



Management's Discussion and Analysis

For the period ended 30 June 2016

Bangkok Airways Public Company Limited and Its Subsidiaries

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Management's Discussion and Analysis for the second quarter of 2016 ended 30 June 2016

Executive Summary

Thai economy slightly improved by 3.1 percent during the second quarter of 2016. Although the export of goods was dropped down from economic recession of trading partners along with structural problems in commercial, this was compensated by an expansion of service sector from rising number of international tourists which signify the recovery of tourist arrival from various countries. As a consequence, tourism-involved businesses including hotels, restaurants, transportation and retail business has been growing accordingly. Price of exported goods slightly increased to follow crude oil price that has escalated than expected and tend to be higher while car purchase was shrinking. The purchasing power within agricultural sector was weak due to the drought, and private debt was still in high level. However, the government spending together with their fiscal policy has continuously supported the spending of private sector (Source: Bank of Thailand).

Overall aviation industry for this quarter has a steady growth in which revenue passenger (RPK) was growing by 6.0 percent worldwide. The RPK growth rate of the Middle East carriers (i.e. Emirates, Qatar Airways and Etihad Airways) was at 10.6 percent. Likewise, the RPK growth rate of carriers within Asia-Pacific and Africa was alike at 8.4 percent. Available seat kilometers (ASK) was rising by 6.2 percent worldwide in which the Middle East carriers had the highest growth at 14.6 percent, followed by carriers from Africa and Asia-Pacific at 8.6 and 7.8 percent respectively. Nevertheless, the terrorist incidents in Europe may have a short-term impact on European market (Source: International Air Transport Association).

For the second quarter of 2016, the number of international tourists visited Thailand was growing by 8.0 percent, comparing to the same period last year. The upturn of Russian tourists was perceptible, with 38.0 percent growth, after the continuous decline for more than 2 years, as a consequence of economy recovery of Russia themselves. The long-haul travelers was also improving, especially the European market which rose by 11.0 percent in this quarter. Moving to domestic market, the tourism situation in Thailand was getting better as Thai economy started to resume plus the marketing campaigns in relevant to tourism has been promoted by various sectors. In addition, there were several long holidays during the quarter including Songkarn festival.

The number of passengers of Bangkok Airways increased by 11.5 percent for the second quarter of 2016, which was greater than the growth of international tourists' arrival to Thailand at 8.0 percent. Our main



markets were Asian and European in which the latter had the highest revenue growth based on its point-of-sale. Despite the slow economy recovery in Europe, the Company was able to increase the number of passengers from the point-of-sale in Europe by 24.0 percent which was considerably higher than European travelers visited Thailand at 11.0 percent. In addition, the number of passengers from point-of-sale in Russia was shown to significantly improve which aligned with the retrieving number of Russian tourists arrived to Thailand. The top 3 countries with highest revenue growth were Cambodia, United Kingdom and the United States of America.

During this quarter, Bangkok Airways operated two new routes from Chiang Mai to Mae Hong Son and from Bangkok to Danang. The first route aims to serve corporate travelers, particularly government officers. It operates 10 flights per week from April 2016 onward. The second route from Bangkok to Danang mainly targets leisure travelers and MICE (Meetings-Incentives-Conference-Exhibitions) travelers. As of July 2016, Vietnam National Administration of Tourism reported 24.0% growth in number of international visitors. Danang is connected to 2 world heritage sites which are Hanoi and Hue. In addition, the Company increased flight frequencies for the route from Bangkok to Nay Pyi Taw from 5 flights to 6 flights per week in which the additional flight is on Sunday. This could enhance the convenience to the passengers, especially the corporate travelers who have to contact Myanmar's government agencies which are the main target market of this route.

Apart from network expansion, Bangkok Airways has entered into codeshare agreement with Austrian Airlines, the flag carrier of Austria. The new partnership will seamlessly enable passengers of Austrian Airlines to connect with world-class tourist destinations in Thailand such as Samui, Phuket, Krabi, Chiang Mai and Chiang Rai, also to Cambodia from Vienna via Bangkok.

In the second quarter, total revenue of the Company was 6,054.7 million baht, increased by 8.8 percent from the same period in the previous year, mainly based on higher number of passengers. Profit before income tax expenses was 491.7 million baht; nevertheless, additional tax return at the amount of 447.0 million baht was filed due to different method of tax calculation for companies with BOI privileges. The Company must comply with the announcement of the Ministry of Finance dated 16 June 2016 which caused the Company of net loss amounted 111.9 million baht.

For the six-month period, the Company has total revenue amounting to 13,830.4 million baht, increased by 12.5 percent which was due to 10.8 percentage growth in airline business, and 8.3 percentage growth in airport-related business, excluding cargo services. The better performance was largely derived from an increase

in number of passengers and a significant decline in fuel costs. The passenger load factor was 69.6 percent while passenger yield was 5.08 baht per RPK, grew by 1.7 percent from 2015.

