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11 November 2016

Subject: Management Discussion and Analysis for the third quarter of 2016

Attention: President
The Stock Exchange of Thailand

According to the financial reports of Nok Airlines Public Company Limited (the Company) for the three-month period ended 30 September 2016. The Company and its subsidiaries reported that net comprehensive loss was 1,071.82 million Baht, compared to 652.62 million Baht loss in the same period last year. Net loss was divided into the loss from the owner of the parent and Non-Controlling interest in the amount of 958.56 million Baht and 113.26 million Baht respectively. The Company therefore would like to clarify the causes of changes in the overall operating results as follows:

Executive summary

In Q3/2016, the Company and its subsidiaries generated total revenue of 4,297.88 million Baht and reported net loss of 1,071.82 million Baht. Net loss was attributable to 958.56 million Baht loss from the Company and 113.26 million Baht loss from Non-controlling interests. The Company's operating losses was a result of lower-than-planned revenue growth, in coupled with the increase in operating expenses which rose following the fleet expansion, aircraft maintenance, over and above expenses for engine shop visit (a maintenance program for engine) as well as the claimable expenses from insurance on aircraft maintenance from the incidents occurring during Q3/2016.

The Company's revenue in Q3/2016 was 3,214.24, a 2.81 percent increase from the same period last year. This mainly came from an expansion of total passenger revenue from international scheduled flights and international charter flights, which, in combined, posted a moderate growth at 86.81 percent. The Company additionally operated international routes and increased flight frequency of the existing route. Available Seat-Kilometer (ASK) edged up 5.10 percent and total passengers climbed 4.65 percent from the same period last year. However, Revenue per Available Seat-Kilometer (RASK) decreased from 1.92 Baht per Seat-Kilometer to 1.89 Baht per Seat-Kilometer, as Passenger Yield dropped by 4.45 percent albeit with a 3.18pts increase in cabin factor at 86.01 percent.



On the front of operating costs, Cost per Available Seat-Kilometer (CASK) soared to 2.54 Baht per Seat-Kilometer, climbing by 11.69 percent from the same quarter last year. This was mainly caused by the fleet expansion that resulted in higher aircraft lease and aircraft maintenance. The Company also had the over and above expenses for engine shop visit and the claimable expenses from insurance on aircraft maintenance from the incidents that occurred during Q3/2016.

Key factors and events affecting the Company's performance

As the external factors that affected the Company's operating expenses to a large extent are USD/THB exchange rate and jet fuel price. In Q3/2016, USD/THB exchange rate was on average at 35.00, or Thai Baht merely appreciated by 1.10 percent against the U.S. dollars compared to the same period last year. This was due to the fact that investors were less confident on the U.S. Federal Reserves (the Fed) interest rate hike in the September meeting. Hence, they unwound their positions to temporarily invest Asian financial assets, including those of Thai assets, prompting Thai Baht to strengthen against the U.S. dollars. The Company's expenses with the U.S. dollar exposure and the U.S. dollar-linked expenses accounted for 67.22 percent of total operating expenses. These include fuel costs, aircraft operating lease, aircraft maintenance and aircraft insurance.

Jet fuel prices in Q3/2016 averaged at 54.30 USD per barrel, edging down from 60.85 USD per barrel in the same period last year. The Company therefore had lower fuel costs at 711.16 million Baht, accounting for 20.31 percent of total operating expenses which was less than 21.84 percent in Q3/2015.

