

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the 2013 Audited Financial Statements, the Unaudited Interim Financial Statements and financial information and operating data included elsewhere in this Offering Memorandum.

The 2013 Audited Financial Statements have been prepared in accordance with TFRS and have been audited by EY Thailand, independent auditors, as stated in their report included elsewhere in this Offering Memorandum. The 2011 and 2012 comparative financial statements presented in the 2013 Audited Financial Statements, as set forth on pages F-[●] through F-[●] and presented herein, have been restated for comparison purposes to conform with the changes made in the 2013 Audited Financial Statements for the year ended December 31, 2013. In addition, the underlying consolidated financial statements as of and for the year ended December 31, 2011 have not been audited. These changes have not been reflected in the original 2012 Audited Financial Statements, as set forth on pages F-[●] through F-[●], because the generally accepted accounting principles effective in 2013 only require the auditors to express an opinion on the financial statements for the period under review. Accordingly, such restated, comparative financial statements have not been audited by EY Thailand. Accordingly, investors are cautioned not to place undue reliance on such unaudited consolidated financial information. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Change in Basis of Presentation" and Notes 4.1, 4.2 and 5 to our 2013 Audited Financial Statements included elsewhere in this Offering Memorandum for details.

The Unaudited Interim Financial Statements as of and for the six months ended June 30, 2014 have been reviewed by EY Thailand, who did not express an audit opinion on this financial information. In addition, for comparative purposes, our Unaudited Interim Financial Statements include our consolidated and separate statement of financial position as of December 31, 2013, and a restatement of our statement of income for the six months ended June 30, 2013, which have been restated as set forth herein. See "—Change in Basis of Presentation" and Notes 2 and 21 to our Unaudited Interim Financial Statements included elsewhere in this Offering Memorandum for details. Our results for the six months ended June 30, 2014 should not be considered indicative of the actual results we may achieve for the year ending December 31, 2014.

This discussion contains forward-looking statements that reflect our current views with respect to future events and financial performance. See "Forward-Looking Statements" for a discussion of the risks relating to such forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of factors such as those set forth under "Risk Factors" and elsewhere in this Offering Memorandum. Our 2013 Audited Financial Statements and our Unaudited Interim Financial Statements have been prepared in accordance with TFRS. TFRS differs in certain material respects from IFRS. For a summary of significant differences between TFRS and IFRS, see "Summary of Significant Differences between TFRS and IFRS".

Overview

We are a boutique full service airline in Thailand, offering premium, quality service to our passengers. We were founded in 1984, and we officially commenced scheduled passenger flight services in 1986 under our current name "Bangkok Airways". As of June 30, 2014, we operated regularly scheduled flights on 14 domestic routes covering major cultural and leisure destinations in Thailand such as Phuket, Samui, Chiang Mai and Krabi. In addition, as of June 30, 2014, we operated scheduled flights on 13 international routes to destinations including Myanmar, Laos, Cambodia, Malaysia, Singapore, Hong Kong, India, Bangladesh and the Maldives. We target markets that are less than a five-hour flight time from each hub, which gives us access to passengers travelling to and from Southeast Asia and South Asia, including India and China. Through our code-share and other cooperative arrangements with other airlines such as Etihad Airways, Japan Airlines, Malaysia Airlines, British Airways, Cathay Pacific, Qantas Airways and Silk Air, we are able to extend our reach to passengers originating from destinations including Europe, South Asia, the Middle East and Japan. We operate our airline services from two principal hubs, the Suvarnabhumi International Airport in Bangkok and Samui Airport in Surat Thani. On November 24, 2006, we entered into an agreement to lease Samui Airport, together with its facilities, to the Samui Property Fund for a period of 30 years for THB9,300.0 million. On the same date, we entered into an agreement to sublease the Samui Airport from the Samui Property Fund for a period of three years, renewable nine times for periods of three years each. We

hold 25.0% of the outstanding units in the Samui Property Fund. We also own and operate two other airports at Sukhothai and Trat.

Apart from airline services and airport services, we also provide airport-related services including cargo terminal services, ground and passenger services and in-flight catering services to our flights and those of other airlines through our subsidiaries and associated companies as follows:

Company	Details
BFS Ground	BFS Ground, our 90.0% owned subsidiary, provides passenger services and ground support equipment services at the Suvarnabhumi International Airport. BFS Ground also holds 51.0% in its subsidiary, BFS Cargo DMK Co. Ltd., a cargo service provider based at the Don Mueang Airport. The remaining 49.0% is held by BFS Cargo.
BAC	BAC, our 90.0% owned subsidiary, provides in-flight catering services at the Suvarnabhumi International Airport. BAC also holds 99.99% in BAC Gourmet House Co., Ltd., a dining restaurant operator, and 69.99% in Bangkok Air Catering Phuket Co., Ltd., a catering service provider at the Phuket Airport.
BAGs	Bangkok Airways Ground Services Co., Ltd., our 99.99%-owned subsidiary, provides passenger services and ground support equipment services at the Samui Airport.
BFS Cargo	BFS Cargo, our 49.0% owned associated company, provides international cargo terminal services at the Suvarnabhumi International Airport. As BFS Cargo is an associated company, it is not consolidated in our consolidated Financial Statements and accordingly, its revenue is not presented in our sales and service income but our share of its income is recorded as income from investments in associates. BFS Cargo holds 49.0% in its associated company, BFS Cargo DMK, the remainder of which is owned by BFS Ground.

In 2011, 2012 and 2013, we generated consolidated passenger revenue of THB11,409.0 million, THB14,598.6 million and THB16,484.3 million (US\$507.9 million), respectively. In the six months ended June 30, 2013 and 2014, we generated consolidated passenger revenue of THB8,112.2 million and THB8,677.6 million (US\$267.4 million), respectively. In 2011, 2012 and 2013, we generated total consolidated revenues of THB15,523.0 million, THB19,519.9 million and THB20,721.4 million (US\$638.5 million), respectively, and consolidated profit of THB290.6 million, THB1,832.4 million and THB990.0 million (US\$30.5 million), respectively. For the six months ended June 30, 2013 and June 30, 2014, we generated total consolidated revenues of THB10,256.7 million and THB10,980.3 million (US\$338.3 million), respectively, and consolidated profit of THB881.9 million and THB204.8 million (US\$6.3 million) in the six months ended June 30, 2013 and the six months ended June 30, 2014, respectively. Our fleet size grew from 18 aircraft as of December 31, 2011 to 25 aircraft as of December 31, 2013 and June 30, 2014. On February 12, 2014, we entered into the ATR Sale and Purchase Agreement for six new ATR 72-600 aircraft which also includes purchase rights for an additional three ATR 72-600 aircraft. On May 27, 2014, we exercised such purchase rights for the additional three ATR 72-600 aircraft, and the delivery of the total nine aircraft is scheduled for between the last quarter of 2014 and the first quarter of 2017. We expect to gradually replace our existing ATR 72-500 fleet with the ATR 72-600 model. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. We intend to increase our total fleet size to 43 aircraft by December 31, 2018.

When we purchase our own aircraft, we are likely to require financing and incur significant amounts of debt to fund such acquisition of additional aircraft. The Company intends to finance the purchase of such ATR 72-600 aircraft through financing lease arrangements with third parties. We may also obtain debt financing to finance our operations, other anticipated capital expenditures, working capital requirements and expansion. See “Risk Factors—Risks Relating to Our Business—We may incur a significant amount of debt in the future to finance the acquisition of aircraft, capital expenditure or expansion plans.”

We have been able to achieve this growth despite a period where the airline industry, including for us, has been affected by many events, among other factors, the global economic crisis which started in 2007, the effect of

which continued as a result of other factors including terrorist attacks domestically and internationally, rising fuel prices and insurance premiums, as well as political unrest and flooding in Bangkok and other parts of Thailand.

Corporate Reorganization

In anticipation of the Combined Offering, in 2012, we affected the Corporate Reorganization pursuant to which five non-core subsidiaries and several parcels of vacant land, which were not used for our business, were sold as described in the tables below:

Purchaser: The Sahakol Estate Co., Ltd., a company wholly-owned by the Prasarttong-Osoth family.

Details	The Company's portion of net asset value as of the investment disposal date (in million Baht)	Selling price (in million Baht)	Gain (loss) on sales of investment – net (in million Baht)	Cost (in million Baht)	Remarks
Samui Palm Beach Resort Co., Ltd. and its subsidiary Samui Palm Beach Royal Wings Co., Ltd. owns and operates a hotel in Surat Thani	(70.7)	190.0	260.7	190.0	We disposed of the investment and assigned debt of THB159.0 million to the purchaser.
Sukhothai Property Co., Ltd. owns and operates a hotel in Sukhothai	225.7	238.0	12.3	322.0	—
Samui Park Avenue Co., Ltd. provides management services for a strip of outlets in the Samui airport.	(9.0)	—	(7.2)	10.0	We disposed of the investment and made a provision for bad debt of THB16.2 million
Bangkok Flight Training Center Co., Ltd. operates a flight training center (inactive company)	26.9	26.3	(0.7)	26.3	—
Plots of lands located in Ploen Jit, Sukhothai, Nakhon Ratchasima	1,194.6	1,281.3	86.7	1,194.6	—

Purchaser: Ms. Thanun Bunjongdee, Mrs. Suphaporn Rodkul, Mr. Boonsom Phoungkaew and Mr. Suchin Thanasumitr.

Details	The Company's portion of net asset value as of investment disposal date (in million Baht)	Selling price (in million Baht)	Gain (loss) on sales of investment - net	Cost (in million Baht)	Remarks
BAGs Ground Services Co., Ltd. engages in ground support equipment services in airports such as the Samui Airport, the Chiang Mai Airport and the Phuket Airport.	80.9	43.0	(37.9)	2.5	-

See “Business—Corporate Reorganization” for further details.

The consolidated 2013 Audited Financial Statements present the Group on an actual basis, and only give effect to the Corporate Reorganization as from August 2012 (for BAGs Ground) and December 2012 (for the remainder of the Corporate Reorganization), each of which has been prepared and presented in accordance with TFRS. Our December 31, 2012 statement of financial position reflects the Corporate Reorganization, but we have not prepared pro forma financial statements to present the consolidated results of operation of the Company as if the

Corporate Reorganization had occurred as at an earlier period because the Corporate Reorganization did not have a material effect on the consolidated results of operation of the Company.

The table below presents the summary financial information of the subsidiaries sold in the Corporate Reorganization as at and for the year ended December 31, 2012.

Summary Financial Data of Our Subsidiaries sold in the Corporate Reorganization as at and for the year ended December 31, 2012 (in Thai Baht millions)

Details	Samui Beach Co., Ltd	Palm Resort	Sukothai Property Ltd	Co.,	Samui Park Avenue Co., Ltd	Bangkok Flight Training Center Co., Ltd	BAGs Ground
Revenues		55.8		18.8	18.0	0.3	422.2
Net income		(22.5)		(13.7)	(0.4)	0.2	30.6
Total Assets		332.7		233.6	16.9	38.7	230.2
Total Liabilities		289.7		8.4	25.6	0.3	133.9
Shareholder's equity		43.0		225.2	(8.7)	38.4	96.3

Changes in Basis of Preparation

On December 31, 2013, as shown in Note 4.1 to 2013 Audited Financial Statements, we adopted Thai Accounting Standard Interpretations 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease, whereby we include fixed rental expenses, fixed service expenses and projected variable lease expenses in the calculation of the effective interest rate. The changes in calculation method caused the book value of long-term loans to increase, since the cumulative estimated future liabilities over the term of the contract are recorded in the financial statements. The increase is due to the accumulated differential between our actual interest expenses and the higher interest expenses calculated based on the effective interest rate of our lease expenses including our variable lease expenses, as required by the adoption of the Thai Accounting Standard Interpretations 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It also resulted in an increase in finance cost recorded in the profit and loss statements.

Also, as stated in Note 4.2 to the 2013 Audited Financial Statements, we adopted Thai Accounting Standard 12, Income Taxes ("TAS 12 (Income Taxes)") in 2013. TAS 12 (Income Taxes) relates to the recording of deferred income tax on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the end of each reporting period, using the tax rates at the end of the reporting period. The principal line items affected are deferred tax liabilities in the consolidated statements of financial position and shareholders' equity in our consolidated statement of financial position and gains on changes in value of available-for-sale investments in the consolidated statements of comprehensive income.

Further, as discussed in Note 5 to the 2013 Audited Financial Statements, we have made certain accounting adjustments to our prior year financial statements in relation to property taxes, operating leases and provisions for litigation. We have therefore restated the consolidated and separate financial statements for the years ended December 31, 2011 and 2012, presented herein as comparative information, to reflect the adjustments resulting from such changes, as summarized below:

	Consolidated 2012 Financial Statements (Restated)				
	As previously audited	Note 4.1	Note 4.2	Note 5	As Audited
	(in Baht millions, except percentages)				
Unappropriated retained earnings	670.7	(2,816.8)	(166.0)	(253.2)	(2,565.3)
% change	—	87.1%	5.1%	7.8%	—
Profit for year	2,533.7	(373.8)	(282.0)	(45.5)	1,832.4
% change	—	53.3%	40.2%	6.5%	—

See Notes 4.1, 4.2 and 5 to the 2013 Audited Financial Statements included elsewhere in this Offering Memorandum.

As discussed in Note 2 to our Unaudited Interim Financial Statements, the Company adopted Thai Financial Reporting Standard 2, Share-based Payment, which requires the Company to assess the fair value of the common shares issued to employees and directors and record the difference between the fair value and the exercise price as an expense in the statement of comprehensive income. Therefore, for the six months ended June 30, 2013, presented for comparison purposes in our Unaudited Interim Financial Statements, the Company has restated its statement of comprehensive income to reflect the adoption of this accounting standard. Additionally, during 2013, the Company received a letter from the SEC requesting the Company to consider adjusting an accounting item in relation to the House and Land tax, for the purpose of the SEC's consideration of the application for the issue and offering of securities, submitted to the SEC by the Company. To reflect this adjustment, the Company restated the statement of comprehensive income for the three-month and six-month periods ended June 30, 2014, presented as comparative information in the Unaudited Interim Financial Statements.