Overall performance of ground services for the first half of 2016 was constantly growing as a consequence of higher number of passengers and flights at Suvarnabhumi Airport, together with new airline customers during the period. On the other hand, total revenue of catering business had negative growth due to an intense price competition; however, number of meals produced was still increasing from additional flight frequencies and aircraft upgauge of existing airline customers.

The Company has net profit before income tax amounting to 2,308.1 million baht for the first half of 2016. After deducting tax, net profit would be 1,462.6 million baht which was attributable to equity holders of the Company at the amount of 1,425.3 million baht, increased by 22.7 percent from the previous year. Earnings per share was 0.68 baht which was higher than the same period last year by 23.6 percent.



Notable Events

Notable events in the second quarter of 2016:

1. In the second quarter, the Company operated new routes and increased flight frequencies as following:

New Routes:

- Chiang Mai – Mae Hong Son 10 flights per week (April 2016)
- Bangkok – Danang 4 flights per week (May 2016)

Adding Flight Frequencies:

- Bangkok – Nay Pyi Taw from 5 flights per week to 6 flights per week (March 2016)

2. As of 30 June 2016, the Company has 33 aircrafts which consists of:

Fleet Type	As of 30 June 2016	As of 31 December 2015
Airbus A320	8	8
Airbus A319	12	11
ATR72-500	7	8
ATR72-600	6	4
Total	33	31

Additional ATR72-600 under finance lease was delivered in April 2016.

3. In May 2016, the Company has 21 codeshare partners in total, increased by 1 airline from the end of 2015. The Company has entered into codeshare agreement with Austrian Airlines, the flag carrier of Austria. The new partnership will seamlessly enable passengers of Austrian Airlines to connect with world-class tourist destinations in Thailand such as Samui, Phuket, Krabi, Chiang Mai and Chiang Rai, also to Cambodia from Vienna via Bangkok.
4. Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground) has 4 additional airlines for both passenger services and ground service equipment when compared with the same period last year. This results in 69 airline customers in total, increased from 65 airline customers, for ground service equipment as of 30 June 2016.

Management's Discussion and Analysis

Bangkok Airways is a full serviced airline providing premium service to passengers. Company owns and operates 3 airports which are Samui Airport, Trat Airport and Sukhothai Airport. In addition to airline and airport businesses, it operates airport related businesses which include passenger and ramp services, catering services and international cargo warehouse where it serves self and other airlines.

Consolidated financial statement of the Company consists of Separate Financial Statement and Financial Statements of the 10 subsidiaries that include: 1) Bangkok Air Catering Company Limited (BAC) 2) Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground) 3) Bangkok Airways Ground Service Company Limited (PGGS) 4) Bangkok Airways Holding Company Limited (PGH) 5) SA Services Company Limited 6) BFS Cargo DMK Company Limited 7) BAC Gourmet House Company Limited 8) Bangkok Air Catering Phuket Company Limited 9) Gourmet Primo Company Limited and 10) Bangkok Air Catering Samui Company Limited

Airline Operating Data

	Unit	April-June		January-June	
		2016	2015	2016	2015
Scheduled passenger revenues ⁽¹⁾	MB	4,381.6	4,070.1	10,660.8	9,673.0
Domestic		2,613.6	2,444.2	6,512.5	5,951.0
International		1,768.0	1,625.9	4,148.3	3,722.0
Available Seat Kilometers (ASK) ⁽²⁾	Million Seat -	1,466.2	1,441.2	3,017.3	2,936.9
Domestic	Kilometers	816.5	829.3	1,694.8	1,698.5
International		649.7	611.9	1,322.5	1,238.4
Revenue Passenger Kilometers (RPK) ⁽²⁾	Million Seat -	945.9	862.7	2,099.5	1,939.7
Domestic	Kilometers	547.6	501.9	1,256.8	1,165.3
International		398.3	360.8	842.7	774.4
Passenger Load Factor	Percentage	64.5	59.9	69.6	66.0
Domestic		67.1	60.5	74.2	68.6
International		61.3	58.9	63.7	62.5

