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11 August 2016

Subject: Management Discussion and Analysis for the second 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 June 2016. The Company and its subsidiaries reported that net comprehensive loss was 864.38 million Baht, compared to 458.00 million Baht loss in the same period last year. Net loss consisted of loss from the owner of the parent and Non-Controlling interest in the amount of 745.88 million Baht and 118.51 million Baht respectively. The Company therefore would like to clarify the causes of changes in the overall operating results as follows:

### **Executive summary**

In Q2/2016, the Company and its subsidiaries generated total revenue of 3,918.57 million Baht and reported net loss of 864.38 million Baht. Net loss was composed of 745.88 million Baht loss from the Company and 118.51 million Baht loss from Non-controlling interests. The Company's operating loss was attributable to the decline in total revenue which was caused by the reduction in domestic flight frequencies. Meanwhile, total operating costs inched up due to the depreciation of the Thai Baht against the U.S. dollar, an increment of new aircrafts and maintenance costs as well as extra expenses for engine shop visit (a maintenance program for engine).

The Company's revenue in Q2/2016 was 2,970.71 million Baht, 6.76 percent decrease from the same period last year. A fall in the total revenue mainly came from the reduction of domestic flights to fit pilot capacity and a drop of 3.08 percent in the total passengers. As a result, Passenger yield declined 8.94 percent. Nonetheless, Available Seat-Kilometer (ASK) edged up slightly 1.01 percent from the same quarter last year, as the Company operated new international routes and added flight frequencies. Meanwhile, Revenue per Available Seat-Kilometers (RASK) fell from 2.10 to 1.95 Baht/Seat Kilometers, as a drop in the total revenue outpaced an increase of total ASK. However, the Company's revenue from both international scheduled flights and international charter flights grew up at 111.28 percent, in line with the Company's plan to develop international routes and bring up revenue from these routes.



On the front of operating costs, Cost per Available Seat-Kilometer (CASK) soared to 2.37 Baht/Seat-Kilometer, rising by 7.59 percent from the same period last year. As the Company had 67.35 percent of total costs quoted in the U.S. dollar or linked with the U.S. dollar, the depreciation of the Thai Baht led to a rise in the overall costs. Moreover, the Company had additional costs of aircraft operating lease and aircraft maintenance, both of which grew up with the fleet expansion, and extra expenses for engine shop visit (a maintenance program for engine).

## Key factors and events affecting the Company's performance

During the second quarter, Thailand's economic recovery slightly improved due to the continued supports from the government spending and some positive signs in the consumption of private sector. The key driver of the Thai economy remained the shining tourism sector. An influx of foreign tourists posted an expansion of 8.2 percent to 7.6 million with Chinese tourists growing at 13 percent from the same period last year. In the past, the Company increased charter flight services for Chinese tourists as planned. In Q2/2016, more charter flights were operated to serve Chinese tourists with 116 charter flights flying to China as planned, compared to 70 flights in Q2/2015 or 65.71 percent growth.

### Number of Air Travel Passengers in Thailand

	Unit	Q2/15	Q2/16	Change		H1/15	H1/16	Change	
				Amount	Percent			Amount	Percent
Overall passengers	Million	7.24	8.11	0.87	12.02	15.03	16.93	1.90	12.64
Nok Air passengers	Million	1.95	1.75	(0.20)	(10.26)	4.13	3.47	(0.66)	(15.98)
Nok Air Market share	Percent	27.93	21.56	(6.37) pts	-	27.46	20.50	(6.96) pts	-

Source: The Civil Aviation Authority of Thailand

Based on the above statistic, the overall air travel passengers were on the rising trend with 12.02 percent growth from those of Q2/2015. The Company's passengers slid to 1.75 million or dropped by 10.26 percent compared to the same quarter last year. The softness of the Company's passengers was due to the domestic flight cut in order to fit pilot capacity, and thus domestic ASK and RPK still dropped, compared to the same period last year.