See Notes 2 and 21 to the Unaudited Interim Financial Statements included elsewhere in this Offering Memorandum.

Factors Affecting Results of Operations

Our financial condition and results of operation have been, and will continue to be, affected by a number of important factors, including the following:

Factors Affecting Airline Services

Aviation Operating Environment, particularly Thailand

Our results of operations are substantially affected by a wide range of travel industry factors. Passenger revenue is our main source of revenue and accounted for 79.6% of our consolidated revenues in 2013. Our passenger revenue depends primarily on tourism and, to a lesser extent, business travel to Thailand, which is in turn affected by fluctuations in the foreign exchange value of the Thai Baht against other core currencies (such as the U.S. Dollar, Euro and Yen), the levels of global and Thai economic activity, Thai domestic and political unrest, natural disasters, seasonal and other changes in traffic patterns and the availability of air traffic rights and time slots. In addition, our passenger revenue is dependent on our responses to, and ability to compete with, international and domestic airlines as well as low-cost or budget airlines.

Extraordinary events beyond our control such as terrorist attacks and outbreaks of contagious diseases have adversely affected the airline industry, the Thai economy and economic activity in the region, resulting in depressed demand for flights and ancillary services, lower airfares, higher insurance premiums and increased security costs. These extraordinary events may take place in the future and may have short-term or long-term impact on the airline industry and on our business, financial condition, results of operations and prospects.

Since the beginning of 2007, certain significant events have had a material adverse effect on the travel industry generally, and our business and results of operations. Specifically, the global financial crisis beginning in 2008 and the economic recession reduced global air travel and demand, and adversely affected our results of operations. See "Risk Factors—Risks Relating to Our Business—Difficult conditions in the global credit markets and the economy generally have affected and may continue to materially and adversely affect our business, financial condition, results of operation and prospects, and may cause us to experience limited availability of funds." In addition, difficult conditions in the global capital markets and the economy generally in 2011 and 2012, including the debt crisis in the Eurozone, affected and may in the future affect our business, financial condition, results of operation and prospects.

Between September and December 2011, Thailand experienced widespread flooding. These events disrupted both domestic and international travel and affected the Thai tourism industry. However, the number of

passengers carried by us increased to 784,277 in the fourth quarter of 2011 from 655,079 in the fourth quarter of 2010.

There have also been several incidents of political and civil unrest in Thailand. At the end of 2008, protests against the Government resulted in the closure of the Suvarnabhumi International Airport and Phuket International Airport from the end of November 2008 to early December 2008. The outbreak of H1N1, which further affected global air travel demand and the travel industry in the second quarter of 2009, adversely affected the growth of our results of operation. A riot during the Songkran Festival in April 2009 also affected travel to and within Thailand. In 2010, additional developments adversely affected air travel in Thailand, including intense civil and political strife, which culminated in April to May 2010 in widespread protests that prompted a Government response and resulted in civilian and military fatalities.

Since the start of November 2013, a number of political demonstrations and strikes have taken place in Thailand, particularly in Bangkok, as well as reports of violence in certain areas of Bangkok. These protests continued during the first half of 2014 and have had a negative effect on our results of operations in 2013 and the six months ended June 30, 2014.

On May 7, 2014, the Thai Constitutional Court ruled to individually terminate Ms. Yingluck, as Prime Minister, and several of her cabinet members. On May 20, 2014, in response to escalating protests, the Royal Thai Army declared martial law nationwide and on May 22, 2014, the National Council for Peace and Order (NCPO) dissolved the senate and assumed control of the government. We cannot predict what effect these recent events will have on Thailand's political and economic conditions for the remainder of 2014. See "Risk Factors—Risks Relating to Thailand—Political conditions and continued violence in Thailand may have a direct impact on our business and the market price of our shares".

However, despite the disruptions due to the financial crisis and the debt crisis in the Eurozone as well as other political, health and environmental shocks and the aforementioned events, we were able to consistently increase our RPKs from 1,957.9 million passenger kilometers in 2011 to 2,405.4 million passenger kilometers in 2012, and 2,759.2 million passenger kilometers in 2013.

Capacity and Route Mix

Our capacity and route mix are the major factors that specifies the Available Seat-Kilometer (ASK). Our business, financial condition, results of operation and prospects are affected by our capacity and route mix. These are in turn affected by our fleet profile, route mix strategy and traffic rights for any particular destination.

Aircraft Fleet

As of June 30, 2014, we had a fleet of 25 aircraft, comprising eight ATR 72-500, ten Airbus A319 and seven Airbus A320. The average age of our fleet was approximately 8.7 years as of June 30, 2014. The aircraft in our current fleet can provide 3,014 aircraft seat capacity and we plan to increase aircraft seat capacity to 5,682 from new aircraft procurement by the end of 2018. On February 12, 2014, we entered into the ATR Sale and Purchase Agreement for six new ATR 72-600 aircraft which also includes purchase rights for an additional three ATR 72-600 aircraft. On May 27, 2014, we exercised such purchase rights for the additional three ATR 72-600 aircraft, and the delivery of the total nine aircraft is scheduled for between the last quarter of 2014 and the first quarter of 2017. The Company intends to finance the purchase of such aircraft through financing lease arrangements with third parties. We expect to gradually replace our existing fleet of ATR 72-500 aircraft with the ATR 72-600 model, which is in line with our policy of maintaining a modern fuel-efficient fleet. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. We expect to have more productivity of ASK due to the procurement of these new aircraft.

Our ATR 72-500, ATR 72-600, Airbus A319 and Airbus A320 aircraft allow us to pair our aircraft with suitable routes depending on factors such as number of passengers, distance travelled and airport restrictions on aircraft size. Our fleet currently includes eight ATR 72-500 aircraft which offer the ability to access certain airports that are inaccessible by larger aircraft, such as the Trat Airport, and to serve routes with lower passenger volume.

Such versatility allows our ATR 72-500 aircraft to generate higher yield on an RASK basis than our Airbus aircraft despite the higher operating costs on a CASK basis which result from the shorter flight ranges and lower number of seats. Our ATR 72-500 aircraft also allow us to make adjustments to effectively manage flight frequency on routes with lower demand or during the off-season. We believe the new ATR 72-600 aircraft will offer the same flexibility and versatility as the ATR 72-500 aircraft, with certain additional benefits including more modern seat configuration and a new cockpit format which will facilitate pilot training and transition to larger fleet models. Our Airbus A319 aircraft enable us to expand the capacity of our routes in and out of the Samui Airport, which cannot support aircraft larger than the Airbus A319, while our Airbus A320 aircraft allow us to expand our international routes to include destinations such as Mumbai and Dhaka.

Route Mix Strategy

Our route mix strategy focuses on revenue maximization. We assess our route mix on at least a monthly basis using a variety of tools, including our revenue management system, to maximize revenues, yield and fleet utilization and capacity. Route mix is primarily driven by supply and demand factors, while our cabin load factors vary from route to route and during different time periods, as certain factors will vary at any given time. Similarly, we assess and adjust our route mix after reviewing the total capacity allocated to particular routes or regions, the competition on specific routes, passengers flown and average pricing, additional revenues generated from connecting flights, as well as costs and possible cost escalation. If a new route is not profitable after a trial period of typically 18 to 24 months, we may consider lowering the frequency of the route and continuing to monitor quarterly, or cancel the route. For example, we closed our route to and from Bangkok—Bangalore in October 2012, which had not been profitable since its commencement in September 2011 due to insufficient passenger numbers. However, we may, on a case-by-case basis, keep unprofitable routes where the passenger flow from such route into our route network generates sufficient profit to justify the route. In 2013 and in the six months ended June 30, 2014, however, we did not close any routes.

To take advantage of the Suvarnabhumi International Airport's position as the principal airport of Thailand and a regional hub for Southeast Asian travel, we are increasingly focusing on the connectivity and compatibility of certain domestic and regional routes to other higher yielding routes to increase the amount of traffic that connects through Thailand to destinations outside Thailand. Code-share and other cooperative arrangements are also key to our route network strategy, as they enable us to increase our cabin load factor with passengers connecting onto our flights from various international locations. We have increased our code-share arrangements from six as at December 31, 2011 to 14 as at June 30, 2014 (including in each case a code-share arrangement with Thai Airways, which is currently inactive and a code-share arrangement with Air Berlin which is currently not operating flights to/from Thailand).

We actively monitor flights on our Extended Route Network to match the timing of our flights on our route network to maximize the number of connecting flights available to passengers connecting onto our flights. We also routinely monitor traffic on both our domestic and international routes, and adjust frequency and capacity from time to time to reflect fluctuations in demand on these routes.

Traffic Rights and Slot Availability

Our ASKs and route mix are affected by allocated traffic rights and the availability of landing and departure slots, as each country, the relevant airport and/or its relevant aviation or transportation authority, grants certain rights in relation to volume and frequency of flights. Increasing the frequency to the destinations that we currently serve depends on our ability to obtain additional departure and landing slots in such destinations, including at the Suvarnabhumi International Airport and the Samui Airport. In addition, there may also be mandated caps on the number of total seats in aircraft that an airline is allowed to fly into a particular destination. Please see "Regulation of the Airline Industry in Thailand" for further details. The availability of landing and departure slots and caps on total seats may affect our ability to adjust our route mix, as certain restrictions may prevent us from increasing flight capacity to more profitable or higher demand destinations.

Fares

Average fares, calculated as total scheduled passenger revenue divided by total number of passengers carried, increased from THB3,789.4 in 2011 to THB4,089.0 in 2012, and decreased slightly to THB4,039.9 in 2013, principally due to increased competition on our Phuket and Chiang Mai routes and the increase of short-distance flights which fares are lower than those of long-distance flights. Average fares decreased from THB4,089.9 in the six months ended June 30, 2013 to THB3,932.8 in the six months ended June 30, 2014, principally due to (i) the introduction of low passenger yield routes, such as Bangkok – Udonthani and Bangkok – Chiang Rai, and (ii) slow growth of high yield passengers attributable to connecting flights compared to previous periods. The fares that we charge have a direct impact on our revenue and profitability, and are affected by the following factors:

Pricing Strategy. The airline industry is characterized by substantial and periodically intense price competition. Generally, we and our competitors discount fares during low seasons to stimulate demand. Such discounts generally trigger discount fares from other airline competitors as well. When we discount our fares, our yields are lowered and our results of operation are adversely affected as our passenger yields are lowered. However, we have adopted a flexible pricing strategy, based on a standard pricing model that airlines generally use in order to seek to maximize yield and cabin load factor. We actively manage passenger yields through our revenue management system, AirVision Revenue Manager, and our marketing and sales policies. Our revenue management system uses forecasting and optimization models to analyze economic tradeoffs required to determine the number of seats offered at each fare, which enables us to maximize revenues from existing capacity. Similar to our review of our route mix, our marketing and sales policies take into consideration several factors, including supply and demand, market and competitor pricing and our RPK allocation to, and past performance in, the geographical areas or regions. To remain competitive, we generally make fare adjustments on a regular basis, which may involve fare discounts on certain routes to stimulate cabin load factor in advance of travel. We seek to maximize our revenues by increasing fares on flights where advance booking figures and demand are strong, and on certain routes that have historically consistent or higher cabin load factors.

Our pricing for domestic fares is subject to Government-mandated fare ceilings of THB13.0 per kilometer for most of our routes, with the exception of our Bangkok—Trat route which is subject to a fare ceiling of THB30.0 per kilometer. The fare ceilings can only be increased to a maximum of THB30.0 per kilometer with approval from the DCA. Although this fare ceiling has not to date prevented us from pricing our domestic fares at a level we believe to be appropriate, it may do so in the future. Please see “Risk Factors—Risks Relating to Our Business—Our ability to set fares on certain segments of our business is constrained by fare ceilings set by the Government.”

Competition. We face intense competition on our domestic routes in Thailand and on our international routes in the region, both from other full-service carriers and from low-cost carriers. In addition, our other existing competitors and new entrants into the market may undercut its fares in the future or increase capacity on their routes in an effort to increase their market share, any of which could reduce our fares, load factors and market share and may cause us to revise our cost structure and fares. The airline industry is particularly susceptible to price discounting because airlines incur only nominal variable costs to provide service to passengers occupying otherwise unsold seats. Any changes in competition conditions in the Thai and regional airline markets, including as a result of ASEAN “Open Skies” policies, could significantly affect our business, financial condition, results of operation and prospects.

Fuel Prices

The largest component in our cost of sales and services is aircraft fuel costs, which includes payments for aircraft fuel and gains or losses under fuel hedging contracts. Aircraft fuel costs comprised 28.2%, 29.3%, 27.7% and 29.8% of our costs of sales and services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Our fuel costs fluctuate significantly in line with changes in global oil prices, which have historically been, and will in the future continue to be, subject to price volatility and fluctuations in supply and demand. Our average fuel price increased from US\$125.6 per barrel in 2011 to US\$126.8 per barrel in 2012, decreased to US\$123.0 per barrel in 2013, and decreased to US\$120.9 per barrel in the six months ended June 30, 2014.

We procure a substantial majority of our aircraft fuel required for our flights pursuant to agreements with PTT and Shell Thailand with two to three year terms. Our domestic aircraft fuel supply agreements are priced in

U.S. Dollars but provide for payment in Thai Baht at the average exchange rate of the month before the invoice date. Our international aircraft fuel supply agreements are priced, and generally provide for payment, in U.S. Dollars. Our aircraft fuel prices under our aircraft fuel supply agreements are generally set as the mean price of fuel oil traded through Singapore, as published by Platts under Mean of Platts Singapore (“MOPS”).