	Unit	April-June		January-June	
		2016	2015	2016	2015
Number of scheduled passengers carried ⁽²⁾	Thousand	1,239.2	1,111.3	2,819.2	2,544.3
Domestic		881.2	800.8	2,026.3	1,836.9
International		358.0	310.5	792.9	707.4
Number of flight flown	Flight	16,121	15,598	33,241	31,642
Domestic		10,834	10,751	22,662	22,054
International		5,287	4,847	10,579	9,588
Total seat capacity	Thousand	1,927.4	1,885.9	4,006.1	3,834.7
Domestic		1,303.9	1,314.2	2,709.4	2,653.9
International		623.5	571.7	1,296.7	1,180.8
Aircraft utilization ⁽³⁾	Block Hour	8.6	8.8	9.0	9.1
Airbus A320	per Day	9.3	8.9	9.8	9.5
Airbus A319	per Aircraft	9.2	9.4	9.5	9.3
ATR 72-500 & ATR 72-600		7.3	8.2	7.5	8.4
Number of aircraft at period/year end	Aircraft	33	29	33	29
Airbus A320		8	8	8	8
Airbus A319		12	11	12	11
ATR 72-500		7	8	7	8
ATR 72-600		6	2	6	2
Kilometers flown ⁽²⁾	Million Kilometers	11.6	11.3	23.7	23.0
Average Stage Length	Kilometers	763.3	776.3	744.7	762.4
Passenger Yield ⁽⁴⁾	Baht per Passenger - Kilometers	4.63	4.72	5.08	4.99
Revenue ASK (RASK)	Baht per	3.33	3.05	3.89	3.50
Cost per ASK (CASK)	Available Seat -	3.20	3.20	3.25	3.17

	Unit	April-June		January-June	
		2016	2015	2016	2015
Cost per ASK excluding fuel cost	Kilometers	2.69	2.42	2.75	2.38
RASK – CASK		0.13	(0.16)	0.64	0.33

Remark

- (1) These figures are different from those included in Company's consolidated Financial Statements as they include revenues (before deducting discounts and commissions) from scheduled flights, net interline revenues from flights operated by other airlines and marketed by it on a code-share basis, revenues derived from non-codeshare interline sales by it of seats on other airlines' flights, fuel and insurance surcharge revenue. Exclude revenues from cargo services, charter services and other revenue.
- (2) Excludes non-scheduled flights and flights operated by other airlines and marketed by it but includes flights operated by it and marketed by other airlines.
- (3) Excludes non-scheduled flights.
- (4) Scheduled passenger revenues excluding fuel surcharge, insurance surcharge and excess baggage divided by RPKs.

Operating performance summary for the period ended June 30, 2016

Unit: million baht

	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
Net profit (loss) for the period	(111.9)	102.2	(214.1)	(209.5)	1,462.6	1,188.9	273.7	23.0
Plus:								
Finance Cost	420.2	399.9	20.3	5.1	863.9	781.3	82.5	10.6
Income tax expenses	603.6 ⁽¹⁾	(32.5)	636.1	1,957.2	845.4 ⁽¹⁾	86.2	759.2	880.6
Write-off fixed assets	-	-	-	-	-	0.1	(0.1)	(100.0)
Less:								
Dividend income	320.8	280.1	40.7	14.5	320.8	280.1	40.7	14.5
Interest received	52.4	69.0	(16.6)	(24.1)	92.0	146.8	(54.8)	(37.3)

	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
Gain on foreign exchange	45.4	113.3	(67.9)	(59.9)	106.1	117.2	(11.1)	(9.5)
Non-operating revenues ⁽²⁾	(0.9)	1.1	(2.0)	(181.2)	4.0	1.2	2.8	225.0
EBIT ⁽³⁾	494.2	6.1	488.0	7,890.5	2,649.0	1,511.2	1,137.8	75.3
Plus:								
Depreciation and amortization	263.7	199.9	63.8	31.9	511.1	393.0	118.1	30.0
EBITDA ⁽³⁾	757.9	206.1	551.8	267.8	3,160.1	1,904.2	1,255.8	66.0
Plus:								
Operating lease expenses	404.8	387.2	17.6	4.5	853.1	792.7	60.4	7.6
EBITDAR ⁽³⁾	1,162.7	593.2	569.4	96.0	4,013.2	2,696.9	1,316.3	48.8
Total revenue	6,054.7	5,563.4	491.3	8.8	13,830.4	12,297.3	1,533.1	12.5
Operating revenue ⁽⁴⁾	5,637.0	5,100.0	537.1	10.5	13,307.4	11,752.9	1,555.5	13.2
Profit attributable to equity holders of the Company	(127.6)	91.5	(219.1)	(239.5)	1,425.3	1,161.4	263.8	22.7
EBIT Ratio (%)	8.8	0.1	8.6		19.9	12.9	7.0	
EBIDA Ratio (%)	13.4	4.0	9.4		23.7	16.2	7.5	
EBITDAR Ratio (%)	20.6	11.6	9.0		30.2	22.9	7.2	

Remark

- (1) The Company had additional tax return filing at the amount of 470.0 million baht resulting from the change in corporate income tax calculation for tax privileges granted by the Board of Investment (BOI) in which the practice of the Revenue Department shall be followed as announced by the Ministry of Finance dated 16 June 2016. The filing was completed on 29 July 2016.
- (2) Comprises of gain on sale of investments, sale of investment in subsidiaries and sale of assets.
- (3) EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR or EBITDAR margins are not standard measures, nor measurements of financial performance or liquidity, under TFRS, and should not be considered alternatives to net profit (loss) or any other

performance measure or as an alternative to cash flow from operating activities. Since there are various calculation methods, its presentation may not be comparable to similarly titled measures used by other companies.

