



PE 068/2015

12 November 2015

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

Subject: Management Discussion and Analysis for 3Q2015

Dear Madam,

According to financial performance report of Nok Airlines Public Company Limited (the Company) in 3rd quarter at the end of 30th September 2015, the Company and its subsidiaries reported that net loss was 652.62 million Baht which had changed over 20 percent from the same period last year. Net Loss can be categorized into loss from owner of parent and Non-Controlling interest in amount of 584.30 million Baht and 435.99 million Baht. As a consequence, the Company would like to clarify the causes of change in overall operational results as following:

Executive summary

In 3Q2015, the Company and its subsidiaries generated total revenue of 3,356.20 million Baht and reported net loss of 652.62 million Baht which can be categorized to loss of 423.54 million Baht from the Company and the rest is from Non-controlling interest in amount of 229.08 million Baht. Operating loss of the firm caused by low season effect and loss recognition from Nok Scoot Airline in the proportion of shareholding.

Company's revenue in 3Q2015 was 3,141.28 million Baht, 14.47 percent increase from the same period last year. The increase in revenues were mainly due to 21.18 percent increase in Available Seat Kilometers (ASK), Revenue Passenger Kilometers (RPK) grew by 19.18 percent and number of passenger carried hike by 8.14 percent from the same period last year. However, from an extended intense pricing competition, Revenue per Available Seat Kilometers (RASK) decreased to 1.92 Baht/Seat/Kilometer, 11.20 percent shrank. Cost per Available Seat Kilometers (CASK) improved to 2.27 Baht/Seat/Kilometer, 7.37 percent reduce. In 3Q2015, the Company recorded net loss of 349.66 million Baht which is quite similar to net loss of 353.27 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 ticket price fierce competition from over supply during low season and sluggish economic growth caused by low consumer spending due to high debt level, agriculture products price declining and droughty. On the other hand, investment from private sector was postponed while export shrink resulting from decline in domestic tourist. Office of National Economic and Social Development (NESDB) has revised Thailand's GDP Growth in 2015 down to 2.7-3.2 percent from 3.00-4.00 percent previously. However, number of foreign tourists has continuously increased. Bombing in Bangkok central business district in August 2015 has limited effect to Thailand tourism. According to information from Ministry of Tourism and Sport, foreign tourist visiting to Thailand in 3Q2015 grew up by 24.3 percent from same period last year. Number of Chinese tourist 2.1 million, ranking number 1, increased 29.0 percent approximately comparing to 3Q2014.

Number of air travel passengers in Thailand

Million	2014		2015		Change (%)	
	3Q	Jan-Sep	3Q	Jan-Sep	3Q 2014 vs. 2015	Jan-Sep 2014-2015
Overall pax	5.96	18.05	7.35	22.40	23.25	24.10
Nok Air pax	1.76	5.06	1.81	5.94	2.84	17.39
Nok Air Market share	29.53%	28.03%	24.62%	26.52%	(4.89)	(1.51)

Based on above statistic, overall air travel passengers grew significantly. Number of passengers in 3Q and accumulated January-September 2015 rose 23.25 percent and 24.10 percent respectively which caused by significant number of new-comer airlines as well as capacity expansion of existing airlines. Therefore, Nok Air's organic growth capacity was unable to match industry level.

USDTHB exchange rate and jet fuel price are key factors of operating costs and expenses, in 3Q2015 USDTHB was 35.25 in average, weakened by 5.97 percent from 33.27 comparing to same period last year and in line with neighboring countries as a result of capital outflow following the anticipated increase of the US policy interest rate and domestic economic slowdown including concern of economic slowdown in China. The Company's USD exposure costs accounted for around 70 percent of total operating costs. Expenses in USD mainly comprises of fuel cost, aircraft maintenance, aircraft lease rental, aircraft insurance.

Average jet fuel price was 60.85 USD a barrel, decreased by 47.52 percent from the same period last year. The fall of jet fuel price was in line with a downward trend of crude oil market price. Cost of jet fuel in 3Q2015 accounted 22 percent of total operating costs, decreased 35 percent from the same period last year.