We also pass a portion of our fuel price increases to our passengers on international flights in the form of fuel surcharges. However, our fuel surcharges for our international flights do not fully compensate us for fuel price increases. The DCA does not allow fuel surcharges to be imposed separately from the air fare for scheduled domestic passenger services. Due to the competitive nature of the airline industry, we do not expect to be able to pass all increases in aircraft fuel costs on to our customers in the form of higher airfares or fuel surcharges without having an adverse effect on the customer demand for our services. For the portion of fuel surcharges that we cannot pass to the passengers, we engage in various hedging transactions from time to time to manage our aircraft fuel costs including transactions to manage cost for periods not more than one year forward. We use a variety of hedging arrangements, including fuel price swap agreements, fuel price option agreements and fuel price collar agreements (combination of a put option and a call option), which we review on a quarterly basis. These hedging instruments to manage cost over a period of time have the effect of making our effective purchase price of aircraft fuel pursuant to these arrangements roughly equal to the average of the historical market price for aircraft fuel over a specified period prior to the actual purchase. The counterparties to such hedging arrangements are mainly financial institutions. In addition, as a result of our hedging arrangements, even if market prices for aircraft fuel were to fall in the future, we may not be able to reduce our fuel costs in a timely manner. Because of the nature of our fuel price hedging arrangements, we have to recognize the difference of the fuel price if the fuel price is lower than the minimum price of the hedging arrangement and *vice versa*, and we will be compensated the difference if the fuel price is higher than the minimum price of the hedging arrangement, with the relevant gain or loss recorded as part of our costs of sales and services in our consolidated Financial Statements. For more information regarding our hedging activities with respect to aircraft fuel prices, see “—Market Risks—Fuel Price Risks”. See Note 40.2 to the 2013 Audited Financial Statements included elsewhere in this Offering Memorandum.

Increases in the aggregate price of air travel (comprising airfare, related taxes and fuel and other surcharges) due to significant increases in the price of aircraft fuel may decrease demand for our services. Accordingly, higher jet fuel costs per barrel may adversely affect our profitability and results of operation.

Airline Expenses

A significant portion of our expenses, including aircraft maintenance and overhaul costs, depreciation and amortization, lease of aircraft and spare parts, finance costs, operating lease payments and some labor costs, are recurring costs which do not vary based on the number of flights flown. Thus, higher aircraft utilization rates result in lower unit costs and higher per passenger returns. In addition, certain of our expenses, including aircraft fuel costs and labor costs for flight deck crew and cabin crew vary based on the number of flights operated but not on our cabin load factor. Thus, minor changes in cabin load factor could have a material effect on our results of operation. We seek to manage costs by maximizing aircraft utilization rates, subject to maintaining an adequate cabin load factor and any applicable operational and regulatory limits. When the cabin load factor is low, we may make adjustments to flight frequencies or routes to manage our costs and avoid net losses. This “breakeven” cabin load factor differs from route to route and from time to time depending on prevailing costs.

We seek to manage costs by focusing on route management, fuel management and hedging, headcount control, staff salaries and benefits and overtime and control of cabin crew expenses.

Aircraft Lease Payments

As of June 30, 2014, 19 out of 24 of our aircraft leases are operating leases, and the remainder were finance leases. As of June 30, 2014, we also own one aircraft. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party and on July 9, 2014, we received title to an additional ATR 72-500 aircraft that was previously under a finance lease in the form of conditional sale agreement. As of the date of this Offering Memorandum, the Company has four aircraft under finance lease agreements and owns two aircraft.

Aircraft lease expenses include the aircraft lease payments that we make to leasing companies and trading companies under operating leases. These expenses are mainly denominated in U.S. Dollars. Under our operating lease arrangements, we are entitled to use the aircraft and are obligated to make rental payments according to the relevant lease arrangements. Unlike finance leases, our operating leases typically have no purchase options and the lessor bears the economic benefits and risks of ownership, including the risk of the residual value of the aircraft at the end of the lease term. We are required to return the aircraft in the agreed condition at the end of the lease term. Although the title remains with the lessor, we are responsible during the lease term for legal and regulatory compliance, repair and maintenance, servicing, tax and insurance of the aircraft. Lease payments made under operating leases are recognized as aircraft rent expenses in our income statement. Liabilities relating to aircraft subject to operating lease arrangements are not recorded on our balance sheet but reported in the notes to our financial statements.

Under our finance lease agreements in the form of conditional sale agreements, which are classified as finance leases, we make lease payments that finance most of the purchase price of an aircraft over the lease term and bear substantially all of the economic risks and rewards of owning the aircraft. Under all of our finance lease agreements in the form of conditional sale agreements, we have the option to purchase the aircraft upon expiration of the lease and the right to obtain title to the aircraft upon payment of all amounts owed under such lease. At the end of 2013, we purchased one aircraft at the expiration of its lease term.

The new fleet of nine ATR 72-600 aircraft will be acquired pursuant to the ATR Sale and Purchase Agreement. The Company intends to finance the purchase of such aircraft through financing lease arrangements with third parties.

See Note 24 to our 2013 Audited Financial Statements and Note 18 to our Unaudited Interim Financial Statements included elsewhere in this Offering Memorandum for further details.

Aircraft Maintenance

As of June 30, 2014, the average age of our fleet was approximately 8.7 years. We believe the relatively young age of our aircraft means we generally benefit from low maintenance, repair and overhaul expenses. In general, the cost of maintaining aging aircraft will exceed the cost of maintaining newer aircraft. As our fleet ages, it will require more maintenance and our operation and maintenance expenses will increase on an absolute basis, and such maintenance may affect our ASKs and aircraft utilization and as a result, affect our results of operations. Moreover, as our fleet ages we will not be able to benefit from manufacturer warranties which typically range for two to three years. Given the standardized nature of operation and maintenance measures for similar classes of aircraft and types of engines, any purchase or lease of aircraft or engine types different from those presently deployed in our fleet would likely result in an increase in our cost of sales and services. In addition, older aircraft are not as fuel efficient as newer aircraft that incorporate new composite materials and technology to make them lighter and more fuel efficient. Accordingly, as our fleet ages, our fleet may comparatively incur higher fuel costs per unit. Further, as our fleet ages, public perception of our aircraft fleet and any customer uncertainty as to safety and related issues could affect passenger demand for our flights and thus affect our results of operation.

Seasonality

Our results of operation are subject to seasonal fluctuations. We experience fluctuations in passenger demand at different times of the day and week and seasonal trends. In the future, we expect our results of operation to continue to fluctuate as a result of a variety of seasonal factors, including changes in passenger demand, flight schedule and cost of sales and services. Based on typical seasonal travel patterns, and subject to other factors that could affect our business and operations, our revenues, traffic and load factors are usually highest in the first quarter during Thailand's peak tourist season, and the next highest in the fourth, third and second quarters of the year, respectively. Accordingly our revenue, operating profit and cash flow are relatively lower in the second quarter due to a decrease in travel during this quarter. As a result, we typically concentrate on our aircraft maintenance during this quarter.

During periods with high passenger demand, we assess the relevant supply and demand and market factors to increase flight capacity. We also reallocate or reduce flight capacity during periods with low passenger demand and undertake more aircraft maintenance during low periods of demand.

Currency Exposure

Our reporting currency is the Thai Baht. However, most of our aircraft fuel supply, aircraft insurance contracts and all of our aircraft leases are denominated in U.S. Dollars or priced in U.S. Dollars but invoiced in Thai Baht at the prevailing exchange rate. Approximately 30.6% of our consolidated cost of sales and services for the year ended December 31, 2013, was denominated in foreign currencies, and the remainder in Thai Baht. Approximately 50.9% of our consolidated revenues in 2013 were denominated in foreign currencies, and the remainder in Thai Baht. Approximately 5.4% of our consolidated financial assets and 11.6% of our consolidated financial liabilities were denominated in currencies other than the Thai Baht as of December 31, 2013. Approximately 8.0% of consolidated financial assets and approximately 11.8% consolidated financial liabilities were denominated in currencies other than the Thai Baht as of June 30, 2014.

Ticket prices denominated in foreign currencies fluctuate according to the exchange rate of those foreign currencies against the Thai Baht. Thus, a depreciation of the Thai Baht tends to decrease the revenues from tickets which are denominated in foreign currencies. In addition, the cost of sales and services denominated in foreign currencies may increase when they are converted to Thai Baht. As a result, we have a policy aimed at managing our foreign exchange risk exposure by matching receipts and payments in each individual currency. We are also able to determine the currency we receive from the sales of passenger tickets by IATA-authorized agents. We manage the remaining foreign currency balance by converting amounts into the desired currency, at the spot rate at the time of conversion. We generally adjust airfare pricing semi-annually but we are not able to adjust fuel costs and miscellaneous cost of sales and services that are denominated in foreign currencies to adjust for the fluctuation of the Thai Baht. We have not entered into any hedging contracts to hedge against fluctuations in exchange rates. We record profit or loss from converting the net foreign currency as other revenues or other expenses as the case may be.

Interest Rate Exposure

Our outstanding indebtedness is subject to both fixed and variable interest rates. As of June 30, 2014, 8.1% of our total indebtedness bore interest at floating rates (including finance leases) included in our Unaudited Interim Financial Statements. Currently, we are not a party to any agreement to hedge our interest rate exposure.

Factors Affecting Airport Operations

Our revenues from airports are derived from our THB200.0 to THB600.0 per passenger service charge received from international and domestic passengers travelling out of the Samui Airport, the Sukhothai Airport and the Trat Airport. In 2011, 2012 and 2013, 2.4%, 2.3% and 2.3%, respectively, of our total revenues were derived from passenger service charges. Changes in our revenues from passenger service charges are driven by the number of departing passengers at our airports and the collected rate of passenger service charge. We also derive other revenue from landing fees and parking fees received from other airlines, which are related to the number of flights landing in our airports.

On November 24, 2006, we entered into an agreement to lease Samui Airport, together with its facilities, to the Samui Property Fund for a period of 30 years for THB9,300.0 million. On the same date, we entered into an agreement to sublease the Samui Airport from the Samui Property Fund for a period of three years, renewable for nine times of three years each and another agreement pursuant to which we are to receive utilities system services at the Samui Airport from the Samui Property Fund for a period of 30 years. The long-term lease agreement with the Samui Property Fund specified the fixed payment of THB47.5 million per month which will be increased based on number of departing passengers and number of arriving flights. We hold 25.0% of the outstanding units in the Samui Property Fund. As of June 30, 2014, the Samui Property Fund had total assets of THB10,518.8 million (US\$324.1 million).

We earn revenue from passenger service charges, net of the portion paid to the Samui Property Fund. The Samui Airport is our most important airport in terms of passenger traffic and contribution to income. We also receive share of income associated with the Samui Airport from our holding of 25.0% of the outstanding units in the Samui Property Fund. In 2011, 2012 and 2013, and the six months ended June 30, 2014, we received share of income from the Samui Property Fund of THB137.7 million, THB178.8 million, THB204.3 million (US\$6.3 million) and THB105.4 million (US\$3.2 million), respectively. The interest portion, which varies based on the number of departing passenger and arrival flights is recorded as part of our finance costs, and amounted to THB1,283.0 million, THB1,314.1 million, THB1,331.7 million (US\$41.0 million) and THB643.2 million (US\$19.8 million) in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. In 2011, 2012, 2013 and the six months ended June 30, 2014, we received dividend income from the Samui Property Fund of THB225.6 million, THB267.2 million, THB293.3 million and THB150.8 million (US\$4.6 million), respectively.

Our ability to increase revenues, directly or indirectly, at the Samui Airport is constrained because the DCA limits flight capacity. Any increase in the number of flights in and out of the Samui Airport requires approval from the DCA, which considers, among others, the environmental impact assessment. On June 24, 2013, we submitted an environmental impact assessment to the Office of Environmental Policy and Planning to increase the number of flights in and out of the Samui Airport which was approved by the Office of Environmental Policy and Planning to a maximum of 50 flights daily. On May 22, 2014, we submitted the application for permission from the DCA to increase the number of flight schedules in and out of the Samui Airport based on the approved environmental impact assessment. If we receive such permission from the DCA, we will perform a route study with respect to the additional flights and we expect to be able to gradually increase the number of flights starting from the winter of 2015 at the latest.

Factors Affecting our Airport-related Services

BFS Cargo

WFS – PG Cargo Co., Ltd. (BFS Cargo), our 49.0% owned associated company, is an international cargo services provider at the Suvarnabhumi International Airport. Its 49.0% owned associated company, BFS Cargo DMK Co., Ltd., is a cargo services provider at the Don Mueang International Airport.

In 2011, 2012, 2013 and the six months ended June 30, 2014, our equity in the net income of BFS Cargo amounted to THB119.3 million, THB180.2 million, THB189.7 million (US\$5.8 million) and THB102.9 million (US\$3.2 million), respectively. In 2012, we recorded our first dividend income in the amount of THB88.2 million. In 2013, we recorded dividend income in the amount of THB132.3 million (US\$4.1 million).

Factors which affect BFS Cargo's results of operations include tonnage served (both from existing and new customers) and the prices charged, which are in turn dependent on global economic activity and supply and demand, and cost of manpower. BFS Cargo increased its tonnage served from 328,901 tons in 2011 to 369,245 tons in 2012. In 2013, cargo tonnage decreased to 349,935 tons due to the economic climate and political unrest which caused the decrease in exports and imports. In addition, in 2012, BFS Cargo benefited from an increase in imports of machinery and materials for production as a result of the flooding in Thailand. In January 2013, BFS Cargo expanded its storage capacity by increasing from 400,000 tons per year to 550,000 tons per year, arising from installation of the automatic storage and retrieval system.

