

## OFFERING MEMORANDUM



Bangkok Airways Public Company Limited  
(registered in the Kingdom of Thailand as a public company with limited liability)

### **580,000,000 Ordinary Shares (par value THB1 per share)**

This is the initial public offering of our ordinary shares of par value THB1 each (the "Shares"). This offering memorandum (the "Offering Memorandum") has been prepared by us in connection with the offering of 580,000,000 Shares (the "Offering Shares"), consisting of 520,000,000 Shares to be issued by us (the "New Shares") and 60,000,000 Shares (the "Vendor Shares", together with the New Shares, the "Offering Shares") to be offered by Ms. Poramaporn Prasarttong-Osoth (the "Selling Shareholder").

The Offering Shares being offered consist of (i) a primary offering (the "Primary Offering") of 520,000,000 New Shares (the "Primary Shares") and (ii) a secondary offering in Thailand (the "Secondary Offering") of 60,000,000 Vendor Shares by the Selling Shareholder at the Offer Price. The Primary Shares being offered consists of (a) 67,000,000 Shares (the "International Shares") being offered to investors outside the United States and Thailand (the "International Offer") in reliance on Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), through Citigroup Global Markets Limited, Credit Suisse (Singapore) Limited and DBS Bank Ltd. (the "International Managers") and (b) 453,000,000 Shares (the "Domestic Shares") being offered to investors in Thailand (the "Domestic Offer") through Bualuang Securities Public Company Limited, Credit Suisse Securities (Thailand) Limited and DBS Vickers Securities (Thailand) Company Limited (the "Thai Lead Underwriters") in a concurrent domestic public offering. The Domestic Offer comprises an offer of 218,975,000 Domestic Shares in a public retail offer and 234,025,000 Domestic Shares to institutional investors in Thailand. Completion of the International Offer is conditional upon the closing of the Domestic Offer and both the International Offer and Domestic Offer are conditional on the listing of our Shares on the Stock Exchange of Thailand (the "SET").

The Vendor Shares are being offered to other institutional investors in Thailand through Bualuang Securities Public Company Limited. The Vendor Shares are being offered on a private placement basis through the big lot board of the SET on the first day on which our Shares are listed on the SET, as described in this Offering Memorandum. The Selling Shareholder is concurrently offering another 105,000,000 Shares to be purchased by Bangkok Bank Public Company Limited, an institutional investor, through the big lot board of the SET on the first day on which our Shares are traded on the SET. Completion of the Secondary Offering is conditional on the completion of the Primary Offering and the listing of our shares on the SET. The Primary Offering and the Secondary Offering are referred to as the "Combined Offering". The New Shares offered in the Primary Offering may be reallocated between the International Offer and the Domestic Offer.

This Offering Memorandum relates to the International Offer only. The Domestic Offer is being made pursuant to a separate prospectus in the Thai language. For information on the methods of sale, see "Plan of Distribution".

There is currently no public market for our Shares. We have applied to have our Shares, including the Shares offered in the Combined Offering, approved for listing and trading on the SET. For a description of the SET, see "The Thai Securities Market".

**Investing in our Shares involves certain risks. See "Risk Factors" beginning on page 22.**

**Offer Price: THB25 per Share.**

In addition to the Offer Price, international investors will be required to pay a brokerage fee in connection with their purchase of Shares purchased in the International Offer. For a description of this brokerage fee, see "Plan of Distribution".

**THE SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES. THE SHARES ARE BEING OFFERED AND SOLD IN OFFSHORE TRANSACTIONS SOLELY OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S. THE SHARES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED UNDER "TRANSFER RESTRICTIONS".**

The International Managers are offering the International Shares subject to receipt and acceptance of orders by them and subject to their right to reject any order in whole or in part. Payment for the Shares is expected to be made on or about October 28, 2014, in immediately available funds, and we expect that delivery of the Shares will be made through the SET's depository facilities with the Thailand Securities Depository Company Limited (the "TSD") no later than two business days after payment and that our Shares will be approved for listing on the SET no later than seven days after delivery of the Shares.

#### *Joint Global Coordinators and Bookrunners*

**Bualuang Securities**

**Citigroup**

**Credit Suisse**

**DBS**

#### *Thai Lead Underwriters*

**Bualuang Securities**

**Credit Suisse**

**DBSV Thailand**

The date of this Offering Memorandum is October 17, 2014



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You should rely only on the information contained in this Offering Memorandum in making an investment decision with respect to the Shares. Neither we, the Selling Shareholder, the International Managers nor the Thai Lead Underwriters have authorized anyone to provide you with any additional or different information. This Offering Memorandum may only be used where it is legal to offer and sell the Shares. The information in this Offering Memorandum may only be accurate as of the date of this Offering Memorandum. You should be aware that since the date of this Offering Memorandum there may have been changes in our business, financial condition, results of operations, prospects or otherwise that could affect the accuracy or completeness of the information set out in this Offering Memorandum.

We are furnishing this Offering Memorandum on a confidential basis in connection with an offering exempt from registration under the U.S. Securities Act and applicable state securities laws solely for the purpose of enabling prospective investors to consider the purchase of the Shares. We are not authorizing the use of this Offering Memorandum for any other purpose. The information contained in this Offering Memorandum has been provided by us and other sources identified in this Offering Memorandum. No representation or warranty, express or implied, is made by the International Managers as to the accuracy or completeness of such information, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the International Managers. Any reproduction or distribution of this Offering Memorandum, in whole or in part, and any disclosure of its contents or use of any information herein is prohibited, except to the extent such information is otherwise publicly available.

The Shares are subject to restrictions on transferability and resale and may not be transferred or resold in the United States, except as permitted under the U.S. Securities Act and applicable state securities laws pursuant to registration or an exemption from registration under the U.S. Securities Act. You should be aware that you may be required to bear the risk of an investment in the Shares for an indefinite period of time. See “Transfer Restrictions” for more information on these restrictions.

The distribution of this Offering Memorandum and the offer and sale of the Shares offered hereby are restricted by law in certain jurisdictions. You should inform yourselves about and comply with all applicable laws and regulations in force in any jurisdiction in connection with the distribution of this Offering Memorandum and the offer and sale of the Shares. None of us, the Selling Shareholder, the International Managers, the Thai Lead Underwriters nor any of our or their respective affiliates, directors, officers, employees, agents or advisors are making any representation or undertaking to any investor regarding the legality of an investment in the Shares.

In making an investment decision, you should rely on your own examination of the Company and the terms of the International Offer including the merits and risks involved. You should not construe the contents of this Offering Memorandum or its appendices as legal, business, financial or tax advice. You should consult your own attorney, business advisor, tax advisor or other professional advisor.

This Offering Memorandum is not a prospectus within the meaning of the Securities and Exchange Act B.E. 2535 of Thailand, as amended (the “SEC Act”). In connection with the Domestic Offer, a prospectus, written in the Thai language, was filed with the office of the Securities and Exchange Commission of Thailand (the “Thai SEC”) on April 4, 2013 and became effective on October 6, 2014. Thai law requires the distribution of a prospectus that has become effective under the SEC Act in connection with any public offering of shares in Thailand. This Offering Memorandum may not be used in lieu of a prospectus in connection with any public offering of our Shares in Thailand.

The Shares which we are offering have not been approved or disapproved by the United States Securities and Exchange Commission or any state or foreign securities commission or regulatory authority. The foregoing authorities have not confirmed the accuracy or determined the adequacy of this Offering Memorandum, nor have they passed upon or endorsed the merits of the Combined Offering. Any representation to the contrary is a criminal offense in the United States.

We, the Selling Shareholder, the International Managers and the Thai Lead Underwriters are not offering to sell the Shares in any jurisdiction where the offer or sale is not permitted. This Offering Memorandum does not constitute an offer of, or an invitation to purchase, any of the Shares in any jurisdiction in which such offer or invitation would be unlawful.

In this Offering Memorandum, all references to:

- the “Company” or “Bangkok Airways” refers to Bangkok Airways Public Company Limited, a public company with limited liability registered in the Kingdom of Thailand;

- “we”, “our”, “ourselves” and “us” refers to the Company and, where the context requires, its subsidiaries, joint ventures and associated companies as a group or as members of such group;
- the “Group” refers to the Company and its respective subsidiaries, joint ventures and associate companies taken as a whole;
- “you” or “your” refers to potential investors or purchasers of our Shares;
- “Thai Baht”, “Baht” or “THB” refers to the legal currency of Thailand, “U.S. Dollar” or “US\$” refer to the legal currency of the United States of America;
- “PLCA” refers to the Public Limited Company Act of Thailand B.E. 2535 (1992), as amended;
- “Shares” refer to our ordinary shares of par value THB1 each;
- “Thailand” or “Thai” refers to the Kingdom of Thailand, “Government” refers to the Government of Thailand and “Cabinet” refer to the Thai cabinet;
- “DCA” refers to the Thai Department of Civil Aviation;
- “MOT” refers to the Minister of Transport;
- “2012 Audited Financial Statements” refers to the audited consolidated and separate financial statements of the Company as of and for the year ended December 31, 2012;
- “2013 Audited Separate Financial Statements” refers to the audited consolidated and separate financial statements of the Company as of and for the year ended December 31, 2013;
- “Audited Financial Statements” refers to the 2012 Audited Financial Statements and the 2013 Audited Financial Statements;
- “Unaudited Interim Financial Statements” refers to the unaudited consolidated and separate interim financial statements of the Company as of and for the six months ended June 30, 2013 and 2014; and
- “Financial Statements” refers to the Audited Financial Statements and Unaudited Interim Financial Statements.

We use certain terms in this Offering Memorandum which are used in the Thai and global airline industries in Thailand, although they may be defined in different ways. In this Offering Memorandum, all references to:

- “ASK” refers to available seat kilometers, or the number of seats available for passengers multiplied by the number of kilometers that are flown;
- “CASK” refers to the total cost related to our passenger flight operations (including direct and indirect costs, overhead and fleet costs) as reflected in our accounting records per ASK;
- “domestic passengers” means the number of outbound domestic passengers;
- “international passengers” means the aggregate of inbound and outbound international passengers;
- “MOPS” refers to the mean price of fuel oil traded through Singapore, as published by Platts under Mean of Platts Singapore;
- “passenger load factor” refers to RPK as a percentage of ASK;

- “RASK” refers to revenue per available seat kilometer; and
- “RPK” refers to revenue passenger kilometers, or the number of kilometers flown by revenue passengers.

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### **ENFORCEABILITY OF CIVIL LIABILITIES**

We are incorporated in Thailand. A substantial majority of our Selling Shareholder, directors and executive officers and the experts named in this Offering Memorandum are residents of Thailand. Also, substantially all of our assets and the assets of our Selling Shareholder, directors and executive officers are located in Thailand. As a result, you may not be able to:

- effect service of process upon us or these other persons outside Thailand; or
- enforce against us in Thai courts judgments obtained in courts outside of Thailand, including judgments based on the securities laws of other countries.

Thai courts will not enforce any judgment or order obtained outside Thailand, but a judgment or order from a foreign court may, in the discretion of a court in Thailand, be admitted as evidence of an obligation in a new proceeding instituted in that court, which would consider the issue on the evidence before it. Thus, to the extent investors are entitled to bring legal action against the Company or these persons, investors may be limited in their remedies and any recovery in any Thai proceedings may be limited at the relevant court’s discretion. See “Risk Factors—Risks Relating to Thailand”.

## PRESENTATION OF FINANCIAL AND STATISTICAL DATA

This Offering Memorandum contains (i) the audited consolidated and separate financial statements of the Company as of and for the year ended December 31, 2013 (the “2013 Audited Financial Statements”), (ii) the audited consolidated and separate financial statements of the Company as of and for the year ended December 31, 2012 (the “2012 Audited Financial Statements” and together with the 2013 Audited Financial Statements, the “Audited Financial Statements”), which have not been restated to conform to the changes made in the 2013 Audited Financial Statements, and (iii) the unaudited consolidated and separate interim financial statements of the Company as of and for the six months ended June 30, 2014 (the “Unaudited Interim Financial Statements” and together with the Audited Financial Statements, the “Financial Statements”).

As stated in Note 4.1 to the 2013 Audited Financial Statements, on December 31, 2013, we changed our accounting policy by early adopting Thai Accounting Standard Interpretations 27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease, whereby we include variable lease expenses in the calculation of the effective interest rate. Also, as stated in Note 4.2 to the 2013 Audited Financial Statements, we adopted TAS 12, Income Taxes in 2013. Further, as discussed in Note 5 to the 2013 Audited Financial Statements, the Company made certain other accounting adjustments to its prior year financial statements. The Company has therefore restated the consolidated and separate financial statements for the years ended December 31, 2011 and 2012, presented as comparative information in the 2013 Audited Financial Statements, to reflect the adjustments resulting from the changes made in the 2013 Audited Financial Statements, but such comparative financial statements have not been audited. The unrestated consolidated financial statements as of and for the year ended December 31, 2011 underlying the restated consolidated financial statements as of and for the year ended December 31, 2011 presented in the 2013 Audited Financial Statements and the 2012 Audited Financial Statements have not been audited.

The accounting policy changes reflected in the 2013 Audited Financial Statements have not been reflected in the 2012 Audited Financial Statements included elsewhere in this Offering Memorandum 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. The Company also restated the consolidated and separate financial statements as of and for the year ended December 31, 2011 presented in the 2012 Audited Financial Statements to reflect changes made in the 2012 Audited Financial Statements, but such comparative financial statements have not been audited.

The 2012 Audited Financial Statements and 2013 Audited Financial Statements, which are included elsewhere in this Offering Memorandum, have been prepared in accordance with Thai Financial Reporting Standards (“TFRS”) and have been audited by EY Office Limited (formerly known as “Ernst & Young Office Limited”) (“EY Thailand”), independent auditors, as stated in their report included elsewhere in this Offering Memorandum.

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 but such comparative financial statements have not been reviewed. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Change in Basis of Presentation” and Notes 2 and 21 to our Unaudited Interim Financial Statements included elsewhere in this Offering Memorandum for details.

In December 2012, we completed our corporate restructuring in preparation for listing on the SET (the “Corporate Reorganization”). As part of the Corporate Reorganization, we sold five of our 11 subsidiaries between August and December 2012. In addition, we had liquidated one subsidiary in 2011. See “Business—Corporate Reorganization” for further details. The consolidated 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.

TFRS differs in certain material respects from International Financial Reporting Standards (“IFRS”). For a description of significant accounting differences between TFRS and IFRS that are relevant to the Company’s Financial Statements, see “Summary of Significant Differences Between TFRS and IFRS”.

Solely for the convenience of the reader, unless otherwise indicated, certain Baht amounts in this Offering Memorandum have been translated to U.S. Dollars, and certain U.S. Dollar amounts have been translated to Baht, in each case based on the average buying (telex transfer) and selling exchange rate of commercial banks in Bangkok announced by The Bank of Thailand (the “BOT”) as of June 30, 2014, which was THB32.455 = US\$1.00. No representation is made that the Baht or U.S. Dollar amounts referred to in this Offering Memorandum could have been or could be converted into U.S. Dollars or Baht, as the case may be, at any particular rate or at all. See “Exchange Rates and Exchange Controls” for certain historical information on the reference rate between the Baht and the U.S. Dollar.

Any discrepancies in the tables included in this Offering Memorandum between the amounts listed and the totals are due to rounding.

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### **NON-GAAP FINANCIAL MEASURES**

We define EBITDAR as earnings before interest and taxation after adding depreciation and amortization and aircraft operating lease expenses. We define EBITDA as earnings before interest and taxation after adding depreciation and amortization. We define EBIT as earnings before interest and taxation. EBITDAR, EBITDA and EBIT are not standard measures, nor measurements of financial performance or liquidity, under TFRS or IFRS, and should not be considered alternatives to net profit (loss), profit (loss) before finance cost and income tax or any other performance measure derived in accordance with TFRS or IFRS, or as an alternative to cash flow from operating activities. Our non-GAAP financial measures are supplemental measures of the Company’s performance that are not required by, or presented in accordance with, TFRS or IFRS. See “Management’s Discussion and Analysis of Financial Condition and Results of Operation—Non-GAAP Financial Measures” for a reconciliation of the Company’s net profit (loss) to our definition of our non-GAAP financial measures.

We believe that EBITDAR, EBITDA and EBIT facilitates comparisons of operating performance from period to period and company to company by eliminating potential differences caused by variations in capital structures (affecting interest and aircraft operating lease expenses), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses), and the age and booked depreciation and amortization of assets (affecting relative depreciation and amortization expense). EBITDAR, EBITDA and EBIT have been presented because we believe that they are frequently used by securities analysts, investors and other interested parties in evaluating similar companies, many of whom present such non-GAAP financial measures when reporting their results. Nevertheless, EBITDAR, EBITDA and EBIT have limitations as analytical tools, and you should not consider any in isolation from, or as a substitute for, analysis of our financial condition or results of operation, as reported under TFRS. Because of these limitations, EBITDAR, EBITDA and EBIT should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. As a measure of operating performance, we believe that the most directly comparable measure to EBIT, EBITDA and EBITDAR is net profit. We use EBIT, EBITDA and EBITDAR in addition to net profit because net profit includes many accounting items associated with capital expenditures, such as depreciation, as well as certain other non operating transactions, such as interest income and interest expenses and income tax expenses. These accounting items may vary between companies depending on the method of accounting adopted by each company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, goodwill amortization and interest income and expenses, EBIT, EBITDA and EBITDAR provides further information about our operating performance and an additional measure for comparing our operating performance with other companies’ results. Funds depicted by EBIT, EBITDA and EBITDAR may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

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### **INDUSTRY AND MARKET DATA**

This Offering Memorandum includes market share and industry data and forecasts that we have obtained from industry publications and surveys, including an industry report entitled “Independent Market Research Report: Bangkok Airways PCL” dated May 26, 2014 that we have commissioned from The S-A-P



Group LLC regarding the Company and air travel in Southeast Asia, which is reproduced in Appendix A hereto. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of included information. While we have taken reasonable actions to ensure that the information is extracted accurately and in its proper context, neither we, our Selling Shareholder, the International Managers, the Thai Lead Underwriters nor our or their affiliates, have independently verified any of the data from third party sources or ascertained the underlying economic assumptions relied upon therein. As a result, you are cautioned against undue reliance on such information.

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## FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains “forward-looking” statements that relate to future events, which are, by their nature, subject to significant risks and uncertainties. All statements, other than statements of historical fact contained in this Offering Memorandum, including, without limitation, those regarding our future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “believe”, “expect”, “plan”, “aim”, “intend”, “will”, “may”, “project”, “estimate”, “forecast”, “anticipate”, “predict”, “seek”, “should” or similar words or expressions, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our overall future business development and economic performance;
- the estimated financial information regarding, and the future development and economic performance of, our business;
- our future earnings and cash flow;
- our business strategy;
- our expected expansion plans;
- regulatory changes; and
- future Government policy relating to the transportation and aviation industries in Thailand.

The future events referred to in these forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause the actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future and are not a guarantee of future performance. Important factors that could cause the actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our competitive environment, including new market entrants;
- changes in the price of aviation fuel and crude oil;
- changes in Government regulation of the Thai transportation and aviation industries, including the Air Navigation Act B.E. 2497 (1954), as amended (the “Air Navigation Act”) and the Announcement of the National Executive Council No. 58;
- the outcome of legal and regulatory proceedings in which we are involved or may become involved;
- changes in the value of the Baht against other currencies, including the U.S. Dollar;
- war, political unrest or acts of international or domestic terrorism;
- changes in interest rates;
- the availability and terms of external funding to finance our investments and expansion plans;
- fluctuations in our operating costs, in particular those that are beyond our control;
- cyclical and seasonal fluctuations in our operating results;
- changes in general economic, business, political and regulatory conditions in Thailand;

- changes in the laws, regulations, taxation, accounting standards or practices, or policies of the Government which apply to us;
- labor unrest or other similar situations;
- the availability to obtain and retain skilled personnel;
- the availability of insurance coverage at commercially acceptable premiums;
- accidents or incidents involving our aircraft;
- public disorder, natural disasters, severe weather including flooding or outbreaks of infectious diseases such as the Influenza A (H1N1) virus; and
- our success at managing the risks of the above factors.

This list of important factors is not exhaustive. Additional factors that could cause the actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Risk Factors”. When relying on forward-looking statements, you should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which we operate. Such forward-looking statements speak only as of the date on which they are made. Accordingly, we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. We do not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario. Accordingly, you should not place undue reliance on any forward-looking statements.

Our ability to maintain and grow our revenues, net income and cash flows depends upon continued capital expenditure, whether by us or our subsidiary, joint venture and/or associated companies. In addition, our capital expenditure and investment plans are subject to a number of risks, contingencies and other factors, including those listed above, some of which are beyond our control. We adjust our capital expenditure and investment budgets periodically, based on factors deemed relevant by us. Our ability to obtain adequate financing to satisfy our capital expenditure and investment budget and debt service requirements may be limited by our financial condition, results of operations, legal and regulatory issues and the liquidity of the international and domestic financial markets. We may make additional capital expenditures and investments as opportunities or needs arise. We may increase, reduce or suspend our planned capital expenditures or investments or change the timing and use of our capital expenditures from what is currently planned in response to market conditions, production trends or for other reasons. For the foregoing reasons, our actual future capital expenditures and investments are likely to be different from our current budgeted capital expenditure and investment amounts, and those differences may be significant.

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## SUMMARY

*This summary may not contain all the information that may be important to you in deciding to invest in the Shares. You should read the entire Offering Memorandum, including the Financial Statements and related notes contained elsewhere in this Offering Memorandum and the section entitled “Risk Factors” beginning on page 22 of this Offering Memorandum, before making an investment decision.*

### Overview

We are a boutique full service airline in Thailand, offering premium, quality service to our passengers. We were founded in 1984 as “Sahakol Air” to take over the airline business which had been operating under the company Krungthep Sahakol Co., Ltd., owned by Dr. Prasert Prasarttong-Osoth. 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. Through our code-share and other cooperative arrangements with other airlines such as Etihad Airways, Japan Airlines, Malaysia Airlines, British Airways, Cathay Pacific Airways, 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 from two principal hubs, the Suvarnabhumi International Airport in Bangkok and Samui Airport in Surat Thani, which we also own and operate. We also own and operate two other airports at Sukhothai and Trat. We target markets that are less than a five-hour flight time from our hubs, which give us access to passengers travelling to and from Southeast Asia and South Asia, including India. We believe that Thailand’s growing economy provides an attractive market in which we can increase passenger growth as an increasing proportion of the Thai population are able to access air transport. We also believe that our premium, quality services, strong culture of hospitality and access to unique cultural and leisure destinations differentiates us from other competing airlines. We have also been awarded “Asia Best Regional Airline” for five of the six years from 2004 to 2009 by Skytrax Research, a leading aviation research organization. In each of the years between 2006 and 2013, the Samui Airport was placed top 10 in the Smart Travel Asia annual best airports worldwide polls. In 2012, we were ranked number 4 for the “World’s Best Regional Airline” award from Skytrax Research and number 3 for “Asia Best Regional Airline” award from Skytrax Research. In 2013, we were ranked number 3 for “World’s Best Regional Airline” award from Skytrax Research and number 2 for “Asia Best Regional Airline” award from Skytrax Research. Also in 2013, BFS Ground and BFS Cargo were awarded “2013 Frost & Sullivan Thailand Aviation Support Service Provider of the Year” from Frost & Sullivan, a global growth consulting and research organization. Additionally, in 2014, we were ranked number 1 for “World’s Best Regional Airline” and number 1 for “Best Regional Airline in Asia” by Skytrax Research.

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 profits of THB290.6 million, and THB1,832.4 million and THB990.0 million (US\$30.5 million), respectively. For the six months ended June 30, 2013 and 2014, we generated total consolidated revenues of THB10,256.7 million and THB10,980.3 million (US\$338.3 million), respectively, and consolidated profits of THB881.9 million and THB204.8 million (US\$6.3 million), respectively. Similarly, our fleet size grew from 18 aircraft as of December 31, 2011 to 25 aircraft as of 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. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. We have been able to achieve this growth despite a difficult period for the airline industry, including for us, caused by, among other factors, the adverse effects of the global economic crisis which started in 2007, and continued through subsequent years from, 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.

We operate in three main business lines:

- **Airline services:** We carried approximately 4.2 million and 2.3 million passengers on scheduled flights, accounting for 2,759.2 million and 1,788.4 million RPKs during 2013 and the six months ended June 30, 2014, respectively.
- **Airport-related services:** Through our subsidiary and associated companies we also provide airport-related services including ground services, in-flight catering services and cargo terminal services in the Suvarnabhumi International Airport.
  - Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd. (“BFS Ground”), our 90.0%-owned subsidiary, is one of two ground services providers at the Suvarnabhumi International Airport. WFS provides management services to BFS Ground through a Ground Service Agreement with BFS Ground. The Ground Services Agreement is valid for a term of seven years, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Ground. In 2013, we entered into an amendment to the Ground Services Agreement with WFS to temporarily extend the Ground Services Agreement for six months after the expiration of such agreement. The Ground Services Agreement is valid until September 27, 2018. We also provide ground services in the Samui Airport through our 100.0%-owned subsidiary, Bangkok Airways Ground Services Co. Ltd (“Bangkok Airways Ground”).
  - Bangkok Air Catering Co., Ltd. (“BAC”), our 90.0%-owned subsidiary, is one of three catering service providers at the Suvarnabhumi International Airport. In the six months ended June 30, 2014, BAC provided in-flight catering services to 21 airlines (other than us).
  - WFS-PG Cargo Co., Ltd. (“BFS Cargo”), our 49.0% owned associated company, is a joint venture between us and WFS, a global independent cargo handler. BFS Cargo is one of two international cargo terminal service providers at the Suvarnabhumi International Airport. WFS provides management services to BFS Cargo through the Cargo Services with BFS Cargo. The Cargo Services Agreement is valid for a term of seven years, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Cargo. In 2013, we entered into an amendment to the Cargo Services Agreement with WFS to temporarily extend the Cargo Services Agreement for six months after the expiration of such agreement. The Cargo Services Agreement is valid until September 27, 2018.
- **Airports:** We own and operate airports in Samui, located in the southern part of Thailand, Trat, located in the eastern part of Thailand, and Sukhothai, located in the northern part of Thailand. The Samui Airport is our most important airport in terms of passenger traffic and contribution to income. Flights to and from Samui comprised 45.7%, 45.7%, 43.6% and 37.7% of our total number of scheduled passengers and 51.5%, 49.9%, 52.0% and 51.2% of our passenger revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. In November 2006, we leased the assets of the Samui Airport to the Samui Property Fund for a period of 30 years under the terms of a Long-Term Lease Agreement dated November 24, 2006 (the “Long-Term Lease Agreement”). The Samui Property Fund in turn sub-leased the Samui Airport to us pursuant to a three-year sub-lease agreement originally dated November 24, 2006, and last renewed on November 24, 2012 for an additional three-year term (the “Sub-lease Agreement”). We continue to act as operator of the Samui Airport and we hold a 25.0% interest in the Samui Property Fund, which is listed on the SET. See “Description of Material Agreements—Agreements Relating to the Samui Property Fund” for summaries of the material terms of the Long-Term Lease Agreement and the Sub-lease Agreement.

