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10 August 2017

Subject : Management Discussion and analysis for the second 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 second quarter of 2017 (Q2/2017) ended on 30 June 2017, the Company and its subsidiaries reported that a net comprehensive loss was 748.97 million Baht, compared to 864.38 million Baht in the same quarter last year. This net loss was divided into the loss from the parent company 649.69 million Baht and non-controlling interests 99.28 million Baht. The Company would like to clarify the following causes:

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

In Q2/2017, the company and its subsidiaries generated total revenue of 4,669.87 million Baht and reported the net loss of 748.97 million Baht. This net loss was attributable to the loss from the parent company 649.69 million Baht and non-controlling interests 99.28 million Baht. The Company's operating loss of the parent company was a result of increased operating cost at higher rate than growing passenger revenue and service revenue. Increased operating cost was caused by rising Jet fuel price led to fuel cost increase in the same quarter last year.

For separated financial statements, the company's revenue in total was 3,389.39 million Baht, which increased a 14.09 percent from the same period last year. The main result originated from international route expansion. As a result, Passenger Yield increased 8.76 percent and a revenue per available seat-kilometer (RASK) also rose from 1.95 to 2.08 Baht/Seat-Kilometer, or increased 6.66 percent from the second quarter in Year 2016.

The company had operating cost in amount of 4,004.32 million Baht, which increased 8.95 percent in the same period of last year. The cause of increase resulted from the adjustment of Jet fuel price, significantly and the expansion of international routes led to growing available seat-kilometer (ASK) at 1.34 percent. Consequently, a cost per available seat-kilometer (CASK) rose from 2.43 to 2.62 Baht/seat- kilometer



Key Factors and Events affecting the Company performance

In Q2/2017, Thailand's economy expanded gradually by contributed factors to support a private sector. That was the same direction of an investment of private sectors starting positive signs in several industries of Thailand, especially growing tourism industry. A number of tourists in June 2017 increased at the peak rate to 12 percent from the same period in last year. For the first half of year 2017, a number of foreign tourists increased from 16.6 to 17.3 million people, 4.4 percent from the same period of last year. As revenue from the tourism industry increased 6.05 percent, the number of Chinese tourists also increased at the same quarter in last year. For the second quarter of year 2017, the company expanded international charter routes to China in order to meet the growth of tourists that reflected on an increasing number of flights to China dramatically from 186 to 336 flights, or 80.65 percent of the growth rate at the same period in last year.

A domestic travel market kept growing a number of passenger. A number of domestic tourists in the first half of this year was 20 million people increased 11 percent from the same period in last year. In the second quarter of every year, it was not the domestic tourist season in this period which was caused aggressively the competitive air fare to attract domestic passengers among low cost airline businesses. The company reduced number of domestic flights as appropriated to domestic travels. As a consequence, the growth rate of company's passengers declined to 1.98 million people, or 3.63 percent from the same period in last year.

Regarding to external factors, it affected to overall operating cost, substantially such as a foreign exchange rate and Jet fuel price.

A fluctuation of foreign exchange rates brought about total operating cost which was 65.61 percent. It is comprised of Jet fuel price, aircraft operating lease, aircraft maintenance and aircraft insurance which are all above mentioned paid by US dollar currency. In the second quarter of year 2017, an average foreign exchange rate was 34.47 from 35.45 USD per THB. As a consequence, the company gained benefit to operating cost from a depreciate US exchange rate.

An average Jet fuel price in the second quarter of year 2017 was 60.47 USD per barrel which increased from 54.39 US dollar per barrel at the same period in last year. Furthermore, Excise Department started to collect the excise tax on Jet fuel price for domestic routes. It was an impact on company's fuel cost to 916.48 million Baht increased 38.85 percent in the same period in last year.



Key Statistics and Business Ratio (Excluding subsidiaries)