- (4) Comprises of total revenue net dividend income, gain on foreign exchange, interest income and non-operating revenues.

Operating Profit and Net Income

The operating revenue of the Company for the second quarter of 2015 and 2016 were 5,100.0 million baht and 5,637.0 million baht respectively, increased by 10.5 percent while total operating expenses increased from 5,202.6 million baht to 5,301.1 million baht or around 1.9 percent.

The earnings before interest and tax, depreciation, amortization, and rent (EBITDAR) were derived from total income (excluding dividend income, gain on sale of investments, gain on sale of assets, interest income and gain on foreign exchange) less total expenses plus depreciation and amortization expenses, and aircraft rental, equaled to 593.2 million baht and 1,162.7 million baht or 11.6 percent and 20.6 percent of total operating revenue for the second quarter.

The Company has profit before income tax expenses at the amount of 69.8 million baht and 491.7 million baht respectively. Additional tax return filing was incurred to follow the announcement of Ministry of Finance dated 16 June 2016 which caused the Company of net loss amounted to 111.9 million baht, a decrease of 214.2 million baht or from the same period previous year. The loss attributable to equity holders of the Company was 127.6 million baht.

The operating revenue of the Company for the six-month period of 2015 and 2016 were 11,751.9 million baht and 13,307.4 million baht respectively, grew by 13.2 percent while total operating expenses increased by 5.0 percent from 10,460.1 million baht to 10,986.5 million baht.

The earnings before interest and tax, depreciation, amortization, and rent (EBITDAR) were derived from total income (excluding dividend income, gain on sale of investments, gain on sale of assets, interest income and gain on foreign exchange) less total expenses plus depreciation and amortization expenses, and aircraft rental, equaled to 2,696.9 million baht and 4,013.2 million baht or 22.9 percent and 30.2 percent of total operating revenue for the six-month period of 2015 and 2016 respectively.

For the six-month period of 2016, net profit of the Company was 1,462.6 million baht, an increase of 273.7 million baht or 23.0 percent from the same period of last year in which the amount attributable to equity holders of the Company was 1,425.3 million baht.

Revenue

Consolidated revenue of the Company, excluding the inter-segment revenue, are divided into 4 segments as follows:

Unit: million baht

	April-June						January-June					
	2016	%	2015	%	Variance		2016	%	2015	%	Variance	
					Amount	%					Amount	%
1. Airlines	4,425.2	73.1	4,070.0	73.2	355.2	8.8	10,648.0	77.0	9,606.4	78.1	1,041.5	10.8
2. Airports	123.9	2.1	122.0	2.2	1.8	1.5	301.6	2.2	268.5	2.2	33.1	12.3
3. Airport-related services	800.6	13.2	752.1	13.5	48.5	6.5	1,679.8	12.1	1,551.7	12.6	128.1	8.3
4. Unallocated revenue	704.9	11.6	619.2	11.1	85.7	13.8	1,201.0	8.7	870.6	7.1	330.4	38.0
Total Revenue	6,054.7	100	5,563.4	100	491.3	8.8	13,830.4	100	12,297.3	100	1,533.1	12.5

Revenue from Airline Operations

For the second quarter of 2015 and 2016, total operating revenue derived from airline business, which was the Company's primary source of income, was accounted for 73.2 percent and 73.1 percent of total operating revenue.

For the six-month period of 2015 and 2016, total operating revenue derived from airline business, which was the Company's primary source of income, was accounted for 78.1 percent and 77.0 percent of total operating revenue.

Passenger revenue consists of earnings from scheduled flights and chartered flights with details as follows:

	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
Net Scheduled Passenger Revenue	4,345.1	3,987.2	357.9	9.0	10,483.8	9,446.9	1,036.8	11.0
Cargo revenue	80.1	82.8	(2.7)	(3.3)	164.2	159.5	4.7	2.9
<i>Total revenue from airline business</i>	4,425.2	4,070.0	355.2	8.7	10,648.0	9,606.4	1,041.5	10.8

Revenue from scheduled flights and charter flights of both domestic and international services for the second quarter of 2015 and 2016 increased from 3,987.2 million baht to 4,345.1 million baht respectively with 9.0 percent growth, comparing to the same period last year. The increasing revenue was resulting from the growth in number of passengers by 11.5 percent.

For the six-month period, revenue from scheduled flights and charter flights of both domestic and international services increased from 9,445.9 million baht to 10,483.8 million baht, rose from the first half of 2015 by 11.0 percent, mainly due to 11.0 percent increase in number of passenger. This was because the frequencies of existing routes as well as the operation of new routes have been added since the beginning of 2016.