However, after the Company's domestic flights were cancelled to fit pilot capacity in the previous quarter, the overall situation has continuously resumed in Q2/2016. This reflected in a marginal increase in the Company's market share which rose from 19.67 percent in the first quarter to 21.56 percent in the second quarter of 2016. However, the market share still dropped from that of Q2/2015 by 6.37 pts, as the overall Available Seat-Kilometers have not yet fully recovered due to the decrease of domestic flights.



As for external factors, USD/THB exchange rate and jet fuel price are the key factors impacting the Company's operating costs. In Q2/2016, USD/THB edged higher at 35.40, up from 33.41 in the same period last year. This implied the Thai Baht depreciated against the U.S. dollar by 5.96 percent which was a result of the U.S. Federal Reserves (the Fed)'s upbeat assessment on the U.S. economy. Therefore, investors fueled expectations on the Fed's interest rate hike in June, and thus unwinding their positions on Thai financial assets. In addition, the uncertainty on the UK referendum also put pressure on the Thai Baht and Asian currencies to depreciate further. This propped up demand for safe-haven assets such as the Japanese yen, the U.S. dollar and gold. The Company's expenses with the USD exposure or the U.S. dollar-linked expenses accounted for 67.35 percent of total operating costs. These expenses consist of fuel costs, aircraft operating lease, aircraft maintenance and aircraft insurance, etc.

In Q2/2016 jet fuel price averaged at 54.39 USD a barrel, decreasing from 74.73 USD a barrel in the same period last year. The Company had jet fuel cost 660.00 million Baht, accounting for 18.11 percent of total operating expenses versus 24.72 percent in the same period last year.

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

	Unit	Q2/2015	Q2/2016	Percent Change	H2/2015	H2/2016	Percent Change
Number of aircrafts (at the end of period)							
- Boeing 737-800 New Generation	Aircraft	18	21	16.67	18	21	16.67
- ATR 72-500	Aircraft	2	2	-	2	2	-
- Q400 NextGen	Aircraft	4	6	50.00	4	6	50.00
- Average age of Aircraft	Year	6.88	6.64	(3.49)	6.88	6.64	(3.49)
Available Seat Kilometers: ASK	Mil. seat-Km.	1,492	1,507	1.01	3,059	2,964	(3.12)
Revenue Passenger Kilometers: RPK	Mil. seat-Km.	1,234	1,267	2.66	2,561	2,566	0.18
No. of sectors	Flights	15,631	15,506	(0.80)	32,198	30,397	(5.59)
Cabin factor	%	82.68	84.03	1.36 pts	83.72	86.57	3.42 pts
Passenger Carried	Million	2.12	2.05	(3.08)	4.44	4.14	(6.90)
Passenger Yield	Baht/Pax-Km.	2.34	2.13	(8.94)	2.38	2.23	(5.96)
Revenue per Available Seat Kilometers: RASK	Baht/Seat-Km.	2.10	1.95	(7.23)	2.16	2.11	(2.62)
Cost per Available Seat Kilometers: CASK	Baht/Seat-Km.	2.20	2.43	10.50	2.19	2.50	13.97
Cost per Available Seat Kilometers exclude Fuel: CASK exclude Fuel	Baht/Seat-Km.	1.66	2.00	20.17	1.62	2.08	28.40



## Revenue for the period (Separate Financial Statement)

Unit: million Baht	Q2/2015		Q2/2016		Percent Change	H1/2015		H1/2016		Percent Change
	Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent	
Passenger Revenue	2,883.18	90.49	2,695.29	90.73	(6.52)	6,085.71	91.68	5,732.81	90.25	(5.80)
- Domestic	2,688.47	93.25	2,296.20	85.19	(14.59)	5,772.75	94.86	4,926.50	85.94	(14.66)
- International (Including Charter flight)	194.71	6.75	399.09	14.81	104.97	312.96	5.14	806.31	14.06	157.64
Service revenues	189.39	5.94	186.01	6.26	(1.78)	399.50	6.02	394.19	6.21	(1.33)
Other income	113.69	3.57	89.41	3.01	(21.35)	153.01	2.30	225.10	3.54	47.12
<b>Total revenue</b>	<b>3,186.26</b>	<b>100.00</b>	<b>2,970.71</b>	<b>100.00</b>	<b>(6.76)</b>	<b>6,638.21</b>	<b>100.00</b>	<b>6,352.11</b>	<b>100.00</b>	<b>(4.31)</b>