| | Unit | Q2/2016 | Q2/2017 | Change Percent | H1/2016 | H1/2017 | Change Percent |
|--|--------------------|---------|---------|-------------------|---------|---------|-------------------|
| Number of Aircrafts (at the end of period) | | | | | | | |
| - Boeing 737-800 Next Generation | Aircraft | 21 | 20 | (4.76) | 21 | 20 | (4.76) |
| - ATR 72-500 | Aircraft | 2 | 2 | 0.00 | 2 | 2 | 0.00 |
| - Q400 NextGen | Aircraft | 6 | 8 | 33.33 | 6 | 8 | 33.33 |
| - Average Number of Aircraft | Aircraft | 29.00 | 29.91 | 3.14 | 28.62 | 30.58 | 6.85 |
| Available Seat Kilometer: ASK | Mil. Seat-Km | 1,507 | 1,527 | 1.33 | 2,964 | 3,287 | 10.90 |
| Revenue Passenger Kilometers: RPK | Mil. Seat-Km | 1,267 | 1,245 | (2.00) | 2,566 | 2,789 | 9.00 |
| No. of Sectors | Flights | 15,506 | 15,892 | 2.49 | 30,397 | 33,890 | 11.49 |
| Cabin Factor | % | 84.03 | 81.51 | (3.00) | 86.57 | 84.81 | (2.03) |
| Passenger Carried | Million | 2.05 | 1.97 | (4.00) | 4.14 | 4.40 | 6.00 |
| Passenger Yield | Baht/Passenger-Km. | 2.13 | 2.32 | 9.00 | 2.23 | 1.96 | (12.11) |
| Revenue per Available Seat Kilometer: RASK | Baht/Seat-Km. | 1.95 | 2.08 | 6.67 | 2.11 | 2.14 | 1.42 |
| Cost per Available Seat Kilometer: CASK | Baht/Seat-Km. | 2.43 | 2.62 | 7.82 | 2.50 | 2.51 | 0.40 |
| Cost per Available Seat Kilometer exclude Fuel: CASK ex-fuel | Baht/Seat-Km. | 2.00 | 2.02 | 1.00 | 2.08 | 1.91 | (8.17) |



The Company's Performance for Q2/2017

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

| Unit : million Baht | Q2/2016 | | Q2/2017 | | Percent Change | H1/2016 | | H1/2017 | | Percent Change |
|---------------------|----------|---------|----------|---------|----------------|----------|---------|----------|---------|----------------|
| | Amount | Percent | Amount | Percent | | Amount | Percent | Amount | Percent | |
| Passenger Revenue | 2,695.29 | 90.73 | 2,883.70 | 85.08 | 6.99 | 5,732.81 | 90.25 | 6,432.12 | 86.03 | 12.20 |
| Service Revenue | 186.01 | 6.26 | 292.69 | 8.64 | 57.35 | 394.19 | 6.21 | 586.37 | 7.84 | 48.75 |
| Other Income | 89.41 | 3.01 | 213.00 | 6.28 | 138.23 | 225.10 | 3.54 | 458.40 | 6.13 | 103.64 |
| Total Revenue | 2,970.71 | 100.00 | 3,389.39 | 100.00 | 14.09 | 6,352.10 | 100.00 | 7,476.89 | 100.00 | 17.71 |

Data: Revenue

Q2/2017

The company's revenue was 3,389.39 million Baht increased 14.09 percent. It consists of 2,883.70 million Baht to passenger revenue which was 85.08 percent of total revenue, 292.69 million Baht to service revenue which was 8.64 percent of total revenue and 213.00 million Baht other income which was 6.28 percent of total revenue. Therefore, revenue per available seat-kilometer (RASK) was at 2.08 Baht per seat-kilometer, rose by 6.66 percent from the same period last year.

Passenger revenue : In the second quarter of year 2017, passenger revenue boosted 6.99 percent at the same period of last year which resulting from increased air fares at higher rate than diminished the unit of revenue passenger kilometer (RPK). Therefore, passenger yield rose from 2.13 to 2.32 Baht/passenger-kilometer from the same period in last year.

Service revenue : In the second quarter of year 2017, service revenue increased 106.68 million Baht, or 57.35 percent from the same period in last year. Moreover, an additional subleased aircraft under operating lease to other companies which encouraged more efficiency on aircraft utilization.

Other income : In the second quarter of year 2017, other income increased 123.59 million Baht, or 138.23 percent from the same period in last year. It was caused by increased in gain on sale and lease back for new aircraft. Moreover, the company gained more benefit from gain on foreign exchange rate thanks to the depreciate of US exchange rate to Baht at the same period in last year.



H1/2017

The company had a volume of available seat kilometer (ASK) increased 10.91 percent. It was result in cabin factor at 84.81 percent, or reduced 2 points at the same period in last year. However, revenue per available seat kilometer (RASK) booted 1.19 percent, or 2.14 Baht/seat-kilometer, it led to an adjustment of number of domestic flights to meet our market and incremental international charter flights to China as well. As a result, passenger revenue increased in the first half year at 12.20 percent. Additionally, service revenue increased 48.75 percent from the first half of year 2016 as above mentioned. Overall, total revenue increased 17.71 percent from the same period in last year.