Revenue from Airport Operations

Revenue from airport operations for the second quarter of 2015 and 2016 increased from 122.0 million baht to 123.9 million baht or 1.5 percent. This was accounted for 2.2 percent and 2.1 percent of total operating revenue.

For the six-month period, revenue from airport operations was 301.6 million baht or increased by 12.3 percent. Majority of the airport revenue was derived from passengers services charged to outbound passengers at Samui Airport which was growing by 15.0 percent approximately. In addition, the rate of passenger services to international outbound passengers has increased from 600 baht to 700 baht which effective date was 1 June 2015 onward.

Revenue from Airport-Related Operations

Operating financial performance of the Company's subsidiaries and associated companies in airport-related operations was illustrated below:

Unit: million baht

	April-June		January-June	
	2016	2015	2016	2015
<i>Catering services (BAC):</i>				
Revenue ⁽¹⁾	322.7	344.9	709.2	748.7
EBITDA	81.2	99.7	207.3	246.4
Net income	48.2	65.0	133.1	168.0
Number of meals produced and uplifted (million)	2.3	2.3	5.1	5.0
<i>Ground Services (BFS Ground):</i>				
Revenue ⁽¹⁾	568.0	514.9	1,167.1	1,028.6
EBITDA	94.8	59.9	215.2	153.9
Net income	52.6	23.2	123.2	75.3
Number of flights handled	15,155	14,071	31,066	28,418
<i>International cargo terminal services data (BFS Cargo):</i>				
Revenue ⁽¹⁾	409.8	394.5	810.7	772.0
EBITDA	185.3	173.3	355.4	338.0
Net income	124.1	115.9	235.4	224.6
Tonnage	93,134	91,328	185,313	180,136
Cargo capacity (Ton per year) ⁽²⁾	450,000	450,000	450,000	450,000
Utilization (%)	82.8	81.2	82.4	80.0

Remark

(1) Revenues from subsidiaries and associated companies exclude revenues earned from transactions with the Company



(2) Capacity adjustment was due to the fact that the proportion of imported goods was significantly higher than exported goods (current proportion of imported goods to exported goods was 48:52, changing from 34:66) which require longer time in transit whereas the exported goods take only 0.5 day in the warehouse before shipping out; thus, overall capacity was reduced from 550,000 ton per year to 450,000 ton per year.

Revenue from airport-related operations from services provided to other airlines only comprises of:

Unit: million baht

	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
Bangkok Air Catering Company Limited (BAC)	224.5	249.3	(24.8)	(9.9)	492.3	537.3	(45.0)	(8.4)
Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground)	460.6	401.8	58.8	14.6	944.2	808.2	136.0	16.8
Bangkok Airways Ground Service Company Limited (PGGS)	88.8	77.2	11.6	15.1	184.4	155.4	29.0	18.7
Other revenue ⁽¹⁾	26.7	23.8	2.8	11.9	58.9	50.8	8.1	16.0
Total revenue from airport-related operations	800.6	752.1	48.5	6.4	1,679.8	1,551.7	128.1	8.3

Remark: (1) Other revenue includes revenue from BAC Gourmet House Company Limited, the subsidiary of BAC which main activity is to provide food services in business district and major tourist attractions in Bangkok.

Bangkok Air Catering Company Limited (BAC)

The operating performance of BAC in the second quarter and the six-month period of 2015 and 2016 was lower by 9.9 percent and 8.4 percent respectively, highly due to an intense price competition at Suvarnabhumi Airport which caused BAC to lose some of their existing airline customers and have to lower service fee. Total revenue for this quarter and the first half of this year was 224.5 million baht and 492.3 million baht.

The number of meals produced by BAC was uplifted by 1.2 percent and 2.0 percent for the second quarter and for the six-month period respectively. The proportion of meals served in first and business class was escalating by 10.8 percent and 12.4 percent during this quarter and the first six-month of this year.

Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground)

The operating performance of BFS Ground in the second quarter and the first half of 2015 and 2016 was 460.6 million baht and 944.2 million baht respectively, rose by 14.6 percent and 16.8 percent from the same period last year.

The better performance of BFS Ground was derived from increasing number of flights by 7.7 percent and 9.3 percent for the second quarter and the first six-month of 2016. Number of airline customers increased from 65 to 69, comparing to the same period of last year.

Bangkok Airways Ground Service Company Limited (PGGS)

The operating performance of PGGS in the second quarter and the six-month period of 2015 and 2016 was 88.8 million baht and 184.4 million baht with 15.0 percent and 18.7 percent growth respectively, resulted from increasing number of flights.