Although the Company was able to maintain its 3Q2015 cabin factor at a very high rate of 82.83 percent, but RASK decreased to 1.92 Baht/Seat/Kilometer or 11.20 percent comparing to same period last year. Main reasons were due to intense pricing competition and low season effect. CASK improved 7.37 percent to 2.27 Baht/Seat/Kilometer mainly due to jet fuel price declining. In 3Q2015, the Company recorded a net loss of 349.66 million Baht slightly improve from net loss of 353.27 million Baht in Q3/2014, 1.02 percent decrease.

9-month performance in 2015, Group's performance recorded net loss of 1,275.24 million Baht, increased 131.83 percent from same period last year which can be categorized into Owner of Parent and Non-Controlling interest by 571.85 and 703.39 million Baht respectively. Net loss caused by Nok Air operating loss during low season and acknowledging loss in NokScoot Airlines Co., Ltd. by proportion of shareholding.

Operating performance of NokScoot Airline Co., Ltd.

For 9-month performance of NokScoot Airline Co., Ltd, overall revenue was 528.95 million Baht, total expenses were 1,445.92 million Baht, and net loss was 916.94 million Baht. NokScoot's plan to fly to north Asia, especially Japan and Korea, was delayed by the assessment result of Department of Civil Aviation Thailand announced by International Civil Aviation Organization (ICAO). Therefore, the airline changed its plan heading to China market, for instance Don Mueang-Nanjing v.v. currently 6 weekly flights. For cost side, NokScoot scrutinized all possible costs and expenses in order to survive in such tough situation i.e. renegotiating with lessor and its MRO on pricing and payment scheme. As a result, its revenue in 3Q2015 increased to 234.09 million Baht or 63.65 million Baht comparing to 2Q2015. Net loss was 298.40 million Baht, improved 25.80 percent.

In 4Q2015, NokScoot will expand 2 routes from Don Mueang to Taipei, Taiwan and Qindao, China at 4 flights a week each route, starting from 25 October and 25 November 2015 respectively. Moreover, charter flights from Don Mueang to Narita, Japan remains going on.

NokScoot operates 3 Boeing 777-200 currently but has no fleet expansion plan until Significant Safety Control problem is resolved.

Key milestones in 3Q2015

1. 3rd flight Don Mueang-Yangon v.v. was introduced since 2 September 2015. This is to serve rising demand and offer more convenience.
2. The Company has launched charter flight Don Mueang-Yinchuan v.v. 1 flight weekly and Krabi-Chengdu-Phuket v.v. 7 flights weekly. Besides that, existing charter flight Don Mueang-Hefei v.v. (4 flights weekly) and Don Mueang-Nanning v.v. (3 flights weekly) are continuing. At the end of 3Q2015, Nok Air operates charter flight to China 4 routes totally.



3. Nok Air acquired 1 Boeing 737-800 NG on 21 August 2015 and 2 Q400 NextGen on 28 and 30 September 2015.

Key statistics and business ratio (excluding subsidiaries)

	Unit	3Q2014	3Q2015	Change	
				Amount	Percent
Number of aircrafts (at the end of quarter)					
- Boeing 737-800 NG		16	19	3	18.75%
- ATR72-500		2	2	0	-
- Q400 NextGen		2	6	4	200.00%
- Average No. of aircrafts		15.9	18.5	2.6	16.35%
Available Seat Kilometers: ASK	Mil. seat-Km.	1,271	1,540	269	21.18%
Revenue Passenger Kilometers: RPK	Mil. seat-Km.	1,071	1,276	205	19.18%
Number of Sectors		12,784	15,501	2,717	21.26%
Cabin factor		84.22%	82.83%	(1.39) pts	-
Passenger carried	Million	1.89	2.05	0.15	8.14%
Passenger yield	Baht/Pax/Km.	2.36	2.11	(0.25)	(10.29%)
Revenue per Available Seat-Kilometer: RASK	Baht/Seat/Km.	2.16	1.92	(0.24)	(11.22%)
Cost per Available Seat-Kilometer: CASK	Baht/Seat/Km.	2.45	2.27	(0.18)	(7.37%)
Cost per Available Seat-Kilometer exclude fuel cost : CASK exc. fuel	Baht/Seat/Km.	1.62	1.78	0.16	9.88%