**Key Statistics and Business Ratios (Excluding Subsidiaries)**

	Unit	Q3/2015	Q3/2016	Percent Change	9M/2015	9M/2016	Percent Change
Number of aircrafts (at the end of period)							
- Boeing 737-800 New Generation	Aircraft	19	22	15.79	19	22	15.79
- ATR 72-500	Aircraft	2	2	-	2	2	-
- Q400 NextGen	Aircraft	6	8	33.33	6	8	33.33
- Average age of Aircraft	Year	6.34	6.26	(1.32)	6.34	6.26	(1.32)
Available Seat Kilometers: ASK	Mil. seat-Km.	1,540	1,619	5.10	4,600	4,583	(0.37)
Revenue Passenger Kilometers: RPK	Mil. seat-Km.	1,276	1,392	9.14	3,837	3,958	3.16
No. of sectors	Flight	15,501	15,986	3.13	47,699	46,383	(2.76)
Cabin factor	%	82.83	86.01	3.18 pts	83.42	86.37	2.95 pts
Passenger Carried	Million person	2.05	2.14	4.65	6.49	6.28	(3.26)
Passenger Yield	Baht/Pax-Km.	2.11	2.02	(4.45)	2.29	2.16	(5.68)
Revenue per Available Seat Kilometers: RASK	Baht/Seat-Km.	1.92	1.89	(1.42)	2.08	2.03	(2.44)
Cost per Available Seat Kilometers: CASK	Baht/Seat-Km.	2.27	2.54	11.69	2.22	2.51	13.22
Cost per Available Seat Kilometers ex- fuel: CASK exclude Fuel	Baht/Seat-Km.	1.78	2.10	18.18	1.67	2.09	24.78

Revenue for the period (Separate Financial Statement)

Unit: million Baht	Q3/2015		Q3/2016		Percent Change	9M/2015		9M/2016		Percent Change
	Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent	
Passenger Revenue	2,697.14	86.27	2,812.86	87.51	4.29	8,782.85	89.95	8,545.67	89.33	(2.70)
- Domestic	2,371.43	87.92	2,204.39	78.37	(7.05)	8,144.18	92.73	7,130.89	83.44	(12.44)
- International (Including Charter flight)	325.71	12.08	608.47	21.63	86.81	638.67	7.27	1,414.78	16.56	121.52
Service revenue	202.58	6.48	197.12	6.13	(2.70)	602.07	6.16	591.32	6.18	(1.79)
Other income	226.62	7.25	204.26	6.36	(9.87)	379.63	3.89	429.35	4.49	13.10
Total revenue	3,126.34	100.00	3,214.24	100.00	2.81	9,764.55	100.00	9,566.34	100.00	(2.03)

Q3/2016

In Q3/2016, total revenue was at 3,214.24 million Baht, rising 2.81 percent from the same period last year. This composed of 2,812.86 million baht of passenger revenue which accounted for 87.51 percent of the total revenue, 197.12 million baht of service revenue which accounted for 6.13 percent of the total revenue, and 204.62 million Baht of other income which accounted for 6.36 percent of the total revenue. The Company's Revenue per Available Seat-Kilometer (RASK) was at 1.89 Baht per Seat-Kilometer, slipping by 1.42 percent from the same period last year.



Passenger revenue soared from the international routes: Total passenger revenue inched higher 4.29 percent from the same period last year. This mainly came from a 86.81 percent growth in the international passenger revenue (both international scheduled and charter flights), as the Company had additional international routes and increased the flight frequency. Available Seat-Kilometer (ASK) increased 5.10 percent, and total passengers expanded at 4.65 percent from Q3/2015. ASK of international scheduled and charter flights surged 67.79 percent, or rose 148 million Seat-Kilometer. Nevertheless, domestic passenger revenue declined 7.05 percent on the back of lower domestic flights compared to the same period last year in order to fit the existing pilot capacity. Domestic ASK trimmed 5.23 percent or decreased 69 million Seat-Kilometer.

Service income decreased following the reduction in domestic flight: Service revenue fell 2.70 percent to 197.12 million Baht. This was attributable to the decline in the domestic flight compared to the same period last year. However, the Company still had additional revenue from Nok Premium Seat and the increment in service fee as well as additional income from the rental service of ground handling equipment.