Unallocated Revenues

The Company has other revenues that are not related to the airline operations, airport operations and airport-related operations with details as follows:



	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
Gain on foreign exchanges	45.4	117.2	(71.8)	(61.3)	106.1	117.2	(11.1)	(9.4)
Dividend received	320.8	280.1	40.7	14.5	320.8	280.1	40.7	14.5
Other revenues	338.8	222.0	116.9	52.7	774.1	473.3	300.8	63.6
Total unallocated revenues	704.9	619.2	85.7	13.8	1,201.1	870.6	330.4	38.0

Total unallocated revenues of the Company for the second quarter of 2015 and 2016 largely increased from 619.2 million baht to 704.9 million baht, and 870.6 million baht to 1,201.1 million baht for the six-month period. Main contributions from other revenues were dividend income and other revenues which usually consists of passenger ticket charges, excess baggage charges, breakage revenues on ticket expiry, and interest earnings.

Share of Profit from Investments in Associates

The Company has share of profit from associated companies increased from 219.3 million baht to 328.0 million baht for the six-month period. Increasing share of profit from SPF was due to a better traffic at Samui Airport as well as an increase in percentage of ownership in the associate to be 30.4 percent.

Unit: million baht

	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
WFS-PG Cargo Company Limited	61.4	56.8	4.6	8.1	115.9	110.1	5.9	5.3
Samui Property Fund (SPF)	96.9	52.1	44.8	86.1	212.1	109.2	102.9	94.2
Share of Profit from Investments in Associates	158.3	108.9	49.5	45.5	328.0	219.3	108.8	49.6

Expenses

Expenses consist of costs of sales and services, selling expenses and administrative expenses with details as follows:

Unit: million baht

	April-June						January-June					
	2016	%	2015	%	Variance		2016	%	2015	%	Variance	
					Amount	%					Amount	%
Cost of sales and services	4,374.7	82.5	4,391.3	84.4	(16.6)	(0.4)	9,159.4	83.4	8,878.3	84.9	281.1	3.2
Selling expenses	495.0	9.3	431.4	8.3	63.6	14.7	981.3	8.9	837.5	8.0	143.8	17.2
Administrative expenses	431.2	8.1	379.7	7.3	51.5	13.6	845.1	7.7	743.6	7.1	101.5	13.7
Other expenses	0.2	0.1	0.2	0.0	0.0	11.5	0.6	0.0	0.7	0.0	(0.1)	(9.3)
Total Expenses	5,301.1	100	5,202.6	100	98.5	1.9	10,986.4	100	10,460.1	100	526.4	5.0

Costs of Sales and Services

Costs of sales and services principally consist of fuel costs, cost of passenger services, personnel expenses, aircraft repair and maintenance costs, and aircraft rentals. For the second quarter and the six-month period of 2016, costs of sales and services were accounted for 82.5 percent and 83.4 percent of total operating expenses.

Fuel Costs: fuel costs are variable based on number of block hours. For the six-month period, fuel costs decreased from 2,338.4 million baht in 2015 to 1,500.9 million baht in 2016 which were accounted for 26.3 percent and 16.4 percent of total cost of sales and services. The decreasing amount was mostly due to lower average market fuel price.

As of 30 June 2016, the Company has entered into a forward purchase contract (fuel hedging) at the average of 51.98 percent of fuel consumption.

Cost of Passenger Services: cost of passenger service increased by 8.4 percent, from 1,446.8 million baht to 1,568.2 million baht for the six-month period comparing to 2015. The increasing cost was due to rising

number of passengers and number of flights by 10.8 percent and 5.1 percent respectively for the first half of 2016.

Personnel Expenses: the expense was increasing from 1,254.8 million baht to 1,454.7 million baht for the six-month period. This was derived from a growing number of employees, especially flight crews which aligned with ongoing fleet plan and annual increase of salary and wages. As of the end of June 2016, the number of flight crews increased by 20.9 percent when compared with the same period last year.

Aircraft Repair and Maintenance Costs: aircraft repair and maintenance costs were higher from 1,052.8 million baht to 1,507.2 million baht for the six-month period comparing to the previous year. These costs were largely derived from “Maintenance Reserve Fund” which is attached to the aircraft lease agreement. Hence, such costs were higher during the period from the delivery of additional aircrafts. There was also some additional costs incurred for repairing and maintaining the aging aircraft.

Aircraft Rental Costs: the aircraft rental costs increased from 792.7 million baht to 853.1 million baht for the six-month period comparing to last year due to the delivery of additional aircraft and the impact from the fluctuation of foreign exchange during the period.

Selling Expenses

For the second quarter and the six-month period of 2016, selling expenses were accounted for 9.3 percent and 8.9 percent of total operating expenses respectively. The increasing amount was mainly due to expenses associated with Global Distribution System (GDS) which are usually variable based on number of passengers; moreover, higher service fees were charged when compared to the same period last year.

Administrative Expenses

The administrative expenses of the Company for the second quarter and the six-month period of 2016 were accounted for 8.1 percent and 7.7 percent of total operating expenses respectively. In general, administrative expenses mainly consist of salary, directors’ remuneration, information technology services and depreciation/amortization expenses.

