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9 May 2014

Subject: Management Discussion and Analysis of 1st quarter 2014
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 1st quarter ended 31st March 2014, the Company reported that net profit was 40.9 million Baht which declined by 375.2 million Baht or 90.2 percent from the same period of previous fiscal year. As a consequence, the Company would like to clarify the causes of overall operational result's declination as following:

Key Factors and Events affect Performance

In 1Q2014, total revenues was 3,136.1 million Baht which increased by 309.9 million Baht or 11.0 percent; whereas total expenses was 3,085.9 million Baht which increased by 692.0 million Baht or 28.9 percent comparing with the same period of the previous year. Nevertheless, there were many key factors and events that have affected the Company's performance as follows:

1. Intense Competition in Domestic Market and Instability of Political Situation

There was higher competition in domestic airline industry since 4Q2013; both "full service airline" and "low cost carrier" expanded aircraft fleets, route destinations and flight frequency significantly. In addition, there was a new comer, who entered into the market since 4th December 2013, which was "Thai Lion Air". Regarding the increase of aviation production, the number of domestic flights was raised to 47,389 flights or 20.2 percent comparing with the same period in the previous year.

Furthermore, the instability of political situation in Thailand, since 4Q2013, has led to the economic deceleration, consumption, and private sector investment. In February 2014, Private Consumption Index (PCI) declined by 2.5 percent comparing with the same period of previous year (source: Bank of Thailand, 2014). As a consequence, the intense competitive pricing had been continuously occurred since 4Q2013 to 1Q2014, though it was travelling season. Then, it led to the decrease of average airfare which was 1,630 Baht per pax per sector for 1Q2014 or decline 12.1 percent from 1Q2013. However, Nok Air was able to retain pretty high cabin factor at 79.9 percent although it decreased from 87.6 percent in 1Q2013.



2. Thai Baht Situation against U.S. Dollar

Regarding to US Federal Reserve System (FED), it has gradually tapered “Quantitative Easing” (QE) since mid of 2013 until present which results in effusion of investment fund to “Emerging Market”. The effusion of investment fund has resulted in the continuous depreciation of Thai Baht against U.S. Dollar. Average exchange rate THBUSD was equal to 32.80 in 1Q2014 or depreciated by 9.5 percent from 1Q2013 which was equal to 29.94 Baht per U.S. Dollar. Due to the fact that the major expenses are nominated in U.S. Dollar or Dollar-linked, then it is clear that the depreciation of Thai Baht currency had significantly affected the operating cost of the Company. Nevertheless, Nok Air managed foreign exchange risk by setting up FX hedging policy.

Revenue Analysis

Unit: Million Baht	1Q2013		1Q2014		Change	
	Amount	Common size	Amount	Common size	Amount	Percent
Revenues						
Passenger revenue	2,654.5	93.9%	2,881.9	91.9%	227.4	8.6%
Service revenues	156.5	5.5%	214.2	6.8%	57.7	36.8%
Other income	15.2	0.5%	39.9	1.3%	24.8	259.6%
Total revenues	2,826.2	100.0%	3,136.1	100.0%	309.9	11.0%
Expenses						
Operating expenses and Costs of services	2,246.6	79.5%	2,909.9	92.8%	663.3	29.5%
Selling Expenses	44.4	1.6%	65.7	2.1%	21.2	47.8%
Administrative Expenses	102.8	3.6%	110.3	3.5%	7.5	7.3%
Total expenses	2,393.8	84.7%	3,085.9	98.4%	692.1	28.9%
Profit Before Income Tax Expenses	432.3	15.3%	50.2	1.6%	-382.1	-88.4%
Net Income Tax Expenses	16.3	0.6%	9.3	0.3%	-7.0	-43.0%
Profit for the periods	416.0	14.7%	40.9	1.3%	-375.1	-90.2%
Actuarial Gain(Loss) on defined employee	9.4	-	-	-	-	-
Total Comprehensive Income for the periods	425.3	15.0%	40.9	1.3%	-384.4	-90.4%
Basic Earnings per Share (Baht)	0.83		0.07		-0.76	-92.1%
Number of Weighted Average Ordinary Share (Million Shares)	500.0		625.0		125.0	25.0%