Other income decreased compare to Q3/2015 mainly due to a fall in gain on the exchange rate: Other income in Q3/2016 declined from the same period last year, because there was unrealized gain on the exchange rate of Pre-Delivery Payment (PDP) in Q3/2015. Meanwhile, the Company had extra profits from selling one jet aircraft under sale and lease back transaction to the lessor which is considered one-time profit once the aircraft is delivered.

9M/2016

For 9-month performance, the passenger revenue and ASK dropped 2.70 and 0.37 percent respectively from the same period last year, owing to the reduction of domestic flights to fit pilot capacity. The service revenue inched down 1.79 percent from the same period last year. However, the rate of the decrease in the service revenue was less than the decline in the passenger revenue. This was because the Company provided new services of Nok Premium Seat, the increment of service fee and additional income from the rental service of ground handling equipment.

Expenses for the period (Separate Financial Statement)

Unit: million Baht	Q3/2015		Q3/2016		Percent Change	9M/2015		9M/2016		Percent Change
	Amount	Percent to total expense	Amount	Percent to total expense		Amount	Percent to total expense	Amount	Percent to total expense	
Costs of passenger and services	3,247.63	93.43	3,890.38	94.14	19.79	9,535.63	94.32	10,905.80	94.27	14.37
Selling expenses	79.08	2.27	48.13	1.16	(39.14)	169.04	1.67	112.80	0.97	(33.27)
Administrative expenses	138.61	3.99	173.39	4.20	25.09	383.15	3.79	457.63	3.96	19.44
Financial costs	10.80	0.31	20.79	0.50	92.50	22.35	0.22	92.60	0.80	314.32
Total expenses	3,476.12	100.00	4,132.69	100.00	18.89	10,110.17	100.00	11,568.83	100.00	14.43

Q3/2016

In Q3/2016, total expenses were recorded at 4,132.69 million Baht, rising 18.89 percent from the same period last year. The operating expenses rose in response to the fleet



expansion. Hence, the Company had higher aircraft lease rental and aircraft maintenance, in coupled with the over and above expenses from the engine shop visit. Additional expenses also included the claimable expenses from insurance on aircraft maintenance from the incidents that occurred during Q3/2016. Cost per Available Seat-Kilometer (CASK) increased 11.69 percent from Q3/2015 to 2.54 Baht per Seat-Kilometer, and total costs excluding fuel costs (CASK excl. Fuel) was at 2.10 Baht/Seat-Kilometer, climbing 18.18 percent.

Variable costs increased due to aircraft maintenance and the claimable expenses from insurance on aircraft maintenance incurred from Q3/2016 incidents: The Company had total variable costs at 2,565.79 million Baht, edging higher 13.75 percent from the same period last year. The Company incurred higher aircraft maintenance that rose with the fleet expansion, and there was the over and above expenses from the engine shop visit. Though, such additional expense is a one-time expense once the aircraft is scheduled for a heavy maintenance. In addition, the Company had realized the claimable expenses from insurance on aircraft maintenance from the incidents that occurred during Q3/2016. Such claimable expenses would be recorded again in the future as other income when the Company was confirmed the compensation of the incidents by the insurance company. Therefore, variable costs per Available Seat-Kilometer (VC/ASK) rose 8.23 percent to 1.58 Baht per Seat-Kilometer. Meanwhile, the variable costs per unit excluding additional items (the over and above expenses and the claimable expenses from insurance) was at 1.37 Baht per Seat-Kilometer. Fuel costs per ASK edged down 11.54 percent to 0.44 Baht per Seat-Kilometer.

Fixed costs went up significantly following the fleet expansion: In Q3/2016, the Company had fixed costs of 1,293.10 million Baht, rising 35.23 percent from the same period last year, in line with the fleet expansion of the brand-new aircraft. Moreover, the Company also incurred personnel expenses and aircraft insurance that crept up following the larger fleet. Fixed costs per unit (FC/ASK) soared 28.66 percent from Q3/2015 to 0.80 Baht per Seat-Kilometer.

