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8<sup>th</sup> August 2014

**Subject:** Management Discussion and Analysis of 2<sup>nd</sup> 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 2<sup>nd</sup> quarter ended 30<sup>th</sup> June 2014, the Company reported that net loss was 159.7 million Baht which declined by 419.9 million Baht or 161.4 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:

### **Management Analysis**

The Company had been challenged by the competition in the domestic airline industry from 4Q2013 and still continued until the first half of year 2014. Due to the instability of political situation in Thailand and weaker business sentiment, Private Consumption Index (PCI) for the first half of year 2014 is 146.3 declined by 1.2 percent comparing to the same period of previous year. However, domestic airlines, including Nok Air, continued expanding their aircraft fleet and flight frequency. The number of domestic flights from/to Don Mueang Airport increased to 54,277 flights or 23.4 percent from the same period of previous year. Comparing to the same period of year 2013, Nok Air's flights increased 16 percent to 27,798 flights. Cabin factor softened from 87.0 in 1H2013 to 77.7 percent in 1H2014, although the number of passengers built up to 3.49 million or 23 percent from the previous period because of the seat configuration of Boeing 737-800 aircraft, carrying up to 189 seats.

In the second half of year 2014, the Company plans to acquire additional 5 aircrafts; one Boeing 737-800 and four Bombardier Q400 aircrafts for the business expansion by introducing new routes and adding more domestic flight frequency in order to maintain the market share and develop domestic route network per the Company's policy. The new routes will be Bangkok-Khon Kaen, launched on 1<sup>st</sup> July 2014, and Bangkok-Lampang, commenced in October 2014. Besides, the newly formed National Legislative Assembly, approved infrastructure projects and accelerated the approval process of mega investment projects as well as unchanged Bank of Thailand's policy rate are key factors to pick up consumer confidence and spending, ultimately boost the domestic air travel.



## **Key Factors and Events affect Performance**

The instability of political situation in Thailand, since 4Q2013, has led to the economic deceleration, consumption, and private sector investment until 2Q2014. The growth in 2Q2014 Gross domestic product (GDP) was 0.6 percent from the same period of last year, lower than forecast at 1.0 percent per Kasikorn Research Center. Although Consumer confidence index rose from 59.9 in 1Q2014 to 61.2 in 2Q2014, it was relatively low.

Intense competition in domestic airline industry among “full service airlines” and “low cost carriers”, low cost carriers; Thai Air Asia and Thai Lion Air, expanded their aircraft fleets while Bangkok Airways, a full service airline, added new domestic routes; Bangkok-Udon Thai, Bangkok-Chiang Rai. Consequently, the number of domestic flights from/to Don Mueang Airport and Suvarnabhumi Airport in 2Q2014 raised to 41,929 flights per week or 25.2 percent comparing to the same period in the previous year. Due to the low season of traveling in late of 2Q2014, all domestic airlines launched sales and marketing campaigns to boost air travels and acquired the market share. Most of the campaigns were focus on price promotions, resulting in the pressure on airfare.

To conclude, the instability of political situation in Thailand and severe competition are the key drivers that pressured the number of passengers for 2Q2014 lower than target. Cabin factor was 77.7 percent in 2Q2014, softening 8.7 points from 2Q2013. Moreover, the pressure from the price promotion lessened the unit revenue (RASK) to 2.17 Baht per seat per kilometer, shrinking by 16.5 percent from 2Q2014. However, the unit cost (CASK) fell from 2.34 to 2.32 Baht per seat per kilometer or reducing by 1.1 percent from 2Q2013. Therefore, the comprehensive loss for 2Q2014 is 159.7 million Baht or decreasing by 161.4 percent from 2Q2013.