### **Competitive Strengths**

We believe the following are our competitive strengths:

- **Boutique Model:** Our boutique business model offers our passengers a distinct and enhanced flying experience, driving passenger growth while maintaining full service fares;

- **Route Network:** We have an attractive and robust route network that includes cultural and leisure destinations in Southeast Asia, with an emphasis on destinations in the Mekong sub-region and Indochina, and have a track record in successfully developing attractive new routes and destinations;
- **Tourism Industry:** We are well-positioned to ride on the resilient growth of tourism in Thailand and Southeast Asia;
- **Samui Airport:** Our rights to the vast majority of slots at the Samui Airport provides us with a competitive advantage in our route network;
- **Code-shares:** Our strong and growing network of international code-share partners feeds traffic to our route network;
- **Distribution:** Our diversified distribution channels provide extensive reach to both domestic and international passengers;
- **Fleet:** We have a policy of maintaining a reliable and modern fuel-efficient fleet which is well suited for our unique route network;
- **Airport-related businesses:** Our diversified airport-related businesses provide additional sources of revenue and income; and
- **Management:** We have a highly experienced and committed management team with a proven track record.

***Boutique Model: Our boutique business model offers our passengers a distinct and enhanced flying experience, driving passenger growth while maintaining full service fares***

We are a boutique full service airline, offering our passengers an attractive network of cultural and leisure destinations and a distinct and enhanced end-to-end travel experience, combined with friendly and personalized customer service which reflects a strong sense of Thai hospitality. Our premium service starts upon arrival at the airport where all passengers have use of our complimentary lounges with free snacks, beverages and internet access. For our business class passengers, we also offer the enhanced *Blue Ribbon Lounge*, which offer additional services, including hot meals, shower rooms, and library rooms. We also aim to provide a highly enjoyable in-flight experience, operating a modern fuel efficient fleet of aircraft with comfortable seating and quality food and beverage services provided by our well-trained in-flight staff.

We believe that our boutique business model differentiates us from competing airlines. We also believe that this drives our passenger growth and builds customer loyalty. Our passenger number has grown from approximately 3.1 million in 2011 to approximately 3.6 million in 2012, and approximately 4.2 million in 2013. For the six months ended June 30, 2014, our passenger number was 2.3 million. Our point-in-time reservation numbers have also increased gradually from 2011 to 2013. We had approximately 390,000 regular members and approximately 2,300 premier members enrolled in our frequent flyer program, *FlyerBonus*, as at June 30, 2014.

Our boutique business model also supports our ability to maintain full service fares. Our average passenger per sector fare in 2011, 2012, 2013 and the six months ended June 30, 2014 was THB3,789.4, THB4,089.0, THB4,039.9 and THB3,928.2, respectively. We also believe that among competing airlines, our boutique business model provides an attractive value proposition to our passengers, which allows us to achieve a higher per unit profitability as measured by the difference between RASK and CASK relative to our peers.

From 2006 to 2007 and 2009 to 2013, we were also voted as the “Top 10 Best Airline Worldwide for Cabin Service” in the Smart Travel Asia Best in Travel Poll, an independent online frequent traveler magazine with over a million readers. We have been awarded “Best Regional Airline” for five of the six years from 2004 to 2009 by Skytrax Research, a leading aviation research organization. In 2012, we were ranked number 4 for the “World’s Best Regional Airline” award from Skytrax Research and number 3 for “Asia Best Regional Airline” award from Skytrax Research. In 2013, we were ranked number 3 for “World’s Best Regional Airline” award from Skytrax Research and number 2 for “Asia Best Regional Airline” award from Skytrax Research. Also in 2013, BFS Ground and BFS Cargo were awarded “2013 Frost & Sullivan Thailand Aviation Support Service Provider of the Year” from Frost & Sullivan, a global growth consulting and research organization. Additionally,

in 2014, we were ranked number 1 for “World’s Best Regional Airline” and number 1 for “Best Regional Airline in Asia” by Skytrax Research. We believe that these awards and polls reflect our strong branding as a boutique full service airline. Leveraging on this brand recognition, we believe that we are well positioned to continue to grow our route network and passenger numbers in both domestic and international markets.

***Route Network: We have an attractive and robust route network that includes cultural and leisure destinations in Southeast Asia, with an emphasis on destinations in the Mekong sub-region and Indochina, and have a track record in successfully developing attractive new routes and destinations***

Our route network connects regional and global passengers to more than 20 cultural and leisure destinations across Southeast Asia, with an emphasis on destinations in the Mekong sub-region and Indochina, and India. We currently also operate four charter flights weekly to China. In Thailand, apart from our hub in Bangkok, we also serve a host of key destinations, including Samui, Chiang Mai, Krabi, Udonthani and Phuket. We have also successfully developed routes to emerging regional destinations in Southeast Asia, which include destinations in the Mekong sub-region and Indochina, such as Bangkok to Vientiane and Luang Prabang in Laos, Phnom Penh and Siem Reap in Cambodia and Yangon, Mandalay and Naypyidaw in Myanmar, routes that are currently served by a limited number of airlines. We believe that we are well-positioned to benefit from strong tourism growth in these destinations. For example, from 2012 to 2013, international tourist arrivals at Cambodia and Myanmar grew 13.7% and 33.2%, respectively.

Our creativity in developing attractive new routes and destinations, which are both viable on a standalone basis to Bangkok Airways and appealing to our code-share partners, is demonstrated in our current robust route network. For example, we built an airport in Samui, establishing the island as major leisure destination and developing Samui into a hub which could launch other potentially attractive routes, such as Samui – Beijing, Samui – Kunming, Samui – Shanghai and Samui – Guangzhou.

***Tourism Industry: We are well-positioned to ride on the resilient growth of tourism in Thailand and Southeast Asia***

International travel and tourism rates for countries in Southeast Asia have increased at strong rates from 2012 to 2013. For example, from 2012 to 2013, international tourist arrivals at Cambodia and Myanmar grew 13.7% and 33.2%, respectively. In particular, despite significant disruptions due to various economic, political, health and environmental shocks, international tourist arrivals in Thailand have continued to grow from 2009 to 2013 at a compound annual growth rate of 17.2%. According to SAP, compared among countries in Southeast Asia for 2012, Thailand reported the second highest total number of arrivals, with approximately 22.4 million tourist arrivals, the fourth highest arrivals growth rate of 17.0% from 2011 to 2012, and the largest total increase of 3.3 million arrivals from 2011 to 2012. As tourists from China and other Asian countries continue to travel within the region, air travel in the region can be expected to continue to experience strong growth. We believe that with our attractive route network that includes the major culture and leisure destinations in Thailand and emerging regional destinations in Southeast Asia, we are well positioned to benefit from this growth.

***Samui Airport: Our rights to the vast majority of slots at the Samui Airport provides us with a competitive advantage in our route network***

We are the only airline in Thailand to have built and operate airports. We constructed, own and operate the privately-operated airport at Samui. With over two dozen five-star hotels, Samui has established itself as a major leisure and luxury destination. In November 2006, we leased the assets of Samui Airport to the Samui Property Fund, which is listed on the SET, for a period of 30 years. The Samui Property Fund then sub-leased the Samui Airport to us pursuant to the Sub-lease Agreement.

We continue to act as the operator of the Samui Airport, which enables us to retain the vast majority of slots at the Samui Airport. This provides us with a competitive advantage in our route network as we are often the only airline or the dominant player for routes to Samui. For example, we are the only airline flying the Samui-Hong Kong route, while we operate the most number of flights on the Samui-Singapore route. We are also able to capitalize on this competitive advantage to develop attractive future routes on which we expect to be the dominant carrier, such as Samui – Beijing, Samui – Kunming, Samui – Shanghai and Samui – Guangzhou.



***Code-shares: Our strong and growing network of international code-share partners feeds traffic to our route network***

Our boutique full service model offers access to cultural and leisure destinations and the premium service levels necessary to make us an attractive code share partner to leading international full-service airlines. Through our hub at the Suvarnabhumi International Airport, the main international gateway to Thailand, we are able to provide efficient same airport transfer to the passengers of our code-share partners and connect them to our host of regional and domestic destinations. This is in contrast to some other airlines in Thailand that require passengers arriving on international flights at Suvarnabhumi International Airport to transfer to Don Muang Airport in order to make a domestic connection. We believe that our premium service, high dispatch reliability and high flight frequency offers assurance to our code-share partners that their code-share passengers will arrive at their final destination in a comfortable and timely manner, which further increases our attractiveness to code-share partners.

In addition, as our route network is regional in scope, we do not provide long-haul flights. We believe that this enables us to provide short-haul flights with higher frequency, resulting in a higher supply of seats on our regional routes for our code-share partners as compared to our competitors who have to prioritize their own long-haul passengers or passengers of alliance members on regional flights. We also do not compete with our code-share partners on long-haul flights, which we believe further increases our appeal to long-haul code share partners.

As at December 31, 2011, we had entered into code share arrangements with six international airlines comprising Thai Airways (which is currently inactive), EVA Airways, Air Berlin (currently not operating flights to/from Thailand), Air France, Etihad Airways and Malaysia Airlines. In 2012, we successfully entered into code-share arrangements with Silk Air, Japan Airlines, Finnair, KLM Royal Dutch, in 2013 with Qatar Airways, British Airways and Cathay Pacific Airways, and in 2014 with Qantas Airways, growing our network of international code-share partners to 14 airlines as at June 30, 2014. With these code-share arrangements, we are able to feed our network with passengers from the broader global markets without investing in a long-haul fleet and competing for feed with full service international airlines.

***Distribution: Our diversified sales and distribution channels provide extensive reach to both domestic and international passengers***

We have two principal sales and distribution channels: direct sales and indirect sales. We believe that our diversified sales distribution channels provide us with extensive reach to a broad array of both domestic and international passengers. The following table shows the proportion of our total tickets sold through each of our major distribution channels, and the percentage of our separate revenues each major distribution channel contributes, for the periods indicated.

Distribution Channel	Year Ended December 31,		Six Months Ended June 30,	
	2013		2014	
	% of passengers	% of revenue	% of passengers	% of revenue
<b>Direct sales:</b>				
Sales offices, ticket counters and airport counters .....	16.5	14.5	15.5	13.5
Internet .....	26.9	25.1	28.0	25.9
Subtotal .....	43.3	39.6	43.5	39.4
<b>Indirect sales:</b>				
Code-share and interline .....	4.6	4.8	5.2	5.3
IATA authorized sales agents (BSP agents) .....	49.8	53.4	48.9	52.5
General sales agents (Reporting agents) .....	2.3	2.2	2.4	2.8
Subtotal .....	56.7	60.4	56.6	60.6
Total .....	100.0	100.0	100.0	100.0

In 2013 and the six months ended June 30, 2014, our tickets were distributed to approximately 4.2 million passengers and 2.3 million passengers, respectively, and distributed over eight global distribution systems in 43 countries such as France, Germany and United Kingdom. Also, we operate a total of 33 sales offices located in Thailand, Singapore, Hong Kong, Cambodia, Laos, Myanmar and Germany, as at June 30, 2014. In addition, our customers can reserve their seats 24 hours a day through our call center and website. Flight

reservations booked through our website increased from 23.1% of our total passengers in 2011 to 26.6% in 2012, and 26.9% in 2013 and 28.0% in the six months ended June 30, 2014, and we expect this trend to continue in the future. We also appoint general sales agents to broaden the reach of our distribution network. These general sales agents perform functions similar to our sales offices and play an important role in connecting passengers arriving on code-share flights from international destinations to our domestic and regional flights.

Being a member of the IATA BSP provides us with direct access to a distribution network of IATA accredited travel agents. The number of countries which we cover under the IATA BSP has increased from one country in 2000 to 40 countries in 2013. We believe that the IATA BSP network allows us to drive additional passenger sales, improves our relationship with IATA accredited travel agents and reduces fare collection risks and documentation processes for fare collection.

***Fleet: We have a policy of maintaining a reliable and modern fuel-efficient fleet which is well-suited for our route network***

In line with our policy of maintaining a modern fuel-efficient fleet, we operate a fleet of fuel-efficient streamlined aircraft comprising three types of aircraft, including eight ATR 72-500, ten Airbus A319 and seven Airbus A320 as at June 30, 2014. These aircraft, with an average age of approximately 8.7 years as at June 30, 2014 are well-suited for our route network of cultural and leisure destinations in Thailand and Southeast Asia and also enable us to maintain fuel efficiency and minimize maintenance expenses. 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 2017. We expect to gradually replace all existing ATR 72-500 fleet with the new ATR 72-600 model. Additionally, we are currently in discussion with three aircraft manufacturers in preparation for mid-term and long-term fleet management which will result in the selection of a new generation of fuel efficient aircraft type to be procured and leased for our current fleet replacement. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. In anticipation of future new aircraft deliveries, we applied for and have been granted tax incentives from the Thailand Board of Investment for 29 new aircraft on July 31, 2014. The new aircraft are expected to increase our aircraft seat capacity from 3,014 seats as of June 30, 2014 to 5,682 seats as of December 31, 2018.

The ATR 72-500, a 70-seater turboprop aircraft, and the ATR 72-600, a 70-seater turboprop aircraft, are suitable for short-haul routes and smaller airports, such as Samui Airport, enable us to access airports that cannot be served by large aircraft. For example, ATR aircraft are required for flights to the Trat airport, which cannot be served by jet engine aircraft. This also allows us to make adjustments to effectively manage flight frequency on routes with lower demand or during periods of low traffic or periods which can be expected a low traffic on high frequency routes. 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.

The Airbus A319 permits a dual-class configuration and operational flexibility that extends to 3,700.0 nautical miles (6,850.0 km). This aircraft is the largest commercial aircraft that is able to land at Samui Airport as the runway imposes restrictions on aircraft that are heavier than an Airbus A319.

The Airbus A320, a 162-seater aircraft in a single-class layout, provides larger passenger capacity, allowing us to carry more passengers between our hub at Suvarnabhumi International Airport and our other cultural and leisure destinations. The Airbus A320's ability to fly longer distances also serves us well in reaching our passengers in international destinations like Mumbai.

***Airport-related businesses: Our airport-related businesses provide additional sources of revenue and income and diversify our business risks***

We generate additional revenue and income through diversified businesses related to our core airline business. This enables us to also diversify risk. Our airport-related businesses, undertaken by our subsidiaries and associated company, include the provision of in-flight catering through BAC, provision of ground services by BFS Ground and provision of cargo terminal operation services by BFS Cargo. As at June 30, 2014, BFS Ground was the first and only IATA Safety Audit for Ground Operations ("ISAGO") provider in Thailand.

For the year ended December 31, 2013, BAC and BFS Ground accounted for 4.5% and 7.3% of our total consolidated revenue, respectively. For the six months ended June 30, 2014, BAC and BFS Ground accounted for 4.1% and 6.9% of our total consolidated revenue, respectively. BFS Cargo accounted for THB189.7 million and THB102.9 million of our comprehensive income for the year ended December 31, 2013 and the six months ended June 30, 2014, respectively.

All of our airport-related businesses are operated through agreements entered into with the AOT. The income from these businesses are recurrent in nature and are driven by number of flights as well as cargo growth (including growing numbers of passengers and cargo from other airlines flying into the Suvarnabhumi International Airport) giving rise to stable margins for these businesses. In addition, given that the agreements are granted to limited number of operators, there is limited threat from new competitors with regards to these businesses. The agreements are for a period of 20 years each through September 27, 2026.

BAC, BFS Ground and BFS Cargo serve Bangkok Airways as well as other international airlines, including some of our code-share partners. Although BAC, BFS Ground and BFS Cargo have been in operation for only approximately seven years, each business has proven its ability to successfully attract customers. For example, as at June 30, 2014, BAC, BFS Ground and BFS Cargo serve 21 airlines, 60 airlines and 54 airlines, respectively, of the 107 airlines which operate at the Suvarnabhumi International Airport. Our airport-related businesses benefit from passenger and cargo growth at the Suvarnabhumi International Airport and provide us with additional sources of revenue and income that are less affected by competition and fuel prices. BAC, BFS Ground and BFS Cargo are led by standalone management teams with the relevant experience and specialized industry knowledge. These management teams take direct responsibility in the management of BAC, BFS Ground and BFS Cargo. These management teams have been able to successfully implement our business strategies and grow these airport-related businesses.

As the success of these airport-related businesses is aligned with the increase in flights to Bangkok, we believe that these airport-related businesses provide diversification and lower our business risks. Furthermore, we believe that the success and brand recognition of our airline business will assist in enhance the success of these airport-related businesses as our relationships with current partners and potential partners in the aviation industry grow. For example, as at December 31, 2013, seven out of 14 of our code-share partners engage the services of BFS Cargo and seven out of 14 engage the services of BFS Ground. There are ongoing discussions with partners who have expressed interests in engaging the services of these airport-related businesses.

***Management: We have a highly experienced and committed management team and existing shareholders with a proven track record***

Our senior management team members have been with the Company for an average of 17 years and have built up extensive managerial experience and technical knowledge. For example, our CEO Mr. Prasert Prasarttong-Osoth was instrumental in the set up of Bangkok Airways in 1968, which was then known as Sahakol Air. Mr. Puttipong Prasarttong-Osoth, our President, has been in the position since 2008. He possesses the Certificate for Commercial Pilot for the Airbus A319/A320 family of planes and is on the Board of Directors for Aeronautical Radio of Thailand. Our long, successful history demonstrates the management team's ability to expand the business, establish brand identity and nurture customer loyalty, while steadily navigating through various economic, political, health and environmental shocks.

Our management team, collectively, hold an interest of 55.4% in the Company before the Combined Offering. After the completion of the Combined Offering, our management team will hold a collective interest of 41.7% in the Company. We believe the collective interest that our management team holds will align their interest with those of our shareholders and commit to the long-term growth and development of our Company.

In addition, we continue to receive support from our existing shareholders, who have established themselves as pioneers in Thai aviation. Our existing shareholders have been crucial in the development of our boutique business model.

## **Business Strategies**

***Continue to focus on enhancing our customer service, brand recognition, and customer loyalty***

We plan to continue to provide our passengers with premium, quality services and products to continue to enhance our brand recognition as "Asia's Boutique Airline".

To further enhance the awareness and recognition of our brand name, we also intend to increase marketing and public relations activities in Thailand, existing regional markets, and in new markets that we intend to serve, through both traditional marketing channels as well as social media. We expect these marketing and public relation activities to emphasize our premium, quality services and our unique network of cultural and leisure destinations. For example, we intend to conduct more aggressive joint promotions with GDSs at all our destinations and introduce customer satisfaction surveys at our ticketing counters. We also intend to expand our sales network by bringing in more interline e-Ticketing partners as well as setting up call centers in Myanmar and Cambodia.

To further enhance customer loyalty, we intend to continue to strengthen our relationships with our frequent flyers. For example, we intend to find more partners in the lifestyle industry such as hotels, to enhance the benefits of *FlyerBonus* and offer more perks and benefits to corporate members. We also maintain constant communications with our *FlyerBonus* members through emailing them on promotions and new benefits.

***Grow passenger volumes by adding capacity on existing routes, adding new routes, and expanding the number of our code-share flights***

In Thailand, we intend to increase flight frequencies and add route-appropriate aircraft to key existing routes with high growth potential, leveraging on our existing operations and brand recognition.

We also intend to add new routes primarily within Southeast Asia by identifying additional cultural and leisure destinations with strong tourist demand but which we believe are underserved by other airlines. We intend to expand our route network by using our hubs at Suvarnabhumi International Airport in Bangkok and the Chiang Mai International Airport as a platform to operate domestic routes to Phuket, Krabi, U-Tapao Pattaya, Trat, Sukhothai, Lampang, Chiang Rai and Udonthani. We also intend to leverage on our hub in Samui to expand into other potential destinations in Asia by developing international routes from Samui to destinations in China and we also intend to increase flight frequency of existing routes.

Furthermore, we intend to continue developing strong relationships with our code-share partners to feed traffic from Southeast Asia and North Asia, Australia, Middle East and Europe into our network. As at June 30, 2014, we had code-share agreements in place with 14 airlines. We expect contribution from our code-share arrangements to increase further as we continue to expand our code-share network. We plan to focus on major airlines that are expected to drive new tourists arrivals to Southeast Asia, and service important markets that are currently outside our code-share network. According to SAP, countries which are expected to drive new tourists arrivals to Southeast Asia are China, Australia, India, Pakistan and Bangladesh. We are in ongoing discussions with potential partners which will increase our code-share network.

***Enhance our profitability as we grow our revenue***

To enhance our profitability, we intend to optimize our routes by continually evaluating our route network to increase frequencies on profitable routes, eliminate unprofitable routes, and add new routes to destinations with strong growth prospects. We plan to improve our aircraft utilization by increasing the flight frequency on selected routes and to improve our passenger load factors by increasing customer awareness of our airline both inside and outside of Thailand, primarily through an increase in our efforts in marketing and public-relations. For example, we have budgeted for television programs and advertisements in Chiang Mai, Phuket, Hong Kong, Singapore and Myanmar.

We expect to continue to seek to reduce our fuel costs by operating modern and fuel-efficient aircraft as well as enhancing our fuel management techniques on all aircraft. We have initiated discussions with three aircraft manufacturers to select a new generation of more fuel efficient aircraft for our mid-term and long-term fleet management and acquisition program. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party.

We expect to reduce non-fuel operating costs through training our own cadet pilots. We also intend to minimize operating costs by offering our lowest fares through the Internet to encourage travelers to make Internet bookings, which lower the administrative costs and related expenses.

***Continue to grow revenue and income from our airport-related businesses and explore new business opportunities***

We intend to increase revenue derived from our airport-related businesses, namely our in-flight catering, ground and cargo terminal services to leverage on continued traffic growth at Suvarnabhumi International Airport.

BAC plans to grow its catering business through expansion into niche segments such as hospital catering. BAC has set up a joint venture which will operate an in-flight catering facility business in Phuket. The joint venture is in the process of obtaining the necessary permits. BAC also intends to expand its business into Samui by building in-flight catering facilities there in order to cater for potential increases in demand for in-flight catering services for flights from Samui.

BFS Ground plans to expand its business regionally. It is currently in discussions to provide ground services to an airport in neighboring countries.

In addition, we intend to explore new business opportunities, such as the offering of aircraft maintenance services (line maintenance) to other airlines in Suvarnabhumi International Airport, particularly in respect of aircraft we are operating where we can leverage on our experience in operating these particular type of aircraft.

***Continue to encourage the growth of Samui as a major leisure destination to grow our passenger revenue and to leverage our strong market leadership at Samui***

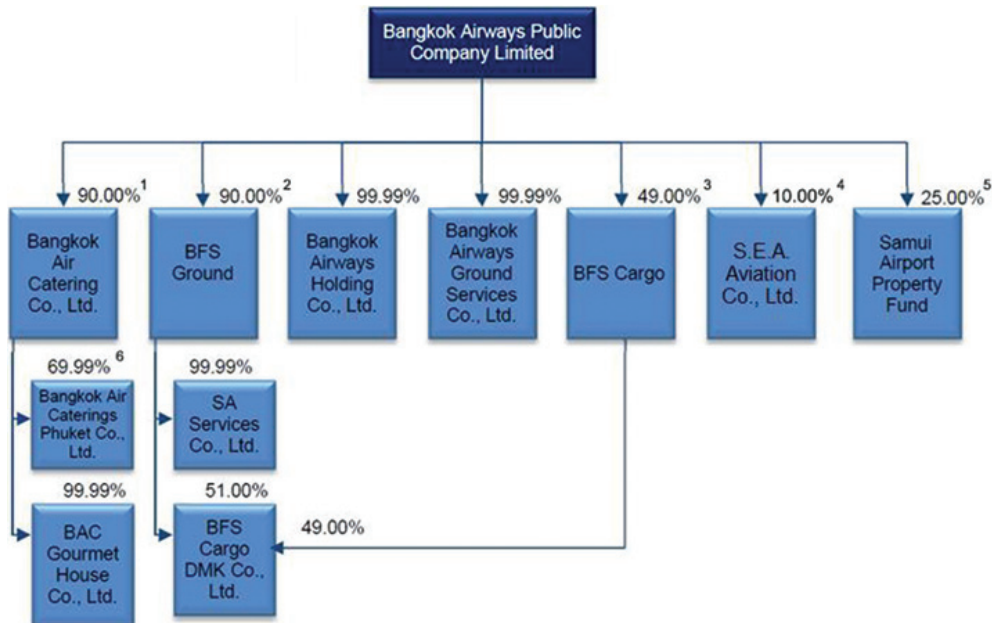
We intend to continue to encourage the growth of Samui as a major leisure destination. On June 24, 2013, we submitted an environmental impact assessment report to the Office of Environmental Policy and Planning to increase the number of flights in and out of the Samui Airport to a maximum of 50 flights daily, which was approved by the Office of Environmental Policy and Planning. 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. Once we receive such permission from the DCA, we plan to 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, which will allow for the growth of passenger volume to this key destination. We intend to continue to leverage on our rights to the vast majority of slots at the Samui Airport (as of June 30, 2014, 36 flights are permitted to fly in and out of the Samui Airport daily, 32 of which are Bangkok Airways' flights) to grow our passenger revenue from the potential increase in passenger volume and to enhance Bangkok Airways' strong market leadership at Samui.