### Q2/2016

In Q2/2016, total revenue of 2,970.71 million Baht decreased by 6.76 percent from the same period last year. This comprised of 2,695.29 million Baht passenger revenue which accounted for 90.73 percent of the total revenue, 186.01 million Baht service revenue which was accounted for 6.26 percent of the total revenue, and 89.41 million Baht other income which accounted for 3.01 percent of the total revenue. Revenue per Available Seat-Kilometers (RASK) was 1.95 Baht/Seat-Kilometers, declining by 7.23 percent from the same period last year.

Passenger revenue declined mainly from domestic flight decrease but international passenger revenue rose: Total passenger revenue in Q2/2016 consisted of domestic and international passenger revenue of 85.19 percent and 14.81 percent respectively. The revenue from domestic passengers fell 14.78 percent from the same period last year because of the reduction of domestic flights to fit pilot capacity. However, those of international passengers grew up significantly 111.28 percent from the expansion of new international routes and the increase of flight frequencies.

International route expansion and an increment of flight frequencies drove overall ASK up: Total passengers of 2.05 million in Q2/2016 declined by 3.08 percent from the same period last year due to domestic flight cut. Nevertheless, international passengers edged up considerably, as the Company expanded new international routes and increased flight frequencies. This resulted in longer average stage length in overall and international ASK rising more than the decrease in domestic ASK. In Q2/2016, ASK of international routes soared 156 million Seat-Kilometers (or increased 141.82 percent from the same period last year). Meanwhile, ASK of domestic routes plunged 138 million Seat-Kilometers (or declined 9.98 percent). Therefore, the overall ASK rose slightly 1.01 percent from that of Q2/2015.



Service income decreased due to declining passengers: Service revenue decreased by 1.78 percent to 186.01 million Baht in Q2/2016 in line with the decline of passengers. However, the decreasing rate of service revenue was less than the deceleration passenger revenues, because there was additional service, including Nok Premium Seat and rising service fee. Furthermore, the Company's got additional income from ground handling service for subsidiary company.

Other income has decreased compare to Q2/2015 mainly due to decreasing in gain on exchange rate: Other income in Q2/2016 declined from the same period last year, because there was unrealized gain on the exchange rate of Pre-Delivery Payment (PDP) in Q2/2015.

## H1/2016

For half-year performance, the passenger revenue and ASK declined from the same period last year as a result of domestic flight cut to fit pilot capacity. However, the number of passengers and the revenue from international routes grew up significantly from the expansion of international routes and the increment of flight frequencies.

Although the service revenue in H1/2016 declined 1.33 percent from that of H1/2015 due to the shrinkage of the total passengers, the decreasing rate was less than the reduction in the passenger revenue because of launching new service of Nok Premium Seat, rising service fee and having additional ground handling service fee from subsidiary company.

## Expenses for the period (Separate Financial Statement)

Unit: million Baht	Q2/2015		Q2/2016		Percent Change	H1/2015		H1/2016		Percent Change
	Amount	% to total expense	Amount	Percent to total expense		Amount	Percent to total expense	Amount	Percent to total expense	
Costs of passenger and services	3,070.33	94.83	3,460.52	94.15	12.71	6,288.00	94.78	7,015.42	94.34	11.57
Selling expenses	48.04	1.48	33.85	0.92	(29.53)	89.96	1.36	64.67	0.87	(28.12)
Administrative expenses	113.03	3.49	158.99	4.33	40.67	244.54	3.69	284.24	3.82	16.24
Financial costs	6.27	0.19	21.99	0.60	250.73	11.55	0.17	71.81	0.97	521.54
Total expenses	3,237.67	100.00	3,675.35	100.00	13.52	6,634.05	100.00	7,436.14	100.00	12.09