BAC

Bangkok Air Catering Co., Ltd. (BAC), our 90.0% owned subsidiary company, operates in-flight catering services at the Suvarnabhumi International Airport. Its 99.99% owned subsidiary company, BAC Gourmet House Co., Ltd., is a restaurant operator and its 69.99% owned subsidiary company, Bangkok Air Catering Phuket Co., Ltd. operates catering services at the Phuket Airport.

In 2011 and 2012, we held a 59.8% interest in BAC, and in March 2013, we increased our interest to 90.0%. BAC's results of operation are included in our consolidated Financial Statements. It accounted for 4.5%,

4.1% and 4.5% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively, and it accounted for 4.1% of our total revenues for the six months ended June 30, 2014.

Factors which affect BAC's results of operations include the number of meals produced and uplifted, price per meal and raw material food costs. BAC has increased the number of meals produced and uplifted from an average of 17,327 meals per day in 2011 to 20,573 meals per day in 2012, and 23,430 meals per day in 2013.

BAC's pricing for its meals depends primarily on negotiation on a case-by-case basis and the prices charged by its main competitors, Thai Airways and LSG Skycheffs Co., Ltd., which is an affiliate of Lufthansa. Raw material food costs is the largest component of BAC's operating expenses, representing 39.0%, 39.0%, 40.0% and 41.0% of its total expenses in 2011, 2012, 2013, and the six months ended June 30, 2014, respectively. Raw material food prices of BAC are subject to fluctuation according to market prices.

BFS Ground

Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd. (BFS Ground), our 90.0% owned subsidiary, provides passenger services and ground support equipment services at the Suvarnabhumi International Airport. Its 51.0% owned subsidiary company, BFS Cargo DMK Co., Ltd., is a cargo services provider at the Don Mueang International Airport.

In 2011 and 2012, we held an 88.1% interest in BFS Ground, and in March 2013, we increased our interest to 90.0%. BFS Ground's results of operation are included in our consolidated Financial Statements. It accounted for 7.0%, 6.3% and 7.3% of our total revenues for the years ended December 31, 2011, 2012 and 2013, respectively, and it accounted for 6.9% of our total revenues for the six months ended June 30, 2014.

Factors which affect BFS Ground's results of operations include prices charged, number of flights handled and the cost of manpower. BFS Ground has expanded its number of flights handled from 38,417 flights in 2011 to 43,856 flights in 2012, and 51,838 flights in 2013. BFS Ground's number of flights handled in the six months ended June 30, 2014 was 27,984 flights. BFS Ground's pricing strategy depends primarily on the prices charged by its main competitor, Thai Airways. The number of flights BFS Ground handles also depends on flight traffic at the Suvarnabhumi International Airport.

Critical Accounting Policies

Revenue Recognition

We record sales of passenger tickets as unearned income on our balance sheet. Passenger revenue is recognized, and the related liability is reduced, when transportation is provided. Revenue from freight and passenger services is recognized when we provide the relevant services. Revenue from aircraft rental is recognized in the income statement based on the rental period. Interest income is recognized on an accrual basis based on the effective interest rate. Dividends are recognized when the right to receive dividends is established.

Leases

In determining whether a lease is to be classified as an operating lease or finance lease, our management is required to use judgment regarding whether the terms of the lease transfer significant risks and rewards of ownership of the leased asset, taking into consideration the terms and conditions of the arrangement.

Leases of property, plant or equipment which transfer substantially all the risk and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lower of fair value of the leased assets and the present value of the minimum lease payments. The outstanding rental obligations, net of finance charges, are included in long-term payables, while the interest element is charged to profit or loss over the lease period. The assets acquired under finance leases are depreciated over the useful life of the asset.

Leases of property, plant or equipment which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Operating leases payments are recognized as expenses in profit and loss on a straight line basis over the lease term.

Impairment of Assets

At the end of each reporting period, we perform impairment reviews in respect of the property, plant and equipment and other intangible assets whenever events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognized when the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and its value in use, is less than the carrying amount. We treat available-for-sale instruments and other instruments as impaired when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment of the management.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at the net realizable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in the collection of receivables. The allowance is generally based on collection experience and analysis of debt aging. In determining an allowance for doubtful accounts, the management needs to make judgments and estimates based upon, among others, past collection history, aging profile of outstanding debts and prevailing economic condition.

Deferred Tax

Deferred income tax is recognized on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the end of each reporting period, using the tax rates enacted at the end of the reporting period. We recognize deferred tax liabilities for all taxable temporary differences while we recognize deferred tax assets for all deductible temporary differences and unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which such deductible temporary differences and tax losses carried forward can be utilized. At each reporting date, we review and reduce the carrying amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The management needs to make a judgment to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of estimate future taxable profits. We record deferred tax directly to shareholders' equity if the tax relates to items that are recorded directly to shareholders' equity.

Post-employment Benefits under Defined Benefit Plans

We and our employees have jointly established a provident fund. The fund's assets are held in a separate trust fund and our contributions are recognized as expenses when incurred. Our management determines the obligation under defined benefit plans based on actuarial techniques. Such determination is made based on various assumptions, including discount rate, future salary increase rate, mortality rate and staff turnover rate.

Litigation

We have contingent liabilities as a result of litigation. Our management uses judgment to assess the results of litigation. We record any contingent liabilities in relation to such litigation as at the end of the reporting period. See Note 39 of our 2013 Audited Financial Statements and "Business—Legal Proceedings" for details.

Our management bases its estimates and assumptions on historical experience and other factors that our management believes to be reasonable under the circumstances. We continually evaluate these estimates and judgments. Actual results may differ from these estimates under different assumptions.

Property, Plant and Equipment Depreciation

Land is stated at cost, and buildings and equipment (including aircraft) are stated at cost less accumulated depreciation and any allowance for diminution in value. Depreciation is calculated on a straight-line basis over the estimated life of the building and equipment, which is three to 20 years for buildings and improvements, 20 years for airports and improvements, 20 years for aircraft, three to 14 years for aircraft parts, three to 10 years for furniture, fixtures and equipment and three years for vehicles.

In determining depreciation of plant and equipment, our management is required to make estimations of the useful lives and residual values of the plant and equipment and to review estimated useful lives and residual values when there are any changes. In addition, our management is required to review property, plant and equipment for impairment on a periodical basis and record impairment losses when it is determined that their recoverable amount is lower than the carrying amount. This requires judgments by our management regarding the forecast of future revenues and expenses relating to the assets subject to review.

Customer Loyalty Programs

The Company operates a loyalty program which allows customers to accumulate points when they fly with the Company. The points can then be redeemed for gifts specified by the Company. A portion of the value of the fare and the route are allocated to the points accumulated, based on their fair value. The fair value of the points accumulated is deferred and recognized as revenue when the points are redeemed and the Company fulfills its obligation to supply awards.

The Company adopted TFRIC 13 Customer Loyalty Programs on January 1, 2014 and implemented the new accounting policy in its preparation of its financial statements for the six months ended June 30, 2014. However, the adoption of this accounting policy had no effect on the Company's financial statements for the period.

Consolidated Results of Operations

As a result of the Corporate Reorganization, our consolidated financial statements for any periods after December 31, 2012 may not be fully comparable to the consolidated statements of comprehensive income and the consolidated statements of cash flows included in the Financial Statements for the years ended December 31, 2011 and 2012, and the consolidated statements of financial position as at December 31, 2011. The 2011 and 2012 unaudited comparative financial statements presented in the 2013 Audited Financial Statements, and the six months ended June 30, 2013 unaudited comparative financial statements presented in the Unaudited Interim Financial Statements, have been restated for comparison purposes to conform with the changes made in the 2013 Audited Financial Statements, and the Unaudited Interim Financial Statements, respectively. Such restated, comparative financial statements have not been audited by EY Thailand. In addition, the underlying consolidated financial statements as of and for the year ended December 31, 2011 have not been audited. Accordingly, investors are cautioned not to place undue reliance on such unaudited consolidated financial information.

Revenues

The following table shows the breakdown of our consolidated revenues by category type for the periods specified.

	Year Ended December 31,						Six Months Ended June 30,					
	2011		2012		2013		2013		2014			
	(THB in millions)	%	(THB in millions)	%	(THB in millions)	(US\$ in millions)	%	(THB in millions)	%	(THB in millions)	(US\$ in millions)	%
Passenger revenue.....	11,409.0	72.8	14,598.6	74.8	16,484.3	507.9	79.6	8,112.2	79.1	8,677.6	267.4	79.0
Sales and service income.....	2,130.9	13.7	2,361.5	12.1	2,656.1	81.8	12.8	1,286.0	12.5	1,337.4	41.2	12.2
Freight.....	190.2	1.2	265.3	1.4	250.4	7.7	1.2	104.0	1.0	152.6	4.7	1.4
Passenger service charge.....	368.8	2.4	447.0	2.3	485.5	15.0	2.3	251.8	2.5	269.1	8.3	2.5
Dividend income.....	91.6	0.6	135.3	0.7	219.7	6.8	1.1	219.3	2.1	243.8	7.5	2.2
Gain on sales of investments...	325.3	2.1	818.9	4.2	41.6	1.3	0.2	42.0	0.4	3.4	0.1	0.0
Gain on sales of investments in subsidiaries.....	—	—	226.8	1.2	3.0	0.1	0.0	3.0	0.0	—	—	—

Other income.....	1,007.3 ⁽¹⁾	5.9	666.5	3.4	580.8	17.9	2.8	238.4	2.3	296.4	9.1	2.7
Total.....	15,523.0	100.0	19,519.9	100.0	20,721.4	638.5	100.0	10,256.7	100.0	10,980.3	338.3	100.0

(1) Comprises THB545.9 million from the cancellation of an agreement.

Revenue by Business Segments

For our financial reporting, we classify our business activities into four segments: airlines segment, airports segment, airport-related service businesses segment and other segments. The following table shows a breakdown of revenues by business segment (excluding inter-segment revenues) for the periods presented.

	Year Ended December 31,						Six Months Ended June 30,					
	2011		2012		2013		2013		2014			
	(THB in millions)	%	(THB in millions)	%	(THB in millions)	(US\$ in millions)	%	(THB in millions)	%	(THB in millions)	(US\$ in millions)	%
Airlines.....	11,599.1	74.7	14,863.9	76.1	16,734.7	515.6	80.8	8,216.2	80.1	8,830.2	272.1	80.4
Airports.....	368.8	2.4	447.0	2.3	485.5	15.0	2.3	251.8	2.5	269.1	8.3	2.5
Airport-related services ⁽¹⁾	2,059.5	13.3	2,300.5	11.8	2,656.1	81.8	12.8	1,286.0	12.5	1,337.4	41.2	12.2
Other segments.....	156.7	1.0	146.2	0.7	42.7	1.3	0.2	35.4	0.3	—	—	—
Unallocated revenues.....	1,338.9	8.6	1,762.3	9.0	802.4	24.7	3.9	467.3	4.6	543.6	16.7	5.0
Consolidation.....	15,523.0	100.0	19,519.9	100.0	20,721.4	638.5	100.0	10,256.7	100.0	10,980.3	338.3	100.0

(1) Airport-related services is the same as “Supporting airline businesses” as used in our consolidated Financial Statements.

Airlines segment. Revenues from the airlines segment comprises revenues from passenger services and freight services.

Passenger revenue is recorded when the transportation is provided for our tickets sold for our scheduled flights (net of deductions for refunds and excluding value-added taxes and airport taxes). The primary drivers of passenger revenue are passenger volume and the prices at which we sell each seat.

Freight revenue comprises income from freight handling services.

Airports segment. Revenues from the airports segment comprises primarily passenger service charges received from passengers travelling out of the Samui Airport, and to a lesser extent, the Sukhothai Airport and Trat Airport.

Revenue from passenger service charge comprises:

- (i) our THB200.0 and THB500.0 per passenger service charge received from domestic passengers and international passengers travelling out of the Sukhothai Airport, respectively. In addition, the Sukhothai Airport provides international charter flights from time to time, which also generates passenger service charge revenue;
- (ii) our THB200.0 and THB400.0 per passenger service charge received from domestic passengers and international passengers travelling out of the Trat Airport, respectively; and
- (iii) our THB300.0 and THB600.0 per passenger service charge received from domestic passengers and international passengers travelling out of the Samui Airport, respectively.

Airport-related services segment. Revenues from the airport-related services business segment comprises revenues from the operation of BAC, BFS Ground, Bangkok Airways Ground Services Co. Ltd. (“Bangkok Airways Ground”) and BAGs Ground (sold as part of the Corporate Reorganization) which is recorded as sales and service income in the financial statements.

Other segments. Other segments, in 2013, principally comprises revenues from the sale of duty free products, and in 2011 and 2012, revenues from Samui Palm Beach Resort Co., Ltd. (hotel business), Sukhothai

Property Co., Ltd. (hotel business) and Samui Park Avenue Co., Ltd. (space rental business) which were recorded as sales and service income in the financial statements. As of December 31, 2013, Samui Palm Beach Resort Co., Ltd., Sukhothai Property Co., Ltd., Samui Park Avenue Co., Ltd. and Bangkok Flight Training Center Co., Ltd. were sold as part of the Corporate Reorganization.

Unallocated revenues. Unallocated revenues comprises gain on sales of investments in subsidiaries from the sale of certain subsidiaries as part of the Corporate Reorganization and significant other income, including the compensation from the cancellation of one agreement in 2011, dividend income (principally received from BGH shares), passenger ticket charges (including refund, reissuance and re-route charges, as well as unused deposits from group bookings, excess baggage charges), interest income from our director loan, gain on sales of asset, income from our frequent flyer program and landing and parking fees charged to other airlines at our airport.