Financial costs rose from the commitment fees of providing an agreement for aircraft financing: The Company had additional financial costs of 20.79 million Baht as it had commitment fees to Pre-Delivery Payment (PDP) commitment agreement in the short-term and long-term.

9M/2016

In period of 9 months, total expenses were 11,568.83 million Baht, up from 10,110.17 million Baht during 9 months in 2015. The increment of the total expenses was driven by a 4.61 percent depreciation of the Thai Baht against the U.S. dollars. Both variable costs and fixed costs edged up as a result. Variable costs crawled up 5.89 percent to 7,120.63 million Baht because the Company had higher aircraft maintenance following the fleet expansion and the over and above expenses for engine shop visit. Nevertheless, fuel costs plummeted 22.40 percent to 1,954.50 million Baht, and fuel costs per ASK was at 0.43 Baht per Seat-



Kilometer, decreasing 22.11 percent from the same period last year. Fixed cost per unit was at 1.55 Baht per Seat-Kilometer, up from 1.46 Baht per Seat-Kilometer in the 9 months of 2015.

Fixed costs, meanwhile, inched higher 35.39 percent at 3,677.57 million Baht in accordance with the larger fleet of aircraft. The Company had other expenses related to aircraft which are personnel expenses and aircraft insurance. Fixed cost per unit spiked from 0.59 Baht per Seat-Kilometer in 9 months of 2015 to 0.80 Baht per Seat-Kilometer in the same period of 2016.

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

Unit: million Baht	Q3/2015		Q3/2016		Percent change	9M/2015		9M/2016		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 tax	(349.78)	(11.19)	(918.45)	(28.57)	162.58	(345.62)	(3.54)	(2,002.49)	(20.93)	479.40
Income tax expense (income)	(0.12)	(0.00)	(0.26)	(0.01)	116.67	(0.27)	(0.00)	0.22	0.00	(182.21)
Profit (Loss) for the period	(349.66)	(11.18)	(918.18)	(28.57)	162.59	(345.35)	(3.54)	(2,002.71)	(20.93)	479.91
Total comprehensive income (loss) for the period	(349.66)	(11.18)	(918.18)	(28.57)	162.59	(345.35)	(3.54)	(2,002.71)	(20.93)	479.91
Basic Earnings (loss) per Share (Baht)	(0.56)		(1.47)			(0.55)		(3.20)		

With the situation mentioned above, the Company had total operating expenses more than the total revenue. Therefore, it booked 918.45 million Baht loss before income tax expenses and 918.18 million Baht of total comprehensive loss for the three-month period. For 9-month period of 2016, the Company recorded loss before income tax expenses at 2,002.49 million Baht and total comprehensive loss for the period was at 2,002.71 million Baht.

Key milestone for Q3/2016

- The Company launched 1 international route for charter flights from Phuket to Nantong. The number of charter flights operated in Q3/2016 were as follows:
 - Phuket – Chengdu v.v. 7 weekly round trips
 - Don Mueang – Yingchuan v.v. 1 weekly round trip
 - Don Mueang – Nanning v.v. 1 weekly round trip
 - Don Mueng – Macau – Palau v.v. 1 weekly round trip
 - Phuket – Nantong v.v. 3 weekly round trips

However, the measures to clear up ‘Zero-Dollar’ Tour would have an impact on the operation of charter flights in the short term; the charterers negotiated to trim the weekly flight frequency in some routes between November and December 2016.