## Q2/2016

In Q2/2016, total expenses rose was recorded at 3,675.35 million Baht, edging up 13.52 percent from the same period last year. The increment in total expenses was due to the depreciation of the Thai Baht against the U.S. dollar. Including, the Company had higher costs of aircraft operating lease and maintenance costs, which edged up following the fleet expansion. Hence, Cost per Available Seat-Kilometers (CASK) increased by 10.50 percent from the same period last year to 2.43 Baht/Seat-Kilometers, and total costs excluding fuel costs (CASK excl. Fuel) was 2.00 Baht/Seat-Kilometers, climbing 20.17 percent.





Variable costs increased slightly due to aircraft maintenance expenses: In Q2/2016, total variable costs were at 2,183.75 million Baht, edging higher 1.39 percent from those in Q2/2015. This was largely caused by the increase in aircraft maintenance expenses which ticked up in line with the fleet expansion, while the Company incurred extra expenses for engine shop visit (a maintenance program for engine). However, the Company benefited from the subdued fuel prices as Fuel costs per unit (Fuel/ASK) tumbled to 0.44 Baht/Seat-Kilometers or edged down 19.23 percent from the same period last year. This resulted in total variable costs per Available Seat-Kilometers (VC/ASK) rising by 0.54 percent to 1.45 Baht/Seat-Kilometers.

Fixed costs grew up considerably following the fleet expansion: In Q2/2016, the Company had fixed costs of 1,244.57 million Baht, rising 40.21 percent from those in Q2/2015, largely owing to the acquisition of brand-new aircrafts. In addition, the Company had additional expenses related to aircrafts such as crew expenses, spare-part lease expenses and insurance expenses. Thus, fixed cost per unit (FC/ASK) was recorded at 0.83 Baht/Seat-Kilometers, rising from 0.59 Baht/Seat-Kilometers in the second quarter last year.

Financial costs rose from the commitment fees of providing an agreement for aircraft financing: The Company had additional financial costs of 21.98 million Baht as it had commitment fees to Pre-Delivery Payment (PDP) commitment agreement in the short-term and long-term.

## **H1/2016**

In H1/2016, total expenses were 7,436.14 million Baht, rising from 6,634.00 million Baht in the first half of 2015. A rise in the total expenses was driven by a 7.67 percent weakness of the Thai Baht against the U.S. dollar. This caused an increase in both variable costs and fixed costs. Variable costs soared 32.00 percent to 4,554.84 million Baht. This was largely caused by the increase in aircraft maintenance expenses which ticked up in line with the fleet expansion, while the Company incurred higher maintenance costs with extra expenses for engine shop visit (which is one-time expense). However, the Company benefited from the subdued fuel price as fuel cost per unit (Fuel/ASK) tumbled to 0.42 Baht/Seat-Kilometers edged down 26.86 percent. As a consequence, total variable costs per unit were up 5.14 percent to 1.54 Baht/Seat-Kilometers.

Fixed costs, meanwhile, inched higher 35.49 percent to 2,384.48 million Baht in H1/2016 as the larger fleet of aircrafts led to greater aircraft operating lease. Fixed cost per unit (FC/ASK) spiked to 0.80 Baht/Seat-Kilometers, up from 0.58 Baht/Seat-Kilometers in H1/2015.