***We will continue to explore opportunities which can leverage on our expertise in improving, upgrading and operating airports***

We are exploring airport development projects in Thailand and abroad, leveraging on our experience in developing and operating the Samui, Trat and Sukhothai airports. We have explored opportunities in operating existing airports in Thailand, and also the setting up of joint ventures with local partners in regional countries to participate in the improvement and operation of airports. These may include airports at destinations that are currently not in our route network. In addition, we may consider including such destinations in our route network if we believe that they have the potential to develop into new cultural and leisure hubs.

## Corporate Structure

The following chart shows our current corporate structure.



- (1) The remaining 10% of registered capital is held by Food and Stores Co., Ltd. Food and Stores Co., Ltd.'s majority shareholder is the Prasarttong-Osoth family, our current shareholder.
- (2) The remaining 10% of registered capital is held by Food and Stores Co., Ltd. and PV Consulting Co., Ltd. (a deemed related party). Food and Stores Co., Ltd.'s majority shareholder is the Prasarttong-Osoth family, our current shareholder.
- (3) The remaining 51% of registered capital is held by Worldwide Flight Services Holding S.A.
- (4) As of June 30, 2014, the Company has fully paid up capital of S.E.A. Aviation Co., Ltd. in the amount of THB3.0 million, representing 10.00% of the registered capital of S.E.A. Aviation Co., Ltd. S.E.A. Aviation Co., Ltd. is an affiliate of the Company and two/fifths of S.E.A. Aviation Co., Ltd.'s directors are also directors of the Company. The remaining shares are held by two third parties.
- (5) The Samui Airport Property Fund is listed on the SET.
- (6) Bangkok Air Caterings Phuket Co., Ltd. is not currently in operation, and the remaining 30.01% of its registered capital is held by three third parties.

## THE OFFERING

Company .....	Bangkok Airways Public Company Limited
Selling Shareholder .....	Ms. Poramaporn Prasarttong-Osoth
Combined Offering .....	A total of 580,000,000 Offering Shares are being offered in the Combined Offering, comprising a Primary Offering and the Secondary Offering. Completion of the Secondary Offering is conditional on the completion of the Primary Offering and the listing of our Shares on the SET.
Primary Offering .....	We are offering 520,000,000 New Shares (the “Primary Shares”) to be issued by us in a Primary Offering comprising the International Offer and the Domestic Offer. Completion of the International Offer is conditional upon the closing of the Domestic Offer.
Secondary Offering .....	The Selling Shareholder is offering 60,000,000 Vendor Shares in the Company on a private placement basis at the Offer Price through the big lot board of the SET on the first day on which our Shares are listed on the SET. The Vendor Shares are being offered to other institutional investors in Thailand through Bualuang Securities Public Company Limited. Completion of the Secondary Offering is conditional on the completion of the Primary Offering and the listing of our shares on the SET.
International Offer .....	We are offering 67,000,000 International Shares (in aggregate representing 3.2% of our total issued and outstanding Shares after the Combined Offering) outside the United States and Thailand in reliance on Regulation S under the U.S. Securities Act and other applicable laws, concurrently with the Domestic Offer.
Domestic Offer .....	We are offering 453,000,000 Domestic Shares (in aggregate representing 21.6% of our total issued and outstanding Shares after the Combined Offering) in a public offering in Thailand concurrently with the International Offer. The Domestic Offer comprises an offer of 218,975,000 Domestic Shares in a public retail offer and 234,025,000 Domestic Shares to institutional investors in Thailand. The offering price for the Domestic Offer will be the same as the offering price for the International Offer. The Domestic Offer is being made pursuant to a prospectus filed with the Thai SEC.
Reallocation .....	In the event the Domestic Offer is over-subscribed and there is a corresponding under-subscription in the International Offer, New Shares may be clawed back from the International Offer and reallocated to the Domestic Offer. In the event that the International Offer is over-subscribed and there is a corresponding under-subscription in the Domestic Offer, New Shares may be clawed back from the Domestic Offer and reallocated to the International Offer. There shall be no reallocation in the event the Domestic Offer and the International Offer are both over-subscribed.

Any such reallocation is subject to the agreement of certain parties to the Thai Underwriting Agreement and the International Purchase Agreement, in each case as defined herein, as applicable.

Offering price per Share in the Combined Offering ..... THB25 per Share, excluding a brokerage fee amounting to 1.0% of the offering price which shall be payable by purchasers of International Shares in the International Offer.

Use of proceeds ..... We estimate the net proceeds to us of the Primary Offering from the sale of New Shares to be THB12,607.8 million (US\$388.5 million), after deducting underwriting commissions and applicable value added taxes in connection with the Combined Offering.

We intend to use the net proceeds to us from the sale of New Shares as follows:

- THB9,000 million (US\$277.3 million) to increase our fleet size and/or to replace existing aircraft;
- THB1,500 million (US\$46.2 million) for the purchase of spare parts and provisions in relation to fleet adjustment in accordance with industrial standard;
- THB900 million (US\$27.7 million) for the construction of a hangar at the Suvarnabhumi International Airport;
- THB900 million (US\$27.7 million) for improvements at the Samui Airport; and
- THB307.8 million (US\$9.5 million) for working capital.

See “Use of Proceeds”. We will not receive any of the proceeds from the sale of the Vendor Shares by the Selling Shareholder.

Dividends ..... Registered owners of our Shares will be entitled to receive dividends, if any, declared from time to time. The Company’s board of directors intend to adopt a dividend policy which will take into account the profitability of the business and underlying growth in earnings, as well as each entity’s respective capital requirements and cash flows, while maintaining an appropriate level of dividend cover. See “Dividend Policy”.

Share capital ..... We have an authorized share capital of THB2,100,000,000, consisting of 2,100,000,000 Shares of par value THB1 each, of which 1,580,000,000 Shares were issued and outstanding as of the date of the Offering Memorandum.

Market for our Shares; Listing ..... We have applied to have our Shares approved for listing and trading on the SET promptly after the increase of paid-up capital represented by the New Shares we are offering has been registered with the Thai Ministry of Commerce (the “MOC”). We expect the registration to occur no later than two business days after the day we receive payment for the New Shares. The SET granted an approval in principle of our listing application on October 6, 2014, and we expect the listing date to occur on or about November 3, 2014. The SET is entitled to consider a listing application for up to seven days following the receipt of a complete listing application, which is expected to occur on October 28, 2014. As a result, our Shares may not be listed on the SET until November 6, 2014.

Unless and until the SET gives final listing approval, none of our Shares sold in the Combined Offering may be traded on the SET, but



buyers and sellers may be matched in off-exchange transactions. For a description of risks relating to the trading and delivery of our Shares, see “Risk Factors—Risks Relating to Our Shares—There are risks associated with the trading and delivery of our Shares on the Stock Exchange of Thailand”.

Settlement and delivery of our Offering

Shares ..... We expect payment for the International Shares to be delivered in connection with the International Offer and for the Domestic Shares offered in the Domestic Offer to be made on or about October 28, 2014, which will be made prior to delivery of the Offering Shares. We expect that delivery of the Offering Shares offered in the Combined Offering will be made through the SET’s depository facilities with the TSD no later than two business days after payment.

Under Thai law, the status of purchasers of New Shares sold by us in the period between payment for such New Shares and registration of the increase in paid-up capital with the MOC and submission of the list of shareholders is uncertain. During this period, investors may not be shareholders and instead would likely be considered unsecured creditors. We expect registration of the New Shares to occur no later than two business days after the day payment for the New Shares is made. See “Risk Factors—Risks Relating to Our Shares—There are risks associated with the trading and delivery of our Shares on the Stock Exchange of Thailand” for a summary of certain delivery and listing-related risks relating to the ownership of our Shares.

Settlement and delivery of the Vendor

Shares ..... The completion of the Secondary Offering is conditional upon the closing of the Primary Offering and the listing of the Company’s Shares on the SET. Assuming these conditions are satisfied, the Selling Shareholder expect Bualuang Securities Public Company Limited to pay for the Vendor Shares on or about November 3, 2014, and delivery of the Vendor Shares will be made against payment therefor through the SET’s depository facilities with the TSD approximately three business days after such payment is made.

Voting rights ..... Owners of our Shares will be entitled to full voting rights, as described in the “Description of Shares—Voting Rights”.

Foreign share ownership and transfer

restrictions ..... Our Articles of Association provide for a 49.0% limit on foreign ownership of the issued and outstanding Shares of the Company. Further, Bangkok Airways, is subject to nationality restrictions under the Foreign Business Act B.E. 2542 (1999), the Air Navigation Act B.E. 2497 (1954), as amended, and the Announcement of the National Executive Council No. 58 requiring the shares of air service operators and aircraft registrants to be at least 51.0% held by any one or any combination of the following persons:

- (a) natural persons who hold Thai nationality;
- (b) ministries, sub-ministries, departments of the Thai Government; and/or
- (c) limited companies or public limited companies in which not less than 51.0% of the shares are held by a Thai Government entity or Thai natural persons.

In addition, the TSD, as our registrar, may refuse to register transfers of Shares to a non-Thai person, or divestment may otherwise be required, if as a result of such transfer the percentage of issued and outstanding Shares registered in the name of non-Thai persons would exceed the applicable limit on foreign ownership of the Shares. Ownership of Shares by non-Thai persons as such is not otherwise restricted by Thai law.

SET trading symbol for our Shares . . . . . BA

Timing of the Combined Offering . . . . . The following is a tentative timetable of various events in the Combined Offering (Bangkok time):

Pricing of the Primary Offering . . . . . October 17, 2014

Final allocation of Shares under the  
Primary Offering . . . . . October 17, 2014

Closing of the Primary Offering . . . . . October 28, 2014

Delivery of Primary Shares through the  
TSD . . . . . No later than October 30, 2014

Closing of the Secondary Offering . . . . . November 3, 2014

Delivery of Vendor Shares from  
Secondary Offering through the  
TSD . . . . . November 6, 2014

The foregoing schedule may change as a result of, among other things, changes in market conditions or the cancellation of the Combined Offering.

Transfer restrictions . . . . . The Offering Shares offered in the Combined Offering have not been, and will not be, registered under the U.S. Securities Act. Therefore, resales by purchasers of all Offering Shares offered in the Combined Offering will be subject to certain restrictions described in “Transfer Restrictions”.

Shares available for future sale . . . . . Under rules issued by the SET, Shares comprising an aggregate of 55.0% of the post-offering share capital of the Company cannot be sold for a period of one year (the “SET Lock-Up”) following the date of commencement of trading of our Shares on the SET subject to the following: up to 25.0% of these Shares may be sold after the period of the first six months after trading commences on the SET and the remaining 75.0% of these Shares may be sold after the period of the first 12 months after trading commences on the SET.

Lock-up arrangements . . . . . Each of the Company, the Selling Shareholder (other than with respect to 210,000,000 Shares, which shall include the Vendor Shares and the additional 105,000,000 Shares to be purchased by Bangkok Bank Public Company Limited, an institutional investor), the Company’s directors and executive officers listed in the table under “Principal and Selling Shareholders”, the Prasarttong-Osoth Family members listed in the table under “Principal and Selling Shareholders” and Sahakol Estate Co., Ltd have agreed with the International Managers and the Thai Lead Underwriters that from the date of this Offering Memorandum until the date that is 180 days after the closing date of the Primary Offering, they will not, without the prior written consent of the International Managers and the Thai Lead

Underwriters, offer, sell or otherwise dispose of any Shares or any securities convertible into or exchangeable for or repayable with Shares or that carry rights to subscribe for or purchase Shares. See “Plan of Distribution”.

Risk factors ..... Investing in the Shares involves certain risks which are described in “Risk Factors” beginning on page 22.

## SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

You should read the summary consolidated financial and other information presented below in conjunction with the Financial Statements included elsewhere in this Offering Memorandum. See “Presentation of Financial and Statistical Data”. You should also see the section of this Offering Memorandum entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. We have derived the summary financial data information presented below the 2013 Audited Financial Statements and the Unaudited Interim Financial Statements. 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.

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 have been restated for comparison purposes to conform with the changes made in the 2013 Audited Financial Statements but have not been audited. See “Presentation of Financial and Statistical Data” and Notes 4.1, 4.2 and 5 to our 2013 Audited Financial statements included elsewhere in this Offering Memorandum.

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 restatement of our statement of income for the six months ended June 30, 2013, which have been restated as set forth herein. Such restated, comparative financial statements have not been reviewed by EY Thailand. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Change in Basis of Presentation” and Notes 2 and 21 to our Unaudited Interim Financial Statements included elsewhere in this Offering Memorandum for details.

TFRS differs in certain material respects from IFRS. For a discussion of significant accounting differences between TFRS and IFRS that are relevant to the Company's Financial Statements, you should read the section entitled "Summary of Significant Differences Between TFRS and IFRS".

Statements of Comprehensive Income:	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	Bt (unaudited) (restated)	Bt (unaudited) (restated)	Bt	US\$ (unaudited)	Bt (unaudited) (restated)	Bt (unaudited)	US\$ (unaudited)
	(in millions)						
<b>REVENUES</b>							
Passenger	11,409.0	14,598.6	16,484.3	507.9	8,112.2	8,677.6	267.4
Sales and service income	2,130.9	2,361.5	2,656.1	81.8	1,286.0	1,337.4	41.2
Freight	190.2	265.3	250.4	7.7	104.0	152.6	4.7
Passenger service charge	368.8	447.0	485.5	15.0	251.8	269.1	8.3
Dividend income	91.6	135.3	219.6	6.8	219.3	243.8	7.5
Gain on sales of investments	325.3	818.9	41.6	1.3	42.0	3.4	0.1
Gain on sales of investments in subsidiaries	—	226.8	3.0	0.1	3.0	—	—
Other income	1,007.3	666.5	580.8	17.9	238.4	296.4	9.1
<b>Total revenues</b>	<b>15,523.0</b>	<b>19,519.9</b>	<b>20,721.4</b>	<b>638.5</b>	<b>10,256.7</b>	<b>10,980.3</b>	<b>338.3</b>
<b>EXPENSES</b>							
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 on sales from leasehold rights	369.3	—	—	—	—	—	—
Other expenses	61.4	34.4	70.6	2.2	35.9	6.4	0.2
<b>Total expenses</b>	<b>13,345.0</b>	<b>15,720.3</b>	<b>18,219.8</b>	<b>561.4</b>	<b>8,557.0</b>	<b>10,137.1</b>	<b>312.3</b>
<b>Profit before share of income from investments in associates and finance cost and income tax</b>							
tax	2,178.0	3,799.6	2,501.6	77.1	1,699.6	843.1	26.0
Share of income from investments in associates	257.0	359.0	394.0	12.1	192.1	208.2	6.4
<b>Profit before finance cost and income tax expenses</b>							
expenses	2,435.0	4,158.5	2,895.5	89.2	1,891.7	1,051.4	32.4
Finance cost	(1,846.3)	(1,867.8)	(1,765.6)	(54.4)	(880.5)	(825.2)	(25.4)
<b>Profit before income tax expenses</b>	<b>588.7</b>	<b>2,290.8</b>	<b>1,129.9</b>	<b>34.8</b>	<b>1,011.2</b>	<b>226.2</b>	<b>7.0</b>
Income tax expenses	(298.1)	(458.4)	(139.9)	(4.3)	(129.3)	(21.3)	(0.7)
<b>Profit for the year/period</b>	<b>290.6</b>	<b>1,832.4</b>	<b>990.0</b>	<b>30.5</b>	<b>881.9</b>	<b>204.8</b>	<b>6.3</b>
<b>Other comprehensive income:</b>							
Exchange difference on translation of financial statements in foreign currency	0.6	(0.2)	(0.2)	(0.0)	(0.2)	—	—
Gain on changes in value of available-for-sale investments	3,799.6	3,169.4	450.5	13.9	5,244.0	5,886.7	181.4
Income tax effect	(362.4)	(633.9)	(90.1)	(2.8)	(1,048.8)	(1,177.3)	(36.3)
<b>Other comprehensive income for the year/period</b>	<b>3,437.8</b>	<b>2,535.4</b>	<b>360.2</b>	<b>11.1</b>	<b>4,195.0</b>	<b>4,709.3</b>	<b>145.1</b>
<b>Total comprehensive income for the year</b>	<b>3,728.4</b>	<b>4,367.8</b>	<b>1,350.2</b>	<b>41.6</b>	<b>5,076.9</b>	<b>4,914.2</b>	<b>151.4</b>

(1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

Statements of Financial Position:	As of December 31,				As of June 30,	
	2011	2012	2013	2013 <sup>(1)</sup>	2014	2014 <sup>(1)</sup>
	Bt (unaudited) (restated)	Bt (unaudited) (restated)	Bt	US\$ (unaudited)	Bt (unaudited)	US\$ (unaudited)
	(in millions)					
Cash and cash equivalents	1,359.0	3,665.7	2,552.9	78.7	1,419.6	43.7
Total current assets	3,954.9	7,843.9	5,714.5	176.1	3,345.1	103.1
Total non-current assets	23,496.0	24,164.3	24,678.5	760.4	30,833.2	950.0
Investment in subsidiaries <sup>(2)</sup>	—	—	—	—	—	—
Investment in associates <sup>(3)</sup>	1,953.8	1,957.4	1,925.7	59.3	1,983.1	61.1
Total assets <sup>(4)</sup>	27,450.9	32,008.1	30,393.1	936.5	34,178.2	1,053.1
Total debt <sup>(5)</sup>	16,204.5	15,912.2	13,986.0	430.9	12,733.4	392.3
Total current liabilities	6,348.9	7,497.3	7,594.1	234.0	5,968.6	183.9
Liabilities arising from finance lease of aircraft	1,390.4	1,122.5	832.5	25.7	604.2	18.6
Total liabilities	23,461.4	24,288.6	23,201.3	714.9	22,072.3	680.1
Total shareholders' equity	3,989.5	7,719.5	7,191.7	221.6	12,105.9	373.0
Total liabilities and shareholders' equity	27,450.9	32,008.1	30,393.1	936.5	34,178.2	1,053.1

(1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

- (2) Comprises investments in Samui Palm Beach Resort Company Limited, Bangkok Airways (Cambodia) Company Limited, Bangkok Airways Holding Company Limited, Sukhothai Property Company Limited, Samui Park Avenue Company Limited, BAC Group Services Company Limited, Bangkok Airways Ground Services Company Limited, Bangkok Flight Training Center Company Limited, Worldwide Flight Services Bangkok Air Ground Handling Company Limited, Bangkok Air Catering Company Limited and Universal Catering & Services (Mauritius) Company Limited.
- (3) Comprises investments in WFS – PG Cargo Company Limited, the Samui Airport Property Fund and S.E.A. Aviation Co., Ltd.
- (4) As of June 30, 2014, BGH shares comprised 58.9% of our total consolidated assets.
- (5) Comprises bank overdrafts and short-term loans from financial institutions, long-term loans, short-term loans from related party and long-term loan – related party.

Statements of Cash Flows:	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	Bt (unaudited) (restated)	Bt (unaudited) (restated)	Bt	US\$ (unaudited)	Bt (unaudited) (restated)	Bt (unaudited)	US\$ (unaudited)
	(in millions)						
Net cash from (used in) operating activities . . .	2,466.4	3,039.7	1,898.9	58.5	700.3	(379.2)	(11.7)
Net cash from (used in) investing activities . . .	(1,155.9)	(22.1)	816.6	25.2	51.2	521.7	16.1
Net cash from (used in) financing activities . . .	(663.7)	(710.9)	(3,828.2)	(118.0)	(3,343.1)	(1,275.8)	(39.3)
Cash and cash equivalents at end of year . . . .	1,359.0	3,665.7	2,552.9	78.7	1,073.7	1,419.6	43.7

- (1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

Other Financial Data:	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	THB (unaudited) (restated)	THB (unaudited) (restated)	THB	US\$ (unaudited)	THB (unaudited) (restated)	THB (unaudited)	US\$ (unaudited)
	(in millions, except for percentages)						
Net profit (loss) for the period . . . . .	290.6	1,832.4	990.0	30.5	881.9	204.8	6.3
Add:							
Finance cost . . . . .	1,846.3	1,867.8	1,765.6	54.4	880.5	825.2	25.4
Income tax expense . . . . .	298.1	458.4	139.9	4.3	129.3	21.3	0.7
Loss on sales of investment in subsidiaries . . . . .	—	—	—	—	—	—	—
Loss on sales from leasehold rights . . . . .	369.3	—	—	—	—	—	—
Loss from write-off fixed assets . . . . .	—	—	72.2	2.2	19.4	11.8	0.4
Less:							
Dividend income . . . . .	(91.6)	(135.3)	(219.6)	(6.8)	(219.3)	(243.8)	(7.5)
Gain on sale of investments . . . . .	(325.3)	(818.9)	(41.6)	(1.3)	(41.9)	(3.4)	(0.1)
Gain on sale of investments in subsidiaries . . . . .	—	(226.8)	(3.0)	(0.1)	(3.0)	—	—
Gain on sale of assets . . . . .	(0.8)	(99.7)	(2.4)	(0.1)	(4.6)	(4.1)	(0.1)
Interest received . . . . .	(63.5)	(69.3)	(24.7)	(0.8)	(10.9)	(10.2)	(0.3)
Other non-operating income <sup>(2)</sup> . . . . .	(545.8)	—	—	—	—	—	—
EBIT <sup>(5)(7)</sup> . . . . .	1,777.3	2,808.6	2,676.4	82.5	1,631.4	801.6	24.7
Add:							
Depreciation and amortization . . . . .	623.9	592.6	572.9	17.7	277.5	305.9	9.4
EBITDA <sup>(4)(7)</sup> . . . . .	2,401.2	3,401.2	3,249.3	100.1	1,908.9	1,107.5	34.1
Add:							
Operating lease expenses . . . . .	1,211.2	1,352.8	1,530.2	47.1	706.2	930.0	28.7
EBITDAR <sup>(3)(7)</sup> . . . . .	3,612.4	4,754.0	4,779.5	147.3	2,615.1	2,037.5	62.8
Total Revenue . . . . .	15,523.0	19,519.9	20,721.4	638.5	10,256.7	10,980.3	338.3
Operating Revenue <sup>(8)</sup> . . . . .	14,496.0	18,169.9	20,430.1	629.5	9,977.0	10,718.8	330.3
EBIT margin <sup>(6)(7)</sup> . . . . .	12.3%	15.5%	13.1%	13.1%	16.4%	7.5%	7.5%
EBITDA margin <sup>(6)(7)</sup> . . . . .	16.6%	18.7%	15.9%	15.9%	19.1%	10.3%	10.3%
EBITDAR margin <sup>(6)(7)</sup> . . . . .	24.9%	26.2%	23.4%	23.4%	26.2%	19.0%	19.0%

- (1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

- (2) Includes income from the cancellation of an agreement in 2011.
- (3) EBITDAR represents earnings before interest and taxation after adding depreciation and amortization and aircraft operating lease expenses. Because there are various EBITDAR calculation methods, our presentation of EBITDAR may not be comparable to similarly titled measures used by other companies.
- (4) EBITDA represents earnings before interest and taxation after adding depreciation and amortization. Because there are various EBITDA calculation methods, our presentation of EBITDA may not be comparable to similarly titled measures used by other companies.

- (5) EBIT represents earnings before interest and taxation. Because there are various EBIT calculation methods, our presentation of EBIT may not be comparable to similarly titled measures used by other companies.
- (6) Represents EBIT, EBITDA or EBITDAR, as the case may be, divided by operating revenues.
- (7) EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR or EBITDAR margins are not standard measures, nor measurements of financial performance or liquidity, under TFRS or IFRS, and should not be considered alternatives to net profit (loss), profit (loss) before finance costs and income tax or any other performance measure derived in accordance with TFRS or IFRS, or as an alternative to cash flow from operating activities. EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR and EBITDAR margins are supplemental measures of the Company's performance that are not required by, or presented in accordance with, TFRS or IFRS. As a measure of operating performance, we believe that the most directly comparable measure to EBIT, EBITDA and EBITDAR is net profit. We use EBIT, EBITDA and EBITDAR in addition to net profit because net profit includes many accounting items associated with capital expenditures, such as depreciation, as well as certain other non operating transactions, such as interest income and interest expenses and income tax expenses. These accounting items may vary between companies depending on the method of accounting adopted by each company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, goodwill amortization and interest income and expenses, EBIT, EBITDA and EBITDAR provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by EBIT, EBITDA and EBITDAR may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.
- (8) Comprises total revenue net of non-operating revenue (dividend income, gain on sale of investments, gain on sale of investments in subsidiaries, gain on sale of assets, interest received, and other non-operating income).