Q3/2015 Performance (separate financial statements)

Unit: million Baht	3Q2014		3Q2015		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
Passenger revenues	2,523.12	91.94%	2,697.14	85.86%	174.02	6.90%
Service revenues	190.60	6.95%	223.61	7.12%	33.01	17.32%
Other income	30.58	1.11%	220.53	7.02%	185.95	621.16%
Total revenue	2,744.30	100.00%	3,141.28	100.00%	396.98	14.47%

Revenue

In 3Q2015, total revenue was 3,141.28 million Baht, increased 14.47 percent from the same period last year. It is comprises of passenger revenues 2,697.14 million Baht, 85.86 percent of total revenue, Service revenues 235.03 million Baht, 7.12 percent of total revenue and other income of 220.53 million Baht, 7.05 percent of total revenue. Revenue per Available Seat-Kilometer (RASK) was 1.92 Baht/Seat/Km., declined 11.22 percent because of ticket price intense competition including sales promotion on airfare to boost passenger revenue during off-season and also secure demand from longer term advance booking.



Passenger revenues grew in line with increased number of passengers: In 3Q2015, passenger revenues grew 6.90 percent from same period last year due to the increase in number of passengers to 2.05 million or 8.14 percent comparing to same period last year. Revenue growth was in line with fleet expansion. Passenger Yield was 2.36 Baht/Seat/Km. or decline 10.29 percent.

Revenue Passenger Revenue (RPK) in Q3/2015 rose up by 19.18 percent from the same period last year while ASK hike by 21.18 percent and Cabin Factor slightly decline to 82.83 percent from previous year which the firm can maintain Cabin Factor above 80 percent for 5 quarter consecutively.

Service revenues increased in line with passenger growth and from launching new services: Service revenue is a kind of low-hanging fruit product. Passenger growth can drive service revenues tremendously. Outstanding growth of revenues are from coach and boat transfer service - namely Fly'n'Ride and Fly'n'Ferry, 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. In 3Q2015, Service revenues rose 17.32 percent from same period last year.

Other income significantly hike from gain from FX and profit from aircraft selling: Other income in 3Q2015 increased 621.16 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. The Company acquired 3 aircrafts in 3Q2015 by way of Sale and Lease back. Therefore, the difference between purchase price from manufacturers and selling price to lessors were recorded as a profit from aircraft selling, which is one-time arising at the period 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	2,886.53	105.18%	3,273.37	104.21%	386.84	13.40%
Selling expenses	83.90	3.06%	79.08	2.52%	(4.82)	(5.74%)
Administrative expenses	126.17	4.60%	138.61	4.41%	12.44	9.86%
Finance costs	1.00	0.04%	0.00	0.00%	(1.00)	(100.00%)
Total Expenses	3,097.60	112.87%	3,491.06	111.13%	393.46	12.70%

Expenses

Total expenses in 3Q2015 were 3,491.06 million Baht or increased 12.70 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 2.27 Baht/Seat/Km. or decreased 7.37 percent and unit cost excluding fuel cost (CASK exc. fuel) was 1.64 Baht/Seat/Km. or



up 2.21 percent. For unit cost of selling, general & administrative expenses (SG&A/ASK) was 0.13 Baht/Seat/Km., declined 11.51 percent as a result of economy of scale.

