



Ref: PE 061/2015

14 August 2015

Subject: Management Discussion and Analysis of 2<sup>nd</sup> Quarter of 2015  
Nok Airlines Public Company Limited

Attention: President  
The Stock Exchange of Thailand

According to financial performance report of Nok Airlines Public Company Limited (the Company) in 2<sup>nd</sup> quarter ended 30<sup>th</sup> June 2015, the Company and its subsidiaries reported that net loss was 458.00 million Baht separated to the part of owners of the parent 150.10 million Baht and the part of Non-controlling interests 307.90 million Baht. The performance had changed over 20 percent comparing to the number of same period of the previous fiscal year. As a consequence, the Company would like to clarify the causes of change in overall operational results as following:

### **Executive summary**

In Q2/2015, the Company and its subsidiaries generated total revenue of 3,356.33 million Baht and reported net loss of 458.00 million Baht separated to the part of owners of the parent 150.10 million Baht and the part of Non-controlling interests 307.90 million Baht. One of the main contributors for the results was a loss recognition in subsidiaries. The majority was loss in NokScoot Airlines Co., Ltd.

The total revenue for the Company only was 3,223.73 million Baht or 13.89 percent increase compared to the same period last year. The increase in revenues were mainly due to 21.28 percent increase in Available Seat Kilometers (ASK) while Revenue Passenger Kilometers (RPK) increase even higher at 30.13 percent and number of passenger carried increase 22.76 percent. However, from an extended intense pricing competition, Revenue per Available Seat Kilometers (RASK) was decreased to 2.00 Baht/Seat/Kilometer or 7.80 percent decreased. Cost per Available Seat Kilometers (CASK) improved to 2.10 Baht/Seat/Kilometer or reduced 9.48 percent which decreased at higher rate in comparison to RASK. In Q2/2015, the Company recorded net loss of 51.33 million Baht compare to net loss of 159.53 million Baht in Q2/2014.



## Key factors and events affect company's performance

In Q2/2015 domestic low-cost carrier industry is still facing fierce price competition. Moreover, a continuation in domestic economic sluggish has been impacting domestic tourism spending which Office of the National Economic and Social Development Board (NESDB) has revised Thailand's GDP growth this year down to 3.00 – 4.00 percent, from the previous projection 3.50 – 4.50 percent.

In contrast to domestic tourism spending, international tourism arrivals to Thailand shows significant growth in first five months of this year. Since 1 January 2015 the accumulated amount of foreign tourists visiting Thailand has reached 12.45 million or grown 24.72 percent from the same period last year. Top five foreign visitors came from China, Malaysia, Japan, South Korea and Laos. According to the Company strategic plan, in Q2/2015 Nok Air operated charter flight service for tour groups flying from China to Don Mueang in 2 routes, Don Mueang – Hefei v.v. (4 weekly flights) and Don Mueang – Nanning v.v. (3 weekly flights)

For exchange rates and jet fuel price which are key factors to operating costs and expenses, in Q2/2015 Thai Baht per US dollar was 33.27 on average, weakened 2.51 percent from same period a year earlier as a result of capital outflow following the anticipated increase of the US policy interest rate and domestic economic slowdown. The Company's costs in foreign currencies or those referenced in foreign currencies accounted for 70% of total operating costs and expenses, most of which were fuel cost, aircraft maintenance, aircraft lease rental and aircraft insurance.

Average jet fuel price was 74.73 US dollar a barrel or decreased 37.95 percent from same period last year. The fall of jet fuel price was in line with a downward trend of crude oil price, by reason of oversupply and sluggish demand. The Company's cost of Jet fuel in Q2/2015 accounted for 27 percent of total operating costs and expenses compared to 37 percent in same period last year.

Although the Company was able to maintain its Q2/2015 cabin factor at a very high rate of 83.39 percent, due to an extended intense pricing competition its RASK was 2.00 Baht/Seat/Kilometer or downed by 7.80 percent from same period last year. While CASK was at 2.10 Baht/Seat/Kilometer or downed 9.48 percent because of decreasing in Jet fuel price and benefit of economy of scale from an increase in production and fleet expansion. In Q2/2015 the Company recorded a net loss of 51.33 million Baht compare to net loss of 159.53 million Baht in Q2/2014 or decrease 67.83 percent.



For first half performance of the year 2015, the Company and its subsidiaries recorded net loss of 622.62 million Baht or increased 424.14 percent from same period last year, mainly due to loss in NokScoot Airlines Co., Ltd.