## Operating Data

The following table presents the Company's operating information for scheduled passenger services for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
Scheduled passenger revenues (millions) <sup>(1)</sup>	11,780.7	14,848.1	16,859.8	8,330.9	9,046.9
Domestic	7,565.6	9,222.4	10,724.5	5,306.4	5,709.1
International	4,215.1	5,625.7	6,135.3	3,024.5	3,337.8
RPKs (millions) <sup>(2)</sup>	1,957.9	2,405.4	2,759.2	1,332.9	1,788.4
Domestic	1,206.1	1,399.6	1,667.8	804.4	1,084.8
International	751.8	1,005.9	1,091.5	528.6	703.7
ASKs (millions) <sup>(2)</sup>	2,899.5	3,587.3	4,062.8	1,912.8	2,726.9
Domestic	1,599.6	1,856.2	2,175.4	1,026.3	1,546.8
International	1,299.9	1,731.1	1,887.4	886.5	1,180.1
Passenger or cabin load factor <sup>(2)</sup>	67.5%	67.1%	67.9%	69.7%	65.6%
Domestic	75.4%	75.4%	76.7%	78.4%	70.1%
International	57.8%	58.1%	57.8%	59.6%	59.6%
Number of scheduled passengers carried (thousands) <sup>(2)</sup>	3,108.9	3,631.2	4,173.4	2,036.9	2,363.4
Domestic	2,340.6	2,671.8	3,118.7	1,523.2	1,762.3
International	768.2	959.4	1,054.7	513.7	601.1
Total seat capacity (thousands)	4,516.5	5,192.0	6,005.2	2,852.6	3,602.9
Domestic	3,153.7	3,582.7	4,122.7	1,960.8	2,495.8
International	1,362.8	1,609.3	1,882.6	891.8	1,107.1
Average stage length (kilometers)	629.8	662.4	661.2	654.4	756.7
Kilometers flown (millions) <sup>(2)</sup>	25.2	30.1	32.2	15.5	21.5
Aircraft utilization (block hours per day per aircraft) <sup>(3)</sup>	9.7	10.0	9.1	9.2	9.1
Airbus A320	9.8	10.9	9.9	10.4	9.9
Airbus A319	11.3	10.8	10.1	9.0	9.0
ATR 72-500	8.4	8.9	8.4	8.6	8.6
Revenue ASK (Baht) <sup>(4)</sup>	4.3	4.5	4.5	4.6	3.5
Cost per ASK (Baht) <sup>(4)</sup>	3.9	3.9	4.0	4.5	3.7
Cost per ASK excluding fuel cost (Baht) <sup>(4)</sup>	2.9	2.8	3.0	3.5	2.8
RASK less CASK (Baht) <sup>(4)</sup>	0.5	0.6	0.5	0.1	(0.25)
Number flights flown	42,512.0	47,205.0	51,441.0	24,715.0	29,716.0
Domestic	30,457.0	33,213.0	35,914.0	17,357.0	20,765.0
International	12,055.0	13,992.0	15,527.0	7,358.0	8,951.0
Passenger yield (Baht per RPK) <sup>(5)</sup>	6.0	6.2	6.1	6.3	5.1
Number of scheduled destinations served (winter schedule/summer schedule) <sup>(6)</sup>	17/19	19/20	23/22	20	24
Scheduled flight frequency (flights per week) (winter schedule/summer schedule) <sup>(6)</sup>	841/798	920/896	1,045/951	981/961	1,212/1,167
Number of aircraft at year/period end	18	21	25	23	25
Airbus A320	3	5	7	5	7
Airbus A319	7	8	10	10	10
ATR 72-500	8	8	8	8	8
Average number of aircraft	17	19	23	21	25
Average fare <sup>(7)</sup>	3,789.4	4,089.0	4,039.9	4,089.9	3,928.2
Fuel consumed (barrels)	728,857	882,581	1,004,683	471,990.9	595,978.4
Average fuel price (US\$ per barrel)	125.6	126.8	123.0	122.3	120.9

- (1) These figures are different from those included in our 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 us on a code-share basis, revenues derived from non-codeshare interline sales by us of seats on other airlines' flights, fuel and insurance surcharge revenue. Excludes revenues from cargo services, charter services and other revenue.
- (2) Excludes non-scheduled flights and flights operated by other airlines and marketed by us but includes flights operated by us and marketed by other airlines.
- (3) Excludes non-scheduled flights.
- (4) Data is not equivalent to the airline operation data calculated by SAP because different assumptions were used to calculate this data. The Company used the following assumptions:
- Revenue ASK means 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 mean 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.
- Cost per ASK excluding fuel costs means 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.
- The RASK, CASK and RASK-CASK spread in 2013 was US\$13.85, US\$12.33 and US\$1.52, respectively (calculated from the Company's operating data and assuming the exchange rate of THB32.455=US\$1.00 (exchange rate as specified by the BOT as of June 30, 2014).
- (5) Scheduled passenger revenues excluding fuel surcharge, insurance surcharge and excess baggage divided by RPKs.
- (6) The winter schedule runs from the last Sunday of October of the previous year to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October each year.
- (7) Calculated as total scheduled passenger revenues divided by total number of scheduled passengers carried.

The following table presents operating and financial information of our subsidiaries and associated company for airport-related services for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
<b>International cargo terminal services data:<sup>(1)</sup></b>					
Freight cargo revenue (in million Baht) <sup>(5)</sup>	1,186.7	1,370.9	1,420.8	682.9	759.8
Freight EBITDA (in million Baht)	505.3	608.1	622.8	297.4	320.1
Freight net income (in million Baht)	248.5	372.0	389.7	184.0	209.9
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	121.8	182.3	191.0	90.2	102.9
Tonnage	328,901	369,245	349,935	171,833	181,509
Cargo Capacity	400,000	400,000	550,000	275,000	275,000
Utilization (%)	82.2	92.3	63.6	62.5	66.0
Number of airway bills	658,017	690,119	694,451	230,679	361,406
<b>Catering services data:<sup>(2)</sup></b>					
Catering revenue (in million Baht) <sup>(6)</sup>	899.6	1,083.6	1,231.4	608.0	646.8
Catering EBITDA (in million Baht)	196.9	310.4	324.2	191.0	189.6
Catering net income (in million Baht)	83.1	168.4	183.9	115.1	118.7
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	49.7	100.7	145.2	83.3	106.8
Number of meals produced and uplifted (million)	6.3	7.5	8.6	4.3	4.4
Bangkok Airways flights (million)	2.2	2.9	3.4	1.6	2.0
Other airline flights (million)	4.1	4.6	5.2	2.7	2.4
<b>Ground services data:<sup>(3)</sup></b>					
Ground revenue (in million Baht) <sup>(7)</sup>	1,400.3	1,571.1	1,893.9	895.3	996.3
Ground EBITDA (in million Baht)	218.5	252.5	373.9	176.4	147.4
Ground net income (in million Baht)	102.6	148.1	258.1	129.0	75.4
Number of flights handled	38,417	43,856	51,838	24,454	27,984
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	90.4	130.5	230.9	114.7	67.9

- (1) BFS Cargo is a 49.0% owned associated company and is not consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum. Our share of income from BFS Cargo is reflected in our statements of comprehensive income as share of income from associates as per the equity method.
- (2) BAC is a 90.0% owned subsidiary company and is consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum.



- (3) BFS Ground is a 90.0% owned subsidiary company and is consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum.
- (4) Calculated from net profit multiplied by shareholding of the Company.
- (5) Revenue generated from Bangkok Airways Plc was THB 8.1 million, THB 12.3 million, THB 10.7 million and THB7.8 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 0.7%, 0.9%, 0.8% and 1.0 % of total revenue of BFS Cargo, respectively.
- (6) Revenue generated from Bangkok Airways Plc was THB 204.5 million, THB 308.8 million, THB 345.4 million and THB211.3 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 22.7%, 28.5%, 28.1% and 27.8% of total revenue of BAC, respectively.
- (7) Revenue generated from Bangkok Airways Plc was THB 295.6 million, THB 330.0 million, THB 372.1 million and THB221.6million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 21.1%, 21.0%, 19.6% and 22.2% of total revenue of BFS Ground, respectively.

## RISK FACTORS

*Before investing in the Shares, prospective investors should pay particular attention to the fact that we, and to a large extent our activities, are governed by the legal, regulatory and business environment in Thailand and other countries in Asia, which differs from that which prevails in other countries. Our business is subject to a number of factors, many of which are outside our control. Prior to making an investment decision, prospective investors should carefully consider, along with the other matters set forth in this Offering Memorandum, the risks and investment considerations set forth below. The risks and investment considerations set forth below are not an exhaustive list of the challenges which we currently face or that may develop in the future. Additional risks, whether known or unknown, may in the future have a material adverse effect on us or on the value of the Shares.*

### **Risks Relating to Our Business**

***Our business, financial condition, results of operation and prospects are materially and adversely affected by the cost or unavailability of sufficient quantities of fuel.***

Aircraft fuel costs represent the largest component of our cost of sales and services, comprising 28.2%, 29.3%, 27.7% and 29.8% of our total consolidated cost of sales and services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. As jet fuel constitutes a substantial portion of our operating costs, a relatively small increase in fuel costs can have a significant negative effect on our operating costs. Jet fuel prices are subject to wide fluctuations, and within the last five years jet fuel spot prices have ranged from a high of US\$140.99 per barrel on April 8, 2011 to a low of US\$47.32 per barrel on March 12, 2009. As of June 30, 2014, the spot price of jet fuel was US\$120.94 per barrel, according to MOPS. In the event of a jet fuel supply shortage, higher jet fuel prices or the curtailment of our scheduled service could result. We enter into jet fuel derivative contracts to manage our risks resulting from future changes in jet fuel prices. As of December 31, 2013 we have entered into hedging contracts for approximately 58.2% of our forecast jet fuel requirements until December 31, 2014. However, we cannot assure you that our fuel hedging program will be sufficient to protect us against increases in the price of fuel. Additionally, we are also exposed to potential losses from our hedging activities. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Risk—Fuel Price Risk” for a summary of our fuel hedging arrangements. We cannot assure you that we will be able to secure new jet fuel derivative contracts on commercially reasonable terms or at all.

Both the cost and availability of fuel are subject to many economic and political factors and events occurring throughout the world that we can neither control nor accurately predict. Since late 2009, fuel prices have risen sharply. Such increases have forced a number of airlines operating in the Asia Pacific region, including us, to levy fuel surcharges on our international passengers. However, the DCA does not allow fuel surcharges or other fees to be imposed separately from the air fare for scheduled domestic passenger services, and our fuel surcharges for our flights may not fully compensate us for such increased fuel costs. In addition, we rely mainly on PTT Public Company Limited (“PTT”) and the Shell Company of Thailand Ltd. (“Shell Thailand”) for our jet fuel requirements. In 2013 and the six months ended June 30, 2014, 68.1% and 68.7%, respectively, of our aircraft fuel expenses were the result of purchases of jet fuel from PTT and 26.5% and 26.8%, respectively, were from Shell Thailand. Any decline in the availability of adequate supplies of fuel and/or any increase in the cost of fuel would have a material adverse effect on our costs and on our business, financial condition, results of operation and prospects. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Risk—Fuel Price Risk”, “Business—Airline Operations—Fuel” and “—Major Suppliers” for further details.

***Our business, financial condition, results of operation and prospects have been in the past and could be in the future materially and adversely affected in the event of an emergency, accident or incident involving any of our aircraft.***

We are exposed to potential significant losses in the event that any of our aircraft is lost or subject to an emergency, accident, terrorist incident or other disaster and we incur significant costs related to passenger claims, repairs or replacement of a damaged aircraft and its temporary or permanent loss from service.

In 2009, we experienced a serious incident involving an ATR 72-500 aircraft from Krabi to Samui when the aircraft skidded off the runway during landing and collided with an inactive control tower during heavy winds. There were 68 passengers and four crew on board, and as a result of the incident, four passengers suffered serious injuries and there was one fatality (the pilot). In addition, there were reports of 33 other passengers with minor injuries. The aircraft was damaged beyond repair. This incident caused us losses of approximately

THB500 million, of which 98% was covered by our insurance. In addition, we typically park several of our aircraft in foreign airports overnight. We are exposed to potential significant losses in the event that any such aircraft is lost or damaged. For instance, in 2003 when the Thai embassy in Cambodia was burned during riots, we immediately activated our crew for the overnight return of our aircraft parked in Cambodia. We did not incur any losses or damages from this event.

We cannot assure you that we will not be involved in any similar or other more serious events, including one where injuries or death occur, in the future. We cannot assure you that the amount of our insurance coverage will be adequate to cover the losses or damages from any future accidents or incidents and any such event could cause a substantial increase in our insurance premiums. In addition, the 2009 incident involving an ATR 72-500 aircraft colliding with an unmanned control tower may have created, and any future aircraft accidents or incidents, irrespective of whether they are covered by our insurance, may create a public perception that we are less safe than other airlines, even in the absence of any injuries or deaths. Any future negative impact on the public perception of our airline could have a material adverse effect on our business, financial condition, results of operation and prospects.

***We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects.***

We operate our three airports, the Samui Airport, the Sukhothai Airport and the Trat Airport, under airport licenses issued by the DCA. We are required to obtain a Public Airport Incorporation License for each of our airports. For the Samui Airport, our latest Public Airport Incorporation License was issued by the DCA, with the approval of the MOT, effective February 1, 1999, was reissued on December 27, 2002 and November 15, 2004 (the “Samui Airport Incorporation License”) and expired on January 31, 2009. We submitted an application to renew the Samui Airport Incorporation License on May 26, 2008, which is pending receipt of an audit report from the DCA affirming that we rectified certain findings made by the DCA and our compliance with new implementing regulations, effective January 9, 2013, relating to conditions of the airport. For the Sukhothai Airport, our Public Airport Incorporation License was issued by the DCA, with the approval of the MOT, effective February 1, 1998, reissued on July 11, 2000 (the “Sukhothai Airport Incorporation License”) and expired on January 31, 2008. We submitted an application to renew the Sukhothai Airport Incorporation License on August 27, 2007, which is pending receipt of an audit report from the DCA affirming that we rectified certain findings made by the DCA and our compliance with new implementing regulations, effective January 9, 2013, relating to conditions of the airport. For the Trat Airport, our Public Airport Incorporation License was issued by the DCA, with the approval of the MOT, effective March 15, 2006 and is valid until March 14, 2016 (the “Trat Airport Incorporation License”, and together with the Samui Airport Incorporation License and the Sukhothai Airport Incorporation License, the “Airport Incorporation Licenses”).

We are also required to obtain a Public Airport Operating Certificate (“PAOC”) to operate each of our airports. We submitted applications for the PAOCs for each of our airports on August 20, 2010. However, the issuance of the PAOC to us and other airport operators in Thailand require implementing regulations which have not yet been passed, and accordingly, the PAOC has not been issued to any airport operator in Thailand, including us.

Furthermore, we are required to obtain Air Navigation Facility Establishment Licenses for the Samui Airport and the Trat Airport. Our Air Navigation Facility Establishment License for the Samui Airport was issued on August 13, 2014, and is valid until the Samui Airport Incorporation License is revoked. For the Trat Airport, our Air Navigation Facility License is valid until March 14, 2016.

Although we do not currently hold a valid Airport Incorporation License for the Samui Airport or the Sukhothai Airport or the PAOCs for all of our airports, according to the Air Navigation Act (as amended), the applicable Ministerial regulations, and the DCA letter issued on May 30, 2014, we are authorized to continue operation of all three of our airports until otherwise notified by the DCA.

As of 2011, 2012, 2013 and the six months ended June 30, 2014, our airport operations contributed 2.4%, 2.3%, 2.3%, and 2.5%, respectively, of our consolidated revenue. However, we cannot guarantee you that we will be able to continue operating our airports, and any notification by the DCA to discontinue our operations may result in the loss of our routes to and from Samui, Sukhothai and/or Trat. See “—Our airline and airport businesses are heavily dependent on travel to Thailand and the broader Southeast Asian markets, in particular Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh, by Thai, regional and European passengers, and a reduction in demand for air travel in these markets may have a material adverse effect on our business, financial

condition, results of operation and prospects”. Any default under the terms of, or inability to renew, our licenses may require us to terminate the relevant airport business or airport business operations, and as a result, have a material adverse effect on our business, financial condition, results of operation and prospects.

***Difficult conditions and fluctuations in the global credit markets and the economy generally have affected and may in the future materially and adversely affect our business, financial condition, results of operation and prospects, and may cause us to experience limited availability of funds.***

Economic developments over the past few years have adversely affected the global economy including the Thailand economy and our overall business. Since the second half of 2007, the global credit markets have experienced significant dislocations and liquidity disruptions which have originated from the liquidity disruptions in the United States and the European Union credit and sub-prime residential mortgage markets. In 2011 and 2012, the United States and several EU member states experienced credit rating downgrades or had their credit ratings outlook changed to negative and concerns persist regarding the debt burden of certain EU countries, including their ability to meet future financing obligations. The global crisis also resulted in a shortage in the availability of credit, a reduction in foreign direct investment, the failure of global financial institutions, a drop in the value of global stock markets, a slowdown in global economic growth and a drop in demand of certain commodities. In addition, civil unrest and conflicts, such as those in the Middle East, and natural disasters, such as the earthquake and Tsunami in Japan in March 2011 and the hurricane on the east coast of the United States in October 2012, may have contributed to the global economic downturn. The deterioration in the financial markets led to significant declines in employment, household wealth, consumer demand and lending and, as a result, adversely affected economic growth in Thailand and elsewhere.

We have been significantly affected by these events, particularly the global financial crisis from 2007 to 2009. In 2009, we were delayed in making lease payments under the terms of nine of our operating leases. In addition, we returned one aircraft (with applicable breakage fees) and cancelled the delivery of a new aircraft in 2009. See “—We have failed to comply in the past and any future failure to comply with covenants contained in our aircraft operating lease agreements could have a material adverse effect on our business, financial condition, results of operation and prospects” for further details. The global economic downturn or future negative economic developments could have a series of other effects on our business, which may adversely affect our results of operations and our future growth, decrease our revenues, and may require us to adjust our strategies further. See “—We may not be successful in implementing our growth strategy”. We may also have difficulty accessing the financial markets, which could make it more difficult or expensive for us to obtain funding in the future.

***Changes in code-share agreements with other airlines may have a material adverse effect on our business, financial condition, results of operation and prospects.***

As of June 30, 2014, we had code-share agreements in place with 14 airlines (including a code-share agreement with Thai Airways, which is currently inactive, and a code-share agreement with Air Berlin, which is currently not operating flights to/from Thailand). We also generally enjoy positive interline balances with our code-share airlines. Specifically, we expand our network globally by connecting with our code-share airlines’ networks, which leads to incremental revenues on our own routes in addition to feeding passenger traffic from our code-share airlines’ networks to our network. We expect our reliance on our code-share arrangements to increase further as we continue to expand our global network by entering into additional code-share arrangements. We cannot assure you that we will not be adversely affected by any future changes in our relationships with our code-share airlines. Moreover, certain of our code-share agreements can be terminated with 30-days written notice, without cause, or immediately, with cause. Any unexpected or premature termination of our code-share agreements may have a material adverse effect on our business, financial condition, results of operation and prospects.

***The 2013 Audited Financial Statements, on which the independent auditors have not expressed a qualified opinion, include the restated 2011 and 2012 comparative financial statements.***

The 2012 Audited Financial Statements, which are included elsewhere in this Offering Memorandum, were prepared in accordance with TFRS. The underlying consolidated financial statements as of and for the year ended December 31, 2011 presented in the 2012 Audited Financial Statements and 2013 Audited Financial Statements have not been audited. The 2013 Audited Financial Statements were prepared in accordance with TFRS and have been audited by EY Thailand, independent auditors, who have not expressed a qualified opinion, as stated in their report included elsewhere in this Offering Memorandum. Additionally, the 2011 and 2012

comparative financial statements presented in the 2013 Audited Financial Statements, have been restated for comparison purposes to conform with the changes made in the audited financial statements as of and for the year ended December 31, 2013. These changes have not been reflected in the original 2012 Audited Financial Statements 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. 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. In addition, in connection with the audit of the 2013 Audited Financial Statements, the Company’s independent auditors found certain significant deficiencies in respect of the Company’s accounting internal controls and also made certain observations. See “Management and Corporate Governance—Internal Controls”.

***The intense competition in the airline industry along with competition from other forms of transportation could materially and adversely affect our business, financial condition, results of operation and prospects.***

We face a high level of competition on our domestic and international routes. Airlines compete primarily on fare levels, frequency, reliability of service, brand recognition, passenger amenities, frequent flyer programs and the availability and convenience of other passenger services. In addition, some of the airlines with which we compete are larger and may have greater brand recognition, financial resources and penetration in key markets, including Thailand. Full-service legacy carriers generally have the advantage of being larger and typically state-owned, with significantly greater financial resources than us. As a result, they may be in a better position to operate unprofitable routes for a longer period of time than we are.

Our competition for our scheduled passenger services include other full-service operators, low-cost operators in Thailand, Southeast Asia, and India and other forms of transportation. We face competition on our principal domestic routes primarily from carriers such as Thai Airways, Thai AirAsia, NOK Air, Thai Smile and Thai Lion Air. In addition, additional carriers may desire to fly in and out of Samui in the future. We face competition on our principal international routes primarily from carriers such as Thai Airways, Silk Air, Firefly and Thai AirAsia. See “Business—Competition—Scheduled Passenger Services”. The intensity of competition varies from route to route, depending on the number of competitors and on the applicable regulatory environment. Any cooperative alliances between our competitors, including Thai AirAsia and Thai Airways, could increase the intensity of the competition we face. In addition, we compete with charter flight operators with low fixed costs that are able to offer highly competitive fares during peak travel seasons. We cannot assure you that we will be able to compete effectively against other airlines, including new entrants to the industry.

The airline industry is generally susceptible to price discounting because airlines incur only small marginal variable costs to provide service to passengers occupying otherwise unsold seats. Price competition in the airline industry is occasionally intense, especially during low travel seasons, and on certain routes which are operated by many airlines. We cannot assure you that our present or future competitors will not engage in price-cutting or other activities in an attempt to shift market share, which may have a material adverse effect on our business, financial condition, results of operation and prospects. In recent years, other carriers have reduced their fares on certain routes. If other carriers were to reduce and maintain for an extended period their fares to levels at which we could not match while sustaining profitable operations, we cannot assure you that we would be able to maintain competitive fares for an equivalent period of time. Any such inability may have a material adverse effect on our business, financial condition, results of operation and prospects.

In recent years, low cost carriers have begun to operate on many routes, and the presence of such carriers may further increase competition on routes flown by us. A number of such low cost carriers have emerged in Asia and Australia, including AirAsia, Jetstar Airways, Thai AirAsia and Tiger Airways. Subject to airport capacity and slot availability, low cost carriers could rapidly enter markets served by us and compete through offering heavily discounted fares which could materially and adversely affect our business, financial condition, results of operation and prospects. Any expansion of the networks of existing low cost carriers or establishment of new low cost carriers may further increase competition on routes flown by us.

Our existing competitors and new entrants into the market may enter into partnerships and alliances to operate jointly or share their facilities and infrastructure, with a view to reducing costs or otherwise strengthening their market positions.

In addition, there have been recent changes to the competitive conditions in the local and regional airline markets, including changes as a result of the ASEAN “Open Skies” policies. See “Regulation of the Airline Industry in Thailand”. There have also been news reports citing the Minister of Transport’s intent to increase the

foreign ownership limit of Thai airlines to 70.0% from the current 49.0% limit. We cannot assure you that the current policies will not change, and any policy change in the future could significantly increase competition and may have a material adverse effect on the airline industry and our business, financial condition, results of operation and prospects. Moreover, there have been news reports of more airlines indicating their interest in using the Don Mueang International Airport as a hub. We cannot assure you that passenger traffic will not shift to Don Mueang International Airport, and any shift could decrease our passenger numbers and/or increase competition for passengers at the Suvarnabhumi International Airport which may have a material adverse effect on our business, financial condition, results of operation and prospects. Further, we face competition from ground and sea transportation alternatives, which are other traditional means of transportation used by a substantial majority of the population in Thailand, for various reasons including price and convenience. Such competition could have a material adverse effect on the airline industry and our business, financial condition, results of operation and prospects.

We also face competition in other airline-related services we provide at the Suvarnabhumi International Airport, such as cargo terminal services and ground services. Our principal competitor in these services is Thai Airways. In addition, we also face competition in the provision of catering services. Our main competitors are Thai Airways and LSG Skycheffs Co., Ltd., which is an affiliate of Lufthansa. See “Business—Competition—Other Airline Services”.

***Competition from other airports and destinations could adversely affect our airport business, in particular, our traffic through the Samui Airport.***

The principal factor affecting our airport operations is the number of passengers that use our airports. The number of passengers using our airports is dependent upon the existence of other destinations competing for passenger traffic and the level of business and economic activity in Thailand and other Southeast Asian and South Asian countries. In addition, our passenger traffic volume may be adversely affected by the attractiveness, affordability and accessibility of competing tourist destinations located outside of Thailand, such as in Indonesia, Singapore and the Philippines. The attractiveness of the destinations we serve is also likely to be affected by perceptions of travelers as to the safety and political and social stability of Thailand. In addition, there have been news reports in the past that a second airport may be constructed in Samui to support the expected growth in number of travelers. Any new airport in Samui could decrease the passenger traffic to our Samui Airport, and as a result, have a material adverse effect on our business, financial condition, results of operation and prospects. There can be no assurance that business activity and tourism levels, and therefore the number of passengers using our airports, will in the future match or exceed current levels.

***Our airline and airport businesses are heavily dependent on travel to Thailand and the broader Southeast Asian markets, in particular Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh by Thai, regional and European passengers, and a reduction in demand for air travel in these markets may have a material adverse effect on our business, financial condition, results of operation and prospects.***

The airline business is our core business, contributing 74.7%, 76.2%, 80.8% and 80.4% of our total consolidated revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. It comprises air transport services for passengers domestically and internationally, which are directly related to the tourism industry, and our transport services for cargo. Our growth has focused and will continue to focus on adding domestic and international flights to and from our operations at the Suvarnabhumi International Airport and the Samui Airport. Our business, financial condition, results of operation and prospects would be materially and adversely affected by any circumstances causing a reduction in demand for air transportation in Thailand, including adverse changes in local economic conditions, declining interests in Thailand as a tourist destination, or significant price increases as a result of increases in airport access costs and fees imposed on passengers.