Falling fuel price helped relieve an increasing in variable costs amid higher level of production, fleet expansion and scheduled aircraft maintenance expenses: Total variable costs of 3Q2015 increased 4.33 percent from same period last year to 2,255.84 million Baht caused by an increase in production. ASK increased 21.18 percent to 1,540 million seat-Km. while other variables costs increased according to the production level. Fuel cost decreased due to world market price declining. However, aircraft maintenance cost is major reason for cost excluding fuel increasing. During low season, Nok Air seized some production level for aircraft maintenance, preparing the aircrafts to be ready for service in coming high season in 4Q2015 and 1Q2016. Over and above 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) was 1.46 Baht/Seat/Km. or decreased 13.91 percent from 3Q2014. Fuel cost per unit (Fuel/ASK) reduced to 0.64 Baht/Seat/Km. or decreased 25.39 percent.

Fixed costs increased mainly due to brand-new fleet expansion: Fixed cost increased 37.45 percent to 956.25 million Baht, mainly from acquiring brand-new aircrafts. At the end of period, the Company has 27 aircrafts comparing to 20 aircrafts at the end of 3Q2014. 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 0.62 Baht/Seat/Km., increased 13.42 percent.

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

Unit: million Baht	Q3/2014		Q3/2015		Change	
	Amount	Percent to total revenue	Amount	Percent to total revenue	Amount	Percent
Profit (Loss) before income tax expense	(353.31)	(12.87)%	(349.78)	(11.13)%	3.53	1.00%
Income tax expense (income)	(0.03)	0.00%	(0.12)	0.00%	(0.08)	246.05%
Profit (Loss) for the period	(353.27)	(12.87)%	(349.66)	(11.13)%	3.61	1.02%
Total comprehensive income (loss) for the period	(353.27)	(12.87)%	(349.66)	(11.13)%	3.61	1.02%
Basic Earnings per Share (Baht)	(0.57)	-	(0.56)	-	0.01	-

Given a fierce price competition in domestic market, increase in total expenses and low season period, the Company booked 349.78 million Baht loss before income tax expense for 3Q2015, decreased 1.00 percent from 3Q2014 and comprehensive loss for the period was 349.66 million Baht, decreased 1.02 percent.



Company's operating performance for nine-month period of 2015

For nine-month period ended 30 September 2015, the Company's total revenue were 9,807.39 million Baht or increased 13.24 percent from same period last year. Key driver was a growth of passengers carried, 20.56 percent growth to 6.49 million. The increase in passenger carried also yielded 24.72 percent growth in service revenues – especially reservation & payment revenues, transfer service revenue, travel insurance commission revenue and merchandise sale. Other income rose 210.13 percent essentially due to realized and unrealized gain in foreign exchange as Baht depreciated against US Dollar. Profits from aircraft selling under Sale and Lease Back Agreement with lessor in 3Q2015 also shown in Other income.

Total expenses were 10,153.01 million Baht, increased 11.17 percent, mainly from an increase in flight frequency and fleet expansion. Major expenses are aircraft maintenance, aircraft operating lease and spare parts lease expenses, flight crew expenses and airport service fees. Fuel expense reduced 30.23 percent though flight frequency was increased, benefited from dramatically lower market fuel price.

Refer to the factors mentioned above, the Company recorded loss before income tax expense 345.62 million Baht or decreased 26.79 percent from same period last year. The Company's comprehensive loss for nine-month period was 345.35 million Baht or reduced 26.81 percent.

Nine-month period ended 30 September 2015, earnings before interest and tax, depreciation, amortization and rent (EBITDAR) was 1,668.79 million Baht, 85.88 percent growth from same period last year.

Financial Position (consolidated financial statements)

Unit: million Baht	Consolidated financial statements			
	As at 31 December 2014	As at 30 September 2015	Change	Percent
Total Assets	6,569.00	6,464.23	(104.78)	(1.60%)
Total Liabilities	2,219.65	3,135.11	915.46	41.24%
Total owners of the parent	3,771.12	3,199.27	(571.85)	(15.16%)
Non-controlling interests	578.23	129.84	(448.39)	(77.54%)
Total Shareholders' Equity	4,349.35	3,329.12	(1,020.24)	(23.46%)

Assets

As at 30 September 2015, the Company and its subsidiaries' total assets were 6,464.23 million Baht or decreased 1.60 percent comparing to 2014 year end. Total assets consisted of total current assets 5,490.50 million Baht and total non-current assets 973.73 million Baht, accounted as 84.94 percent and 15.06 percent of the total assets respectively.