## Key milestones in the 2<sup>nd</sup> quarter of 2015:

1. Nok Air launched charter service from Don Mueang to Nanning with 3 weekly flights. Therefore in Q2/2015 Nok Air operated charter flight service to China in 2 routes, Don Mueang – Hefei v.v. (4 weekly flights) and Don Mueang – Nanning v.v.

### 2. New services

2.1 On May 2015, Nok Air introduced “Nok Sky Café” service, a new experience on board for passengers with premium cup of Nespresso, exclusively served during Q400 flight to Nan, Loei, Lampang, Phrae, Buri Ram, Ranong and Roi Et. Price starts from 85 Baht per cup.

2.2 On May 2015, Nok Air introduced “Nok Premium Seat” service that make passengers feel more convenience or more legroom with a nominal fee. The prices are following:

#### Sit in the front rows

- Seat 31H 31J 31K in Boeing 737-800: 300 Baht (VAT included) per seat per flight per passenger.
- Seat 31A 31B 31C in Boeing 737-800: 240 Baht (VAT included) per seat per flight per passenger.
- Seat in the rows 32-35 in Boeing 737-800: 240 Baht (VAT included) per seat per flight per passenger.

#### Sit in the emergency exit rows

- Seat in the rows 44-45 in Boeing 737-800: 300 Baht (VAT included) per seat per flight per passenger.

2.3 Further to the new services stated above, Nok Air keeps introducing new marketing campaign and sales promotion consistently to ensure brand awareness to all customer segmentations. For example, Nok Air introduced sales promotion campaign to Thai government officers with various extra privileges 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.

3. 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.



## Comprehensive Income Statement (separate financial statement)

Unit: million Baht	Q2/2014		Q2/2015		Change	
	Amount	Percent	Amount	Percent	Amount	Percent
<b>Revenues</b>						
Passenger revenues	2,607.22	92.11%	2,883.18	89.44%	275.96	10.58%
Service revenues	191.50	6.77%	246.39	7.64%	54.89	28.67%
Other income	31.75	1.12%	94.15	2.92%	62.40	196.55%
<b>Total revenue</b>	<b>2,830.47</b>	<b>100.00%</b>	<b>3,223.73</b>	<b>100.00%</b>	<b>393.26</b>	<b>13.89%</b>
<b>Expenses</b>						
Costs of passenger and services	2,804.12	99.07%	3,111.26	96.51%	307.13	10.95%
Selling expenses	75.41	2.66%	48.04	1.49%	(27.37)	(36.29%)
Administrative expenses	118.65	4.19%	115.83	3.59%	(2.81)	(2.37%)
Financial costs	1.27	0.04%	0.00	0.00%	(1.27)	(100.00%)
<b>Total Expenses</b>	<b>2,999.45</b>	<b>105.96%</b>	<b>3,275.13</b>	<b>101.59%</b>	<b>275.68</b>	<b>9.19%</b>
Profit (Loss) before income tax expense	(168.98)	(5.97%)	(51.41)	(1.59%)	117.58	(69.58%)
Income tax expense (income)	(9.45)	(0.33%)	(0.08)	(0.00%)	9.38	(99.18%)
<b>Profit (Loss) for the period</b>	<b>(159.53)</b>	<b>(5.64%)</b>	<b>(51.33)</b>	<b>(1.59%)</b>	<b>108.20</b>	<b>(67.83%)</b>
<b>Total comprehensive income (loss) for the period</b>	<b>(159.53)</b>	<b>(5.64%)</b>	<b>(51.33)</b>	<b>(1.59%)</b>	<b>108.20</b>	<b>(67.83%)</b>
Basic Earnings per Share (Baht)	(0.26)	-	(0.08)	-	0.17	-
Number of weighted average ordinary share (million shares)	625.00	-	625.00	-	-	-



## Key statistics and business ratio (excluding subsidiaries)

	Unit	Q2/2014	Q2/2015	Change	
				Amount	Percent
Number of aircrafts (at the end of quarter)					
- Jet (Boeing 737-800 New Generation)	Aircraft	15	18	3	20.00%
- Turbo Propeller (ATR 72-500)	Aircraft	2	2	0	-
- Turbo Propeller (Q400 NextGen)	Aircraft	0	4	4	100.00%
Available Seat Kilometers (ASK)	Million seat/Kilometer	1,288	1,562	274	21.28%
Revenue Passenger Kilometers (RPK)	Million seat/Kilometer	1,001	1,303	302	30.13%
Number of flights	Sector	12,595	15,813	3,218	25.55%
Cabin factor	Percent	77.72	83.39	7.30 Pts.	-
Number of passenger carried	Million	1.72	2.12	0.39	22.76%
Passenger yield	Baht/Pax/Kilometer	2.02	1.85	(0.18)	(8.81%)
Unit revenue (RASK)	Baht/Seat/Kilometer	2.17	2.00	(0.17)	(7.80%)
Unit cost (CASK)	Baht/Seat/Kilometer	2.32	2.10	(0.22)	(9.48%)