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

Unit: million Baht	Q2/2015		Q2/2016		Percent change	H1/2015		H1/2016		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	(51.41)	(1.61)	(704.64)	(23.72)	1,270.76	4.16	0.06	(1084.04)	(17.07)	(26,136.53)
Income tax expense (income)	(0.08)	(0.00)	(0.06)	(0.00)	(24.11)	(0.15)	(0.00)	0.51	0.01	(438.13)
Profit (Loss) for the period	(51.33)	(1.61)	(704.58)	(23.72)	1,272.70	4.31	0.06	(1084.55)	(17.07)	(25,237.06)
Total comprehensive income (loss) for the period	(51.33)	(1.61)	(704.58)	(23.72)	1,272.70	4.31	0.06	(1084.55)	(17.07)	(25,237.06)
Basic Earnings (loss) per Share (Baht)	(0.08)		(1.13)			0.01		(1.74)		

With the situation mentioned above, the Company had total operating expenses more than the total revenue. Therefore, it booked 704.64 million Baht loss before income tax expenses and 704.58 million Baht total comprehensive loss for the period Q2/2016. Compared to the same period last year, loss before income tax expenses was at 51.41 and total comprehensive income loss for the period was at 51.33. Meanwhile, in H1/2016, total comprehensive loss was recorded at 1,084.55 million Baht, compared to total comprehensive income for the period of 4.31 million Baht in H1/2015.

**Key milestone for Q2/2016**

1. The Company introduced an additional route under ‘Airport-to-Town’ transfer service which was Had Yai Airport-to-Town v.v., commencing from April 2016.
2. The Company launched 2 international routes for charter flights to Macau and Palau. The total number of charter flights operated in Q2/2016 were as follows:
  - Phuket – Chengdu v.v. with 7 weekly round trips
  - Don Mueang – Yingchuan v.v. 1 weekly round trips
  - Don Mueang – Nantong v.v. with 1 weekly round trip
  - Don Mueng – Macau – Palau v.v. with 1 weekly round trip

**Operating Performance of NokScoot Airlines Co., Ltd.**

For Q2/2016 performance of NokScoot Airlines Co., Ltd, total revenue was 965.19 million Baht, increased from 143.04 million Baht from the same period last year. Total cost and expenses were 1,117.35 million Baht, increased from 525.20 million Baht in Q2/2015. Net loss was 153.49 million Baht, decelerating from 402.16 million Baht loss in the same period last year by 61.83 percent. NokScoot operated both scheduled flights and charter flights in Q2/2016 for 308 flights in total, whereas it only operated 55 charter flights in Q1/2015. NokScoot’s passenger and transportation revenue was 965.18 million Baht in Q2/2016, increasing from 143.04 million Baht from the same period last year.

In H1/2016, NokScoot operating performance improved markedly compared to that of H1/2015. It started to fully operate in April 2015, but later suffered from a red flag issued by ICAO on significant safety concerns. Therefore, the planning routes to Japan and South



Korea were temporarily deferred. NokScoot, as a result, shifted its plan towards international routes to China instead.

For the first six months of the year, total revenue was 1,835.19 million Baht, up from 294.86 million Baht in H1/2015. Total costs and expenses also edged up at 2,065.04 million Baht, rising from 913.40 million Baht, because NokScoot managed to operate scheduled flights in addition to charter flights. This resulted in an increase in both total revenue and total costs and expenses. However, net loss was recorded lower at 229.85 million Baht, compared to 618.54 million Baht loss in the same period last year.

Currently, NokScoot mainly operates flights to China. NokScoot's destinations include Don Mueang-Chongqing v.v. 3 weekly round trips, Don Mueang-Shenyang v.v. 3 weekly round trips, Don Mueang-Nanjing v.v. 7 weekly round trips, Don Mueang-Taipei v.v. 4 weekly round trips, Don Mueang-Qingdao v.v. 6 weekly round trips and Don Mueang-Tianjin v.v. 4 weekly round trips.

For the rest of this year, NokScoot aims to add more flight frequencies in the existing routes and expand more regional routes as well as operate more charter flights to increase revenue. At the end of Q2/2016, NokScoot had 3 Boeing 777-200 in fleet which was equal to those in H1/2015.