Revenues from Airline Services

Revenues from airline services were our primary source of revenue, contributing 81.1% of our total revenues in 2013 (excluding foreign exchange gain and gain on sales of investment in a subsidiary). Revenues from airline services comprises passenger revenue and freight revenue. Our passenger revenue increased by 28.0% to THB14,598.6 million in 2012 from THB11,409.0 million in 2011. Our passenger revenue increased by 12.9% to THB16,484.3 million in 2013 from THB14,598.6 million in 2012. In the six months ended June 30, 2014, our passenger revenue increased by 7.0% to THB8,677.6 million (US\$267.4 million) from THB8,112.2 million for the same period in 2013. Our freight revenue increased by 39.5% to THB265.3 million in 2012 from THB190.2 million in 2011, principally as a result of an increase in cargo. Our freight revenue decreased by 5.6% to THB250.4 million (US\$7.7 million) in 2013 from THB265.3 million in 2012, as a result of the temporary suspension of our Bangkok – Dhaka flight, which, when active, produces high freight revenue. In the six months ended June 30, 2014, our freight revenue increased 46.7% to THB152.6 million (US\$4.7 million) from THB104.0 million in the same period in 2013, as a result of (i) an increase in exports from Cambodia in route to the United States and Europe, which were routed through our Phnom Penh – Bangkok flights, (ii) an increase in exports from China to into Cambodia, which were routed through our Bangkok – Phnom Penh flights, and (iii) an increase in exports from South Korea into Cambodia, which were routed through our Bangkok – Phnom Penh flights.

The following table presents our passenger revenue, comprising of revenues from scheduled flights and charter flights for the periods indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Passenger Revenue	THB	THB	THB	US\$	THB	THB	US\$
	(in millions)						
Scheduled passenger revenue.....	11,305.0	14,553.5	16,404.2	505.4	8,086.4	8,667.3	267.1
- Domestic routes.....	7,259.7	9,039.4	10,434.7	321.5	5,150.6	5,469.5	168.5
- International routes.....	4,045.3	5,514.1	5,969.5	183.9	2,935.8	3,197.8	98.5
Charter flights and charter services revenue....	104.0	45.1	80.1	2.5	25.8	10.3	0.3
Total passenger revenue.....	<u>11,409.0</u>	<u>14,598.6</u>	<u>16,484.3</u>	<u>507.9</u>	<u>8,112.2</u>	<u>8,677.6</u>	<u>267.4</u>

Our revenue from scheduled flights, for both domestic and international routes, increased 28.7% from THB11,305.0 million in 2011 to THB14,553.5 million in 2012. Our revenue from scheduled flights, for both domestic and international routes, increased 12.7% from THB14,553.5 million in 2012 to THB16,404.2 million (US\$505.4 million) in 2013. In the six months ended June 30, 2014, our revenue from scheduled flights, for both domestic and international routes, increased 7.2% to THB8,667.3 million (US\$267.1 million), from the same period in 2013. The increase in revenue from scheduled flights primarily resulted from an increase in Available Seat-Kilometer (ASK), reflecting our fleet expansion and increase in routes and flight frequency, while cabin load factor and passenger yield remained at relatively stable rates. Passenger revenues increased at a slower rate in 2013 and the six months ended June 30, 2014 mainly due to the difficult economic conditions and political unrest in Thailand in the fourth quarter of 2013 which continued into the second quarter of 2014.

The following table presents our operating information for scheduled passenger services for the periods indicated.

	Year Ended December, 31			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
Available Seat-Kilometer (ASK).....	2,899.5	3,587.3	4,062.8	1,912.8	2,726.9
Revenue per passenger kilometer (RPK).....	1,957.9	2,405.4	2,759.2	1,332.9	1,788.4
Cabin Load Factor.....	67.5	67.1	67.9	69.7	65.6
Passenger Yield (Baht per RPK).....	6.0	6.2	6.1	6.3	5.1

ASK refers to available seat kilometers, which is the number of seats available for passengers multiplied by the number of kilometers that are flown. The primary factors which may affect ASK comprises the number of flights, number of aircraft, number of available seats and number of kilometers that are flown. Our ASKs increased from 2,899.5 million seat-kilometers in 2011 to 3,587.3 million seat-kilometers in 2012, an increase of 23.7%. Our ASKs increased by 13.3% from 3,587.3 million seat-kilometers in 2012 to 4,062.8 million seat-kilometers in 2013. Our ASKs increased by 42.6% from 1,912.8 million seat-kilometers for the six months ended June 30, 2013, to 2,726.9 million seat-kilometers, in the same period in 2014. Our ASKs have been affected by a number of important factors, including the following:

- route network expansion;
- fleet expansion;
- aircraft utilization rates; and
- code-share agreements with our business partners.

The following table presents our operating information which affects ASK for the periods indicated.

	Year Ended December, 31			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
Number of scheduled destination served (winter/summer).....	17/19	19/20	23/22	20	24
Number of aircraft at period end.....	18	21	25	23	25
Scheduled flight frequency (flights per week) (winter/summer).....	841/798	920/896	1,045/951	981/961	1,212/1,167
Aircraft utilization (block hours per day per aircraft).....	9.7	10.0	9.1	9.2	9.1
Kilometers flown (million).....	25.1	30.1	32.2	15.5	21.5

Route Network Expansion. During 2011, 2012 and 2013, we expanded our route network from 17 destinations for our winter schedule and 19 destinations for our summer schedule in 2011 to 19 destinations for our winter schedule and 20 destinations for our summer schedule in 2012, and to 23 destinations for our winter schedule and 22 destinations for our summer schedule in 2013. New routes consisted of Bangkok—Lampang, Samui—Kuala Lumpur (commenced in March 2012), Bangkok—Vientiane (commenced in November 2012), Bangkok—Krabi (commenced in April 2013), Bangkok—Udonthani (commenced in October 2013), Bangkok—Naypyidaw (commenced in October 2013), Samui—Chiang Mai (commenced in December 2013) and Bangkok (Suvarnabhumi)—Chiang Rai (commenced in March 2014) routes, as well as the effect of Bangkok—Bangalore (commenced in September 2011 and terminated in October 2012) routes. This resulted in an increase of number of flights operated, from 841/789 flights per week in 2011 to 920/896 flights in 2012, and 1,045/951 flights per week in 2013. In addition, our kilometers flown increased from 25.2 million per year in 2011, to 30.1 million per year in 2012 and to 32.2 million per year in 2013. In the six months ended June 30, 2014, the Company added one new route, Bangkok—Chiang Rai, we had 1,212/1,167 flights per week and had kilometers flown of 21.5 million kilometer per year, increasing from 981/961 flights and 15.5 million kilometers per year in the same period in 2013.

Fleet Expansion. Our fleet size grew from 18 aircraft as of December 31, 2011, to 21 aircraft as of December 31, 2012 and 25 aircraft as of December 31, 2013. In anticipation of our business expansion, we acquired one Airbus A319 aircraft in 2011, two Airbus A320 aircraft and one Airbus A319 aircraft in 2012, and two Airbus A319 aircraft and two Airbus A320 aircraft in 2013. This allowed us to increase our total seat capacity from 4.5

million seats in 2011, to 5.2 million seats in 2012, and to 6.0 million seats in 2013. On February 12, 2014, we entered into the ATR Sale and Purchase Agreement for six new ATR 72-600 aircraft, which also includes purchase rights for an additional three ATR 72-600 aircraft. On May 27, 2014, we exercised such purchase rights for the additional three ATR 72-600 aircraft, and the delivery of the total nine aircraft is scheduled for between the last quarter of 2014 and the first quarter of 2017. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party.

Aircraft utilization rates. During 2011, 2012, 2013 and the six months ended June 30, 2014, our aircraft utilization rates was 9.7 block hours per day, 10.0 block hours per day, 9.1 block hours per day and 9.1 block hours per day, respectively. The increase in aircraft utilization in 2012 is due to the increase of flights on existing routes and new routes to certain destinations, resulting in the increase in flight hours and distance travelled. The decrease in aircraft utilization in 2013 and slight decrease in the six months ended June 30, 2014 was mainly due to the fact that we entered into four new leases of A319 and A320 aircraft during mid to end of 2013 and a new lease agreement for an additional A320 in the second quarter of 2014, which had idle time as we gradually ramped up the number of flights. The average stage length increased from 629.8 kilometers in 2011, to 662.4 kilometers in 2012 as a result of the increase in the number of our flights on our existing routes and the commencement of new routes. In 2013, the average stage length decreased slightly to 661.2 kilometers. Such decrease in 2013 was due to the introduction of new flight routes with shorter stage lengths. In the six months ended June 30, 2014, the average stage length increased to 756.7 kilometers. Such increase was due to the increase in the number of flights on existing routes and the commencement of new routes.

Code-share agreements with our business partners. We successfully established code-share arrangements with one additional code-share partner in 2011, four additional code-share partners in 2012, three additional code-share partners in 2013 and one additional code-share partner during the six months ended June 30, 2014. Additional code-share arrangements increase our passenger traffic on our PG Route Network (whereby we are the operating airline) and add destinations to our Extended Route Network operated by our code-share partners.

“Cabin load factor” refers to passenger revenues per kilometer as a percentage of ASK. Cabin load factor is affected by capacity utilization, which represents efficiency in flight scheduling, revenue management and marketing strategies. We were able to maintain cabin load factor rates at 67.5% in 2011, 67.1% in 2012 and 67.9% in 2013. In the six months ended June 30, 2014, cabin load factor was 65.6%, decreasing from 69.7% in the same period in 2013. We do not focus on a competitive pricing strategy to increase the number of passengers in each flight but instead we manage our route network to be in line with our business strategy, of providing premium services to our passengers. As a result, our cabin load factor is lower than that of our competitors.

“Passenger yield” represents the ability to generate passenger revenue per passenger seat, per kilometer, or revenue per RPK. The ability to generate such revenue depends primarily on managing revenue to balance between price level and the number of passengers on each flight. We were able to increase our passenger yield from THB6.0 per passenger seat per kilometer in 2011 to THB6.2 per passenger seat per kilometer in 2012. The slight increase in passenger yield from 2011 to 2012 was due to fare promotions for the commencement of new routes and the increase of long-haul flights in 2011, particularly international routes such as Bangkok — Dhaka, Mumbai and Bangalore (round trip routes). However, revenue from passengers increased due to an increase in the average airfare. Passenger yield remained relatively stable at THB6.1 per passenger seat per kilometer in 2013 compared to THB6.2 per seat per kilometer in 2012. Passenger yield in the six months ended June 30, 2014 decreased to THB5.2 per passenger per kilometer due to (i) the increase in flight frequencies and the number of passengers on short-haul flights, such as Bangkok — Phuket, Chiang Mai, Lampang and Krabi, which are low passenger yield routes (ii) the commencement of additional short-haul flights, such as Bangkok — Udonthani and Chiang Rai, which are low passenger yield routes and (iii) the decrease in the number of passengers on our Bangkok — Siem Reap route, which is a high passenger yield route. The increase in flight frequency of short-haul flights and the commencement of additional short-haul flights resulted in an increase the number of passengers and revenue, but which contributed to a dilution of the average airfare and passenger yield.

As a result of the above, we were able to maintain RASK at stable rates of THB4.3, THB4.5 and THB4.5 per seat per kilometer in 2011, 2012 and 2013, respectively. In the six months ended June 30, 2014 our RASK decreased to THB3.5 per seat per kilometer from THB4.6 per seat per kilometer in the same period in 2013. Such decrease was principally due to (i) the increase in flight frequencies and the number of passengers on short-haul

flights, such as Bangkok — Phuket, Chiang Mai, Lampang and Krabi, (ii) the commencement of additional short-haul flights, such as Bangkok — Udonthani and Chiang Rai, and (iii) the change in mix of our flights flying in and out of the Samui Airport, which resulted in fewer of our high passenger yield and high airfare routes flying in and out of the Samui Airport. Despite the decrease in the six months ended June 30, 2014, we believe our RASK levels are higher than those of other full service airline operators, and are in line with our pricing strategy which supports our premium service and our overall marketing strategies.

Additionally, our revenues included revenues from charter service, in both our scheduled routes and other routes. Charter flight arrangements were based on aircraft availability from the scheduled flight service. We offer charter flight services in order to increase aircraft utilization rate, without affecting our scheduled flights. Our revenue from charter flight service amounted to THB104.0 million, THB45.1 million and THB80.1 million (US\$2.5 million) in 2011, 2012 and 2013, respectively, whereas in the six months ended June 30, 2013 and 2014, our revenue from charter flight service amounted to THB25.8 million and THB10.3 million (US\$0.3 million), respectively, comprising less than 1.0% of our passenger revenue (which is considered an immaterial portion of revenue).

Revenues from Airport Services

In 2013, revenues from airport services accounted for 2.3% of our total revenues (excluding foreign exchange gain and gain on sales of investments in a subsidiary). Revenues from airport services are derived from our passenger revenues from the departing passenger. Revenues from airport services increased by 21.2% from THB368.8 million in 2011 to THB447.0 million in 2012. Revenues from airport services increased by 8.6% from THB447.0 million in 2012 to THB485.5 million (US\$15.0 million) in 2013. Revenues from airport services increased by 6.9% from THB251.8 million in the six months ended June 30, 2013 to THB269.1 million (US\$8.3 million), in the six months ended June 30, 2014. The increase in revenues from airport services in 2011, 2012, 2013 and the six months ended June 30, 2014 was mainly due to an increase in departing passengers and flights from the Samui Airport, which was partially offset by slightly lower revenue per passenger in 2013 and the six months ended June 30, 2014 as the proportion of domestic passengers increased.

Currently, we own and operate three airports, including the Samui Airport, the Trat Airport and the Sukhothai Airport. The Samui Airport is the most important airport to us in terms of revenue contribution. Revenues from the Samui Airport accounted for approximately 97.4% of the revenues from airport services in each of 2011, 2012, 2013 and the six months ended June 30, 2014. Payment from the monthly lease to the Samui Property Fund is a monthly fixed amount of THB47.5 million (comprising rent for sublease of THB26.125 million per month and a facility fee of THB21.375 million per month). This is treated as a financing transaction and is reflected in our statement of comprehensive income in our Financial Statements. There is an additional payment, varying based on the number of departing passengers and arrival flights operated in the Samui Airport as presented in our finance cost. In addition, in accordance with our early adoption of Thai Accounting Standard Interpretation 27, we include the future projected variable lease expenses in the calculation of the effective interest rate of the lease.