## Revenues

In Q2/2015, the major contributors of increasing in passenger revenue comparing to Q2/2014 were fleet development, production expansion, and the 22.76 percent rising in number of passenger while there was the only 8.81 percent declined of passenger yield. Service revenues and other income have increased continuously due to the production expansion, surge in number of passenger and raise of ticket changing fee and processing fee for credit card. In Q2/2015, the total revenue was equal to 3,223.73 million Baht which increased by 13.89 percent comparing to Q2/2014. Out of the total revenue, passenger revenue was 2,883.18 million Baht or 89.44 percent of the total revenue and service revenue and other income was 340.54 million Baht or 10.56 percent of the total revenue.

## Production

ASK increased to 1,562 million seat/Kilometers or 21.28 percent increased from Q2/2014. Basically, the increase of ASK resulted from the acquiring of three brand new Jet aircrafts and four new Turbo



Propeller aircrafts (Q400 NextGen). In Q2/2015, number of flights increased to 15,813 flights from 12,595 flights in Q2/2014 or 25.55 percent increase.

RPK increased to 1,303 million seat/Kilometers or increased 30.13 percent from the same period last year. Higher growth level of RPK than that of ASK resulting in cabin factor jump up to 83.39 percent compared with 77.72 percent in Q2/2014.

Daily aircraft utilization for Jet decreased to 9.12 block hour compared with 9.38 block hour in Q2/2014. For Turbo propeller the rate decreased to 7.52 block hour from 8.05 block hour.

## **Revenues**

Despite the fact that the company can regularly maintain greater than 80 percent of its cabin factor, price competition and sale promotion to boost up sales in low season to maintain market share had led passenger yield to 1.85 Baht/Pax/Kilometer or 8.8 percent decreased from Q2/2014. Unit revenue (RASK) was 2.00 Baht/Seat/Kilometer or decreased 7.8 percent.

Regarding to the higher number of passenger outweigh the lower passenger yield, passenger revenue was 2,883.18 million Baht which increased by 10.58 percent comparing to Q2/2014. Apart from passenger revenue the company had put the effort to increase ancillary revenue. By providing services related to air transport and increase service rate to correspond with market situation, service revenue and other income was 340.54 million Baht or increased 52.54 percent. Moreover, increasing of unit revenue (RPK) boosted other transportation and ancillary services income which comprise of excess baggage fee, travel insurance, transfer services (Fly'n'Ride, Fly'n'Ferry and Nok Transfer) and sales of food, beverages and merchandise, and so on.

## **Expenses and profits**

For Q2/2015, the total expenses of the Company was 3,275.13 million Baht, increased 9.19 percent from Q2/2014, due to fleet expansion and increasing frequency. The increase in the total expenses for Q2/2015 was mainly from raising in cost of passenger revenue and service revenue. Variable costs for the period were 2,153.76 million Baht or 1.60 percent increased. Main contributions of variable cost were fuel cost, aircraft maintenance expenses, and flight operation services expenses. In addition, fixed cost increased 38.20 percent to



887.67 million Baht, as a result of growth in aircraft and spare part lease rental and flight crew expenses. The increase of these costs resulted from fleet expansion. Selling and Administrative expenses decreased to 163.87 million Baht or decreased by 15.55 percent.

In Q2/2015, unit cost or CASK decreased to 2.10 Baht/Seat/Kilometer or 9.48 percent decreased from same period last year. Variable cost per unit sharply decreased 16.22 percent, while fixed costs per unit rose by 13.95 percent due to spare part lease rental and aircraft lease rental of brand new airplane. Selling, General and Administrative expenses per unit reduced by 21.19 percent as a result of work efficiency improvement policy.

Unit Cost excluding fuel cost (CASK ex. fuel) was 1.48 Baht/Seat/Kilometer, 0.46 percent decreased, whereas fuel cost per unit was 0.63 Baht/Seat/Kilometer, 25.39 percent decreased due to drop in Jet fuel price from 120.42 USD/barrel in Q2/2014 to 74.73 USD/barrel in Q2/2015.

In conclusion, loss before income tax expense Q2/2015 was 51.41 million Baht, 69.58 percent decreased, and tax return for the period was 0.08 million Baht. Therefore, the comprehensive loss for the period was 51.33 million Baht, 67.83 percent decreased from same period last year.