Key Statistics and Business Ratio

	Unit	1Q2013	1Q2014	Change	
				Amount	Percent
Number of aircrafts (at the end of quarter)	Aircraft				
• Jet					
- Boeing 737-400		3	0	-3	-100%
- Boeing 737-800		10	15	5	50%
• Turbo Propeller					
- ATR72-200/500		4	2	-2	-50%
Number of Flights	Sector	11,920	15,203	3,283	27.5%
Number of Passengers Carried	Million	1.43	1.77	0.34	23.4%
Passenger Yield	Baht/Pax/Kilometer	2.99	2.76	-0.23	-7.6%
Unit Revenue (RASK)	Baht/Seat/Kilometer	2.77	2.37	-0.40	-14.4%
Unit Cost (CASK)	Baht/Seat/Kilometer	2.35	2.37	0.02	0.7%

In 1Q2014, the total revenues was equal to 3,136.1 million Baht which had increased by 11.0 percent comparing to 1Q2013. The total revenues comprises of “Passenger revenue” and “Service revenues and other income”. Passenger revenues was 2,881.9 million Baht or 91.9 percent of the total revenues; on the other hand, 254.1 million Baht or 8.1 percent of the total revenues was from “Service revenues and other income”. Basically, the increase of total revenues resulted from production expansion both in terms of number of aircrafts and bigger seat configuration of Boeing 737-800. Available Seat-Kilometer (ASK) increased to 1,305.9 million seat-kilometer or 28.7 percent comparing to 1Q2013. Revenue Passenger Seat-Kilometer (RPK) was increased to 1,043.6 million seat-kilometer or 17.4 percent comparing with same quarter of last year. As a result, cabin factor decreased from 87.6 in 1Q2013 to 79.9 percent in 1Q2014.

Although the company could maintain cabin factor; nevertheless, higher competition in domestic market and instability of prolonged political unrest has pressured on airfare. In 1Q2014, the average airfare was decreased to 1,630 Baht per passenger per sector or reducing by 12.1 percent comparing with 1Q2014 as well as key business ratio on revenue side. In 1Q2014, unit revenue or RASK declined to 2.37 Baht per seat-kilometer or decreasing by 14.4 percent comparing with 1Q2013.

Expenses and Profits Analysis

In 1Q2014, the total expenses of the Company was 3,085.9 million Baht which increased by 28.9 percent comparing with 1Q2013. It is obvious that this number conformed to the increase of “Available Seat per Kilometer” (ASK). Nonetheless, majority of the expenses was in U.S. Dollar currency such as aircraft lease rental, aircraft maintenance expenses, and other expenses that nominated in U.S. Dollar currency and



Dollar-linked expenses; for instance, jet fuel expense. Basically, U.S. Dollar and Dollar-linked expenses will increase when Thai Baht currency is depreciated. Unfortunately, Thai Baht against U.S. Dollar was depreciated from 29.94 in 1Q2013 to 32.80 Baht in 1Q2014 or weaken by 9.5 percent.

Then the increase of expenses was from “Operating expenses and cost of services” which was due to expanding business. In 1Q2014, the majority of expenses were variable cost that increased by 2,242.2 million Baht or 28.8 percent comparing with same period of previous year; for examples, jet fuel expense, aircraft maintenance expense, flight operating services expense. The increase of these cost resulted from route and flight expansion. Furthermore, larger aircraft fleet resulted in higher fixed cost which was 623.6 million Baht or increasing by 31.6 percent comparing with same period of the previous year; for examples, aircraft lease rental, employees’ expenses. In addition, selling and administrative expenses were increased to 176.0 million Baht or increasing by 19.5 percent due to expanding operation.