The table below sets forth our number of passengers and flights relating to our airports.

	Year Ended December, 31			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
Samui Airport					
Departing passengers.....	717,038	839,953	935,070	487,660	493,755
Revenue per passenger from passenger service charges (in Baht).....	499.7	519.3	507.5	504.6	531.1
Flight.....	19,433	21,638	22,417	11,136	11,211
Trat Airport					
Departing passengers.....	36,423	30,789	35,078	19,102	22,125
Revenue per passenger from passenger service charges (in Baht).....	181.5	215.3	182.6	182.5	204.7
Flight.....	1,830	1,749	2,082	1,006	1,074
Sukhothai Airport					
Departing passengers.....	44,393	28,733	26,350	12,885	11,915
Revenue per passenger from passenger service charges (in Baht).....	88.2	144.1	174.2	173.0	204.6
Flight.....	2,228	1,632	1,460	724	723

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Revenues from the Samui Airport	THB	THB	THB	US\$	THB	THB	US\$
Passenger service charge.....	358.3	436.2	474.5	(in millions) 14.6	246.1	262.2	8.1

The passenger service charge from the Samui Airport increased 21.8% per year from THB358.3 million in 2011 to THB436.2 million in 2012 due to a 17.1% per year increase in the number of departing passengers using the Samui Airport from 717,038 passengers in 2011 to 839,953 passengers in 2012 resulting from an increase of international passengers. The passenger service charge from the Samui Airport increased 8.8% per year from THB436.2 million in 2012 to THB474.5 million (US\$14.6 million) in 2013 due to a 11.3% per year increase in the number of departing passengers using the Samui Airport from 0.8 million passengers in 2012 to 935,070 passengers in 2013. The passenger service charge from the Samui Airport increased 6.5% from THB246.1 million in the six months ended June 30, 2013 to THB262.2 million (US\$8.1 million) in the six months ended June 30, 2014, resulting from an increase of 1.25% in the number of departing passengers using the Samui Airport from 487,660 in the six months ended June 30, 2013 to 493,755 in the six months ended June 30, 2014.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Revenues from the Trat Airport and the Sukhothai Airport	THB	THB	THB	US\$	THB	THB	US\$
Passenger service charge.....	10.5	10.8	11.0	(in millions) 0.3	5.7	7.0	0.2

The revenue of the Trat Airport and the Sukhothai Airport amounted to approximately 2.9%, 2.4%, 2.3% and 2.6% of the revenue from airport services during 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. The passenger service charge from the Trat Airport and the Sukhothai Airport increased 2.9% from THB10.5 million in 2011 to THB10.8 million in 2012 and increased 1.9% to THB11.0 million in 2013. The number of departing passengers from both airports decreased from 80,816 passengers in 2011 to 59,522 passengers in 2012 and then increased to 61,428 passengers in 2013.

The passenger service charge from the Trat Airport and the Sukhothai Airport increased 22.8% from THB5.7 million in the six months ended June 30, 2013 to THB7.0 million (US\$0.2 million) in the six months ended June 30, 2014, resulting from an increase in the number of departing passengers at Trat Airport and an increase in the revenue per passenger from passenger service charges.

The revenue from passenger service charge (per passenger) of the Trat Airport was between THB180.0-200.0 per passenger for domestic passengers as a result of a sales promotion for residents. The revenue from passenger service charge (per passenger) was THB400.0 for international passengers. The revenue from passenger service charge (per passenger) of the Sukhothai Airport was approximately THB100.0 per passenger because a number of passengers transit at the Sukhothai Airport before leaving to Lampang province. However, in March

2012, we commenced a direct Bangkok—Lampang route resulting in a decrease of departing passengers at the Sukhothai Airport. This decrease in revenue was partially offset by the increase in our passenger service charge per passenger to THB150.0-170.0 per passenger.

Revenue from the Airport-Related Services

We operate airport-related services through our subsidiaries and associated companies as described above. The following table shows a breakdown of revenues from airport related services by entity.

	<u>Year Ended December 31,</u>				<u>Six Months Ended June 30,</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2014</u>	<u>2014</u>
The revenues from the airport-related services	THB	THB	THB	US\$	THB	THB	US\$
				(in millions)			
BFS Ground.....	1,088.4	1,227.1	1,508.7	46.5	715.4	762.3	23.5
BAC.....	697.9	803.0	936.0	28.8	465.8	455.0	14.0
BAGs.....	—	35	211.4	6.5	104.8	120.1	3.7
BAGs Ground.....	273.1	234.8	—	—	—	—	—
Total.....	2,059.5	2,300.5	2,656.1	81.8	1,286.0	1,337.4	40.9

We used to hold 99.99% in BAGs Ground Services Co., Ltd (“BAGs Ground”) which provided ground support equipment service at airports, including Samui Airport, Chiang Mai Airport and Phuket Airport. We sold BAGs Ground in August 2012 as part of our Corporate Reorganization. We then established BAGs, a 99.99%-owned subsidiary, to provide passenger services and ground support equipment services at the Samui Airport.

BFS Ground

Revenues from BFS Ground increased 12.8% from THB1,088.4 million in 2011 to THB1,227.7 million in 2012, due to an increase in the number of flights serviced from 38,417 flights per year in 2011 to 43,856 flights per year in 2012. The increase in the number of flights serviced was due to an increase in the number of flights of BFS Ground’s existing airline customers and a net increase of seven new customers. Revenues from BFS Ground increased 22.9% from THB1,227.7 million in 2012 to THB1,508.7 million (US\$46.5 million) in 2013, due to an increase in the number of flights serviced from 43,856 flights per year in 2012 to 51,838 flights per year in 2013. The increase in the number of flights served was due to an increase in the number of flights of BFS Ground’s existing airline customers and a net increase in new customers. In the six months ended June 30, 2014, BFS Ground generated revenue of THB762.3 million (US\$23.5 million), increasing 6.6% from THB715.4 million in the same period in 2013, due to the increase in the number of flights serviced from 24,454 flights in the first six months ended June 30, 2013 to 27,984 flights during the same period in 2014.

BAC

Revenues from BAC increased 15.1% from THB697.9 million in 2011 to THB803.0 million in 2012, due to the increase in the number of meals produced from 6.3 million meals in 2011 to 7.5 million meals in 2012. The increase of 19.2% in meals produced resulted from the increase in the number of passengers and the net increase of BAC’s customers of one airline.

In 2013, BAC generated revenues of THB936.0 million (US\$28.8 million), increasing 16.6% from THB803.0 million in 2012, due to a 14.7% increase in the number of meals produced from 7.5 million meals in 2012 to 8.6 million meals in 2013. The increase in the number of meals produced and uplifted was due to an increase in the number of passengers, mainly from Bangkok Airways flights, and a net increase in new airline customers.

In the six months ended June 30, 2014, BAC generated revenues of THB455.0 million (US\$14.0 million), decreasing 2.3% from THB465.8 million in the same period in 2013. While the total number of meals produced increased 2.3% from 4.3 million meals in the six months ended June 30, 2013 to 4.4 million meals in the same period of 2014, the number of meals produced and uplifted to other airlines (other than the Company) decreased from 2.7 million meals in the six months ended June 30, 2013 to 2.4 million meals during the same period of 2014.

BAGs Ground

We sold BAGs Ground in August 15, 2012 as part of the Corporate Reorganization. BAGs Ground generated revenues of THB273.1 million in 2011 and THB234.8 million for the period of January 1, 2012 to August 14, 2012. After the Company sold BAGs Ground, the Company set up Bangkok Airways Ground Services Co., Ltd. (99.99% of Bangkok Airways Ground Services Co., Ltd.'s shares are held by the Company) to receive concessions from the Company for the ground services at the Samui Airport.

BAGs

BAGs commenced its business operation in August 15, 2012. BAGs generates income from providing ground services to other airlines at the Samui Airport. BAGs had revenues of THB35.0 million in 2012 and THB211.4 million in 2013, representing an increase of 504.1%. This increase was primarily due to our recording a full year of revenue from BAGs in 2013, whereas in 2012 BAGs was only operational from August 15, 2012. During the six months ended June 30, 2013, BAGs had revenues of THB104.8 million compared to THB120.1 million (US\$3.7 million) during the corresponding period of 2014, representing an increase of 14.6%, which was principally due to an increase in the number of flights serviced at the Samui Airport, including flights operated by Silk Air, Firefly and Thai Airways.

Unallocated Revenues

In the years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014, other income included the following:

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
	THB	THB	THB	US\$	THB	THB	US\$
				(in millions)			
Gain on sales of investments in securities	325.3	818.9	41.6	1.3	41.9	3.4	0.1
Dividend income	91.6	135.3	219.7	6.8	219.3	243.8	7.5
Gain on sale of investments in subsidiaries	—	226.8	3.0	0.1	3.0	—	—
Compensation from the cancellation of the agreement.....	545.8	—	—	—	—	—	—
Other items ⁽¹⁾	376.2	581.3	538.1	16.6	203.1	296.4	9.1
Total unallocated revenues.....	1,338.9	1,762.3	802.4	24.7	467.3	543.6	16.7

(1) Other items principally comprise revenues from items including gain from sale of assets, passenger ticket charges, interest income and others.

Unallocated revenues principally comprise gain on sales of investments and dividend income from investments. Unallocated revenues increased 31.6% from THB1,338.9 million in 2011 to THB1,762.3 million in 2012. Unallocated revenues decreased 54.5% from THB1,762.3 million in 2012 to THB802.4 million (US\$24.7 million) in 2013. Unallocated revenues increased 16.3% from THB467.3 million in the six months ended June 30, 2013 to THB543.6 million (US\$16.7 million) in the six months ended June 30, 2014.

Revenue from gain on sales of investments in securities amounted to THB41.6 million (US\$1.3 million) in 2013 compared to THB818.9 million in 2012 and THB325.3 million in 2011. Revenue from gain on sales of investments in securities amounted to THB3.4 million in the six months ended June 30, 2014 as compared to THB41.9 million in the corresponding period of 2013. We had significant gains on sales of BGH shares in 2012 due to the lower cost base of our BGH shares. Although we sold a portion of our BGH shares, the net balance of shares outstanding increased in 2011 due to other purchases made during the relevant periods and remained constant in 2012, 2013 and the six months ended June 30, 2014. See “Business—Investment Holdings” for information on our investment in BGH and “—Investment Policy”. Gain on sale of investment was not recurring revenue.

Revenue from dividend income from investment in BGH shares and shares of other listed companies increased 47.8% to THB135.3 million in 2012 from THB91.6 million in 2011 primarily due to a continuous increase

in dividend income received from BGH. Revenue from dividend income from investment in BGH shares and shares of other listed companies increased 62.4% to THB219.7 million (US\$6.8 million) in 2013 from THB135.3 million in 2012 primarily due to an increase in dividend income received from BGH. Revenue from dividend income from investment in BGH shares and shares of other listed companies increased 11.2% to THB243.8 million (US\$7.5 million) in the six months ended June 30, 2014 from THB219.3 million in the same period in 2013. We and our subsidiaries held 121.9 million shares of BGH as of December 31, 2011 and 121.3 million shares of BGH as of December 31, 2012, 121.3 million shares of BGH as of December 31, 2013 and 1,213.4 million shares of BGH as of June 30, 2014, which reflects a ten-for-one stock split in April 2014.

We also record gains on sale of investments in subsidiaries and other non-operating revenues which are not recurring or arising out of our ordinary course business operations. We recorded a gain on sales of investments in subsidiaries in the amount of THB226.8 million in 2012, primarily attributable to our Corporate Reorganization, pursuant to which we sold five subsidiaries to a related party (Samui Palm Beach Resort Co., Ltd., Sukhothai Property Co., Ltd., Samui Park Avenue Co., Ltd. and Bangkok Flight Training Center Co., Ltd., and BAG Ground), and to the liquidation of Universal Catering & Services (Mauritius) Co., Ltd. in 2011 in respect of which we recorded the gain in 2012. In 2011, we received compensation of THB545.8 million and the repayment of the deposit of THB178.1 million due to cancellation of one agreement, and suffered a THB22.5 million loss on exchange rate from the compensation (included as other expenses). For the year ended December 31, 2013, we recorded gains on sale of investments in subsidiaries of THB3.0 million (US\$0.1 million), mainly attributable to the sale of our subsidiary, Bangkok Airways (Cambodia) Co., Ltd. We did not have any gain on sale of investments in subsidiaries in 2011.

Share of Income from Investments in Associates

Share of income from investments in associates increased 39.7% to THB359.0 million in 2012 from THB256.9 million in 2011. This increase was primarily attributable to an increase in share of income from investments in BFS Cargo to THB180.2 million in 2012 from THB119.3 million in 2011, resulting from the improvement of BFS Cargo performance, and an increase in share of income from investments in associates received from the Samui Property Fund to THB178.8 million in 2012 from THB137.7 million in 2011 as a result of the stronger performance of the Samui Property Fund. Share of income from investments in associates increased 9.7% to THB394.0 million (US\$12.1 million) in 2013 from THB359.0 million in 2012. The increase was due to an increase in the share of income from the Samui Property Fund, which increased to THB204.3 million (US\$6.3 million) in 2013 from THB178.8 million in 2012, and to a lesser extent slightly higher share of income attributable to BFS Cargo, which increased to THB189.7 million (US\$5.8 million) from THB180.2 million in 2012. In the six months ended June 30, 2014 our share of income from investments in associates increased 8.4% to THB208.2 million (US\$6.4 million) from THB192.1 million in the six months ended June 30, 2013, resulting from an increase in share of income from investment in BFS Cargo to THB102.9 million (US\$3.2 million) in the six months ended June 30, 2014 from THB90.2 million in the six months ended June 30, 2013. In addition, share of income from investments in the Samui Property Fund increased to THB105.4 million (US\$3.2 million) in the six months ended June 30, 2014 from THB101.9 million in the six months ended June 30, 2013.