For first six months period of year 2015, the Company's passenger revenue was 6,085.71 million Baht, 10.87 percent increased from same period last year. The capacity was increase while passenger yield was decrease. On the other hand, service revenues were 528.98 million Baht, 30.40 percent increase resulted from growth of passenger and raising service fee for reservation & payment channel and air ticket change fee. The total revenue was 6,725.80 million Baht or 12.78 percent increased.

The total expenses for first six month period of year 2015 were 6,721.63 or 10.51 percent increased. The increase was mainly due to cost relating to adding flight frequency and fleet expansion; such as jet fuel cost, maintenance expenses, aircraft and spare part lease rental, and flight crew expenses.

Earnings before interest and tax, depreciation, amortization and rent (EBITDAR) for first six month period of 2015 was 664.92 million Baht, 96.19 percent increased, and Earnings before interest and tax, depreciation and amortization (EBITDA) for the period was 40.19 million Baht, 144.02 percent increased.



In conclusion, net profit before income tax for first six months period of 2015 was 4.16 million Baht, 103.51 percent increased from same period last year, and tax return for the period was 0.15 million Baht. Therefore, the comprehensive loss for the period was 4.31 million Baht or improved 103.64 percent.

## **Financial Position Analysis**

As of 30 June 2015, the Company and its subsidiaries' total assets were 6,358.55 million Baht, decreased 3.20 percent from year end 2014. The total assets were consisted of 5,153.69 million Baht of current assets and 1,204.87 million Baht of non-current assets, accounted as 81.05 percent and 18.95 percent of total assets respectively. The majority of the assets were cash and short-term investments of 3,296.52 million Baht, increased 2.17 percent from year end 2014. Decreasing in short-term aircraft deposits and prepayments caused by a returning of pre-delivery payment (PDP) that the Company has paid to manufacturer. PDP financing contract is a part of Sale and Lease Back transaction.

The Company and its subsidiaries' total liabilities were 2,376.82 million Baht, increased by 7.08 percent from year end 2014. The increase in liabilities, mainly from unearned income under trade and other payables, increased along with the sales growth as well as the incremental of provisions for aircraft maintenance, growing with the fleet expansion which is a normal business transaction. There was no interest-bearing debt at the end of the period.

The total shareholders' equity was 3,981.74 million Baht or 8.45 percent decreased from year end 2014. The reduction mainly came from six-month accumulated loss of 622.62 million Baht. As a result, the unappropriated retained earnings from 47.08 million Baht at year end 2014 decreased to the unappropriated retained loss at 101.23 million Baht on 30 June 2015. Share capital, premium on share capital and appropriated retained earnings (legal reserve) remained unchanged from year end 2014. For non-controlling interests, increasing in share capital of a subsidiary was 255.00 million Baht and total comprehensive loss for the period was 474.31 million Baht.

## **Cash Flow Statement Analysis**

For the six-month period as of 30 June 2015, the Company and its subsidiaries had used cash in operating activities 176.33 million Baht, net cash provided by investing activities 177.24 million Baht and net cash provided





by financing activities 255 million Baht. Effect from exchange rate in cash was 14 million Baht. Then cash and cash equivalents as of 30 June 2015 was 3,196.52 million Baht.

The loss before income tax expense from the Income Statement of the Company and its subsidiaries was 622.77 million Baht. After adjusting with non-cash items, operating loss before changes in operating assets and liabilities was 500.31 million Baht. The main operating activity providing cash is the return of Short-term and Long-term aircraft deposits and prepayments by entering the aircraft pre-delivery payment (PDP) financing agreements with the Lessors, amount 636.83 million Baht. While the major operating activities using cash are Trade and other receivables, amount 148.83 million Baht, Refundable value-added tax 91.02 million Baht, Aircraft maintenance paid for the scheduled aircraft maintenance (C-Check) 68.03 million Baht as well as Deposits at bank pledged as collateral at 41.56 million Baht. In sum, cash used in operating activities of the Company and its subsidiaries was 176.33 million Baht.

Source of cash provided from investing activities was 177.24 million Baht, principally from cash received for temporary investments 200.00 million Baht and cash received from interest income and short-term investment 28.10 million Baht. The used of cash from investing activities were consisted of cash payment for acquisition of equipment and intangible assets 50.86 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 Q1/2015, 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.

Please be informed accordingly.

Sincerely Yours,

(Ms. Nuanwan Bhuprasert)

Chief Financial Officer