We believe that a substantial majority of our passenger traffic on our airline and at our airports comprises tourists attracted by Thailand’s appeal as a tourist destination. Accordingly, we are dependent on the health of the Thai tourism industry. We have experienced a significant decline in international passenger traffic as a result of the 2009 Influenza A H1N1 (“H1N1”) pandemic that affected the number of passengers traveling in and out of countries with H1N1 outbreaks. In addition, the protest-related closure of the Suvarnabhumi International Airport and the Phuket International Airport in November 2008 and the violent protests in central Bangkok in April 2009 and from March to May 2010 have adversely affected Thailand’s image abroad and visitor arrivals. Since the start of November 2013, a number of political demonstrations and strikes have taken place in Thailand, including in Bangkok, as well as reports of violence in certain areas of Bangkok. Our business is adversely affected by any circumstances causing a deterioration in Thailand’s appeal as a tourist destination,

such as continued internal political instability, adverse changes in international economic conditions, a substantial increase in the value of the Thai Baht relative to other currencies, negative international perceptions of Thailand, significant increases in airport costs and fees imposed on passengers, terrorist attacks, floods or any further outbreaks of H1N1 or similar occurrences in the region. We cannot assure you that we will be able to take any preventive measures to mitigate potential negative impacts to our operations, or at all. Moreover, as some of our interline passengers originate from Europe, any negative external factors affecting travel from Europe could have a material adverse effect on our business, financial condition, results of operation and prospects. See “—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, we are largely dependent on our Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh routes for a substantial portion of our revenues. In particular, we are dependent on revenues generated from our Samui domestic and international routes, which accounted for 51.5%, 49.9%, 52.0% and 51.2% of our passenger revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Moreover, revenues from our Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh routes contributed an aggregate 92.5%, 84.2%, 84.4% and 80.1% of our passenger revenues in 2011, 2012, 2013 and the six months ended June 30, 2014. We also generate additional income associated with the Samui Airport and our holding of a 25.0% interest in the Samui Airport Property Fund (the “Samui Property Fund”). Passenger traffic volume to Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh may be adversely affected by the attractiveness, affordability and accessibility of competing tourist destinations. The attractiveness of Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh is also likely to be affected by perceptions of travelers as to the safety and political and social stability of the island and Thailand. We cannot assure you that Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh will continue to be popular tourist destinations, and any negative publicity in respect of Samui, Phuket, Chiang Mai or Thailand generally may reduce passenger traffic on our Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh routes. Consistent passenger traffic to Samui is also crucial to our maintenance of good relationships with the Samui local population, as passenger traffic contributes to the local tourism industry including the local hotels and resorts. Accordingly, there can be no assurance that business activity and tourism levels, and therefore the number of passengers travelling to Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh will in the future match or exceed current levels. As a result, any decrease in passenger traffic on our routes to and from Samui, Phuket, Chiang Mai, Siem Reap and Phnom Penh could have a material adverse effect on our business, financial condition, results of operation and prospects. See “—Competition from other airports and destinations could adversely affect our airport business”.

***Our subsidiary and associated companies have entered into agreements with the AOT to provide airline related services in the Suvarnabhumi International Airport.***

Our subsidiary and associated companies have entered into project agreements with the AOT to provide airport-related services at the Suvarnabhumi International Airport, including cargo terminal services, ground services and in-flight catering services. See “Business—Airport-related Services” and “Description of Material Agreements—Agreements Relating to Our Airport-related Services”. BFS Cargo, our associated company, operates cargo terminal services through the Cargo Project Agreement with a term of 20 years, expiring September 27, 2026. BFS Ground, our subsidiary company, operates ground handling services through the Ground Project Agreement with a term of 20 years, expiring September 27, 2026. BAC, our subsidiary company, operates in-flight catering services through the Catering Project Agreement with a term of 20 years, expiring September 27, 2026. BFS Ground and BAC contributed 7.3% and 4.5%, respectively, to our consolidated revenue in 2013 and 6.9% and 4.1%, respectively, to our consolidated revenue for the six months ended June 30, 2014. Each of these agreements has termination events, including, among others, non-performance without remedy, bankruptcy, national security and government orders. We cannot guarantee you that one or more of our project agreements will not be terminated before their expiration. If our subsidiary and associated companies are unable to renew or extend their project agreements upon expiration or termination, our subsidiary and associated companies will lose their rights to operate the relevant businesses resulting in our loss of revenue stream resulting from such business, which will have a material adverse effect on our business, financial condition, results of operation and prospects.

***Changes in international, regional or domestic regulations could significantly increase our costs of operations and result in delays and disruptions in our services.***

Our operations are subject to a high degree of international, regional and domestic regulations, covering most aspects of our operations, including traffic rights, fare setting, operating standards (the most important of

which relate to safety, security and aircraft noise and exhaust), airport access and slot availability. See “Regulations” for details of Thai regulations to which we are subject. With respect to our international flights, we are also regulated by the laws and regulations of other countries, as well as bilateral and multilateral treaties. Compliance with these various laws and regulations necessitates significant expenditure, and we expect to continue incurring such expenses. We cannot assure you that existing laws, regulations and treaties relating to air transportation will remain applicable in the future, or that such laws, regulations or guidelines could restrict our ability to operate new routes or make new investments.

In addition, we are subject to various costs and fees imposed by the Thai and other governments, including landing and navigation fees. We cannot assure you that we will not be subject to significant increases in landing and/or navigation fees.

***Compliance with environmental laws and regulations may affect our existing and future operations and result in additional costs.***

The airline industry is subject to environmental laws and regulations and will likely be subject to more stringent environmental laws and regulations in the future. These environmental laws and regulations relate to, among other issues, aircraft noise, the use and handling of hazardous materials, air emissions and environmental contamination clean-up. In recent years, several countries have issued a number of environment-related directives and other regulations including regulations relating to aircraft noise, exhaust and age. Further, environmental regulations, especially those with respect to noise and air pollution, have evolved rapidly and are expected to continue to evolve in ways that may require the termination of use of certain models of aircraft if they do not conform to the regulations. These requirements impose substantial ongoing compliance costs and operational restrictions on airlines, particularly as new aircraft brought into service will have to meet the environmental requirements during their entire service life. Compliance with these laws and regulations could increase our expenses or restrict our ability to continue to expand some of our operations.

Airlines are increasingly subject to regulations intended to curb the threat of global warming. For example, in January 2012, the European Union expanded its carbon emissions trading program to include aviation emissions. In the event the Thai government or governments around the world take these and other measures, including imposition of environment taxes, our business, financial condition, results of operation and prospects could be materially and adversely affected.

***Our maintenance costs will increase as our fleet ages.***

The average age of our aircraft was 8.7 years as of June 30, 2014. Generally, the cost of maintaining aging aircraft will exceed the cost of maintaining newer aircraft. As our fleet continues to age, it will require more maintenance and our maintenance expenses will increase on an absolute basis, on an available seat kilometer basis and as a percentage of our operating expenses (provided our other operating expenses remain constant). Any significant increase in maintenance expenses will have an adverse effect on our business, financial condition, results of operation and prospects.

In addition, older aircraft typically feature older cabin products, and generally require more frequent maintenance, which may result in disruptions of flight schedules, and generally affect customer satisfaction and perceptions of our airline, each of which may generally reduce our competitiveness.

***Lenders of our third party lessors may have a security interest in our aircraft which were purchased by our third party lessors under finance leases, and may take possession of such aircraft in the event our third party lessors fail to adhere to certain requirements under the terms of the finance leases and related financing documents.***

As of June 30, 2014, five of the ATR 72-500 aircraft which we operate were leased by third party lessors pursuant to finance lease agreements and sub-leased to us pursuant to finance lease agreements in the form of conditional sale agreements. Under the financing and lease arrangements of our third party lessors, the lenders have security interests in such aircraft. We have no control over the actions of our third party lessors, and if they were to default under any of the finance leases or related financing documents, the lenders may have the right to take possession of the aircraft, which would have a material adverse effect on our business, financial condition, results of operation and prospects. Furthermore, the finance leases may contain cross-default provisions, whereby any breach of other agreements could result in the lenders having a right to take possession of the concerned aircraft. This could put us in a position where we are unable to operate our business, which could have a material adverse effect on our business, financial condition, results of operation and prospects.



***We have failed to comply in the past and any future failure to comply with covenants contained in our aircraft operating lease agreements could have a material adverse effect on our business, financial condition, results of operation and prospects.***

We have entered into aircraft operating lease agreements with various third party lessors. These agreements contain customary termination events and also require us to comply with additional covenants during the term of each agreement. Failure to comply with such covenants could result in a default under the relevant agreement, and ultimately, in the repossession of the relevant aircraft. As a result of the slowdown during the global financial crisis from 2007 to 2009, we were late in making payments under the terms of nine of our operating leases. We were served notices of late payment and subsequently entered into negotiations with the relevant third party lessors and consensually restructured the lease payments for all nine aircraft. For three of the aircraft, we also negotiated to apply our maintenance repair reserve funds towards the past due lease payments and agreed to provide standby letters of credit as collateral in place of our maintenance repair reserve funds. Aside from the nine aircraft subject to late payment notices, we also negotiated the return of one aircraft with a negotiated early redelivery fee. In addition, we cancelled the delivery of a new aircraft and forfeited our deposit under the operating lease agreement. 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”. Certain of these agreements also contain cross-default clauses, as a result of which defaults under one agreement may be treated as defaults under other lease agreements. Additionally, failure to maintain our required airport licenses could trigger a breach of our lease agreements. See “—We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects”. As such, a failure to comply with the covenants in our aircraft operating lease agreements may result in the repossession of our aircraft and have a material adverse effect on our business, financial condition, results of operation and prospects.

***We have substantial indebtedness and fixed payment obligations and will continue to have substantial indebtedness and fixed payment obligations following the consummation of the Combined Offering.***

As of June 30, 2014, we had total consolidated indebtedness (including finance leases) of THB13,406.5 million (US\$413.1 million), representing a debt to equity ratio of 1.82:1 and comprising debt from aircraft finance leases of THB604.2 million (US\$18.6 million), debt from bank overdrafts and short-term loan obligations of THB11.5 million (US\$0.4 million) which is due within one year, long-term loans (including loans from related parties) of THB12,721.9 million (US\$392.0 million), of which THB11,230.7 million (US\$346.0 million) is attributable to the finance lease of the Samui Property Fund. Our obligations under such finance lease will continue for another 23 years and other indebtedness of THB1,491.2 million (US\$45.9 million) which are to be repaid in installments as specified in the relevant agreements. In addition to our indebtedness, we have a significant amount of fixed obligations under operating leases relating to our aircraft, airport terminal space and other airport facilities and office space. As of December 31, 2013, our future minimum lease payments under aircraft operating leases was approximately US\$125.4 million.

Our high level of indebtedness and fixed obligations could:

- impact our ability to obtain additional financing to support capital expansion plans and for working capital and other purposes on acceptable terms or at all;
- divert substantial cash flow from our operations and expansion plans in order to service our fixed obligations;
- require us to incur more interest expense than we currently do, since a portion of our debt is subject to floating interest rates;
- place us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources;
- subject us to restrictive financial and other covenants, including restrictions on dividend payment or additional indebtedness; and
- subject us to claims by secured creditors with respect to assets securing their indebtedness.

Our ability to make scheduled payments on our debt and other fixed obligations will depend on our future operating performance and cash flow, which in turn will depend on prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. For example, political instability, economic downturns, liquidity disruptions in the bank and debt capital markets, social unrest or changes in the regulatory environment could increase our cost of borrowing or restrict our ability to obtain debt financing. We cannot assure you that we will be able to generate sufficient cash flow from our operations to pay our debt and other fixed obligations as they become due, and our failure to do so could have a material adverse effect on our business, financial condition, results of operations and prospects.

To the extent we finance our activities with additional debt, we may become subject to additional financial and other covenants that may restrict our ability to pursue our growth strategy. If we are unable to make payments on our debt and other fixed obligations, we could be required to again renegotiate those obligations, obtain additional capital in the form of equity or debt financing, or sell assets. We cannot assure you that future renegotiation efforts would be successful or timely or that we could refinance our obligations on acceptable terms, if at all.

***Significant increases in interest rates may adversely affect our business, financial condition, results of operation and prospects.***

As of June 30, 2014, 8.1% of our outstanding consolidated indebtedness in the Unaudited Interim Financial Statement consisted of floating-rate obligations. In the event the reference rate that is used in arriving at the floating rates applicable to our indebtedness and lease obligations increases by 10.0%, as of June 30, 2014, the interest rates that would then be applicable to our floating rate indebtedness would be 7.4%. An increase in prevailing interest rates could substantially increase our borrowing costs with respect to our existing floating-rate obligations or new loans, which could adversely affect our business, financial condition, results of operation and prospects.

***We may incur a significant amount of debt in the future to finance the acquisition of aircraft, capital expenditure or expansion plans.***

We have historically leased most of our aircraft pursuant to operating lease arrangements. However, we may consider purchasing a portion of our aircraft requirements in the future. On February 12, 2014, we entered into a sale and purchase agreement with Avions de Transport Regional G.I.E. for six new ATR 72-600 aircraft, which also includes purchase rights for an additional two ATR 72-600 aircraft. We acquired an additional purchase right for one more aircraft on May 27, 2014 (as amended, the “ATR Sale and Purchase Agreement”). 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. 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. If we are unable to obtain such financing, we will remain obligated to take delivery of the nine aircraft and will be required to finance the purchase of such ATR-600 aircraft through alternative funding sources or renegotiate with the vendor or default under the Sale and Purchase Agreement. We may also obtain debt financing to finance our operations, other anticipated capital expenditures, working capital requirements and expansion. We cannot assure you that we will be able to raise such financing on favorable terms or at all, in particular if there is a general deterioration in the credit and capital markets, which could have a material adverse effect on our business, financial condition, results of operation and prospects. If we are unable to obtain financing for new aircraft on acceptable terms, this may affect our profitability and delay our fleet expansion plans. Moreover, our future credit facilities may contain covenants that limit our operating and financing activities and require the creation of security interests over our assets. Our ability to meet our payment obligations and to fund planned capital expenditures will depend on the success of our business strategy and our ability to generate sufficient revenues to satisfy our obligations, which are subject to many uncertainties and contingencies beyond our control.

***We may not be successful in implementing our business strategy.***

Our business strategy involves increasing the number of our aircraft, increasing the frequency of our flights to destinations that we currently serve, expanding the number of destinations that we serve and that is part of our extended code-share network and stimulating growth in the markets that we serve. Achieving our business strategy is critical to the success of the Company.

Increasing the number of destinations that we serve depends on our ability to obtain suitable landing slots in airports located in our targeted markets in a manner that is consistent with our strategy. We need to obtain air traffic rights and airport landing slots before we can commence services to new destinations. In addition, we require the prior approval of the MOT through the DCA to add any new domestic routes. We cannot assure you that such air traffic rights, airport landing slots or approvals will be granted to us in a timely manner, or at all. Increasing the number of destinations that is part of our extended code-share network depends on our ability to successfully identify suitable code-share partners and to negotiate and review the operation and implement additional code-share arrangements. We cannot assure you that we would be able enter into additional code-share arrangements. Further, 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. Any failure to obtain these traffic rights, airport departure and landing slots or approvals, to add additional code-share arrangements, or to add additional departure and landing slots may have a material adverse effect on our business, financial condition, results of operation and prospects.

We expect that some of the future destinations we intend to serve will be in foreign countries. The operation of our business in these countries may present operating, financial and legal challenges which are different from those that we currently encounter in Thailand. Adding service to new destinations may require us to commit a substantial amount of financial and other resources, even before the new service commences, and we may initially experience low load factors and be required to offer promotional fares to new destinations, which will adversely affect the profitability of these new destinations. In addition, we plan to expand our total fleet size to 43 by December 31, 2018. If we are unable to successfully implement our business strategy, we may have to delay or cancel the scheduled deliveries of these aircraft, subject to applicable break fees, which may adversely affect our business, financial condition, results of operation and prospects.

Other factors that may have an impact on our business strategy include:

- the general condition of the Thai, Asian and global economies and the global capital markets;
- demand for regional air transportation;
- barriers to entry into the Thai and Southeast Asian aviation market;
- our ability to operate and manage a larger operation cost-effectively;
- our ability to acquire additional licenses and traffic rights to our targeted geographical markets in order to expand our route portfolio;
- our ability to hire, train and retain sufficient numbers of pilots, cabin crew and engineers for our aircraft;
- our ability to source and take delivery of aircraft on a timely basis; and
- our ability to obtain the financing necessary to pay for expansion at cost-effective rates.

Many of these factors are beyond our control. We cannot assure you that we will be able to successfully expand within our existing markets or establish new markets, and any failure to successfully implement our business strategy may have a material adverse effect on our business, financial condition, results of operation and prospects.

***We rely on third parties to provide our customers with facilities and services that are integral to our business, including airport facilities at the Suvarnabhumi International Airport, and as a distribution channel for our airline ticket sales.***

The availability and cost of terminal space, slots and aircraft parking are critical to our operations and expansion plans. Ground and maintenance facilities, including hangars and support equipment, will be required to operate additional aircraft in line with our expansion plans. These and other required facilities and equipment may be unavailable in a timely or economic manner. Our inability to lease, acquire or access airport facilities on reasonable terms or at preferred times to support our growth or to maintain our current operations would have a material adverse effect on our business, financial condition, results of operation and prospects.

Sales through third party sales outlets remain an important distribution channel. In the years ended December 31, 2011, 2012, 2013 and the six months ended June 30, 2014 approximately 64.0%, 63.9%, 60.4% and 60.6%, respectively, of our total sales were derived from indirect sales, which include sales through general sales agents, IATA-authorized sales agents and code-share and interline. We cannot assure you that we will be able to maintain favorable relationships with them or that we will be able to suitably replace them. Our revenues could be adversely impacted if third parties elect to prioritize other airlines. Our relationship with third party sales outlets may be affected by the terms of business and economic package offered to them by other airlines, changes in our arrangements with other distributors of air services and the introduction and growth of new methods of selling air services. Furthermore, these third parties interface with our passengers and potential passengers. In the event they act improperly, such behavior may harm our reputation and may adversely affect us.

Although we seek to monitor the performance of third parties that provide us with such services, and certain of the agreements that we enter into for these services may define expected service performance levels, the efficiency, timeliness and quality of performance by third-party service providers are often beyond our control, and any failure of our service providers to perform their services satisfactorily or unexpected interruptions in services may have an adverse impact on our customers' perception of our standards of service and reliability, and our business, financial condition, results of operation and prospects.

***We rely on automated systems and the Internet to operate our business and any failure or security breaches of these systems may have a material adverse effect on our business, financial condition, results of operation and prospects.***

We depend on automated systems to operate our business, including our website and online reservation and telecommunication systems. Our website and online reservation system must be able to accommodate a high volume of traffic and deliver important flight information. We cannot assure you that system failures or security breaches will not occur in the future. Any disruption in these systems could result in the loss of important data, increase our expenses and harm our reputation and ticket sales which could in turn have a material adverse effect on our business, financial condition, results of operation and prospects. See "Business—Information Technology".

We rely, in part, on the Internet for bookings. Approximately 25.1% and 25.9% of our flight reservations in 2013 and the six months ended June 30, 2014, respectively, were made by our passengers directly via our website. Any compromise of Internet security could deter people from using the Internet or from using it to conduct transactions that involve transmitting confidential information. We may incur significant costs to protect against the threat of security breaches, particularly if the perceived risks of terrorist activity and/or third party misappropriation of information lead to government-imposed increases in Internet security and greater restrictions on ticket purchases made remotely. Further, alleviating these problems may cause interruptions, delays or cessations in service to our customers, which could cause them to stop using our online reservation service or to make claims against us.

We retain personal information received from customers and have put in place security measures to protect against unauthorized access to such information. Personal information held both offline and online is highly sensitive and, if third parties were to access such information without the customers' prior consent or if third parties were to misappropriate that information, our reputation could be adversely affected and customers could possibly bring legal claims against us, any of which could adversely affect our business, financial condition, results of operation and prospects.

***Any real or perceived problem with Airbus A319, Airbus A320, ATR 72-500 or ATR 72-600 aircraft or International Aero Engines V2500-A5 or Pratt & Whitney PW 127F or 127M series engines, including their unavailability, or any decision to operate a new aircraft type or engine type, could have a material adverse effect on our business, financial condition, results of operation and prospects.***

We currently operate a mixed Airbus and ATR fleet and use International Aero Engines V2500-A5 and Pratt & Whitney PW 127F and 127M series engines. As of June 30, 2014, we operated ten Airbus A319 aircraft, seven Airbus A320 aircraft, and eight ATR 72-500 aircraft. Additionally, 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.

Our reliance on the Airbus A319, Airbus A320, ATR 72-500 and ATR 72-600 aircraft and the International Aero Engines V2500-A5 and Pratt & Whitney PW 127F and 127M series engines makes us particularly vulnerable to any problems that might be associated with such aircraft and engines. We would be adversely affected if a design defect or mechanical problem with the Airbus A319, Airbus A320, ATR 72-500 or ATR 72-600 aircraft or the International Aero Engines V2500-A5 and Pratt & Whitney PW 127F or 127M series engines were discovered, causing our aircraft to be grounded while any such defect or problem is corrected, assuming it could be corrected at all. Any such defect or problem may also result in aviation authorities in Thailand implementing certain airworthiness directives which may require substantial compliance costs. Our business, financial condition, results of operation and prospects could be materially and adversely affected if the public avoids flying our aircraft as a result of an adverse perception of the Airbus A319, Airbus A320, ATR 72-500 or ATR 72-600 aircraft due to real or perceived safety concerns or other problems.

In the event that the Airbus A319, Airbus A320, ATR 72-500 or ATR 72-600 or the International Aero Engines V2500-A5 or Pratt & Whitney PW 127F or 127M series engines become unavailable in the market and we are constrained to acquire additional aircraft or engines of a different type, we could lose the benefits we derive from our current fleet composition and the engines we utilize. We cannot assure you that any replacement aircraft would have the same operating advantages as the Airbus A319, Airbus A320, ATR 72-500 and ATR 72-600 or that we could lease or purchase engines that would be as reliable and efficient as the International Aero Engines V2500-A5 and Pratt & Whitney PW 127F or 127M series engines. We may also incur substantial transition costs, including higher costs associated with retraining or hiring pilots, cabin crew and engineers to operate and maintain a different type of aircraft or engine. We would also need access to a flight simulator for the new aircraft type which we may not be able to access at a reasonable cost. In addition, we would be exposed to the same risk of real or perceived problems with respect to the new type of aircraft and engines. Our operations could also be harmed by the failure or inability of Airbus, ATR, International Aero Engines or Pratt & Whitney to provide sufficient manufacturer or manufacturer vendor parts or related support services on a timely basis.

***We depend on our personnel, especially our executive officers and key management, and any difficulties in attracting or retaining such personnel or failure to maintain our corporate culture may have a material adverse effect on our business, financial condition, results of operation and prospects.***

Our success depends to a significant extent upon the continued services of our executive officers and other key management personnel. The loss of any of our executive officers and other key management personnel or failure to recruit suitable or comparable replacements could have a material adverse effect on our business, financial condition, results of operation and prospects.

Our business model requires us to have highly-skilled, dedicated and efficient pilots, engineers and other personnel. Our growth plans will require us to hire, train and retain a significant number of new employees in the future. From time to time, the airline industry has experienced a shortage of skilled personnel, especially pilots and engineers. We compete against other full service airlines and low-cost airlines for these highly-skilled personnel. These other full service airlines and low-cost airlines may offer wage and benefit packages that exceed those offered by us. We may have to increase wages and benefits to attract and retain qualified personnel or risk considerable employee turnover. If we are unable to hire, train and retain qualified employees at a reasonable cost, we may be unable to execute our growth strategy, which would have a material adverse effect on our business, financial condition, results of operation and prospects.

In addition, we may find it increasingly challenging to maintain our corporate culture as we hire more personnel. We believe that one of our competitive strengths is our service-oriented corporate culture that emphasizes friendly, helpful, team-oriented and customer-focused employees who strive to increase our productivity to help keep our costs on manageable level. If we were unable to identify, hire or retain employees who meet these criteria, our corporate culture and reputation would be adversely affected.

***We may be subject to unionization, work stoppages, slowdowns or increased labor costs.***

We have a non-unionized workforce. If our employees unionize, it could result in demands that may increase our operating expenses and adversely affect our profitability. Each of our different employee groups could unionize at any time and require separate collective bargaining agreements. If any group of our employees were to unionize and we were unable to reach agreement on the terms of their collective bargaining agreement or we were to experience widespread employee dissatisfaction, we could be subject to work slowdowns or stoppages. In addition, we may be subject to disruptions by organized labor groups protesting our non-union status. Any of these events would be disruptive to our operations and could harm our business, financial condition, results of operation and prospects.

***If we are unable to maintain the requisite licenses, permits and approvals or obtain regulatory approvals in the future, we will not be able to operate a scheduled flight.***

Our business relies on our maintaining the requisite licenses, permits and approvals necessary to operate our portfolio of routes. The airline industry is subject to extensive regulation and we have no control over the regulations that apply to us. Changes in the interpretation of current regulations or the introduction of new laws or regulations may have a material adverse effect on our business, financial condition, results of operation and prospects.

We are required to hold an air operator certificate (an “AOC”) which is granted, and is subject to conditions imposed, by DCA. Our AOC is valid for a prescribed period following which an application for renewal has to be made. Our current AOC was issued on April 17, 2013 and is subject to renewal upon expiry on April 30, 2018. To operate either scheduled or non-scheduled air transport services in Thailand, we are required to obtain an air operating license (“AOL”) from the MOT. Our current AOL was issued on January 15, 2009, and is subject to renewal upon expiry on January 31, 2019. There can be no assurance that a new AOC and AOL will be granted to us upon the expiry of each current AOC and AOL, without which we will not be able to operate air services.

For each route we operate, we are required to hold the requisite licenses, permits and approvals from the countries to and over which we fly. The validity of each license, permit or approval may vary by country. If any license, permit or approval is revoked or not renewed upon its expiry or if such renewal is on less favorable terms, we may not be able to operate on the affected route or may have to operate at a reduced frequency. In addition, the actions of Thai authorities responsible for overseeing Thai airlines and other third parties that we have no control over may adversely affect us. See “Regulation of the Airline Industry in Thailand” for further details of the regulations that apply to us.

***We may be unable to adequately protect the intellectual property rights over the Bangkok Airways brand or may face intellectual property rights claims that may be costly to resolve or limit the ability to exploit the intellectual property rights in the future.***

We rely on trademarks and domain name registrations to establish and protect the Bangkok Airways brand, tagline and logos (the “Marks”) in various countries. The success of our business depends, in part, on our continued ability to use the Marks in order to increase brand awareness. Although we have registered or are in the process of registering each of the Marks, we cannot assure you that the steps taken by us in this regard will adequately protect the Marks and third parties may challenge our exclusive right to use the Marks. Our success will also depend on our awareness and ability to prevent third parties from using the Marks without our consent. Issues relating to intellectual property rights can be complicated and we cannot assure you that disputes will not arise or that any disputes in relation to our intellectual property will be resolved in our favor. Any of these events may have a material adverse effect on our business, financial condition, results of operation and prospects.