Expenses

The following table sets forth a breakdown of our consolidated expenses for the periods indicated.

Expenses	Year Ended December 31,				Six Months Ended June 30,		
	2011 THB	2012 THB	2013 THB	2013 US\$	2013 THB	2014 THB	2014 US\$
	(in millions)						
Cost of sales and services.....	10,796.2	13,164.5	15,034.1	463.2	7,005.5	8,746.5	269.5
Selling expenses	957.9	1,089.5	1,425.2	43.9	700.4	714.4	22.0
Administrative expenses	1,160.2	1,431.9	1,690.0	52.1	815.3	669.8	20.6
Loss from disposal of leasehold rights.....	369.3	—	—	—	—	—	—
Other expenses	61.4	34.4	70.6	2.2	35.9	6.4	0.2
Total expenses.....	<u>13,345.0</u>	<u>15,720.3</u>	<u>18,219.8</u>	<u>561.4</u>	<u>8,557.0</u>	<u>10,137.1</u>	<u>312.3</u>

Cost of Sales and Services

Cost of sales and services is our main expense, accounting for 83.7%, 82.5% and 86.3% of our total expenses in 2012, 2013 and the six months ended June 30, 2014, respectively. Cost of sales and services comprises fuel expenses, salary and wages and other employee benefits, passenger service charge, aircraft rent costs and aircraft repair and maintenance costs which were mainly attributable to our airline services business. Our cost of sales and services increased 21.9% from THB10,796.2 million in 2011 to THB13,164.5 million in 2012. Our cost of sales and services increased 14.2% from THB13,164.5 million in 2012 to THB15,034.1 million (US\$463.2 million) in 2013. Our cost of sales and services increased 24.9% from THB7,005.5 million in the six months ended June 30, 2013 to THB8,746.5 million (US\$269.5 million) in the six months ended June 30, 2014. The increase in cost of sales and services resulted from an increase in fuel expenses, aircraft rental expenses and landing and parking expenses.

The following table sets forth a breakdown of our cost of sales and services, by segment, for the periods indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Cost of sales and services	THB	THB	THB	US\$	THB	THB	US\$
	(in millions)						
Airline services.....	8,567.4	10,667.4	12,344.0	380.3	5,691.9	7,316.3	225.4
Airport services.....	294.4	353.1	411.0	12.7	218.5	191.6	5.9
Airport-related services							
BFS Ground.....	1,055.7	1,199.9	1,390.8	42.9	658.5	785.7	24.2
BAC.....	609.3	717.9	823.2	25.4	394.2	434.6	13.4
BAGs Ground.....	128.2	94.7	—	—	—	—	—
BAGs.....	—	4.3	22.1	0.7	11.3	18.4	0.6
Other services.....	141.2	127.3	43.0	1.3	31.1	—	0
Total cost of sales and services.....	<u>10,796.2</u>	<u>13,164.5</u>	<u>15,034.1</u>	<u>463.2</u>	<u>7,005.5</u>	<u>8,746.5</u>	<u>269.5</u>

Selling Expenses

Selling expenses accounted for 6.9% and 7.8% of our total expenses in 2012 and 2013, respectively. Selling expenses comprises primarily sales promotion expenses and, to a lesser extent, salaries and allowances. Our selling expenses increased 13.7% from THB957.9 million in 2011 to THB1,089.5 million in 2012 principally attributed to our airline services and airport-related services segment as discussed below. Our selling expenses increased 30.8% from THB1,089.5 million in 2012 to THB1,425.2 million (US\$43.9 million) in 2013 principally attributed to a THB195.0 million increase in advertising and sales promotion expenses. Our selling expenses increased slightly from THB700.4 million in the six months ended June 30, 2013 compared to THB714.4 million (US\$22.0 million) in the six months ended June 30, 2014.

The following table sets forth a breakdown of our selling expenses, by segment, for the periods indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Selling expenses	THB	THB	THB	US\$	THB	THB	US\$
	(in millions)						
Airline and airport services.....	940.5	1,072.9	1,409.4	43.4	692.5	707.0	21.8
Airport-related services							
BFS Ground.....	3.7	2.3	2.9	0.1	1.6	1.8	—
BAC.....	12.1	12.7	12.9	0.4	6.3	5.6	0.2
Other services.....	1.6	1.6	—	—	—	—	—
Total selling expenses.....	<u>957.9</u>	<u>1,089.5</u>	<u>1,425.2</u>	<u>43.9</u>	<u>700.4</u>	<u>714.4</u>	<u>22.0</u>

Administrative Expenses

Administrative expenses accounted for 9.1% and 9.3% of our total expenses in 2012 and 2013, respectively. Administrative expenses principally comprises staff salaries and allowances and management remuneration. Administrative expenses increased 23.4% from THB1,160.2 million in 2011 to THB1,431.9 million

in 2012. Administrative expenses increased 18.0% from THB1,431.9 million in 2012 to THB1,690.0 million (US\$52.1 million) in 2013. Such increases were principally due to wage increases to retain staff. Administrative expenses decreased 17.8% from THB815.3 million in the six months ended June 30, 2013 to THB669.8 million (US\$20.6 million) in the six months ended June 30, 2014. Such decrease was principally due to the impact of the early adoption of Thai Accounting Standard Interpretations 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease and Thai Financial Reporting Standard, 2 Share-based Payment. See Note 2 to our Unaudited Interim Financial Statements and “—Changes in Basis of Preparation”.

The following table sets forth a breakdown of our administrative expenses, by segment, for the periods indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Administrative expenses	THB	THB	THB	US\$	THB	THB	US\$
	(in millions)						
Airline services and airport services.....	745.3	1,032.2	1,282.3	39.5	626.5	470.2	14.5
Airport-related services							
BFS Ground.....	205.3	194.0	222.8	6.9	106.8	114.8	3.5
BAC.....	168.4	166.7	181.3	5.6	80.3	82.7	2.5
BAGs Ground.....	4.1	6.1	—	—	—	—	—
BAGs.....	—	0.5	3.3	0.1	1.5	1.8	0.0
Other services.....	37.1	32.5	0.3	0.0	0.2	0.3	0.0
Total administrative expenses.....	1,160.2	1,431.9	1,690.0	52.1	815.3	669.8	20.6

Our cost of sales and services, selling expenses and administrative expenses are primarily attributable to our airline services and airport services. Our airline services and airport services accounted for 84.8%, 98.9% and 75.9% of our total of cost of sales and services, total selling expenses and total administrative expenses, respectively, in 2013.

In the second quarter of 2014, the Company released debt owed by More Than Free Co., Ltd., a deemed related party, in the amount of TH13.4 million, and recorded such release of debt as administrative expenses. The Company adopted policies and procedures relating to debtors, doubtful debts and the write-off of doubtful debts and will apply such policies and procedures to all parties, including deemed related parties.

Airline Services and Airport Services Expenses

We define our “operating expenses” for airline services and airport services as cost of sales and services, selling expenses and administrative expenses. The following table sets forth a breakdown of operating expenses for our airline services and airport services combined as follows:

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
Airline Services and Airport Services	THB	THB	THB	US\$	THB	THB	US\$
	(in millions)						
Cost of sales and services.....	8,861.8	11,020.5	12,755.0	393.0	5,910.4	7,507.9	231.3
Selling expenses.....	940.5	1,072.9	1,409.4	43.4	692.5	707.0	21.8
Administrative expenses.....	745.3	1,032.2	1,282.3	39.5	626.5	470.2	14.5
Operating expenses.....	10,547.6	13,125.6	15,446.7	475.9	7,229.4	8,685.1	267.6

Cost of sales and services for Airline Services and Airport Services Segments

Airline services. The primary components of our cost of sales and services of airline services are fuel expenses, including any gains and losses from our fuel hedging arrangements, salaries and wages and other employee benefits of the flight crew (including pilots, cabin crew and ground personnel), passenger service costs, aircraft repair and maintenance costs, aircraft lease expense and navigation expenses. The majority of our cost of sales and services are variable cost, which increase or decrease in line with the number of flights and passengers. As we increase the number of flights we operate, we incur higher cost of sales and services. Our fuel expenses, passenger service costs, aircraft lease expenses, aircraft repair and maintenance expenses and navigation expenses accounted for approximately 70.4% of our total cost of sales and airline services in 2013. The balance was mainly attributable to salaries and wages and other benefits which accounted for approximately 16.4% of the total cost of sale and services of the airline services in 2013. Changes in other key cost of sales and services expenses are discussed below:

Fuel expense: The largest component in our cost of sales and services is fuel expenses, which is a variable cost based on the number of block hours flown during the period. In 2012, our fuel expenses increased 26.4% from THB3,049.2 million in 2011 to THB3,852.7 million in 2012. In 2013, our fuel expenses increased 7.9% from

THB3,852.7 million in 2012 to THB4,158.8 million (US\$128.1 million) in 2013. Our aircraft fuel consumption increased from 728,857 barrels in 2011 to 882,581 barrels in 2012 and to 1,004,683 barrels in 2013, while our average fuel price per barrel remained relatively stable at US\$125.6 per barrel in 2011 and US\$126.8 per barrel in 2012. In 2013, our aircraft fuel consumption increased to 1,004,683 barrels, which was partially offset by slightly lower average fuel price per barrel, which fell to US\$123.0 per barrel in 2013. Our aircraft fuel consumption increased during the periods as a result of our fleet expansion, increase in routes and increase in flight frequency. Our fuel prices generally correspond to global prices, which are not within our control. In 2013, we managed a portion of our risk in fuel price fluctuations by hedging 58.3% of our expected fuel consumption but we are not able to mitigate all fuel pricing risk. Our fuel expenses increased 37.2% from THB1,900.8 million in the six months ended June 30, 2013 to THB2,606.9 million (US\$80.3 million) in the six months ended June 30, 2014. In the six months ended June 30, 2013 and 2014, our aircraft fuel consumption increased from 471,991 barrels in the six months ended June 30, 2013 to 595,978 barrels in the six months ended June 30, 2014. Our average fuel price per barrel decreased in US dollars from US\$122.3 to US\$120.9 in the same periods, while our actual cost of fuel increased in Thai Baht as a result of the depreciation of the Thai Baht against the US dollar. In the six months ended June 30, 2014, the exchange rate decreased to THB32.5 per US\$1.0 from THB31.0 per US\$1.0 in the same period in 2013.

Passenger service costs: In 2011 and 2012, passenger service costs increased 41.1% from THB1,218.7 million in 2011 to THB1,719.6 million in 2012. Passenger service costs increased 21.3% from THB1,719.6 million in 2012 to THB2,085.3 million (US\$64.3 million) in 2013. In the six months ended June 30, 2013 and 2014, passenger service charges increased 30.8% from THB980.0 million in the six months ended June 30, 2013 to THB1,281.4 million (US\$39.5 million) in the six months ended June 30, 2014. The increases of passenger service costs such as cost of food and beverage were primarily due to an increase in the number of passengers and expenses incurred to improve our passenger service levels.

Aircraft repair and maintenance expenses: Our aircraft repair and maintenance expenses increased 30.4% from THB933.6 million in 2011 to THB1,217.0 million in 2012. Our aircraft repair and maintenance expenses increased 16.0% from THB1,217.0 million in 2012 to THB1,411.2 million (US\$43.5 million) in 2013. Aircraft repair and maintenance expenses increased 45.3% from THB668.3 million in the six months ended June 30, 2013 to THB971.3 million (US\$29.9 million) in the six months ended June 30, 2014. These increases included expenses that we reserved and delivered for aircraft repair and maintenance to our lessors in accordance with the terms under our aircraft lease agreements and additional expenses relating to aging aircraft fleet under lease.

Rental expenses from operating leases: Our rental expenses from operating leases increased 11.7% from THB1,211.2 million in 2011 to THB1,352.8 million in 2012 since we took deliveries of two Airbus A320 and one Airbus A319 in 2012. Our rental expenses from operating leases increased 13.1% from THB1,352.8 million in 2012 to THB1,530.2 million (US\$47.1 million) in 2013 as we took deliveries of two Airbus A319 and two Airbus A320 in the second half of 2013. Rental expenses from operating leases increased 31.7% from THB706.2 million in the six months ended June 30, 2013 to THB930.0 million (US\$28.7 million) in the six months ended June 30, 2014.

Salaries, wages and other benefits. Our salaries, wages and other benefits increased 27.7% from THB1,367.8 million in 2011 to THB1,746.6 million in 2012 principally because of an increase in the headcount of our flight crew from 459 in 2011 to 556 in 2012 and the full year effect of an adjustment in the pay structure of our flight crew to include a variable portion dependent on the number of flights flown in 2012. Our salaries, wages and other benefits increased 26.9% from THB1,746.6 million in 2012 to THB2,215.9 million (US\$68.3 million) in 2013 principally because of wage increases to retain staff. Our salaries, wages and other benefits increased 10.2% from THB966.1 million in the six months June 30, 2013 to THB1,064.8 million (US\$32.8 million) in the six months ended June 30, 2014.

Airport services. The cost of sales and services of airport services principally comprises personnel expenses, utilities fees and depreciation. The cost of sales and services of airport services increased 19.9% from THB294.4 million in 2011 to THB353.1 million in 2012. The cost of sales and services of airport services increased 16.4% from THB353.1 million in 2012 to THB411.0 million (US\$12.7 million) in 2013. The increase was mainly due to the growth of the business, including the increase in flights we operate and the number of passengers flown. In the six months ended June 30, 2013 and 2014, our cost of sales and services of airport services decreased 12.3%

from THB218.5 million in the six months ended June 30, 2013 to THB191.6 million (US\$5.9 million) in the same period in 2014.