In 1Q2014, unit cost or CASK increased from 2.35 to 2.37 Baht per seat per kilometer or increasing by 0.7 comparing with 1Q2013. Nevertheless, CASK excluding fuel was equal to 1.50 Baht per seat per kilometer or decreasing by 0.9 percent which represented efficiency of cost management; although, there was negative factor from the depreciation of Thai Baht against U.S. Dollar. Regarding the depreciation of Thai Baht currency, it led to the increasing of fuel unit cost (Fuel cost / ASK) which was 0.87 Baht per seat per kilometer or increasing by 3.6 percent; although jet fuel price declined from 127.34 U.S. Dollar per barrel in 1Q2013 to 122.36 U.S. Dollar per barrel in 1Q2014.

According to the overall factors, “Profit before Income Tax Expenses” or “Operating Profit” was equal to 50.2 million Baht or decreasing by 88.4 percent comparing with 1Q2013. Then, the Company paid for Corporate Income Tax 9.3 million Baht for non-BOI business parts which resulted in having 40.9 million Baht of Net Profit or decreasing by 90.2 percent comparing with the same period of last year.

Financial Position Analysis

As of 31st March 2014, total assets of the Company were 6,426.2 million Baht which was increased by 2.5 percent from year end 2013. The total assets were separated into 6,163.9 million Baht or 95.9 percent of current assets and 262.3 million Baht or 4.1 percent of non-current assets. The majority of the assets were “Cash and Cash Equivalents” and “Temporary Investments”; both of them were equal to 600.8 and 4,875 million Baht respectively. The minority of the assets were 408.2 million Baht of “Refundable deposit” of aircrafts for both jet and turbo propeller which included in both current and non-current assets. Those aircrafts will be gradually delivered during year 2014 and 2019.

The Company’s total liabilities were equal to 1,841.8 million Baht which was increased by 6.6 percent from year end 2013; nonetheless, the increase of liabilities was normal course of business. The major items was “Unearned income” or advanced passenger revenue which was equal to 745.8 million Baht or increased by 21.5 percent from year end 2013 according to fleet expansion.

Furthermore, the total shareholders’ equity was 4,584.4 million Baht which increased by 40.9 million Baht from year end 2013. This comprised of 625 million Baht of share capital, 3,042.5 million Baht of premium



on share capital, 62.5 million Baht of appropriated retained earnings, and 854.3 million Baht of inappropriate retained earnings.

Cash Flow Statement Analysis

In 1Q2014, the Company generated net cash provided by operating activities 83.3 million Baht and net cash used in financing activities 44.6 million Baht. There was no cash used in financing activities in such period. Cash and cash equivalent increased 35.32 million Baht. Then cash and cash equivalent at the end of period was 600.8 million Baht.

Source of cash of the period was 327.3 million Baht. Cash inflow comprised of Profit before Income Tax 50.3 million Baht, Adjustment 26.8 million Baht, Unearned passenger revenues increase 132.0 million Baht, Interest received 61.2 million Baht, Trade account payable increase 43.2 million Baht, Other current assets increase 7.6 million Baht, and other items 6.3 million Baht.

Use of cash was 291.9 million Baht. Cash outflow included of Cash payment for temporary investment 75.0 million Baht, Accrued expenses decrease 69.3 million Baht, Aircraft deposit increase 45.8 million Baht, Aircraft maintenance paid 39.6 million Baht, Cash payment for acquisition in equipment and intangible assets 30.8 million Baht, Other receivables increase 12.3 million Baht, Employee benefit paid 2.7 million Baht, and other items 13.1 million Baht. There was a cash outflow regarding the Effect from exchange rate in cash and cash equivalents 3.4 million Baht.

Please be informed accordingly.

Sincerely Yours,

(Ms. Nuanwan Bhuprasert)

Chief Financial Officer

Authorized to sign on behalf of the Company

Investor Relations Department

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