***Our ability to set fares on certain segments of our business is constrained by fare ceilings set by the Government.***

As an airline company, we are regulated by the Government through, among others, the DCA. The DCA is the regulatory authority responsible for regulating the Thai aviation sector. The DCA issues operating licenses required for our flight operations, sets price caps for airfares on domestic passenger services sold in Thailand, regulates fuel surcharges for scheduled domestic passenger and cargo services and agrees international bilateral air service agreements with other countries. Our domestic fares are subject to fare ceilings prescribed by the DCA. Our revenue from domestic passenger services accounted for 63.6%, 61.9%, 63.3% and 63.0% of our revenues from passenger services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Any adverse changes in these policies, in addition to other regulations and policies governing airline operations, could have a material adverse effect on our business, financial condition, results of operation and prospects.

***Our passenger load factors are subject to seasonality.***

Our revenues and load factors are highest in the first and fourth quarters of each calendar year, reflecting Thailand’s peak tourist season, and lowest during the second quarter. Any prolonged disruption in our operations during such peak periods could materially affect our business, financial condition, results of operation and prospects. In addition, comparisons between our past results of operation and interim results of operations may therefore not be accurate indicators of our future performance. The market price of our Shares may fluctuate or decline significantly due to fluctuations in our interim results of operations.

***Fluctuations in currency exchange rates may have an adverse impact on our business, financial condition, results of operation and prospects.***

Due to the geographic diversity of our business, we receive revenue and incur expenses in a variety of currencies, in particular the Thai Baht, and U.S. Dollar. However, most of our maintenance, aircraft leasing, jet fuel supply, insurance contracts and substantially all of our purchase contracts with respect to aircraft spares are denominated in U.S. Dollars. A number of currencies, have experienced significant volatility, which could be detrimental depending on our foreign exchange position with respect to both our income and expenses. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Risks—Foreign Currency Exchange Rate Risk”. We may, in the future, enter into derivative contracts to hedge our foreign exchange exposure. However, we cannot assure you that such hedges will be available or commercially viable or effective to hedge our exposure to foreign currency risks.

Significant volatility between the U.S. Dollar and our other operating currencies, particularly the Thai Baht, may have an adverse impact on our results of operations. Since the Asian financial crisis of 1997, the value of the Thai Baht against the U.S. Dollar has fluctuated from time to time, from a high of THB22.2 per U.S. Dollar on June 18, 1997 to a low of THB56.5 per U.S. Dollar on January 13, 1998, according to Bloomberg. The average buying (telex transfer) and selling exchange rate of commercial banks in Bangkok announced by the BOT on June 30, 2014 was THB32.455 per U.S. Dollar. We cannot assure you that the value of the Thai Baht will not continue to fluctuate significantly against the U.S. Dollar or other currencies in the future.

We have various commitments denominated in foreign currencies, principally in U.S. Dollars. As of June 30, 2014, we had outstanding foreign currency commitments under our 23 aircraft lease agreements, 19 of which are operating lease agreements in the aggregate amount of US\$161.0 million. In addition, we may enter into U.S. Dollar commitments in the future, including in relation to future purchases of aircraft. Therefore, any depreciation in the Thai Baht against these foreign currencies would increase our obligations. There can be no assurance that we would be able to generate revenue increases sufficient to offset such increased obligations. As a result, fluctuations in the value of the Thai Baht against other foreign currencies may adversely affect our business, financial condition, results of operations and prospects.

***Certain countries in Asia are subject to significant geological risk and the risk of other man-made or natural disasters which may affect demand for flights to these destinations.***

Certain countries in Asia are located in the convergence zone of tectonic plates, and are therefore subject to seismic activity that can lead to destructive earthquakes and tsunamis, or tidal waves. For example, on December 26, 2004, an underwater earthquake off the coast of Sumatra triggered a tsunami that devastated coastal communities in Thailand, Indonesia and Sri Lanka. Certain countries in Asia are also subject to other man-made or natural disasters such as forest fires and haze. In addition, Thailand is subject to severe flooding. The flooding also damaged an aircraft parked for maintenance in our hangar in the Don Mueang International Airport. Any future geological or meteorological occurrences or other man-made or natural disasters in the markets that we serve, may weaken demand for our flights to these destinations and this decrease in demand may materially and adversely affect our business, financial condition, results of operation and prospects.

***We are subject to the risks associated with doing business in Asia.***

As our operations are conducted in Asia, we are subject to special considerations and significant risks typical for these regions. These include risks associated with, among others, the political, economic and legal environments and foreign currency exchange. Our results may be adversely affected by changes in the political and social conditions in Asia, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things. In particular, volatility in social and political conditions in certain countries in Asia may interrupt, limit or otherwise affect our operations and may result in the closure of airports. In recent years, certain Asian countries and territories have implemented various measures in order to affect economic or political reforms and changes. Some of these measures have led to increased incidents or higher risks of political instability and social unrest. Government-imposed wage and price controls, higher unemployment rates, mandated industry restructuring and trade barriers, such as high tariffs and customs duties that negatively affect domestic industry are some examples of events causing increased volatility in social and political conditions in Asia. We have no control over these matters and we do not carry political risk or other insurance with respect to losses we incur which are caused by these matters.

***We are exposed to certain risks against which we do not insure, and may have difficulty obtaining insurance on commercially acceptable terms or at all.***

Insurance is fundamental to airline and airport operations. As a result of terrorist attacks or other world events, certain aviation insurance could become unavailable or available only for reduced amounts of coverage that are insufficient to comply with the levels of coverage required by our aircraft lessors or applicable government regulations. Any inability to obtain insurance, on commercially acceptable terms or at all, for our general operations or specific assets would have a material adverse effect on our business, financial condition, results of operation and prospects.

We cannot assure you that our coverage will cover actual losses incurred. To the extent that actual losses incurred by us exceed the amount insured, we could have to bear substantial losses which may have a material adverse effect on our business, financial condition, results of operation and prospects. In line with industry practice, we leave some business risks uninsured, including business interruptions, loss of profit or revenue. To the extent that uninsured risks materialize, our business, financial condition, results of operation and prospects could be materially and adversely affected.

Following the terrorist attacks of September 11, 2001, aviation insurers have increased premiums, applied insurance surcharges for each passenger, and significantly reduced coverage for war and allied perils liability to third parties. In the event of additional terrorist attacks, hijackings, airlines crashes or other events adversely affecting the airline industry, there is a risk that aviation insurers will further increase their premiums or reduce the availability of insurance coverage. Significant increases in insurance premiums or reductions in coverage may have a material adverse effect on our business, financial condition, results of operation and prospects. See “Business—Insurance”.

***We may be exposed to risks as a result of our strategic partnerships.***

BFS Cargo entered into a service agreement with Worldwide Flight Services Holding S.A. (“WFS”) dated August 24, 2006 (the “Cargo Services Agreement”) and BFS Ground entered into a service agreement with WFS dated August 24, 2006 (the “Ground Services Agreement”) to govern operations relating to our cargo services under the Cargo Project Agreement and our ground services under the Ground Project Agreement, respectively. The Cargo Services Agreement and the Ground Services Agreement were each valid for a term of seven years, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Cargo. In 2013, we entered into the amendments to the Cargo Services Agreement and the Ground Services Agreement with WFS to temporarily extend the Cargo Services Agreement and the Ground Services Agreement for six months after the expiration of such agreements. In 2014, we entered into the amendments dated June 16, 2014 to extend the Cargo Services Agreement and the Ground Services Agreement for an additional 4 years and 6 months, or until September 27, 2018.

Strategic partnerships involve special risks associated with the possibility that our partner may:

- have economic or business interests or goals that are not aligned with ours;
- take actions or omit to take any actions contrary to, or inconsistent with, our policies or objectives or good corporate governance practices or the law;
- be unable or unwilling to fulfill their obligations under the relevant joint venture, participation or similar agreements;
- have disputes with us as to the scope of their responsibilities and obligations; or
- have financial difficulties.

Any disagreement we may have with our strategic partners which leads to a deadlock situation could adversely affect our business, financial condition, results of operations and prospects.

***Our investment in BGH comprises a substantial portion of our assets, and fluctuations in BGH’s share price can materially affect our statement of comprehensive income.***

As of June 30, 2014, we held, directly and indirectly through our subsidiaries, a 7.83% stake in BGH, a private hospital operator in Thailand. See “Business—Investment Holdings” for details. Our investment in BGH comprised 36.4%, 43.1%, 46.9% and 58.9% of our total assets as of December 31, 2011, 2012, 2013 and as of



June 30, 2014, respectively. While Mr. Prasert Prasarttong-Osoth, the Vice Chairman of our Board of Directors and our Chief Executive Officer, is also the Group Chief Executive Officer, President and a director of BGH, our Company does not have any direct or indirect control over the operations of BGH or any positive or negative fluctuations in BGH's share price.

Fluctuations in the share price of BGH shares have a material effect in our statement of comprehensive income, as the Thai Financial Reporting Standards require us to record any changes in the mark-to-market value of our investment in BGH as gains and losses in our statement of comprehensive income. In 2011, 2012, 2013 and the six months ended June 30, 2014, the share price of BGH shares increased, while our shareholding in BGH remained relatively constant. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated Results of Operations—Other Comprehensive Income—Gain (loss) on changes in value of available-for-sale investments" for details. As a result, we recorded a gain on changes in value of available-for-sale investments of THB3,799.6 million, THB3,169.4 million, THB450.5 million (US\$13.9 million) and THB5,886.7 million (US\$181.4 million) in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

We expect our investment in BGH to continue to comprise a substantial portion of our assets as we hold such investment for long-term investment and dividend income. We have also in the past, and continue to a lesser extent, pledged BGH shares as collateral to facilitate our ability to incur debt. As a result of our view to hold BGH shares for long-term investment, we expect fluctuations in the share price of BGH shares to continue to materially affect our total comprehensive income in our statement of comprehensive income.

In connection with the Offering, we have engaged an independent third party to review and advise on appropriate internal policies, including insider trading, which would include black-out periods between the time information is released and the time our directors and officers can resume trading in our Shares. In addition, the Company has a code of conduct that relates to the investment in securities. See "Management and Corporate Governance—Audit Committee of the Company—Internal Control, Internal Audit and Risk Management" and "Management and Corporate Governance—Code of Conduct."

***One of our former executive officers has entered into a settlement with the Office of the SEC in relation to the use of non-public information in trading securities and one of our current executive officers has entered into a settlement with the Office of the SEC for aiding and abetting the former executive officer's wrongdoing.***

On November 27, 2013, the Office of the SEC announced that the Settlement Committee imposed a fine of THB9.8 million on our former Executive Vice President – Strategic Planning for purchasing BGH shares while in possession of material non-public information. The Settlement Committee also imposed a fine of THB0.3 million on Mrs. Narumon Chainaknan, our Executive Secretary to CEO Office (Vice President), and Ms. Viporn Jitsomwang, our Cost Account Director for aiding and abetting our former executive officer's wrongdoing. Based on the Office of the SEC's announcement of its findings, during the period between November 16 and December 7, 2010, our former executive officer, then a director of BGH and our Company, purchased 1,030,000 BGH shares through the trading accounts of Mrs. Chainaknan and Ms. Jitsomwang based on non-public information material to the share price of BGH involving the merger of BGH with Health Network Plc., which resulted in an increase in BGH's market share and revenue.

The Office of the SEC findings stated that our former executive officer violated Section 241 of the SEC Act, while Mrs. Chainaknan and Ms. Jitsomwang also violated Section 241 of the SEC Act, in conjunction with Section 86 of the Penal Code, for aiding and abetting. The maximum penalty for insider trading under Section 241 of the SEC Act is imprisonment of up to two years and/or a monetary penalty in the amount of two times the profits made from the insider trading but not less than THB500,000. The maximum penalty for aiding and abetting for insider trading under Section 241 of the SEC Act is two-third of an imprisonment term of up to two years and/or a monetary penalty in the amount of two times the profits made from the insider trading but not less than THB500,000.

Our former executive officer was a director on the boards of both BGH and our Company at the time of the purchases and sales. The Office of the SEC has not imposed any restrictions on our former executive officer holding directorships or management positions in listed companies in Thailand. However, our former executive officer resigned from the board of BGH on November 27, 2013 and from the board of our Company on November 26, 2013. On June 1, 2014, our former executive officer, resigned as an officer of our Company, effective on July 31, 2014. Mrs. Chainaknan continues to hold an executive officer position in our Company. Ms. Jitsomwang continues to hold a Cost Account Director position in our Company. See "Management and Corporate Governance—Investment Policy" for details about the Company's policies relating to investments in securities.

***One of our executive officers is named as a defendant in two civil lawsuits relating to his prior employment with AOT.***

Mr. Narongchai Tanadchangsang has been an executive officer of the Company since 2013, when he joined the Company as Deputy Vice President of Airports. Since April 2014, Mr. Narongchai has served as the Company's Vice President of Airports. On January 31, 2014, Mr. Narongchai was named as one of three defendants in a civil case filed by AOT, Mr. Narongchai's former employer, claiming damages in the amount of approximately THB3,626.0 million in connection with the bidding process for security services at the Suvarnabhumi Airport in Bangkok. At the time of the alleged tort, the defendants, including Mr. Narongchai, were responsible for managing the bidding process to engage security services at the Suvarnabhumi Airport. AOT alleges that the defendants modified the terms of services which set out the approved AOT criteria for engaging a third party provider, and as a result, AOT engaged a third party security provider with an unnecessarily higher bidding price. On June 7, 2014, the court adjourned the appointment with the Court of First Instance due to administrative delays.

***The interests of our existing shareholders may differ from or conflict with our interests.***

After the completion of the Combined Offering, members of the Prasarttong-Osoth family will collectively own an aggregate of not less than 60.0% of the issued and outstanding shares of the Company, comprising 18.24% through Mr. Prasert Prasarttong-Osoth, 15.22% through Mr. Puttipong Prasarttong-Osoth and 30.36% through Mrs. Ariya Prasarttong-Osoth, Ms. Somruthai Prasarttong-Osoth, Mrs. Vanli Prasarttong-Osoth and Ms. Poramaporn Prasarttong-Osoth collectively. For information relating to the ownership of the Shares, see "Principal and Selling Shareholders".

By virtue of the Prasarttong-Osoth family's 60.0% collective stake in our share capital after the completion of the Combined Offering, although not acting in concert, the Prasarttong-Osoth family may be able to control matters requiring approval by our shareholders and will be able to exert significant influence over our business, subject to regulatory approval, including:

- election of our directors;
- amount and timing of dividends and other distributions;
- acquisition of or merger with another entity;
- overall business strategies and policies; and
- issuance of new securities.

Circumstances may arise in which the interests of the Prasarttong-Osoth family or the interests of their associated companies may conflict with the interests of our other shareholders.

In addition, from time to time, we enter into, and we may enter into in the future, transactions with entities controlled by the Prasarttong-Osoth family and/or other related parties.

See "Related Party Transactions" for a summary of our existing transactions with related parties.

***There are limitations on the foreign ownership of the Company, and any breach of such limitations could result in a revocation of our air service operating license and our right to fly our routes.***

Foreign ownership of our Shares is limited by our Articles of Association, which provide a 49.0% limit on foreign ownership of the total issued and outstanding Shares of the Company. Further, we are subject to nationality restrictions under the Foreign Business Act B.E. 2542 (1999), the Air Navigation Act, as amended, and the Announcement of the National Executive Council No. 58 requiring the shares of air service operators and aircraft registrants to be at least 51% held by any one or any combination of the following persons: (a) natural persons who hold Thai nationality; (b) ministries, sub-ministries, departments of the Thai Government; and/or (c) limited companies or public limited companies in which not less than 51% of the shares are held by a Thai Government entity or Thai natural persons. See "Regulation of the Airline Industry in Thailand—Domestic Regulatory Framework" and "Description of Shares—Limitation on Foreign Ownership of Shares" for details. After the completion of the Combined Offering, our existing shareholders, all Thai nationals, will continue to own a majority of the shares of the Company.

In the event that our existing shareholders cease to maintain the majority shareholding in the shares of the Company in the future, once the foreign ownership limit is reached, Thai shareholders may be restricted from transferring Shares to foreign buyers, which may adversely affect the liquidity and market price of the Shares. In such a situation, we cannot assure you that you will not be forced to divest your Shares at short notice or that such divestiture will be completed at the prevailing market price. In addition, it is not possible to determine whether a subsequent sale of Shares from a Thai shareholder is made to a Thai or non-Thai purchaser until such purchaser or person requests to register the transfer of such Shares to the registrar or until a book closure date occurs. The TSD, as our registrar, may refuse to register transfers of Shares to a non-Thai person, or divestment may otherwise be required, if as a result of such transfer the percentage of issued and outstanding Shares registered in the name of non-Thai persons would exceed the then applicable limit on foreign ownership of the Shares. Moreover, as a general principle, to operate international air services, it is necessary for us to remain substantially owned and effectively controlled by Thai nationals. See “Regulation of the Airline Industry in Thailand” for further details. Any future failure to comply with these requirements could result in us not being a Thai-designated airline and, consequently, the revocation of our rights to fly on international routes.

***Our airport revenue is highly dependent on levels of air traffic, which depend in part on factors beyond our control, including economic and political conditions and environmental factors.***

Revenue of our airport operations, which contributed 2.4%, 2.3%, 2.3% and 2.5% of our consolidated revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively, is closely linked to passenger and cargo traffic volumes and the number of air traffic movements at our airports. These factors directly determine our revenue from aeronautical services and indirectly determine our revenue from non-aeronautical services. Passenger and cargo traffic volumes and air traffic movements depend in part on many factors beyond our control. Such factors include economic conditions and the political situation in Thailand, Southeast Asia, South Asia and elsewhere, the attractiveness of our airports relative to that of other competing airports, health epidemics, fluctuations in jet fuel prices (which can have a negative impact on traffic as a result of fuel surcharges or other measures adopted by airlines in response to risks associated with increased fuel costs) and changes in regulatory policies applicable to the aviation industry. Additionally, climate conditions such as fog at the airports, as well as considerations of the tolerable level of pollution and noise level to the neighboring residents, may also affect air traffic movements or capacity, indirectly affecting our revenues.

***Termination of the sub-lease agreement with the Samui Property Fund could have a material adverse impact on our business, financial condition, results of operation and prospects.***

In 2006, we leased the assets of the Samui Airport to the Samui Property Fund for a period of 30 years under the terms of the Long-Term Lease Agreement. The Samui Property Fund in turn sub-leased the Samui Airport to us pursuant to the Sub-lease Agreement. We continue to act as operator of the Samui Airport and we hold a 25.0% interest in the Samui Property Fund. In the event we default under the Sub-lease Agreement, the Samui Property Fund may terminate the Sub-lease Agreement and find a replacement operator and enforce its collateral under the sub-lease, including, among others, the pledge of our shares in BGH. Any termination of the Sub-lease Agreement or enforcement of collateral by the Samui Property Fund could have a material adverse effect on our business, financial condition, results of operation and prospects.

***The operations of our airports may be affected by actions of third parties, which are beyond our control.***

The operation of our airports is largely dependent on the services of third parties for the rendering of services to passengers and airlines, such as meteorology, air traffic control, security, electricity, and immigration and customs services. In addition, in our Sukhothai Airport and Trat Airport, we are dependent on third party providers of certain complementary services such as baggage handling and fuel services. There have been certain occasions when an interruption of services lasted more than a day and have adversely affected our operations. For example, our Samui Airport was without electricity for three days in December 2012, during which we relied on our backup power generator. We are not responsible or liable for, and cannot control, these services. Any disruption in, or adverse consequence resulting from their services, including a work stoppage or other similar event, could have a material adverse effect on our business, financial condition, results of operation and prospects. We also cannot assure you that airlines and passengers will not wrongfully associate such delays and other adverse effects with us.

## **Risks Relating to the Aviation Industry**

***The airline industry tends to experience adverse financial performance during general economic downturns.***

Since a substantial portion of airline travel, for both business and leisure, is discretionary, the airline industry tends to experience adverse financial performance during general economic downturns. Yields could also decline as airlines offer promotional fare sales in certain markets to stimulate demand or to fill otherwise empty seats.

It is difficult to predict the effects of a global economic downturn. The airline industry is characterized by low profit margins and high fixed costs. A significant proportion of our expenses, including depreciation, maintenance and overhaul, aircraft handling and navigation fees, finance costs, operating lease payments and labor costs for flight deck and cabin crew and ground personnel do not vary based on our load factors, while revenue generated from a flight is directly related to the number of passengers or cargo carried and the fare structure. A relatively small change in the number of passengers in relevant markets or in pricing, load factors, or traffic mix could have a disproportionate impact on our business, financial condition, results of operation and prospects. In addition, a minor shortfall in expected revenue levels could have a material adverse effect on our financial performance.

***Limitations of Bangkok's airports and other Thai airports may inhibit our ability to increase our aircraft utilization rates, improve our on-time performance and provide safe and efficient air transportation.***

Although Thailand's commercial aviation infrastructure has improved substantially in recent years with the opening of the Suvarnabhumi International Airport in September 2006 and the re-opening of Don Mueang International Airport to domestic flights in March 2007, the resources of many segments of the commercial airline industry, including airport facilities and air traffic control systems, have been strained by the rapid increase in air traffic volume. Our ability to increase utilization rates, improve our on-time performance and provide safe and efficient air transportation in the future depends in part on factors beyond our control, including:

- capacity of landing slots, passenger capacity at terminals and air traffic congestion in major hub airports that we serve, particularly at the Suvarnabhumi International Airport in Bangkok and the Phuket Airport in Phuket;
- the quality of the management of Thai airports by the relevant operator;
- the quality of national air traffic control;
- the quality of navigational systems and ground control operations at Thai airports;
- limitations on runway length and/or strength which restrict our aircraft payload;
- the quality of infrastructure at regional airports that we serve; and
- any increased security measures.

If any of these factors is inadequate, our ability to expand our route network or to increase the frequency of flights on our existing routes, improve our on-time performance and to provide safe air transportation will be compromised, and our business, financial condition, results of operation and prospects may be materially and adversely affected.

***The airline industry is exposed to extraneous events such as terrorist attacks, outbreak of contagious diseases and extreme weather conditions.***

Terrorist attacks, such as those on September 11, 2001, and their aftermath had a negative impact on the airline industry. The primary effects experienced by the airline industry include increased security and insurance costs, increased concerns about future terrorist attacks, airport shutdowns, flight cancellations and delays due to security breaches and perceived safety threats, and significantly reduced passenger traffic and yields due to the subsequent dramatic drop in demand for air travel globally. Terrorist attacks, or the fear of such attacks, or other world events could result in decreased passenger load factors and yields and could also result in increased costs, such as increased jet fuel costs or insurance costs, for the airline industry, including us. If any similar events or circumstances occur in the future, our business financial condition, results of operation and prospects could be adversely affected.

An outbreak of Severe Acute Respiratory Syndrome (SARS), the Influenza A H1N1 virus, avian flu, or another contagious disease with the potential to become a pandemic or the measures taken by the governments of affected countries against such potential outbreaks could also seriously disrupt our operations, which could have an adverse effect on our business. The perception that an outbreak of another pandemic may occur can also have an adverse effect on the economic conditions of countries in Asia which may also negatively impact our business, financial condition, results of operation and prospects.

During the typhoon season or periods of other adverse weather conditions in Thailand or elsewhere, flights may be cancelled or significantly delayed. Thailand has experienced a number of major natural catastrophes over the years, including tsunamis and floods. See “—Risks Relating to Our Business—Certain countries in Asia are subject to significant geological risk and the risk of other man-made or natural disasters which may affect demand for flights to these destinations”. If we delay or cancel flights for extreme weather conditions, our revenues and profits will be reduced and, notwithstanding that these events are beyond our control, passengers may blame us for such delays and cancellations. We could suffer a loss to our reputation, which could result in a loss of customers and materially and adversely affect our business, financial condition, results of operation and prospects. In addition, adverse weather conditions in other countries or regions which feed passengers onto our route network could adversely affect the number of passengers on our flights. For example, the Iceland volcanic eruption in April 2011 had an adverse effect on our passenger numbers originating from Europe and connecting onto our route network in the second quarter of 2011.

### **Risks Relating to Thailand**

***Thailand is prone to floods, which may continue to have a significant adverse impact on the Thai economy.***

The floods that occurred in Thailand between September and December 2011 had significant adverse impact on the Thai economy as a whole. The continuing impact of the floods on the growth of the Thai economy in 2012 and beyond depends on a number of factors, including the rate at which homes, businesses and infrastructure are repaired or replaced, industrial parks and factories are reopened and whether manufacturing levels return to levels experienced prior to the flooding. In addition, the rate at which tourism and other key sectors of the Thai economy return to levels experienced prior to the flooding will be key factors affecting the future growth of the Thai economy.

The Government has stated its intention to improve flood protection infrastructure in an effort to prevent future flooding similar to that experienced in 2011. Government officials have announced plans for the construction of floodways, the repair of sluice gates damaged during the recent flooding and the purchase of additional pumps to remove future floodwater. The Government has also announced that it is preparing a master flood management plan. There can be no assurance, however, that these plans will be implemented before significant flooding occurs in Thailand again or at all. No assurance can be given that the Government’s flood prevention measures will be adequate to protect low-lying areas and other parts of Thailand from flooding in the future.

***Political conditions and continued violence in Thailand may have a direct impact on our business and the market price of the Shares.***

We are subject to a political environment in Thailand that differs in certain significant respects from that prevailing in countries with more developed economies. Our business, financial condition, results of operations and prospects may be influenced in part by the political situation in Thailand, which has been unstable from time to time. In 2006, there was a military coup against the country’s civilian political leadership. The coup leaders declared martial law and abrogated the 1997 Constitution. In 2007, the new Constitution came into force and a general election was subsequently held. Two new coalition governments took office in February and September 2008, respectively. There were a series of anti-government protests in 2008, including an occupation by protestors of the Government House and the seizure of Thailand’s two key airports.