Expense for the second quarter and the first half of 2016 and 2017 (Excluding subsidiaries)

| Unit : million Baht | Q2/2016 | | Q2/2017 | | Percent Change | H1/2016 | | H1/2017 | | Percent Change |
|-------------------------------|----------|--------------------------|----------|--------------------------|----------------|----------|--------------------------|----------|--------------------------|----------------|
| | Amount | Percent to total Expense | Amount | Percent to total Expense | | Amount | Percent to total Expense | Amount | Percent to total Expense | |
| Cost of passenger and service | 3,460.52 | 94.15 | 3,790.73 | 94.67 | 9.54 | 7,015.42 | 94.34 | 7,873.29 | 93.89 | 12.23 |
| Selling expenses | 33.85 | 0.92 | 23.14 | 0.58 | (31.64) | 64.67 | 0.87 | 43.80 | 0.52 | (32.27) |
| Administrative expenses | 158.99 | 4.33 | 177.58 | 4.43 | 11.69 | 284.24 | 3.82 | 441.17 | 5.26 | 55.21 |
| Financial Cost | 21.99 | 0.60 | 12.87 | 0.32 | (41.47) | 71.81 | 0.97 | 27.64 | 0.33 | (61.51) |
| Total Expense | 3,675.35 | 100.00 | 4,004.32 | 100.00 | 8.95 | 7,436.14 | 100.00 | 8,385.90 | 100.00 | 12.77 |

Data : Expense

Q2/2017

The company's operating cost increased 4,004.32 million Baht, or 8.95 percent from the same period in last year. It is composed of variable costs and fixed costs. Variable costs increased from Jet fuel price for aircraft and fixed costs increased from related cost of new aircraft. In second quarter of year 2017, cost per available seat kilometer was 2.62 increased from 2.43 Baht/seat-kilometer, or 7.82 percent from the same period in last year and cost per available seat kilometer excluding fuel was 2.02 from 2.00 Baht/seat-kilometer which was slightly increased 1.00 percent.

Variable cost : In the second quarter of year 2017, variable costs was account for 2,345.80 million Baht, or increased 11.89 percent from the same period in last year due to increased fuel cost at 39 percent continually and increased ground handling cost at 6.40 percent. This because the expansion of international charter route was an overall effect of variable cost per unit increased 11.89 percent to be 1.54 Baht/seat-kilometer which was a unit cost of fuel at 0.60 Baht/seat-kilometer.



Fixed costs : In the second quarter of year 2017, fixed cost was 1,266.63 million Baht which was increased at 1.77 percent. It was caused by related cost of new aircraft. Fixed cost per available seat kilometer was 0.83 Baht/seat-kilometer, or 0.42 percent.

Finance cost : Company's finance cost reduced 41.47 percent from the same period in last year to be 12.87 million Baht. It was due to a reduction of company's finance cost from the commitment fee for aircraft deposit from the same period in last year.

H1/2017

The company's expense in total was 8,385.89 million Baht increased from 7,436.14 million Baht, or 12.77 percent from the same period in last year. It was caused by increased from Jet fuel price increased by 58.74 percent even though maintenance aircraft cost reduced 11.28 percent. Consequently, the cost per available seat kilometer increased from 2.50 to 2.51 Baht/seat-kilometer, or increased by 8.30 percent from the same period in last year.

Profit (Loss) for the second quarter and the first half of 2016 and 2017 (Excluding subsidiaries)

| Unit : million Baht | Q2/2016 | | Q2/2017 | | Percent Change | H1/2016 | | H1/2017 | | Percent Change |
|--|----------|--------------------------|----------|--------------------------|----------------|------------|--------------------------|----------|--------------------------|----------------|
| | Amount | Percent to total Revenue | Amount | Percent to total Revenue | | Amount | Percent to total Revenue | Amount | Percent to total Revenue | |
| Profit (Loss) before income | (704.64) | (23.72) | (614.93) | (18.14) | (12.73) | (1,084.04) | (17.07) | (909.00) | (12.16) | (16.15) |
| Income tax expense (income) | (0.06) | (0.00) | 0.00 | 0.00 | (100.00) | 0.51 | 0.01 | 0.00 | 0.00 | (100.00) |
| Profit (Loss) for the period | (704.58) | (23.72) | (614.93) | (18.14) | (12.72) | (1,084.55) | (17.07) | (909.00) | (12.16) | (16.19) |
| Total comprehensive income (loss) for the period | (704.58) | (23.72) | (614.93) | (18.14) | (12.72) | (1,084.55) | (17.07) | (909.00) | (12.16) | (16.19) |
| Basic Earning per Share (Baht) | (1.13) | | (0.74) | | (34.51) | (1.74) | | (1.25) | | (28.16) |

