow from operating activities totaled 231.33 million Baht, the significant items which highly affected to the cash flow were trade and other receivable, short-term aircraft deposits and prepayments, deposits at bank pledged as collateral and employee benefit paid, etc.

Net cash flows (used) from investing activities was 14.48 million Baht; mainly cash-out items were for purchasing of equipment and intangible assets.

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Mr. Brian Leslie Jeffery
Chief Financial Officer