In December 2008, the Thai Constitutional Court issued a verdict that disbanded certain government political parties, which dissolved the then existing coalition government and removed the Prime Minister from office. The leader of the Democrat-led coalition was voted in as the new Prime Minister by the Thai Parliament in December 2008. There have been a series of protests and demonstrations, including an attack by protesters that caused the cancellation of the ASEAN Summit in Pattaya and riots in Bangkok in April 2009, evidencing resistance to the coalition government then in power.

In March 2010, anti-Government protestors (being supporters of the former Prime Minister Thaksin Shinawatra, who was ousted in a military coup in 2006) launched new protests aimed at removing the coalition Government and holding new elections. The protestors first occupied areas around the Ratchadamnoen area and moved to an encampment in Bangkok's city center. Over the course of two months, the demonstrations turned violent, causing the Government to declare a state of emergency in Bangkok on April 7, 2010 and later in 23 other provinces in central, northern and north-eastern Thailand. In an effort to clear the protest sites, the Government imposed curfews and restricted numbers at gatherings. A number of buildings, including a major shopping centre, Government buildings and the stock exchange, were set on fire by certain demonstrators, causing serious damage. A number of people were also killed and injured.

Following the lifting of the state of emergency in December 2010, in January 2011, close to 30,000 opposition supporters descended in the same area as the earlier protestors to demand the investigation of the deadly governmental crackdown in May and the release of protest leaders who had been held in jail on terrorism charges. The events in early 2011 were largely peaceful.

In July 2011, the Puea Thai Party won a decisive victory in the elections, making Prime Minister Yingluck Shinawatra the first female Prime Minister of Thailand. Ms. Yingluck is the sister of former Prime Minister Thaksin Shinawatra. There can be no assurances that any reforms made by the Government will promote growth and stability within Thailand.

In November 2013, one of the former members of the House of Representatives initiated a demonstration in Bangkok against the Government following the House of Representatives' resolution to pass a draft amnesty bill on November 1, 2013. In December 2013, the Cabinet, led by Ms. Yingluck, requested a royal decree to dissolve the parliament and declare an election on February 2, 2014. On March 21, 2014, however, the Thai Constitutional Court ruled that the February election was unconstitutional because voting failed to take place on the same day around the country.

Additionally, in February 2014, Ms. Yingluck was charged with negligence in relation to a rice subsidy scheme. 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 effects these recent events will have on Thailand's political and economic conditions, or whether the new Government may seek changes to Thailand's legal and regulatory environment. Any failure to bring back political stability in Thailand could have a material adverse effect on economic and legal conditions in Thailand, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

***Substantially all of our assets and operations are located in Thailand and we are subject to economic, legal and regulatory uncertainties in Thailand.***

Substantially all of our assets and operations, including our headquarters, are located in Thailand. Consequently, we are subject to economic, legal and regulatory conditions in Thailand that differ in certain significant respects from those prevailing in other countries with more developed economies. There is no assurance that the Thai economy will meet current projections or improve in the future. Any instability and economic downturn in the Thai economy could have a material adverse effect on our business, financial condition, results of operations and prospects and the market price of the Shares. Furthermore, prior Governments have, in the past, intervened in the Thai economy and occasionally made significant changes in policy including, among other things, foreign exchange control, policies concerning wage and price controls, capital controls and limits on imports and have at times partially reversed such policies soon after the new policies were announced. In particular, any changes in, delays to, or a cancellation of, the Government's infrastructure policies or investment plans could materially and adversely affect our business, financial condition, results of operations and prospects.

Our businesses and operations in Thailand are subject to the changing economic conditions prevailing from time to time in Thailand. From 1996 to 1998, Thailand's GDP growth slowed significantly in relation to historical levels and the country entered a recession. Since 1999, Thailand's economy has been recovering, recording positive GDP growth each year until the global economy began to worsen in 2008 and took effect in 2009. According to Thailand's Office of the National Economic and Social Development Board and Fiscal Policy Office, Thailand's GDP grew by 5.0% in 2007 and 2.5% in 2008, declined by 2.3% in 2009 and grew by 0.1%, 6.4% and 2.9% in 2011, 2012 and 2013, respectively. GDP is expected to grow by 2.8% and between 3.5% and 4.5% in 2014, respectively.

Policy changes made by the Government and the BOT have included the imposition (and subsequent reversal) of a one-year 30% unremunerated reserve requirement on foreign exchange inflows, under which any foreigner buying stock in Thailand had to place an extra non-interest bearing deposit. There is no assurance that the Government will not in the future re-impose restrictive foreign exchange controls that may affect the outward remittance of funds, including dividends payable on the Shares. Our business, financial condition, results of operations and prospects and the market price of the Shares may be adversely affected by future changes in Government policies.

***Continued violence in southern Thailand, terrorist attacks and international and regional instability could adversely affect our business, financial condition, results of operations and prospects.***

In 2004, the Government declared martial law in certain southern provinces. The region has recently experienced increasingly serious and frequent incidents of violence, including bombings of power stations, which caused blackouts in the provinces. On July 19, 2005, the Government invoked an emergency decree to declare a state of emergency in the three southernmost provinces of Yala, Narathiwat and Pattani. The state of emergency imposed further controls in those provinces and allows the authorities to detain suspects without charge, ban public protests and censor the news media. Since January 2004, there have been a large number of casualties and injuries arising from violence in the region, including, most recently, bombings of commercial banks in Yala province. On December 31, 2006, several bombs exploded in Bangkok, killing three people, and in February 2007 a coordinated series of explosions in Southern Thailand, including in schools, killed at least eight people. A number of countries, including the United States, the United Kingdom, Australia and Canada have issued travel advisories relating to travel to Thailand in recent years. On February 28, 2013, the Government and the representatives of an insurgent organization, the Barisan Revolusi Nasional, signed the General Consensus on Peace Dialogue Process (the “Peace Dialogue”) with the Malaysian government to act as the facilitator in the process. However, frequent attacks in southern Thailand are still continuing even after the Peace Dialogue was signed. Continued violence could lead to widespread unrest in Thailand or a major terrorist incident in Thailand similar to those in other parts of Southeast Asia. If the security condition deteriorates and violence worsens, our business, financial condition, results of operations and prospects may be materially and adversely affected.

***Non-enforceability of non-Thai judgments may limit your ability to recover damages from the Company.***

Under Thai law, judgments entered by a non-Thai court, including actions under the civil liability provisions of the securities laws of foreign jurisdictions, are not enforceable in Thailand. An investor would have to bring a separate action or claim in Thailand. Although a non-Thai judgment could be introduced as evidence in a court proceeding in Thailand, a Thai court would be free to examine de novo issues arising in the case. Thus, to the extent investors are entitled to bring a legal action against us, they may be limited in their remedies and any recovery and any Thai proceeding may be limited depending on the relevant court’s discretion.

***Our Financial Statements are prepared in accordance with TFRS, which differs from IFRS in certain material respects.***

We will be subject to financial reporting requirements of publicly listed companies in Thailand that differ in significant respects from those applicable to companies in certain other countries, including the United States and the United Kingdom. Our Financial Statements are prepared in accordance with TFRS, which differs in certain material respects from IFRS. See “Summary of Significant Differences Between TFRS and IFRS”. In accordance with generally accepted accounting practices in Thailand, we have not (i) performed a reconciliation of the Financial Statements included in this Offering Memorandum to IFRS or (ii) quantified the differences between TFRS and IFRS with respect to such Financial Statements. If such a reconciliation or quantification had been performed, other material differences might have been identified and disclosed in the section of the Offering Memorandum entitled “Summary of Significant Differences Between TFRS and IFRS”. Accordingly, there is no assurance that the identified differences in the section of the Offering Memorandum entitled “Summary of Significant Differences Between TFRS and IFRS” represent all material differences related to the Company’s Financial Statements.

## **Risks Relating to our Shares**

***We expect that the price of our Shares may fluctuate significantly and you may not be able to resell our Shares at or above the offering price.***

The trading price of our Shares may be volatile and, subject to wide price fluctuations in response to various factors, including:

- market conditions in the broader stock market generally or in the Thai or international aviation industry in particular;
- actual or anticipated fluctuations in our quarterly operating results;
- the issue of new or changed securities analysts' reports or recommendations;
- additions or departures of key personnel;
- legal and regulatory developments and changes;
- foreign exchange rate fluctuations;
- litigation and governmental investigations; and
- economic and political conditions or events.

These and other factors may cause the market price and demand for our Shares to fluctuate substantially, which may limit or prevent you from readily selling our Shares and may otherwise negatively affect the liquidity of our Shares. In addition, in the past, in certain countries when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the company that issued the stock. If any of the shareholders were to bring a lawsuit against the Company, we could incur substantial costs defending the lawsuit or if the lawsuit is ultimately resolved against the Company, we could incur substantial costs in damages. Such a lawsuit could also divert the time and attention of our management from our business.

***Future sales of our Shares by our existing shareholders who hold large amounts of our Shares (including the Selling Shareholder), could adversely affect the trading price of the Shares.***

Upon completion of the Combined Offering, some of the existing shareholders have agreed with the International Managers and the Thai Lead Underwriters that from the date of this Offering Memorandum until the date that is 180 days after the closing date of the Primary Offering, such existing shareholders will not, without the respective written consent of the International Managers and the Thai Lead Underwriters, offer, sell or otherwise dispose of any securities of the same class as the Shares offered in the Combined Offering or any securities convertible into or exchangeable for our Shares of the same class as the Shares offered in the Combined Offering. Subject to the lock-up provisions agreed with the International Managers and the Thai Lead Underwriters, our existing shareholders will be free to sell the Shares they control any time after the aforementioned period.

In addition, under rules issued by the SET, Shares comprising an aggregate of 55.0% of the post-offering share capital of the Company cannot be sold for a period of one year following the date of commencement of trading of our Shares on the SET except that up to 25.0% of these Shares may be sold after the period of the first six months after trading commences on the SET and the remaining 75.0% of these Shares may be sold after the period of the first 12 months after trading commences on the SET.

Significant sales of our Shares by our existing shareholders (including the Selling Shareholder) or the perception that significant sales may occur, could adversely affect the trading price of the Shares. We cannot predict the effect, if any, that future sales, or the availability of Shares for future sale, will have on the market price of the Shares prevailing from time to time. Sales of substantial amounts of Shares in the public market following the Combined Offering, or the perception that such sales may occur, could adversely affect the market price of the Shares on the SET. These sales may also make it more difficult for us to raise capital through the issue of equity securities at a time and at a price we deem appropriate.



***We are subject to corporate disclosure and accounting requirements that differ from those in other countries.***

We are subject to reporting and corporate governance requirements in Thailand that differ, in significant respects, from those applicable to companies in certain other countries. We are required to publish annual audited and quarterly unaudited financial statements reviewed by our auditors. The SET's rules and regulations are evolving. The amount of information made publicly available by issuers in Thailand is significantly less than that made publicly available by comparable companies in certain more developed countries, and certain statistical and financial information of a type typically published by companies in certain more developed countries may not be available. As a result, shareholders may not have access to the same level and type of disclosure as that available in other countries, and comparisons with other companies in other countries may not be possible in all respects. In addition, shareholder protection afforded by, and enforcement of, the rules and regulations of the SET, by the PLCA and other Thai laws may not be as extensive as in other countries.

***There are risks associated with the trading and delivery of our Shares on the Stock Exchange of Thailand.***

Prior to the Combined Offering there has been no public market for our Shares. The initial offering price for our Shares was the result of negotiations between us, the International Managers and the Thai Lead Underwriters and may differ significantly from the market price for the Shares following the Combined Offering. We cannot assure you that a more liquid public market for our Shares will develop or, if a liquid trading market develops, that it will be sustained.

We are required to register both the increase of paid-up capital represented by the New Shares offered in the Primary Offering with, and deliver the list of our shareholders to, the MOC prior to delivery of the New Shares. We expect this registration to occur, and delivery of the New Shares to be made no later than two business days after we receive payment for the New Shares in the Primary Offering. Under Thai law, the status of investors in our Shares in the period between the time investors pay for Shares and the time the increase in our paid-up capital is registered with, and list of our shareholders are delivered to, the MOC is uncertain. During this period, investors may not be shareholders and instead would likely be considered unsecured creditors.

***The Thai securities market is relatively small and may cause the market price of the Shares to be more volatile.***

The SET is relatively small and may be more volatile than stock exchanges in the United States and certain other countries. As of June 30, 2014, there were 498 companies listed and quoted on the SET and the aggregate market capitalization of listed equity securities of these companies listed on the SET was approximately THB13,358.1 billion. The relatively small market capitalization of, and trading volume on, the SET, compared to certain other global stock exchanges, may cause the market price of securities listed on the SET, including the Shares, to fluctuate more than those listed on larger global stock exchanges. The market price of the Shares may be adversely affected by the lack of liquidity on the SET. In addition, the September 2006 coup and Government policies promulgated after the coup (including the institution by the BOT of the 30.0% capital reserve requirement on foreign currency inflows on December 18, 2006 and its subsequent reversals) have adversely affected the Thai securities market, which has been characterized by increased volatility since 1997. These market characteristics may limit your ability to sell the Shares and may also affect the market price of the Shares.

***The net asset value of the New Shares issued in the Primary Offering is significantly less than the Offering Price, and you will incur immediate and substantial dilution in the net asset value per Share.***

The Offering Price is substantially higher than our adjusted net asset value per Share after adjusting for the estimated net proceeds from the issue of the New Shares and based on our issued share capital after the Combined Offering. Therefore, you will experience immediate and substantial dilution and our existing shareholders will experience a material increase in the net asset value per Share they own. See "Dilution" for a further description of the extent to which subscribers and/or purchasers of our Shares will experience dilution.

***The Company's ability to pay dividends in the future will depend upon future earnings, financial condition, cash flows, working capital requirements and capital expenditures.***

The amount of the Company's future dividend payments, if any, will depend on the Company's future earnings, financial condition, cash flows, working capital requirements and capital expenditures. The Company may not be able to pay dividends, the Company's Board of Directors may not recommend the payment of dividends and the shareholders may not approve the payment of dividends. Additionally, the Company may be

restricted by the terms of the Company's future credit financing agreements to make dividend payments. The Company may incur expenses or liabilities that would reduce or eliminate the cash available for distribution of dividends. If the Company does not pay cash dividends on the Shares, shareholders may not receive any return on investment in the Shares unless they sell the Shares at a price higher than the price at the time of purchase.

The PLCA and the Company's Articles of Association state that the Company is not permitted to pay dividends if the Company has an accumulated deficit in retained earnings, even though the Company has recorded net profit in that particular year. As at June 30, 2014, the Company had a standalone accumulated deficit in unappropriated retained earnings of THB3,421.7 million (US\$105.4 million) as a result of the restatement of the Company's financial statements. Pursuant to the PLCA and the Company's Articles of Association, the Company intends to seek shareholder approval to use the share premium (if any) from the issuance of the Shares to offset the total accumulated deficit (to the extent that such aggregate share premium amount exceeds the total accumulated deficit) at an extraordinary meeting of the Company's shareholders to be held as soon as practicable after the Offering. To the extent that Company does not obtain such shareholder approval or the share premium is not sufficient to offset the total accumulated deficit, the Company will not be legally permitted to declare or pay dividends until the Company has no accumulated deficit and records net profit in the particular year. See "Dividend Policy".

***Fluctuations in the exchange rate of the Thai Baht with respect to the U.S. Dollar or other currencies will affect the foreign currency equivalent of the value of the Shares and any dividends.***

Fluctuations in the exchange rates between the Thai Baht and other currencies will affect the foreign currency equivalent of the Thai Baht price of the Shares. Such fluctuations will also affect the amount that holders of the Shares will receive in foreign currency upon conversion of any cash dividends or other distributions paid in Thai Baht by us on the Shares, and any proceeds paid in Thai Baht from any sale of the Shares in the secondary trading market.

***Your ability to participate in future rights offerings may be limited.***

Although Thai public companies are not required to offer pre-emptive rights to existing shareholders when issuing new securities, Thai public companies have from time to time issued new securities through rights offerings. Compliance with securities laws or other regulatory provisions in some jurisdictions may prevent certain investors from participating in any future rights issuances and thereby result in dilution of their existing shareholdings. We do not have, and do not currently foresee having, any obligation to register our securities in any jurisdiction outside Thailand to permit foreign investors to participate in any future rights offerings we may undertake.

***Facts and statistics from official and industry sources in the Offering Memorandum relating to the Thai economy and the aviation industry in Thailand and Southeast Asia may not be fully reliable.***

Facts and statistics in this Offering Memorandum relating to Thailand, the Thai economy, the aviation sector and other related sectors of Thailand are derived from various official and industry sources including a report and data we commissioned from The S-A-P Group LLC that we believe is reliable. We believe that the sources of such information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information and statistics. We cannot guarantee, however, the quality or reliability of these official and industry sources. The facts and statistics reproduced and extracted from these sources have not been independently verified by us, the Joint Global Coordinators or any of their or our directors, affiliates, agents, employees or advisers. We therefore make no representation as to the accuracy of such facts and statistics from these sources, which may not be consistent with other information compiled within or outside Thailand.

## USE OF PROCEEDS

We estimate the net proceeds to us from the sale of New Shares to be THB12,607.8 million (US\$388.5 million), based on an offering price of THB25 per Share after deducting underwriting commissions and other estimated expenses payable by us in connection with the sale of New Shares (which are estimated to be THB392.2 million (US\$12.1 million)).

We intend to use the net proceeds to us from the sale of New Shares as follows:

- THB9,000 million (US\$277.3 million) to increase our fleet size and/or to replace existing aircraft;
- THB1,500 million (US\$46.2 million) for the purchase of spare parts and provisions in relation to fleet adjustment in accordance with industrial standard;
- THB900 million (US\$27.7 million) for the construction of a hangar at the Suvarnabhumi International Airport;
- THB900 million (US\$27.7 million) for improvements at the Samui Airport; and
- THB307.8 million (US\$9.5 million) for working capital.

A THB1 change in the offering price would change the net proceeds to us from the Primary Offering by THB520 million (US\$16.0 million).

The foregoing discussion represents our best estimate of the Company's allocation of the net proceeds from the sale of New Shares based upon the Company's current plans and estimates regarding our anticipated expenditures. The Company's management, however, will have flexibility and discretion as to how we apply the net proceeds as described above. Actual expenditures may vary from these estimates and the Company may find it necessary or advisable to reallocate the net proceeds within the categories described above or to use portions of our net proceeds for other purposes. Pending the application of the net proceeds as described above, we intend to invest the net proceeds in money market instruments, certificates of deposit, time deposits or other short-term investments.

We will not receive any proceeds from the sale of the Vendor Shares by the Selling Shareholder.

## DIVIDEND POLICY

The Board of Directors of the Company may recommend annual dividends subject to the approval of the Company's shareholders at its annual general meetings. From time to time, the Company's Board of Directors may declare interim dividends. The Company has a policy to pay dividends at the rate of not less than 50.0% of the Company's separate net profits after deducting corporate income tax and other reserve funds as required by law and our Articles of Association. However, our dividend payment policy may be subject to changes, depending on the business expansion and our demand in use of funds in each year, as necessary and suitable, as our Board of Directors deems appropriate, subject to our shareholders' approval. For the payment of interim dividends, our Board of Directors may approve to pay the interim dividends from time to time when our Board of Directors views that the Company has sufficient net profits to do so.

The Company must also comply with the PLCA, which states that the Company is not permitted to pay dividends if the Company has an accumulated deficit in retained earnings, even though the Company generates a net profit in that particular year. As a result of restatement of the Company's financial statements, the Company has an accumulated deficit in unappropriated retained earnings of THB3,421.7 million (US\$105.4 million) as of June 30, 2014, and therefore cannot pay dividends to its shareholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Changes in Basis of Preparation" and Notes 4.1, 4.2 and 5 of the 2013 Audited Financial Statements. Subject to shareholder approval, the PLCA and the Company's Articles of Association permit the use of share premium (if any) from the issuance of Shares of the Company above par value to offset any accumulated deficit. The Company intends to seek approval to use the share premium from the issuance of the Shares in the Combined Offering to offset the total accumulated deficit in retained earnings (to the extent that such aggregate share premium amount exceeds the total accumulated deficit in retained earnings) at an extraordinary meeting of the Company's shareholders to be held as soon as practicable after the Combined Offering. However, to the extent that Company does not obtain such shareholder approval or the share premium is not sufficient to offset the total accumulated deficit, the Company will not be permitted to declare or pay dividends. See "Risk Factors—Risks Relating to our Shares—The Company's ability to pay dividends in the future will depend upon future earnings, financial condition, cash flows, working capital requirements and capital expenditures and will be paid in Baht."

Additionally, the PLCA and the Company's Articles of Association state that a public company limited is required to reserve an amount equal to 5.0% of the annual net profit after deduction of the accumulated loss (if any) as legal reserve fund until such legal reserve fund is equal to not less than 10.0% of the registered capital. As of June 30, 2014, the Company's legal reserve was 10.0% of its registered capital. In addition to the legal reserve fund, the board of directors may consider making other types of reserve fund as deemed appropriate.

Dividends in respect of shares are generally subject to Thai income tax withholding at a rate of 10.0% when paid to either non-resident corporate investors or to non-resident individual investors. See "Taxation—Thai Taxation—Taxation of Dividends" for a description of Thai taxation on dividends. Cash dividends on our Shares will be paid in Baht. As a result, the equivalent of any dividends in U.S. Dollar or other foreign currencies will be affected by changes in the exchange rate between Baht and the U.S. Dollar or such other foreign currencies.

See Note 37 of our 2013 Audited Financial Statements included elsewhere in this Offering Memorandum for details of our dividends paid in 2011, 2012 and 2013.

Dividend payments by each of our subsidiaries is subject to shareholders' approval in accordance with such subsidiary's respective board of directors' recommendation. The following factors are taken into account when considering dividend payment: the results of operation, liquidity, cash flows and financial status of each subsidiary, conditions and limitations of the dividend payment as provided in the relevant loan agreements, debentures or other related agreements with which each subsidiary must comply, future business plans, investment capital requirement and other factors as deemed appropriate by such subsidiary's board of directors.

## EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated, certain information concerning the average buying (telex transfer) and selling exchange rate of Thai Baht for U.S. Dollars of commercial banks in Bangkok announced by the BOT. We are providing this information solely for your convenience. These are not necessarily the rates that we used in the preparation of the Company's financial statements. We do not represent that the Baht or U.S. dollar amounts set forth herein and referred to elsewhere in this Offering Memorandum could have been, or could be, converted into U.S. Dollars or Baht, as the case may be, at the reference rates indicated, at any particular rates, or at all.

	At Period End	Average <sup>(1)</sup>	Baht Low	Baht High
2007 .....	33.69	34.58	36.08	33.28
2008 .....	34.81	33.34	35.76	31.18
2009 .....	33.35	34.35	36.25	33.12
2010 .....	30.15	31.74	33.22	29.52
2011 .....	31.56	30.50	31.73	29.71
2012 .....	30.62	31.09	31.92	30.27
2013 .....	32.87	30.70	32.87	28.62
2014				
January .....	33.01	32.94	33.13	32.78
February .....	32.62	32.64	32.96	32.28
March .....	32.44	32.38	32.58	32.16
April .....	32.37	32.31	32.55	32.18
May .....	32.86	32.55	32.86	32.37
June .....	32.46	32.49	32.68	32.37
July .....	32.12	32.06	32.41	31.78
August .....	31.94	32.01	32.28	31.83
September .....	32.43	32.22	32.43	32.01
October (up to October 2, 2014) .....	32.42	32.44	32.46	32.42

(1) Averages are based on daily average buying (transfer) and selling exchange rate of commercial banks in Bangkok announced by the BOT.

Source: BOT

On June 30, 2014, the average buying (telex transfer) and selling exchange rate of commercial banks in Bangkok announced by the BOT was THB32.455 = US\$1.00.

## CAPITALIZATION AND INDEBTEDNESS

The following table shows our consolidated cash and cash equivalents, and capitalization and indebtedness as of June 30, 2014, on an actual and as adjusted basis. The “As Adjusted” data set forth below gives effect to the issue of the New Shares at an offering price of THB25 per Share and the application of such proceeds in the manner described in “Use of Proceeds” after deducting estimated underwriting commissions and applicable value added taxes in relation to the offering amounting to approximately THB243.4 million (US\$7.5 million).

We derived this table from our Unaudited Interim Financial Statements contained elsewhere in this Offering Memorandum. You should read this information in conjunction with the Financial Statements included elsewhere in this Offering Memorandum.

	As of June 30, 2014			
	Actual		As Adjusted	
	Bt	US\$	Bt	US\$
	(unaudited)		(unaudited)	
	(in millions)			
Cash and cash equivalents . . . . .	1,419.6	43.7	14,176.2	436.8
Indebtedness:				
Bank overdrafts and short-term loans from banks . . . . .	11.5	0.4	11.5	0.4
Current portion of long-term loans . . . . .	786.1	24.2	786.1	24.2
Current portion of finance lease of aircraft . . . . .	473.5	14.6	473.5	14.6
Current portion of finance lease . . . . .	28.5	0.9	28.5	0.9
Current portion of long-term loans from related party . . . . .	—	—	—	—
Long-term loans – net of current portion . . . . .	705.1	21.7	705.1	21.7
Liabilities arising from finance lease of aircraft – net of current portion . . . . .	130.7	4.0	130.7	4.0
Finance lease liabilities – net of current portion . . . . .	40.4	1.2	40.4	1.2
Long-term loans from related party – net of current portion . . . . .	11,230.7	346.0	11,230.7	346.0
Total indebtedness <sup>(1)</sup> . . . . .	13,406.5	413.1	13,406.5	413.1
Shareholders' equity:				
Share capital <sup>(2)</sup> :				
Issued and fully paid – 1.58 million shares . . . . .	1,580.0	48.7	2,100.0	64.7
Premium on ordinary shares . . . . .	270.0	8.3	12,506.6	385.4
Retained earnings:				
Appropriated – statutory reserve . . . . .	210.0	6.5	210.0	6.5
Unappropriated . . . . .	(3,960.1)	(122.0)	(3,960.1)	(122.0)
Other components of shareholders' equity . . . . .	13,670.3	421.2	13,670.3	421.2
Equity attributable to owners of the Company . . . . .	11,977.5	369.0	24,734.1	762.1
Non-controlling interests of the subsidiaries . . . . .	128.4	4.0	128.4	4.0
Total shareholders' equity . . . . .	12,105.9	373.0	24,862.5	766.1
Total capitalization . . . . .	25,512.4	786.1	38,269.0	1,179.1

(1) See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness” for a description of our long-term debt.