## Comprehensive Income Statement

Unit: Million Baht	2Q2013		2Q2014		Change	
	Amount	Common size	Amount	Common size	Amount	Percent
<b>Revenues</b>						
Passenger revenue	2,451.59	93.6%	2,607.22	92.11%	155.63	6.35%
Service revenues	146.83	5.6%	191.5	6.77%	44.67	30.42%
Other income	19.86	0.8%	31.75	1.12%	11.89	59.87%
<b>Total revenues</b>	<b>2,618.27</b>	<b>100%</b>	<b>2,830.47</b>	<b>100%</b>	<b>212.20</b>	<b>8.10%</b>
<b>Expenses</b>						
Operating expenses and Costs of services	2,175.47	83.1%	2,804.12	99.07%	628.65	28.90%
Selling Expenses	48.79	1.86%	75.41	2.66%	26.62	54.56%
Administrative Expenses	124.11	4.74%	118.84	4.20%	-5.27	-4.25%
<b>Total expenses</b>	<b>2,348.37</b>	<b>90%</b>	<b>2,998.37</b>	<b>106%</b>	<b>650.00</b>	<b>27.68%</b>
Profit Before Income Tax Expenses	269.90	10.31%	-167.91	-5.93%	-437.81	-162.21%
Finance Costs	-		1.27	0.04%	1.27	N/A
Net Income Tax Expenses	9.77	0.37%	-9.45	-0.33%	-19.22	-196.72%
<b>Total Comprehensive Income for the periods</b>	<b>260.13</b>	<b>9.94%</b>	<b>-159.72</b>	<b>-5.64%</b>	<b>-419.85</b>	<b>-161.40%</b>
Basic Earnings per Share (Baht)	0.51		-0.26		-0.77	-150.11%
Number of Weighted Average Ordinary Share (Million Shares)	509.67		625		115.33	22.63%

## Key Statistics and Business Ratio

	Unit	2Q2013	2Q2014	Change	
				Amount	Percent
Number of aircrafts (at the end of quarter)	Aircraft				
• Jet (Boeing 737-800)		12	16	4	33%
• Turbo Propeller (ATR 72-500)		2	2	0	-
Number of Flights	Sectors	12,008	12,595	587	4.9%
Number of Passengers Carried	Million	1.40	1.72	0.32	23.4%
Passenger Yield	Baht/Pax/Kilometer	2.85	2.60	-0.25	-8.8%
Cabin Factor	Percent	86.5	77.7	8.8	N/A
Unit Revenue (RASK)	Baht/Seat/Kilometer	2.62	2.17	-0.45	-17.0%
Unit Cost (CASK)	Baht/Seat/Kilometer	2.34	2.32	0.02	1.1%



For 2Q2014, the total revenue was 2,830.5 million Baht, increased by 8.1 percent comparing to 2Q2013. The total revenues comprises of “Passenger revenue” and “Service revenues and other income”. Passenger revenue was 2,607.2 million Baht or 92.1 percent of the total revenues and Service revenues and other income was 223.3 million Baht or 7.9 percent of the total revenues. Basically, the increase of total revenues resulted from the production expansion by acquiring additional Boeing 737-800 aircrafts, seat configuration 189 economy class, and retiring Boeing 737-400 aircrafts, 150-170 seat configuration, in 2Q2013 from the Company’s fleet. Available Seat-Kilometer (ASK) increased to 1,288 million seat-kilometers or 29.7 percent, compared to 2Q2013. Revenue Passenger Seat-Kilometer (RPK) was increased to 1,001 million seat-kilometers or 16.5 percent, compared to the same quarter of last year. As a result, cabin factor decreased from 86.5 percent in 2Q2013 to 77.7 percent in 2Q2014.

Although the Company could maintain cabin factor, higher competition in domestic market and the instability of prolonged political unrest continued to pressure on airfare. In 2Q2014, the average airfare is 1,512 Baht per passenger per sector or reducing by 13.8 percent comparing with 2Q2013. Consequently, unit revenue or RASK declined to 2.17 Baht per seat per kilometer or decreasing by 17 percent, compared with 2Q2013.

### **Expenses and Profits Analysis**

For 2Q2014, the total expenses of the Company was 2,998.4 million Baht, rose by 27.7 percent from 2Q2013, due to the increase of “Available Seat per Kilometer” (ASK). The depreciation of Thai Baht against U.S. dollar from 30.03 in 2Q2013 to 32.59 Baht in 2Q2014, weakened by 8.5 percent, raised the Company’s 2Q2014 expenses because many expenses are quoted in U.S. dollar or based on U.S. dollar (Dollar-linked). For example, U.S. dollar expenses are aircraft lease rental and aircraft maintenance expenses while Dollar-linked expense is fuel cost.

The increase of expenses for 2Q2014 was from operating expenses according to the business expansion. In 2Q2014, the majority of expenses were variable costs that increased by 2,148.2 million Baht or 29.3 percent from the same period of previous year. Key expenses were fuel cost, aircraft maintenance cost, and flight operation services cost. The increase of these cost resulted from adding flight frequency and route expansion. Aircraft fleet growth rose fixed cost; for examples, aircraft lease rental, spare part, and personnel expenses, to 655.9 million Baht or increased by 25.3 percent from the same period of the previous year. Selling and administrative expenses increased to 194.2 million Baht or 12.3 percent increase due to expanding operation. Besides, the Company had financial cost amount 1.3 million Baht from short-term loan to support working capital.