Selling Expenses and Administrative Expenses for Airline Services and Airport Services Segment

Selling expenses for airline services and airport services principally comprised sales promotion expenses and, to a lesser extent, salaries and allowances. Administrative expenses for airline services and airport services principally comprised staff salaries and allowances. In 2011 and 2012, selling expenses and administrative expenses for airline services and airport services increased 24.9% from THB1,685.8 million in 2011 to THB2,105.1 million in 2012. Selling expenses and administrative expenses for airline services and airport services increased 27.9% from THB2,105.1 million in 2012 to THB2,691.7 million (US\$82.9 million) in 2013. These selling expenses and administrative expenses increased mainly due to the increases in marketing and sales promotion activities including television advertising. In the six months ended June 30, 2014, selling expenses and administrative expenses for airline services and airport services accounted for THB1,177.2 million (US\$36.3 million) decreasing by 10.8% from THB1,319.0 million the same period in 2013. The decrease in selling expenses and administrative expenses was due to the decrease in marketing activities.

Cost per ASK (CASK) for Airline Services and Airport Services Segment

CASK accounted for THB3.9 per seat per kilometer in 2011, THB3.9 per seat per kilometer in 2012 and THB4.0 (US\$0.1) per seat per kilometer in 2013. In six months ended June 30, 2014, CASK accounted for THB3.7 (US\$0.1) per seat per kilometer.

Fuel prices are a variable cost which are not within our control. The analysis of CASK (excluding the fuel expenses) is an indicator of the efficiency of airline management, evaluating directly from the factor from the management. The CASK (excluding the fuel expenses) accounted for THB2.9 per seat per kilometer in 2011, THB2.8 per seat per kilometer in 2012 and THB3.0 (US\$0.1) per seat per kilometer in 2013. In six months ended June 30, 2014, CASK (excluding the fuel expenses) accounted for THB2.8 (US\$0.1) per seat per kilometer.

Airport-related Services Expenses

The cost of sales and services, selling expenses and administrative expenses of airport-related services business segment is principally attributable to BFS Ground and BAC, which accounted for 94.0%, 95.6%, 99.1% and 98.6% of the cost of sales and services, selling expenses and administrative expenses of airport-related services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

BFS Ground

Cost of sales and services of BFS Ground amounted to THB1,055.7 million, THB1,199.9 million, THB1,390.8 million (US\$42.9 million) and THB785.7 million (US\$24.2 million) and accounted for 9.8%, 9.1%, 9.3% and 9.0% of our total cost of sales and services in 2011, 2012, 2013 and the six months ended June 30 2014, respectively, which primarily comprised wages and ground service equipment. The cost of sales and services of BFS Ground increased by 13.7% in 2012, 15.9% in 2013 and 19.3% in the six months ended June 30, 2014, compared to the same period in the previous year, as a result of an increase in headcount to accommodate the increased number of flights handled as well as the implementation of a minimum wage of THB300.0 per day, which took effect in 2012. See “Description of Material Agreements—Agreements Relating to our Airport Services—Ground Project Agreement”.

The selling expenses and administrative expenses of BFS Ground accounted for 9.9%, 7.8%, 7.2% and 8.4% of our total selling expenses and administrative expenses in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, which primarily comprise employee salaries, administrative fees paid to WFS, which are calculated as a percentage of revenue, and depreciation.

BAC

Cost of sales and services of BAC amounted to THB609.3 million, THB717.9 million, THB823.2 million (US\$25.4 million) and THB434.6 million (US\$13.4 million) and accounted for 5.6%, 5.5%, 5.5% and 5.0% of our total cost of sales and services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, which principally comprised raw material expenses, and to a lesser extent, employee expenses and production expenses. Costs of sales and services of BAC increased by 17.8% in 2012 and 14.7% in 2013 mainly as a result of an increase in the wages and production expenses.

Selling expenses and administrative expenses of BAC accounted for 8.5%, 7.1%, 6.2% and 6.4% of our total selling expenses and administrative expenses in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, which principally consisted of employee expenses, insurance premium expenses and employee benefits expenses.

Loss from Disposal of Leasehold Right

We had a non-recurring expense in 2011 not in the ordinary course of business as a result of a loss from the disposal of a leasehold right of a hotel, in the amount of THB369.3 million due to the cancellation of a hotel business project in Cambodia. We did not have any loss on sales from leasehold rights in 2012 or 2013. In the six months ended June 30, 2014, we had a gain on sales from leasehold rights of THB3.6 million (US\$0.1 million).

Other Expenses

The remainder of our other expenses amounted to THB61.4 million in 2011, THB34.4 million in 2012 and THB70.6 million (US\$2.2 million) in 2013. In the six months ended June 30, 2013 and 2014, other expenses amounted to THB35.9 million and THB6.4 million (US\$0.2 million), respectively. In 2011 and 2012, these other expenses were principally attributable to losses incurred on foreign exchange rate. In 2013, the other expenses were mainly attributable to a write-off of obsolete assets. In the six months ended June 30, 2014, the other expenses were mainly attributable to losses incurred on foreign exchange rate.

Finance Cost

Our finance cost comprises (i) the financial cost attributable to lease payments under the Sub-lease Agreement for the Samui Airport, including both the rental portion from the sub-lease agreement and the variable portion based on the number of departing passengers and number of arriving flights in computing the effective interest rate, (ii) interest expenses paid to a financial institution and (iii) interest expense under finance lease agreements in the form of conditional sale agreements. In 2013, the Company changed the way it recorded long-term loans to related parties with respect to the Sub-lease Agreement for the Samui Airport to also include projected variable service expenses (in addition to the fixed expenses) in computing the effective interest rate. This change in calculation method caused the book value of the long-term loans to related parties to increase, since the cumulative estimated future liabilities over the term of the contract are recorded in the financial statements.

The table below sets forth a breakdown of our finance cost for the periods indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
	THB	THB	THB	US\$	THB	THB	US\$
				(in millions)			
Interest expenses paid to the Samui Property Fund	1,283.0	1,314.1	1,331.7	41.0	659.0	643.2	19.8
Interest expenses ⁽¹⁾	547.2	547.6	433.7	13.4	221.4	181.8	5.6
Others including credit fees	16.0	6.1	0.2	0.0	0.1	0.2	0.0
Total	1,846.3	1,867.8	1,765.6	54.4	880.5	825.2	25.4

(1) Interest expenses to financial institutions and rental expenses from financing leases.

Interest expenses paid to the Samui Property Fund increased by 2.4% from THB1,283.0 million in 2011 to THB1,314.1 million in 2012 and by 1.3% from THB1,314.1 million in 2012 to THB1,331.7 million (US\$41.0 million) in 2013. The increases during these periods were due to the accumulated differential between our actual interest expenses and the higher interest expenses calculated based on the effective interest rate of our lease expenses including our variable lease expenses, as required by the adoption of the Thai Accounting Standard Interpretations 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. In the six months ended June 30, 2013 and June 30, 2014, interest expense paid to the Samui Property Fund decreased slightly from THB659.0 million to THB643.2 million (US\$19.8 million).

In 2011 and 2012, interest expenses remained relatively constant with a slight decrease in 2013.

Income Tax Expenses

As a result of our tax loss carry forwards, the Company did not have to pay income tax in 2010. We resumed paying income tax in 2011. In 2011, we had income tax expenses recorded in our financial statements of THB298.1 million, which principally relates to the adoption of TAS 12 (Income Taxes) to give effect to deferred tax liabilities. In 2012, we had income tax expenses of THB458.4 million, of which THB282.0 million is attributable to deferred tax liabilities recorded in connection with the adoption of TAS 12 (Income Taxes). Our income tax expenses decreased 69.5% to THB139.9 million (US\$4.3 million) in 2013 from THB458.4 million in 2012. For the six months ended June 30, 2013 and 2014, we recorded income tax expenses of THB129.3 million and THB21.3 million (US\$0.7 million), respectively. Such decreases reflect lower deferred taxes as well as the reduction of the corporate income tax rate from 23% in 2012 to 20% in 2013 and the six months ended June 30, 2014.

Profit for the Year/Period

Our profit for the year significantly increased 530.5% to THB1,832.4 million in 2012 from THB290.6 million in 2011. As a percentage of revenue, our profit for the year increased to 9.4% in 2012 from 1.9% in 2011. The revenues and expenses described above and gains from the sale of our investment in BGH of THB818.9 million in 2012, as compared to THB325.3 million in 2011, contributed to the significant increase in our profit for the year.

Our profit for the year decreased 46.0% to THB990.0 million (US\$30.5 million) in 2013 from THB1,832.4 million in 2012. As a percentage of revenue, our profit for the year decreased to 4.8% in 2013 from 9.4% in 2012. The revenues and expenses described above and gains from the sale of our investment in BGH of THB818.9 million in 2012, as compared to THB41.6 million (US\$1.3 million) in 2013, contributed to the decrease in our profit for the year.

Our profit for the period decreased 76.8% to THB204.8 million (US\$6.3 million) in the six months ended June 30, 2014 from THB881.9 million in the six months ended June 30, 2013. As a percentage of revenue, our profit for the period decreased to 1.9% for the six months ended June 30, 2014 from 8.6% for the six months ended June 30, 2013. The decrease in our profit for the period was mainly due to expenses increasing at a faster rate than revenues, for the reasons discussed above.

However, if gain on sales of investment, gain on sales of assets, compensation for termination of an agreement, and loss from the disposal of leasehold right, were not included in the calculation of net margin, we would have recorded net loss margin of 1.4% in 2011 and net profit margin of 3.5%, 4.6% and 1.8% in 2012, 2013 and the six months ended June 30, 2014, respectively.

Other Comprehensive Income

Our other comprehensive income decreased 26.3% to THB2,535.4 million in 2012 from THB3,437.8 million in 2011, primarily attributable to a decrease in gain on changes in value of available-for-sale investments and an increase in the income tax effect arising in relation to deferred taxes on the increase in gain on changes in value of available-for-sale investments.

Our other comprehensive income decreased 85.8% to THB360.2 million (US\$11.1 million) in 2013 from THB2,535.4 million in 2012 primarily attributable to a decrease in gains on changes in value of available-for-sale investments as a result of a relatively stable market price for shares in BGH. In the six months ended June 30, 2014, other comprehensive income increased slightly to THB4,709.3 million (US\$145.1 million) from THB4,195.0 million in the same period in 2013, primarily due to an increase in gains on changes in value of available-for-sale investments.

Exchange differences on translation of financial statements in foreign currency. We recorded exchange differences on translation of financial statements in foreign currency as a gain of THB0.6 million in 2011 compared to a loss of THB0.2 million (US\$0.0 million) in 2012 and 2013.

Exchange differences on translation of financial statements in foreign currency was nil in the six months ended June 30, 2014 compared to a loss of THB0.2 million in the six months ended June 30, 2013.

Gain (loss) on changes in value of available-for-sale investment. Our gain on changes in value of available-for-sale investment decreased 16.6% to THB3,169.4 million in 2012 from THB3,799.6 million in 2011, 85.8% to THB450.5 million in 2013 from THB3,169.4 million in 2012. In the six months ended June 30, 2014, our gains on changes in value of available-for-sale investment increased 12.3% to THB5,886.7 million (US\$181.4 million) from THB5,244.0 million in the six months ended June 30, 2013. The decreases in 2011, 2012 and 2013 were principally because of a lower increase in the mark-to-market value of our shares in BGH as compared to the prior period. The slight increase in June 30, 2014 was principally due to the increase in the mark-to-market value of our shares in BGH as compared to the six months ended June 30, 2013. The share price of BGH increased from THB82.0 as of December 31, 2011, to THB113.5 as of December 31, 2012, to THB117.5 as of December 31, 2013, while our shareholding in BGH remained relatively constant in each period. As of June 30, 2014, the share price of BGH was THB16.6, which resulted from a ten-for-one stock split in April 2014. However, if the BGH share price is calculated using the prior par value of THB1.0, the BGH share price as of June 30, 2014 is higher than the BGH share price as of June 30, 2013.

Income tax effect. We recorded an income tax effect on comprehensive income of THB362.4 million, THB633.9 million and THB90.1 million (US\$2.8 million) in 2011, 2012 and 2013, respectively. This represents the deferred tax recorded in relation to the increase in gain arising on the fair value re-measurement of available for sale investments, which principally relates to our holding of BGH shares, as described above under “—Gain (loss) on changes in value of available for sale investments”.

We recorded an income tax effect on comprehensive income of THB1,048.8 million and THB1,177.3 million (US\$36.3 million) in the six months ended June 30, 2013 and 2014, respectively.

Total Comprehensive Income for the Year/Period

As a result of the above, our total comprehensive income for the year increased 17.2% to THB4,367.8 million in 2012 from THB3,728.4 million in 2011. Our total comprehensive income for the year decreased 69.1% to THB1,350.2 million (US\$41.6 million) in 2013 from THB4,367.8 million in 2012. In the six months ended June 30, 2014 our total comprehensive income decreased 3.2% to THB4,914.2 million (US\$151.4 million) from THB5,076.9 million in the six months ended June 30, 2013. The decreases in 2013 and the six months ended June 30, 2014 were principally due to a decrease in the gain on changes in value of available-for-sale investments in BGH shares. However, the gain on the changes in value of available-for-sale in BGH shares in 2013 and 2012 was lower than in 2011 because the market value of BGH shares increased more in 2011 than in 2013 and 2012. The gain on changes in value of available-for-sale investments in BGH shares amounted to THB3,799.6 million, THB3,169.4 million, THB450.5 million, THB5,244.0 million and THB5,886.7 million in 2011, 2012, 2013 and in the six months ended June 30, 2013 and the six months ended June 30, 2014, respectively. As a percentage of revenue, our profit for the year accounted for 1.9%, 9.4%, 4.8% and 1.9% in 2011, 2012, 2013, and the six months ended June 30, 2014, respectively.