- The Company recorded the over and above expenses on engine shop visit, which is a one-time expense once the engine is scheduled for the heavy maintenance, including the claimable expenses from insurance on the aircraft maintenance from the incidents that occurred during Q3/2016. Both expenses, as a non-recurring item, were at 355.93 million Baht in total, or accounted for 8.66 percent of the total operating expenses. The details are as follows:



- The Company incurred the claimable expenses from insurance on aircraft incidents that occurred during Q3/2016. Total claimable expenses were booked in the amount of 209.43 million Baht, and the Company will record such expenses as other income again in the future when it is confirmed the compensation by the insurance company.
 - The aircraft engines were scheduled for the engine shop visit. Hence, the Company evaluated the expected over and above expenses and booked such expenses in the amount of 146.50 million Baht in Q3/2016. The over and above expenses will be paid once the maintenance is completed.
3. Change in service fee for the change of travel itinerary in September 2016
- For domestic flights, changing fee was adjusted from THB735 including VAT/passenger/transaction to THB735 including VAT/seat/flight
 - For international flights, changing fee was adjusted from THB735 excluding VAT/passenger/transaction to THB735 excluding VAT/seat/flight
4. The acquisition of brand-new aircraft
- 2 Turbo propeller aircraft (Bombardier Q400s) in July 2016
 - 1 Jet aircraft (Boeing 737-800 New Generation) in August 2016

As of Q3/2016, the Company had 32 aircraft in the fleet; these comprised of 22 jets with average life of 7.8 years, 8 Turbo propeller Q400s with average life of 1.3 years, and 2 Turbo propeller ATRs with average life of 9.3 years.

Operating Performance of NokScoot Airlines Co., Ltd.

For Q3/2016 performance of NokScoot Airlines Co., Ltd, total revenue was 1,101.24 million Baht, increasing from 234.09 million Baht from Q3/2015. Total costs and expenses were 1,247.84 million Baht, up from 532.49 million Baht from the same period last year. Net loss was at 146.60 million Baht, decreasing from 298.40 million Baht loss in the same period last year, or dropping by 50.87 percent. NokScoot could operate scheduled flights to new destinations which increased aircraft utilization. During July and September 2016, NokScoot's passenger and transportation revenue was at 897.64 million Baht, soaring from Q3/2015 at 188.83 million Baht.

For 9-month period, NokScoot operating performance improved markedly compared to 9M/2015 from the operation of scheduled flights to new destinations in China and the increase of flight frequency in the existing routes. Meanwhile, in the same period last year, it was affected by ICAO's red flag on a significant safety concerns. Thereby, the initial plan to



Japan and South Korea was temporarily deferred, and NokScoot then instead shifted its plan towards international routes to China.

For the first nine months of the year, total revenue was 2,936.43 million Baht, up from 528.95 million Baht in 9M/2015. Total costs and expenses also edged up at 3,309.09 million Baht, rising from 1,445.89 million Baht. This resulted in an increase in both total revenue and total costs and expenses. However, net loss was recorded lower at 376.45 million Baht, compared to 916.94 million Baht loss in the same period last year.

Currently, NokScoot mainly operates flights with 3 Boeing 777-200s. NokScoot's destinations include Don-Mueang-Nanjing v.v. 7 weekly round trips, Don Mueang-Taipei v.v. 4 weekly round trips, Don Mueang-Qingdao v.v. 4 weekly round trips, Don Mueang-Tianjin v.v. 4 weekly round trips, Don Mueang-Shenyang v.v. 3 weekly round trips, Don Mueang-Chongqing 3 v.v. weekly round trips, and Don Mueang-Dalian v.v. 3 weekly round trips.

Financial Position (Consolidated)

Unit: million Baht	Consolidated Financial Statement			
	As of 31 December 2015	As of 30 September 2016	Change	Percent
Total Assets	7,110.22	5,447.46	(1,662.76)	(23.39)
Total Liabilities	4,168.16	4,907.56	739.40	17.74
Total owners of the parent	3,047.22	936.97	(2,110.25)	(69.25)
Non-controlling interests	(105.16)	(397.06)	(291.90)	277.58
Total Shareholders' Equity	2,942.06	539.91	(2,402.15)	(81.65)

Assets

As of 30 September 2016, the Company and its subsidiaries' total assets were 5,447.46 million Baht, a 23.39 percent decline from the year-end 2015. Current assets were recorded at 4,521.70 million Baht and non-current assets stood at 925.76 million Baht. They accounted for 83.01 percent and 16.99 percent of the total assets respectively.