From the above mentioned, the total cost of company increased owing to Jet fuel price increase significantly. However, total revenue also increased from incremental passenger revenue and service revenue at higher amount than fuel cost. As a result, the net loss in the second quarter of year 2017 decreased 614.93 million Baht from 704.58 million Baht, or declined by 12.72 percent. For the first half of year 2017, the company was 909.00 million Baht of the net loss from 1,084.55 million Baht, or decreased 16.19 percent at the same period in last year.



Key milestone for Q2, 2017

1. Open new routes

The company had additional two international charter routes such as Don Muang – Yichang (started from 1st April 2017 for two month period) and Don Muang – Baotou (started from 15 June 2017). In Q2,2016, 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. 2 weekly round trips
- vi. Don Muang –Baotou v.v. 2 weekly round trips
- vii. Don Muang– Nanthong v.v.2 weekly round trips

2. The launch of bus transport to nearby destinations under Fly’n’Ride service

The Company provided bus services to passengers who want to transport to a route that the company did not operated them directly for destination from the airport by transferring to bus service instead. There were existing service routes to more frequency services in the second quarter of year 2017 such as

- i. Don Muang – Phitsanulok – Sukhothai from 2 trips to 8 trips starting from June 2017
- ii. Don Muang – Phitsanulok – Uttaradit from 2 trips to 4 trips starting from May 2017

3. Additional payment channel

The company launched new two additional payment channels; such as, Rabbit LINE Pay and Apple Pay.

4. The acquisition of brand-new aircraft

The company acquired a Jet aircraft (Boeing 737-800 New Generation) in June 2017

5. The accident of bus crushed to Nok aircraft

On 30 June 2017 at 10.55 p.m., the accident of bus crushed to Nok aircraft (register no. HS-DBK) at the left front of aircraft to be damaged. Fortunately, there was no injury occurring such the accident.



Operating Performance for NokScoot Airlines Co., Ltd.

For Q2/2017 performance of NokScoot Airlines Co., Ltd., total revenue was 1,296.63 million Baht, increasing from 965.19 million Baht of the same period in last year, or increased by 34.34 percent. This is because a number of passengers increased according to the increase of both available seat kilometer and cabin factor. However, revenue per passenger decreased slightly, an air fare was adjusted to leverage revenue passenger kilometer in order to meet the market and higher competition to China routes. In Q2/2017, NokScoot Airlines Co., Ltd, total operating cost was 1,416.63 million Baht, increased from 1,117.35 million Baht, or increased by 26.78 percent of the same period in last year. It was a main consequence of higher fuel cost compared to the same period in last year, so a result of the company in the second quarter was net loss by 127.52 million Baht which was slightly better than the net loss of last year by 153.49 million Baht.

For the first half of year 2017, NokScoot Airlines's operation performance was better off from the same period in last year. Total revenue in the first half of year 2017 was 2,633.45 million Baht from 1,835.19 million Baht, or increased by 43.50 percent from the first half of year 2016. In addition, total operating cost was 2,736.23 million Baht increasing from 2,062.64 million Baht, or by 32.66 percent from the same period in last year. The company's net loss of the first half in year 2017 was 117.53 million Baht better than the net loss of 229.85 million Baht from the same period in last year.

Currently, NokScoot Airlines Co., Ltd operates schedule routes to many cities in Northern and North eastern in China and Taiwan. There are Don Muang international airport being the center of five destinations to China and one destination to Taiwan; such as Nanjing (7 weekly flights), Tianjin (4 weekly flights), Qingdao (4 weekly flights), Shenyang (3 weekly flights) and Dalian (2 weekly flights) including Taipei, Taiwan (7 weekly flights). Moreover, NokScoot Airlines has generated revenue by charter international flight to Japan during high season period.