## **Financial Position (Consolidated)**

Unit: million Baht	Consolidated Financial Statement			
	As of 31 December 2015	As of 30 June 2016	Change	Percent
Total Assets	7,110.22	5,955.09	(1,155.13)	(16.25)
Total Liabilities	4,168.16	4,343.36	175.20	4.20
Total owners of the parent	3,047.22	1,895.52	(1,151.70)	(37.80)
Non-controlling interests	(105.16)	(283.79)	(178.64)	169.87
Total Shareholders' Equity	2,942.06	1,611.73	(1,330.33)	(45.22)

### **Assets**

As of 30 June 2016, the Company and its subsidiaries' total assets were 5,955.09 million Baht or 16.25 percent decline from the year-end 2015. Current assets were recorded at 4,977.48 million Baht and non-current assets stood at 977.61 million Baht, which accounted for 83.58 percent and 16.42 percent of total assets respectively.

Cash and cash equivalents slipped as a result of the repayment of short-term loans to financial institutions: Cash and cash equivalents fell 25.14 percent from the year-end 2015, as the Company repaid short-term loans to financial institutions amounting to 520 million





Baht. Meanwhile, the subsidiary company had additional cash and cash equivalents which rose from an improvement in the operating performance during the first half of 2016, compared to the performance at the year-end 2015.

Trade and other receivables increased mainly due to advanced payments for aircraft and engine maintenance: As aircraft engines were scheduled for the maintenance program for engine (Engine Shop Visit), the Company had to make an advance payment to service providers, and currently, it was the process of Maintenance Reserve reimbursement for 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 been fully operated in its scheduled flights.

## **Liabilities and Shareholders' Equity**

Fleet expansion led to an increase in total liabilities: As of 30 June 2016, the Company and its subsidiaries had total liabilities of 4,343.36 million Baht, rising by 4.20 percent from the year-end 2015. Although the Company had the repayment of short-term loans which was already due in March 2016, the total liabilities soared from both short-term and long-term provisions for aircraft maintenance of 73.6 million Baht and 39.03 million Baht respectively from those of the year-end 2015. Such increased provisions were to reflect the fleet expansion, and the Company has had aircraft maintenance expenses –which are considered as normal expenses of business- since 2015.

Trade and other payables edged higher as a result of rising account payable, unearned revenue and accrued expenses: Trade and other payables of the Company and its subsidiaries were 3,489.63 million Baht, increasing from 2,934.20 million Baht at the end of last year. Improving flight frequencies of fully-operated NokScoot Airlines Co., Ltd contributed to an increment of trade payables, unearned revenue and accrued expenses.

Operating loss lessened shareholders' equity: The Company and its subsidiaries recorded 1,895.52 million Baht of total shareholders' equity, 37.38 percent fall from those as of 31 December 2015. This was because the parents had operating loss at 745.88 million Baht and the comprehensive loss of Non-controlling interests of 118.51 million Baht.

**Cash flow statement (Consolidated)**

Unit: million Baht	Consolidated Financial Statement			
	For 6 months as of 30 June 2015	For 6 months as of 30 June 2016	Change	Percent
Net cash provided by (used in) operating activities	(176.33)	(753.92)	(577.59)	327.55
Net cash provided by (used in) investing activities	177.24	222.64	291.82	164.65
Net cash provided by (used in) financing activities	255.00	(529.49)	239.72	94.01
Effect from foreign exchange rate in cash and cash equivalents	14.00	1.40	(2.08)	(14.85)
Net increase (decrease) in cash and cash equivalents	269.91	(1,059.36)	395.95	146.70
Cash and cash equivalents as of 1 January 2016	2,926.61	4,213.76	2,926.61	100.00
Cash and cash equivalents as of 30 June 2016	3,196.52	3,154.39	3,322.56	103.94

As of 30 June 2016, the Company and its subsidiaries used cash in operating activities by 753.92 million Baht. The main source of cash outflows was trade and other receivables incurred from advanced payment for engine maintenance, including trade receivables from other parties

Cash flows provided by investing activities largely came from cash received from temporary investment of 300 million Baht and from interest income of 26.30 million Baht.

Net cash used in financing activities was the repayment of short-term loans from financial institutions and the interest payment of 520 million Baht and 9.49 million Baht respectively.

-Signed-

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Ms. Nuanwan Bhuprasert  
Chief Financial Office