Trade and other receivables increased mainly due to advance payments for aircraft engine maintenance and refundable prepayment deposit of aircraft acquisition from lessor: In 3Q2015, the Company made an advance payment for aircraft engine maintenance and currently in a reimbursement process with the lessor. And in relation to the delivery of one of Q400 NG on 30 September 2015, the Company will receive a returning of pre-delivery payment (PDP) that the Company had paid to manufacturer under Sale and Lease Back Agreement with lessor.

As at 30 September 2015, trade and other receivables were 1,277.90 million Baht, increased 197.03 percent compared with the year ended 31 December 2014.

Decrease in short-term and long-term aircraft deposits and prepayments caused by delivery of aircrafts and a returning of pre-delivery payment (PDP) that the Company has paid to manufacturer: In 3Q2015 two aircrafts were delivered to the Company – one of Boeing 737-800 New Generation on 21 August 2015 and one of Q400 NG on 28 September 2015. In addition, the Company had signed Pre-Delivery Payment financing contract with lessors for the rest of brand new five jet aircrafts delivery during 2015 –2017. By doing so, the Company received a returning of PDP that the Company has paid to manufacturer. At the end of Q3/2015, short-term and long-term aircraft deposits and prepayments were 608.89 million Baht and 513.49 million Baht, decreased 51.00 percent and 49.28 percent from end of year 2014 accordingly.

Liabilities and Shareholders' Equity

Production and fleet growth increased total liabilities: As at 30 September 2015, total liabilities amounted to 3,135.11 million Baht, increased by 41.24 percent compared with the year ended 31 December 2014. The increase in total liabilities were mainly from trade and other payables which resulted from production growth. In addition, bigger fleet size increased provisions for aircraft maintenance and was another factor that raised the total liabilities. There was no interest-bearing debt at the end of the period.

Loss from operation decrease shareholders' equity: Total shareholders' equity were 3,329.12 million Baht or fell 23.46 percent compared with the year ended 31 December 2014. The loss of nine-month period operation was the reason which comprise of comprehensive loss attributed to owners of the parent 571.85 million Baht and comprehensive loss of non-controlling interests 703.39 million Baht.

**Cash flow statement (consolidated)**

Unit: million Baht	Consolidated financial statements	
	9M/2014	9M/2015
Net cash provided by (used in) operating activities	(2,427.79)	(241.64)
Net cash provided by (used in) investing activities	2,425.30	131.02
Net cash provided by financing activities	(194.38)	255.00
Effect from foreign exchange rate in cash and cash equivalents	0.93	82.99
Net increase (decrease) in cash and cash equivalents	(195.94)	227.37
Cash and cash equivalents as at January 1,	565.43	2,926.61
Cash and cash equivalents as at September 30,	369.50	3,153.98

For nine-month period ended 30 September 2015, the Company and its subsidiaries had used cash in operating activities 241.64 million Baht. The main operating activity providing cash was a return of short-term and long-term aircraft deposits and prepayments by entering the aircraft PDP financing agreements with lessors and aircraft delivery. Main cash outflow activity for operating activities was trade and other receivables due to advance payments for aircraft maintenance and return of aircraft deposit.

Source of cash provided from investing activities principally came from cash received for temporary investments 183.96 million Baht and cash received from interest income and short-term investment 34.34 million Baht. The used of cash from investing activities were consisted of cash payment for acquisition of equipment and intangible assets 86.50 million Baht.

Net cash provided in financing activities was 255 million Baht, which came from the paid up of share subscription in NokScoot Airline Co., Ltd. amount 500.00 million Baht in 1Q2015, resulting the Company and its subsidiaries received cash amount 255.00 million Baht from the subsidiary's share subscription by the non-controlling interests shareholders, consisted of 245.00 million Baht from Scoot Pte. Ltd. and 10.00 million Baht from other shareholders.