Cash and cash equivalents declined with operating activities and the repayment of short-term loans to financial institutions: Cash and cash equivalents slipped 34.76 percent from the year-end 2015, as the Company mainly used cash in the operating activities and the repayment of short-term loans to financial institutions amounting to 520 million Baht. This also included the advanced payment of aircraft and engine maintenance. Meanwhile, the subsidiary company had additional cash and cash equivalents due to an improvement in the operating performance during 9 months of the current year compared to at the end of 2015.



Trade and other receivables increased mainly due to the advanced payments for aircraft and engine maintenance: As aircraft engines were scheduled for the maintenance program, the Company has made the advance payment to service providers, and currently, it was the process of Maintenance Reserve reimbursement from aircraft lessors in which the Company had paid to the lessors earlier on a monthly basis, as stated in the aircraft lease agreement. In addition, trade and other receivables also increased from better operating performance of NokScoot Airlines Co., Ltd which has fully operated in its scheduled flights.

Liabilities and Shareholders' Equity

Fleet expansion led to an increase in total liabilities: As of 30 September 2016, the Company and its subsidiaries had total liabilities of 4,907.56 million Baht, rising by 17.74 percent from the year-end 2015. The larger fleet prompted the Company to have the increment in the short-term and long-term provisions for aircraft maintenance of 28.71 million Baht and 84.09 million Baht respectively from the year-end 2015. Such provisions have been deemed as normal expenses since 2015 when the Company started to have the obligation to pay for aircraft maintenance.

Trade and other payables edged up as a result of rising account payable, unearned revenue and accrued expenses: Trade and other payables of the Company and its subsidiaries went up from 2,934.20 million Baht as of the end of 2015 to 4,030.63 million Baht. An increment of trade payables, unearned revenue and accrued expenses ensued from the continuity of NokScoot Airlines Co., Ltd's operations.

Operating loss lessened shareholders' equity: The Company and its subsidiaries had 539.91 million Baht of total shareholders' equity, a 81.65 percent fall from those as of 31 December 2015. The owners of the parent realized its operating loss of 2,110.26 million Baht, and those of Non-controlling interests and joint ventures of 291.90 million Baht.

**Cash flow statement (Consolidated)**

Unit: million Baht	Consolidated Financial Statement			
	For 9 months as of 30 September 2015	For 9 months as of 30 September 2016	Change	Percent
Net cash provided by (used in) operating activities	(241.64)	(1,090.32)	(848.68)	351.22
Net cash provided by (used in) investing activities	131.02	154.73	23.71	18.09
Net cash provided by (used in) financing activities	255.00	(530.88)	(785.88)	(308.18)
Effect from foreign exchange rate in cash and cash equivalents	82.99	1.80	(81.19)	(97.83)
Net increase (decrease) in cash and cash equivalents	227.37	(1,464.67)	(1,692.04)	(744.17)
Cash and cash equivalents as of 1 January	2,926.61	4,213.75	1,287.14	43.98
Cash and cash equivalents as of 30 September	3,153.98	2,749.08	(404.90)	(12.83)

As of 30 September 2016, the Company and its subsidiaries used cash in operating activities by 1,090.32 million Baht. The main transaction of cash outflows was trade and other receivables incurred from advanced payment for aircraft and engine maintenance, including trade receivables from other parties.

Net cash provided by investing activities largely came from cash received from temporary investment of 249.82 million Baht and interest 33.15 million Baht, whereas cash was used to purchase intangible assets by 128.81 million Baht.

Net cash used in financing activities was the repayment of short-term loans from financial institutions of 520 million Baht and the interest payment of 10.88 million Baht.

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