Finance Costs

Finance costs consist of lease payments under the sub-lease agreement from the Samui Property Fund (SPF) for Samui Airport which include the rental portion of the sub-lease agreement and the variable portion

based on the number of departing/arriving passengers from and to Samui Airport. However, in 2013, the Company had revised its accounting policy regarding the recognition of long term loans from the related parties, in another word, the sub-lease agreement from SPF. The revised policy stipulated that the Company has to provide estimated fixed rental costs and variable service costs that may occur throughout the sub-lease period in order to calculate the effective interest rate. Such calculation resulted in a higher book value of the long term loans.

In addition, finance costs also include interest expenses paid to financial institutions and lessors under finance lease agreement.

Unit: million baht

	April-June				January-June			
	2016	2015	Variance		2016	2015	Variance	
			MB	%			MB	%
Interest expenses paid to the Samui Property Fund	351.2	340.3	11.0	3.2	715.4	650.2	65.2	10.0
Interest and Fee expenses ⁽¹⁾	69.0	59.6	9.3	15.6	148.4	131.1	17.4	13.2
Total	420.2	399.9	20.3	5.1	863.9	781.3	82.6	10.6

Remark : (1) Interest costs and fees due to financial institutions and finance lease fees under conditional sale agreement

Total interest paid to SPF for the six-month period increased from 650.2 million baht to 715.4 million baht due to increasing number of departing passengers along with growing number of flights. Furthermore, the rate of passenger services charged to international passengers was higher than the previous year. The interest paid to financial institutions and lessors under finance lease agreement increased from 131.1 million baht to 148.5 million baht due to four additional leasing agreement incurred during the period.

Assets

As of 30 June 2016, the Company and its subsidiaries have total assets amounting to 60,592.7 million baht, increasing by 3,580.2 million baht from:

Unit: million baht

	As at June 30, 2016	As at December 31, 2015	Variance
<i>Current assets</i>			
Cash and cash equivalents	12,669.7	13,243.5	(573.5)
Trade and other receivables	1,455.4	1,847.1	(391.7)
<i>Total current assets</i>	<i>15,482.3</i>	<i>15,846.3</i>	<i>(364.0)</i>
<i>Non-current assets</i>			
Other long-term investments	29,359.1	27,003.2	2,355.9
Property, plant and equipment	11,188.9	9,559.0	1,629.9
<i>Total Non-current assets</i>	<i>45,110.5</i>	<i>41,166.3</i>	<i>3,944.2</i>
<i>Total assets</i>	<i>60,592.7</i>	<i>57,012.6</i>	<i>3,580.2</i>

Current assets

Total current assets of the Company as of 30 June 2016 is 15,482.3 million baht, decreased from 31 December 2015 by 364.0 million baht. This was mainly due to:

- *Cash and cash equivalents* lower by 573.5 million baht, mainly from the pre-delivery payment for the delivery of ATR72-600s in January and April 2016, and the investment in Fuel Pipeline Transportation Limited (FPT) which has the project for pipeline network expansion to the northern part of Thailand.

Non-current assets

Total non-current assets of the Company is 45,110.5 million baht, increased from the end of 2015 by 3,944.2 million baht.

- *Other long-term investments* increased by 2,355.9 million baht due to the mark-to-market of long-term investments in marketable securities and investment in FPT at the amount of 411.0 million baht.

- Property, Plant and Equipment increased by 1,629.9 million baht from the purchase of two ATR72-600s under finance lease during the period.

Liabilities

As of 30 June 2016, the Company and its subsidiaries have liabilities amounting of 27,423.5 million baht. An increase of 1,506.6 million baht from 31 December 2015 was as follows:

Unit: million baht

	As at June 30,2016	As at December 31, 2015	Variance
<i>Current liabilities</i>			
Trade and other payables	1,893.0	2,260.6	(367.6)
Current portion long-term loans and liabilities arising from financial lease of aircrafts	522.0	500.0	22.0
Income tax payable	684.2	30.6	653.6
Other current liabilities	1,317.3	1,405.8	(88.4)
<i>Total current liabilities</i>	<i>6,770.7</i>	<i>6,525.1</i>	<i>245.6</i>
<i>Non-Current liabilities</i>			
Long-term loans , Liabilities arising from financial lease of aircrafts and Finance lease liabilities – net of current portion	3,322.8	2,503.4	818.9
Long-term loans from related party – net of current portion	11,348.8	11,354.1	(5.3)
Deferred tax liabilities	5,481.0	5,040.3	440.8
<i>Total non-current liabilities</i>	<i>20,652.8</i>	<i>19,391.8</i>	<i>1,261.0</i>
<i>Total liabilities</i>	<i>27,423.5</i>	<i>25,916.9</i>	<i>1,506.6</i>

Current liabilities

Total current liabilities amounting to 6,770.7 million baht, increased from 31 December 2015 by 245.6 million baht, mainly due to:

- *Income tax payable* amounting to 684.2 million baht, significantly increased from the second quarter of the previous year by 653.6 million baht as a result of different method of tax calculation for companies with BOI privileges. The Company must comply with the announcement of the Ministry of Finance dated 16 June 2016.