NokScoot Airlines's fleet remained unchanged with operating lease of 3 Boeing 777-200. The company planned to expand a size of fleet by year 2017 which targeted to increase more flight frequency than Q2/2017 and expanded new additional routes.



Financial Position (Consolidated)

| Unit : Million Baht | Consolidated Financial Statement | | | |
|----------------------------|----------------------------------|--------------------|---------|---------|
| | As of 31 Dec 2016 | As of 30 June 2017 | Change | Percent |
| Total Assets | 6,000.85 | 5,954.53 | (46.32) | (0.77) |
| Total Liabilities | 6,340.58 | 6,106.69 | 233.89 | 3.69 |
| Total Owners of the Parent | 238.92 | 520.06 | 281.14 | 117.67 |
| Non-Controlling Interests | (578.64) | (672.22) | (93.58) | 16.17 |
| Total Shareholders' Equity | (339.72) | (152.16) | 187.56 | (55.21) |

Assets

As of 30 June 2017, the Company and its subsidiaries had total assets of 5,954.53 million Baht, decreased by 0.77% from year-end 2016. Total assets can be divided into current assets of 4,466.60 million Baht and non-current assets of 1,487.93 million Baht, accounting for 75.00% and 25.00%, respectively.

Cash and cash equivalents: cash and cash equivalents of the Company and its subsidiaries reduced by 13.59 percent, or in amount of 2,792.22 million Baht from 31 December 2016 mainly due to the increased of cash outflow in operating activities, whereas some cash was pledged for bank's credit facilities.

Deposits at bank pledged: the guaranteed bank deposits of the company and its subsidiaries increased by 146.04% or 618.59 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.

Liabilities and Shareholder's Equities

Total liabilities : As of 30 June 2017, the company and its subsidiaries had total liabilities of 6,106.69 million Baht or decreased by 3.69% from as of 31 December 2016, which aligned with the decrease of trade and other payables was due to the decrease of unearned passenger revenue compared to that of 31 December 2016



Shareholder's equities: as of 30 June 2017, the company and its subsidiaries had negative shareholder's equities of 152.16 million Baht or decreased 55.21% the deficit from as of 31 December 2016. It was composed of positive 520.06 million Baht to the parent company and negative 672.22 million Baht to non-controlling interests.

The company informed to issue the right offerings, according to the approval of the Annual General Shareholders' Meeting 2017 in April 2017. Issuing newly ordinary shares was 781.25 million shares which was composed of 625.00 million shares to the existing shareholders to 1 existing ordinary existing share to 1 newly issued ordinary share at the offering price to be 2.40 Baht per share and 156.25 million shares to reserve for the exercise of warrant to purchase the ordinary shares. On 26 May 2017, the company sold newly ordinary shares about 511.00 million shares, or in amount of 1,226.40 million Baht.

Cash Flow Statement (Consolidated)

| Unit : Million Baht | Consolidated Financial Statement | | | |
|--|--|--|----------|----------------|
| | For six months period as of 30 June 2016 | For six months period as of 30 June 2017 | Change | Percent Change |
| Net cash provided by (used in) operating activities | (753.92) | (1,612.08) | (858.16) | 113.83 |
| Net cash provided by (used in) investing activities | 222.64 | (24.77) | (247.41) | (111.13) |
| Net cash provided by (used in) financing activities | (529.49) | 1,211.65 | 1,741.14 | 328.83 |
| Effect from foreign exchange rate in cash and cash equivalents | 1.40 | (13.80) | (15.20) | (1,085.71) |
| Net increase (decrease) in cash and cash equivalents | (1,059.36) | (439.00) | 620.36 | 58.56 |
| Cash and cash equivalents as of 1 January | 4,213.76 | 3,231.22 | (982.54) | (23.32) |
| Cash and cash equivalents as of 30 June | 3,154.39 | 2,792.22 | (362.17) | (11.48) |

For the second quarter 2017, the company and its subsidiaries had net cash flow from operating activities totaled negative 1,612.08 million Baht, increasing from 753.92 million Baht or 113.83 percent. The significant items which highly affected to the cash flow were trade and other receivable, advance payments for aircraft maintenance and engine maintenance, deposits at bank pledged as collateral and employee benefit paid, etc.



Net cash flows (used) from financing activities was 1,211.66 million Baht, mainly due to issued newly ordinary shares.

Nevertheless, net cash and cash equivalents decreased by 439.00 million Baht as of 30 June 2017.

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Mr. Brian Leslie Jeffery
Chief Financial Officer