Nonetheless, the production expansion drove the unit cost (CASK) reduction as a result of the economies of scale. CASK fell from 2.34 to 2.32 Baht per seat per kilometer or reducing by 1.1 percent from 2Q2013. CASK excluding fuel was 1.48 Baht per seat per kilometer, decreasing by 6.7 percent despite the depreciation of Thai Baht against U.S. Dollar. While fuel unit cost (Fuel/ASK) was 0.84 Baht per seat per kilometer or increasing by 10.6 percent. The rise of fuel unit cost came from the depreciation of Thai Baht against U.S. dollar and the surge in jet fuel price from 116.5 U.S. dollar per barrel in 2Q2013 to 120.1



U.S. dollar per barrel in 2Q2014. Still, the unit cost shrink which represented the efficiency of cost management.

In conclusion, the Company had loss from operation before income tax, 169.2 million Baht or decreasing by 162.7 percent from 2Q2013. The Company had tax return, 9.5 million Baht, thus, the comprehensive loss for 2Q2014 is 159.7 million Baht or decreasing by 161.4 percent from 2Q2013.

For 1H2014, the Company's total revenue was 5,963.5 million Baht or increased by 9.5 percent from 1H2013. Total expense was 6,082.4 million Baht or increased by 28.3 percent. Comparing to the same period of last year, the Company's comprehensive loss for 1H2014 was 118.8 million Baht or decreased by 117.3 percent.

### **Financial Position Analysis**

As of 30 June 2014, the Company's total assets were 6,240.6 million Baht, decreased by 0.5 percent from year end 2013. The total assets were consisted of 4,856.4 million Baht of current assets and 1,384.2 million Baht of non-current assets, counted as 77.8 percent and 22.2 percent of total assets respectively. The majority of the assets were short-term investments of 3,575 million Baht and aircraft security deposits as current assets and non-current assets of 1,698.6 million Baht, increased 4.6 times from year end 2013. The aircraft security deposits are for four Bombardier Q400 aircrafts and three Boeing 737-800 New Generation aircrafts. Those aircrafts will be delivered between year 2014 and 2016.

The Company's total liabilities were 2,117.1 million Baht, increased by 22.5 percent from year end 2013; nonetheless, the increase in liabilities was normal course of business. The major item was 500 million Baht of short-term loan which is due on 7 July 2014. The total shareholders' equity was 4,123.5 million Baht or 9.2 percent decreased by 9.2 percent from year end 2013. The reduction came from dividend payment which resulted in the decrease of unappropriated retained earnings from 813.4 million Baht to 388.5 million Baht. Share capital, premium on share capital, and appropriated retained earnings remained unchanged from year end 2013.

### **Cash Flow Statement Analysis**

In 2Q2014, the Company generated net cash used in operating activities 1,673.2 million Baht, net cash provided by investing activities 1,237.2 million Baht and cash provided by financing activities 193.8 million Baht. Effect from exchange rate in cash was 1 million Baht. Net decrease in cash and cash equivalent was 243.3 million Baht. Then cash and cash equivalent as of 30<sup>th</sup> June 2014 was 322.1 million Baht.

Source of cash provided of the period was 1,903.4 million Baht. Cash inflow primarily came from temporary investments 1,225 million Baht, short term loan 500 million Baht, interest received 78.1 million Baht, adjustment to reconcile profit 75.4 million Baht. Other current and non-current assets



increased 9 million Baht and 9.2 million Baht respectively. Cash from share subscription was 5.2 million Baht, and other items increased 1.6 million Baht.

Total use of cash was 2,146.7 million Baht. Cash outflow comprises of increase in aircraft deposit 1,345.5 million Baht, dividend payment of 306.3 million Baht, operating loss before tax of 118.9 million Baht, decrease of accrued expenses 77.9 million Baht, cash payment for acquisition in equipment and intangible assets 70 million Baht, aircraft maintenance paid 70.1 million Baht, and decrease of trade payables 62 million Baht. Passenger and other deferred revenue decreased 23.1 million Baht. Other receivables increased 48.1 million Baht, Employee benefit paid 5.2 million Baht, and other items 18.6 million Baht. There was a cash outflow from the Effect from exchange rate in cash and cash equivalents 1 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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