Non-current liabilities

Total non-current liabilities of the Company is 20,652.8 million baht, rose by 1,261.0 million baht from 31 December 2015, largely derived from:

- The purchase of two ATR72-600s under finance lease agreement in January and April 2016 caused *liabilities arising from finance lease of aircrafts* to increase by 986.0 million baht.
- *Deferred tax liabilities* increased by 440.8 due to changes in market value of the available for sale investment in securities.

Shareholders' Equity

Unit: million baht

	As at June 30,2016	As at December 31, 2015	Variance
Paid up capital	2,100.0	2,100.0	-
Premium on ordinary shares and capital reserve for share-based payment transactions	9,319.5	9,319.5	-
Retained earnings	911.2	430.9	480.3
<i>Total shareholders' equity</i>	<i>33,169.2</i>	<i>31,095.7</i>	<i>2,073.6</i>

As of 30 June 2016, total shareholders' of the Company and its subsidiaries is 33,169.2 million baht, an increase of 2,073.6 million baht from the changes in the market value of the available-for-sale investment in securities. The Company has retained earnings at the amount of 911.2 million baht, increased by 480.3 million baht.

Statement of Cash Flow

Unit: million baht

	January – June	
	2016	2015
Net cash flow from operating activities	2,211.2	1,605.6
Net cash flow (used in) from investing activities	(336.2)	3,114.1
Net cash flow used in financing activities	(2,481.2)	(1,986.2)
<i>Cash and cash equivalents at end of the period</i>	<i>4,021.8</i>	<i>4,908.6</i>

Cash flows from operating activities

As of 30 June 2016, the profit of the Company and its subsidiaries before changes in operating activities is 2,924.9 million baht while the amount of cash inflows from operating activities is 2,211.2 million baht which was mainly due to outstanding amount of prepaid maintenance reserve fund awaiting for a reimbursement.

Cash flows from investing activities

As of 30 June 2016, cash outflows from investing activities of the Company and its subsidiaries is 336.2 million baht which was largely due to the construction in progress of simulator building and additional purchase of land to support the expansion of catering business. The Company has also invested in FPT at the amount of 411.0 million baht.

Cash flows from financing activities

As of 30 June 2016, the Company and its subsidiaries have cash outflows from financing activities at the amount of 2,481.2 million baht, mainly from the payment of interest expenses under finance lease and dividend payment to shareholders in the first quarter this year amounting to 955.0 million baht.

Summary Consolidated Financial and Ratio

		As at 30 June	
		2016	2015
Liquidity Ratio	Current Ratio (Time)	2.3	2.8
	Quick Ratio (Time)	5.1	5.1
	Collection Period (Day)	21.8	23.0
	Stock Turnover Period (Day)	6.2	5.4
	Payment Period (Day)	30.2	34.2
Profitability Ratio	Gross Profit Margin (%)	27.5	22.3
	Operating Profit Margin (%)	21.0	13.2
	EBITDAR Margin (%)	30.2	22.9
	Net profit Margin (%)	10.6	9.7
	Return on Equity (%)	9.1	8.8
Efficiency Ratio	Return on Assets (%)	5.0	4.7
	Return on Fixed Assets (%)	38.1	43.2
	Asset Turnover (Time)	0.5	0.5
Leverage Ratio	Debt to Equity (Time)	0.8	0.8
	Interest Coverage Ratio (Time)	3.7	2.4

Glossary

- Passenger or Cabin load factor** : Number of passenger carried as a proportion to capacity, which is the number of seats available for passengers
- Available Seat-Kilometer (ASK)** : The number of seats available for passengers multiplied by the number of kilometers that are flown
- Revenue Passenger-Kilometer (RPK)** : The number of revenue passengers multiplied by the number of kilometers that are flown
- Revenue per ASK (RASK)** : Income of sale and services of the Company (meaning total revenues from the standalone financial statements net gain on sales of investment, reversal of allowance for diminution in value of investments in subsidiary, dividend income and the compensation from the cancellation of the agreement) divided by ASK.
- Cost per ASK (CASK)** : The sum of operating cost, sale expenses, service expenses and the remuneration of the executives of the Company (excluding financial cost) (meaning total expenses from the standalone financial statements net loss on sales of investment, and loss on sales of leasehold right) divided by ASK.
- CASK – Fuel** : The sum of operating cost, sale expenses, service expenses and the remuneration of the executives of the Company (excluding financial cost and fuel cost) (meaning total expenses from the standalone financial statements net loss on sales of investment, loss on sales of leasehold right and fuel expense) divided by ASK.