(2) Actual registered share capital was THB2,100.0 million (US\$64.7 million) comprising 1,250 million Shares of par value THB1 per Share.

Except with respect to the foregoing, there have been no material adverse changes in the capitalization and indebtedness of the Company since June 30, 2014.

## DILUTION

Dilution created by the Combined Offering represents the amount by which the offering price paid by the purchasers of Shares in the Combined Offering exceeds the book value of net assets per Share after the Combined Offering. We have determined book value of net assets per Share by subtracting our total liabilities from the total book value of our assets and dividing the difference by the number of Shares outstanding as of June 30, 2014.

As of June 30, 2014, our book value of net assets per Share was THB7.7 (0.24 US cents) (based on the 1,580 million Shares of par value THB1 issued and outstanding as of that date). After giving effect to the sale of the 520 million New Shares offered in the Primary Offering at the offering price of THB25 per Share and after payment of underwriting commissions and applicable value added taxes of the Primary Offering resulting in net proceeds to us of approximately THB12,607.8 million (US\$388.5 million), but without taking into account any other changes in book value of net assets after June 30, 2014, the book value of net assets per Share would increase to THB11.8 per Share. This represents an immediate increase in book value of net assets of THB4.1 per Share, and an immediate dilution of THB13.2 per Share (or 47.2%) to new investors purchasing Shares at the price of THB25 per Share.

The following table illustrates the per Share dilution (based on the offering price of THB25 per Share) described above:

Offering price per Share in the Combined Offering .....	THB25
Book value of net assets per Share as of June 30, 2014 .....	THB7.7
Increase per Share attributable to the sale of New Shares in the Primary Offering .....	THB4.1
Pro forma book value of net assets per Share after the Combined Offering (2,100,000,000 Shares outstanding as adjusted) . . . .	THB11.8
Dilution per Share to new investors of Shares in the Combined Offering .....	THB13.2
Percentage dilution to new investors .....	47.2%

## SELECTED CONSOLIDATED FINANCIAL AND OTHER INFORMATION

You should read the selected consolidated financial and other information presented below in conjunction with the Financial Statements included elsewhere in this Offering Memorandum. See “Presentation of Financial and Statistical Data”. You should also see the section of this Offering Memorandum entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. We have derived the selected financial information presented below from the 2013 Audited Financial Statements and the Unaudited Interim Financial Statements. 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.

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 have been restated for comparison purposes to conform with the changes made in the 2013 Audited Financial Statements but have not been audited. See “Presentation of Financial and Statistical Data” and Notes 4.1, 4.2 and 5 to our 2013 Audited Financial statements included elsewhere in this Offering Memorandum.

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. Such restated, comparative financial statements have not been reviewed by EY Thailand. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Change in Basis of Presentation” and Notes 2 and 21 to our Unaudited Interim Financial Statements included elsewhere in this Offering Memorandum for details.

TFRS differs in certain material respects from IFRS. For a discussion of significant accounting differences between TFRS and IFRS that are relevant to the Company’s Financial Statements, you should read the section entitled “Summary of Significant Differences Between TFRS and IFRS”.



Statements of Comprehensive Income:	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	Bt (unaudited) (restated)	Bt (unaudited) (restated)	Bt	US\$ (unaudited)	Bt (unaudited) (restated)	Bt (unaudited)	US\$ (unaudited)
	(in millions)						
<b>REVENUES</b>							
Passenger	11,409.0	14,598.6	16,484.3	507.9	8,112.2	8,677.6	267.4
Sales and service income	2,130.9	2,361.5	2,656.1	81.8	1,286.0	1,337.4	41.2
Freight	190.2	265.3	250.4	7.7	104.0	152.6	4.7
Passenger service charge	368.8	447.0	485.5	15.0	251.8	269.1	8.3
Dividend income	91.6	135.3	219.6	6.8	219.3	243.8	7.5
Gain on sales of investments	325.3	818.9	41.6	1.3	42.0	3.4	0.1
Gain on sales of investments in subsidiaries	—	226.8	3.0	0.1	3.0	—	—
Other income	1,007.3	666.5	580.8	17.9	238.4	296.4	9.1
<b>Total revenues</b>	<b>15,523.0</b>	<b>19,519.9</b>	<b>20,721.4</b>	<b>638.5</b>	<b>10,256.7</b>	<b>10,980.3</b>	<b>338.3</b>
<b>EXPENSES</b>							
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 on sales from leasehold rights	369.3	—	—	—	—	—	—
Other expenses	61.4	34.4	70.6	2.2	35.9	6.4	0.2
<b>Total expenses</b>	<b>13,345.0</b>	<b>15,720.3</b>	<b>18,219.8</b>	<b>561.4</b>	<b>8,557.0</b>	<b>10,137.1</b>	<b>312.3</b>
<b>Profit before share of income from investments in associates and finance cost and income tax</b>	<b>2,178.0</b>	<b>3,799.6</b>	<b>2,501.6</b>	<b>77.1</b>	<b>1,699.6</b>	<b>843.1</b>	<b>26.0</b>
Share of income from investments in associates	257.0	359.0	394.0	12.1	192.1	208.2	6.4
<b>Profit before finance cost and income tax expenses</b>	<b>2,435.0</b>	<b>4,158.5</b>	<b>2,895.5</b>	<b>89.2</b>	<b>1,891.7</b>	<b>1,051.4</b>	<b>32.4</b>
Finance cost	(1,846.3)	(1,867.8)	(1,765.6)	(54.4)	(880.5)	(825.2)	(25.4)
<b>Profit before income tax expenses</b>	<b>588.7</b>	<b>2,290.8</b>	<b>1,129.9</b>	<b>34.8</b>	<b>1,011.2</b>	<b>226.2</b>	<b>7.0</b>
Income tax expenses	(298.1)	(458.4)	(139.9)	(4.3)	(129.3)	(21.3)	(0.7)
<b>Profit for the year/period</b>	<b>290.6</b>	<b>1,832.4</b>	<b>990.0</b>	<b>30.5</b>	<b>881.9</b>	<b>204.8</b>	<b>6.3</b>
<b>Other comprehensive income:</b>							
Exchange difference on translation of financial statements in foreign currency	0.6	(0.2)	(0.2)	(0.0)	(0.2)	—	—
Gain on changes in value of available-for-sale investments	3,799.6	3,169.4	450.5	13.9	5,244.0	5,886.7	181.4
Income tax effect	(362.4)	(633.9)	(90.1)	(2.8)	(1,048.8)	(1,177.3)	(36.3)
<b>Other comprehensive income for the year/period</b>	<b>3,437.8</b>	<b>2,535.4</b>	<b>360.2</b>	<b>11.1</b>	<b>4,195.0</b>	<b>4,709.3</b>	<b>145.1</b>
<b>Total comprehensive income for the year</b>	<b>3,728.4</b>	<b>4,367.8</b>	<b>1,350.2</b>	<b>41.6</b>	<b>5,076.9</b>	<b>4,914.2</b>	<b>151.4</b>

(1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

Statements of Financial Position:	As of December 31,				As of June 30,	
	2011	2012	2013	2013 <sup>(1)</sup>	2014	2014 <sup>(1)</sup>
	Bt (unaudited) (restated)	Bt (unaudited) (restated)	Bt	US\$ (unaudited)	Bt (unaudited)	US\$ (unaudited)
	(in millions)					
Cash and cash equivalents	1,359.0	3,665.7	2,552.9	78.7	1,419.6	43.7
Total current assets	3,954.9	7,843.9	5,714.5	176.1	3,345.1	103.1
Total non-current assets	23,496.0	24,164.3	24,678.5	760.4	30,833.2	950.0
Investment in subsidiaries <sup>(2)</sup>	—	—	—	—	—	—
Investment in associates <sup>(3)</sup>	1,953.8	1,957.4	1,925.7	59.3	1,983.1	61.1
Total assets <sup>(4)</sup>	27,450.9	32,008.1	30,393.1	936.5	34,178.2	1,053.1
Total debt <sup>(5)</sup>	16,204.5	15,912.2	13,986.0	430.9	12,733.4	392.3
Total current liabilities	6,348.9	7,497.3	7,594.1	234.0	5,968.6	183.9
Liabilities arising from finance lease of aircraft	1,390.4	1,122.5	832.5	25.7	604.2	18.6
Total liabilities	23,461.4	24,288.6	23,201.3	714.9	22,072.3	680.1
Total shareholders' equity	3,989.5	7,719.5	7,191.7	221.6	12,105.9	373.0
Total liabilities and shareholders' equity	27,450.9	32,008.1	30,393.1	936.5	34,178.2	1,053.1

(1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

(2) Comprises investments in Samui Palm Beach Resort Company Limited, Bangkok Airways (Cambodia) Company Limited, Bangkok Airways Holding Company Limited, Sukhothai Property Company Limited, Samui Park Avenue Company Limited, BAC Group

Services Company Limited, Bangkok Airways Ground Services Company Limited, Bangkok Flight Training Center Company Limited, Worldwide Flight Services Bangkok Air Ground Handling Company Limited, Bangkok Air Catering Company Limited and Universal Catering & Services (Mauritius) Company Limited.

- (3) Comprises investments in WFS – PG Cargo Company Limited, the Samui Airport Property Fund and S.E.A. Aviation Co., Ltd.
- (4) As of June 30, 2014, BGH shares comprised 58.9% of our total consolidated assets.
- (5) Comprises bank overdrafts and short-term loans from financial institutions, long-term loans, short-term loans from related party and long-term loan – related party.

Statements of Cash Flows:	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	Bt (unaudited) (restated)	Bt (unaudited) (restated)	Bt	US\$ (unaudited)	Bt (unaudited) (restated)	Bt (unaudited)	US\$ (unaudited)
	(in millions)						
Net cash from (used in) operating activities . . . . .	2,466.4	3,039.7	1,898.9	58.5	700.3	(379.2)	(11.7)
Net cash from (used in) investing activities . . . . .	(1,155.9)	(22.1)	816.6	25.2	51.2	521.7	16.1
Net cash from (used in) financing activities . . . . .	(663.7)	(710.9)	(3,828.2)	(118.0)	(3,343.1)	(1,275.8)	(39.3)
Cash and cash equivalents at end of year . . . . .	1,359.0	3,665.7	2,552.9	78.7	1,073.7	1,419.6	43.7

- (1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.45 to US\$1.00.

Other Financial Data:	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	THB (unaudited) (restated)	THB (unaudited) (restated)	THB (unaudited)	US\$ (unaudited)	THB (unaudited) (restated)	THB (unaudited)	US\$ (unaudited)
	(in millions, except for percentages)						
Net profit (loss) for the period . . . . .	290.6	1,832.4	990.0	30.5	881.9	204.8	6.3
Add:							
Finance cost . . . . .	1,846.3	1,867.8	1,765.6	54.4	880.5	825.2	25.4
Income tax expense . . . . .	298.1	458.4	139.9	4.3	129.3	21.3	0.7
Loss on sales of investment in subsidiaries . . . . .	—	—	—	—	—	—	—
Loss on sales from leasehold rights . . . . .	369.3	—	—	—	—	—	—
Loss from write-off fixed assets . . . . .	—	—	72.2	2.2	19.4	11.8	0.4
Less: . . . . .							
Dividend income . . . . .	(91.6)	(135.3)	(219.6)	(6.8)	(219.3)	(243.8)	(7.5)
Gain on sale of investments . . . . .	(325.3)	(818.9)	(41.6)	(1.3)	(41.9)	(3.4)	(0.1)
Gain on sale of investments in subsidiaries . . . . .	—	(226.8)	(3.0)	(0.1)	(3.0)	—	—
Gain on sale of assets . . . . .	(0.8)	(99.7)	(2.4)	(0.1)	(4.6)	(4.1)	(0.1)
Interest received . . . . .	(63.5)	(69.3)	(24.7)	(0.8)	(10.9)	(10.2)	(0.3)
Other non-operating income <sup>(2)</sup> . . . . .	(545.8)	—	—	—	—	—	—
EBIT <sup>(5) (7)</sup> . . . . .	1,777.3	2,808.6	2,676.4	82.5	1,631.4	801.6	24.7
Add: . . . . .							
Depreciation and amortization . . . . .	623.9	592.6	572.9	17.7	277.5	305.9	9.4
EBITDA <sup>(4) (7)</sup> . . . . .	2,401.2	3,401.2	3,249.3	100.1	1,908.9	1,107.5	34.1
Add: . . . . .							
Operating lease expenses . . . . .	1,211.2	1,352.8	1,530.2	47.1	706.2	930.0	28.7
EBITDAR <sup>(3) (7)</sup> . . . . .	3,612.4	4,754.0	4,779.5	147.3	2,615.1	2,037.5	62.8
Total Revenue . . . . .	15,523.0	19,519.9	20,721.4	638.5	10,256.7	10,980.3	338.3
Operating Revenue <sup>(8)</sup> . . . . .	14,496.0	18,169.9	20,430.1	629.5	9,977.0	10,718.8	330.3
EBIT margin <sup>(6) (7)</sup> . . . . .	12.3%	15.5%	13.1%	13.1%	16.4%	7.5%	7.5%
EBITDA margin <sup>(6) (7)</sup> . . . . .	16.6%	18.7%	15.9%	15.9%	19.1%	10.3%	10.3%
EBITDAR margin <sup>(6) (7)</sup> . . . . .	24.9%	26.2%	23.4%	23.4%	26.2%	19.0%	19.0%

- (1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.
- (2) Includes income from the cancellation of an agreement in 2011.
- (3) EBITDAR represents earnings before interest and taxation after adding depreciation and amortization and aircraft operating lease expenses. Because there are various EBITDAR calculation methods, our presentation of EBITDAR may not be comparable to similarly titled measures used by other companies.
- (4) EBITDA represents earnings before interest and taxation after adding depreciation and amortization. Because there are various EBITDA calculation methods, our presentation of EBITDA may not be comparable to similarly titled measures used by other companies.
- (5) EBIT represents earnings before interest and taxation. Because there are various EBIT calculation methods, our presentation of EBIT may not be comparable to similarly titled measures used by other companies.
- (6) Represents EBIT, EBITDA or EBITDAR, as the case may be, divided by operating revenues.

- (7) EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR or EBITDAR margins are not standard measures, nor measurements of financial performance or liquidity, under TFRS or IFRS, and should not be considered alternatives to net profit (loss), profit (loss) before finance costs and income tax or any other performance measure derived in accordance with TFRS or IFRS, or as an alternative to cash flow from operating activities. EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR and EBITDAR margins are supplemental measures of the Company's performance that are not required by, or presented in accordance with, TFRS or IFRS. As a measure of operating performance, we believe that the most directly comparable measure to EBIT, EBITDA and EBITDAR is net profit. We use EBIT, EBITDA and EBITDAR in addition to net profit because net profit includes many accounting items associated with capital expenditures, such as depreciation, as well as certain other non operating transactions, such as interest income and interest expenses and income tax expenses. These accounting items may vary between companies depending on the method of accounting adopted by each company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, goodwill amortization and interest income and expenses, EBIT, EBITDA and EBITDAR provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by EBIT, EBITDA and EBITDAR may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.
- (8) Comprises total revenue net of non-operating revenue (dividend income, gain on sale of investments, gain on sale of investments in subsidiaries, gain on sale of assets, interest received, and other non-operating income).

## Operating Data

The following table presents the Company's operating information for scheduled passenger services for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
Scheduled passenger revenues (millions) <sup>(1)</sup>	11,780.7	14,848.1	16,859.8	8,330.9	9,046.9
Domestic	7,565.6	9,222.4	10,724.5	5,306.4	5,709.1
International	4,215.1	5,625.7	6,135.3	3,024.5	3,337.8
RPKs (millions) <sup>(2)</sup>	1,957.9	2,405.4	2,759.2	1,332.9	1,788.4
Domestic	1,206.1	1,399.6	1,667.8	804.4	1,084.8
International	751.8	1,005.9	1,091.5	528.6	703.7
ASKs (millions) <sup>(2)</sup>	2,899.5	3,587.3	4,062.8	1,912.8	2,726.9
Domestic	1,599.6	1,856.2	2,175.4	1,026.3	1,546.8
International	1,299.9	1,731.1	1,887.4	886.5	1,180.1
Passenger or cabin load factor <sup>(2)</sup>	67.5%	67.1%	67.9%	69.7%	65.6%
Domestic	75.4%	75.4%	76.7%	78.4%	70.1%
International	57.8%	58.1%	57.8%	59.6%	59.6%
Number of scheduled passengers carried (thousands) <sup>(2)</sup>	3,108.9	3,631.2	4,173.4	2,036.9	2,363.4
Domestic	2,340.6	2,671.8	3,118.7	1,523.2	1,762.3
International	768.2	959.4	1,054.7	513.7	601.1
Total seat capacity (thousands)	4,516.5	5,192.0	6,005.2	2,852.6	3,602.9
Domestic	3,153.7	3,582.7	4,122.7	1,960.8	2,495.8
International	1,362.8	1,609.3	1,882.6	891.8	1,107.1
Average stage length (kilometers)	629.8	662.4	661.2	654.4	756.7
Kilometers flown (millions) <sup>(2)</sup>	25.2	30.1	32.2	15.5	21.5
Aircraft utilization					
(block hours per day per aircraft) <sup>(3)</sup>	9.7	10.0	9.1	9.2	9.1
Airbus A320	9.8	10.9	9.9	10.4	9.9
Airbus A319	11.3	10.8	10.1	9.0	9.0
ATR 72-500	8.4	8.9	8.4	8.6	8.6
Revenue ASK (Baht) <sup>(4)</sup>	4.3	4.5	4.5	4.6	3.5
Cost per ASK (Baht) <sup>(4)</sup>	3.9	3.9	4.0	4.5	3.7
Cost per ASK excluding fuel cost (Baht) <sup>(4)</sup>	2.9	2.8	3.0	3.5	2.8
RASK less CASK (Baht) <sup>(4)</sup>	0.5	0.6	0.5	0.1	(0.25)
Number flights flown	42,512.0	47,205.0	51,441.0	24,715.0	29,716.0
Domestic	30,457.0	33,213.0	35,914.0	17,357.0	20,765.0
International	12,055.0	13,992.0	15,527.0	7,358.0	8,951.0
Passenger yield (Baht per RPK) <sup>(5)</sup>	6.0	6.2	6.1	6.3	5.1
Number of scheduled destinations served (winter schedule/summer schedule) <sup>(6)</sup>	17/19	19/20	23/22	20	24
Scheduled flight frequency (flights per week) (winter schedule/summer schedule) <sup>(6)</sup>	841/798	920/896	1,045/951	981/961	1,212/1,167
Number of aircraft at year/period end	18	21	25	23	25
Airbus A320	3	5	7	5	7
Airbus A319	7	8	10	10	10
ATR 72-500	8	8	8	8	8
Average number of aircraft	17	19	23	21	25
Average fare <sup>(7)</sup>	3,789.4	4,089.0	4,039.9	4,089.9	3,928.2
Fuel consumed (barrels)	728,857	882,581	1,004,683	471,990.9	595,978.4
Average fuel price (US\$ per barrel)	125.6	126.8	123.0	122.3	120.9

- (1) These figures are different from those included in our 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 us on a code-share basis, revenues derived from non-codeshare interline sales by us of seats on other airlines' flights, fuel and insurance surcharge revenue. Excludes revenues from cargo services, charter services and other revenue.

- (2) Excludes non-scheduled flights and flights operated by other airlines and marketed by us but includes flights operated by us and marketed by other airlines.
- (3) Excludes non-scheduled flights.
- (4) Data is not equivalent to the airline operation data calculated by SAP because different assumptions were used to calculate this data. The Company used the following assumptions:

Revenue ASK means 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 mean 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.

Cost per ASK excluding fuel costs means 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.

The RASK, CASK and RASK-CASK spread in 2013 was US\$13.85, US\$12.33 and US\$1.52, respectively (calculated from the Company's operating data and assuming the exchange rate of THB32.455=US\$1.00 (exchange rate as specified by the BOT as of June 30, 2014).

- (5) Scheduled passenger revenues excluding fuel surcharge, insurance surcharge and excess baggage divided by RPKs.
- (6) The winter schedule runs from the last Sunday of October of the previous year to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October each year.
- (7) Calculated as total scheduled passenger revenues divided by total number of scheduled passengers carried.

The following table presents operating and financial information of our subsidiaries and associated company for airport-related services for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
<b>International cargo terminal services data:<sup>(1)</sup></b>					
Freight cargo revenue (in million Baht) <sup>(5)</sup>	1,186.7	1,370.9	1,420.8	682.9	759.8
Freight EBITDA (in million Baht)	505.3	608.1	622.8	297.4	320.1
Freight net income (in million Baht)	248.5	372.0	389.7	184.0	209.9
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	121.8	182.3	191.0	90.2	102.9
Tonnage	328,901	369,245	349,935	171,833	181,509
Cargo Capacity	400,000	400,000	550,000	275,000	275,000
Utilization (%)	82.2	92.3	63.6	62.5	66.0
Number of airway bills	658,017	690,119	694,451	230,679	361,406
<b>Catering services data:<sup>(2)</sup></b>					
Catering revenue (in million Baht) <sup>(6)</sup>	899.6	1,083.6	1,231.4	608.0	646.8
Catering EBITDA (in million Baht)	196.9	310.4	324.2	191.0	189.6
Catering net income (in million Baht)	83.1	168.4	183.9	115.1	118.7
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	49.7	100.7	145.2	83.3	106.8
Number of meals produced and uplifted (million)	6.3	7.5	8.6	4.3	4.4
Bangkok Airways flights (million)	2.2	2.9	3.4	1.6	2.0
Other airline flights (million)	4.1	4.6	5.2	2.7	2.4
<b>Ground services data:<sup>(3)</sup></b>					
Ground revenue (in million Baht) <sup>(7)</sup>	1,400.3	1,571.1	1,893.9	895.3	996.3
Ground EBITDA (in million Baht)	218.5	252.5	373.9	176.4	147.4
Ground net income (in million Baht)	102.6	148.1	258.1	129.0	75.4
Number of flights handled	38,417	43,856	51,838	24,454	27,984
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	90.4	130.5	230.9	114.7	67.9

- (1) BFS Cargo is a 49.0% owned associated company and is not consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum. Our share of income from BFS Cargo is reflected in our statements of comprehensive income as share of income from associates as per the equity method.
- (2) BAC is a 90.0% owned subsidiary company and is consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum.
- (3) BFS Ground is a 90.0% owned subsidiary company and is consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum.
- (4) Calculated from net profit multiplied by shareholding of the Company.

- (5) Revenue generated from Bangkok Airways Plc was THB 8.1 million, THB 12.3 million, THB 10.7 million and THB7.8 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 0.7%, 0.9%, 0.8% and 1.0 % of total revenue of BFS Cargo, respectively.
- (6) Revenue generated from Bangkok Airways Plc was THB 204.5 million, THB 308.8 million, THB 345.4 million and THB211.3 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 22.7%, 28.5%, 28.1% and 27.8% of total revenue of BAC, respectively.
- (7) Revenue generated from Bangkok Airways Plc was THB 295.6 million, THB 330.0 million, THB 372.1 million and THB221.6 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 21.1%, 21.0%, 19.6% and 22.2% of total revenue of BFS Ground, respectively.

## 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-53 through F-137 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-138 through F-206, 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 Resort Co., Ltd	Palm Property Co., Ltd	Sukothai Property Co., Ltd	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 traveled 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 <sup>(1)</sup>	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 <sup>(1)</sup> .....	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	11,409.0	14,598.6	16,484.3	507.9	8,112.2	8,677.6	267.4

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 (Suvannabhumi)—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 traveled. 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
<b>Samui Airport</b>					
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
<b>Trat Airport</b>					
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
<b>Sukhothai Airport</b>					
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
	THB	THB	THB	US\$	THB	THB	US\$
<b>Revenues from the Samui Airport</b>				(in millions)			
Passenger service charge .....	358.3	436.2	474.5	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
	THB	THB	THB	US\$	THB	THB	US\$
<b>Revenues from the Trat Airport and the Sukhothai Airport</b>				(in millions)			
Passenger service charge .....	10.5	10.8	11.0	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.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
The revenues from the airport-related services	THB	THB	THB	US\$ (in millions)	THB	THB	US\$
BFS Ground .....	1,088.4	1,227.7	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	41.2

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	42.0	3.4	0.1
Dividend income	91.6	135.3	219.6	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 <sup>(1)</sup>	376.2	581.3	538.1	16.6	203.1	296.4	9.1
Total unallocated revenues	<u>1,338.9</u>	<u>1,762.3</u>	<u>802.4</u>	<u>24.7</u>	<u>467.3</u>	<u>543.6</u>	<u>16.7</u>

(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 THB42.0 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 THB219.6 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	2012	2013	2013	2013	2014	2014
	THB	THB	THB	US\$ (in millions)	THB	THB	US\$
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	13,345.0	15,720.3	18,219.8	561.4	8,557.0	10,137.1	312.3

### ***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\$ (in millions)	THB	THB	US\$
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\$ (in millions)	THB	THB	US\$
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
	THB	THB	THB	US\$ (in millions)	THB	THB	US\$
<b>Administrative expenses</b>							
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
	THB	THB	THB	US\$ (in millions)	THB	THB	US\$
<b>Airline Services and Airport Services</b>							
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\$
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 <sup>(1)</sup> . . . . .	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 . . . . .	<u>1,846.3</u>	<u>1,867.8</u>	<u>1,765.6</u>	<u>54.4</u>	<u>880.5</u>	<u>825.2</u>	<u>25.4</u>

(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 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.

### **Analysis of Financial Condition**

#### ***Total Assets***

As of December 31, 2011, 2012, 2013 and June 30, 2014, we had total consolidated assets of THB27,450.9 million, THB32,008.1 million, THB30,393.1 million (US\$936.5 million) and THB34,178.2 million (US\$1,053.1 million), respectively. Our assets principally comprise other long-term investments, property, plant and equipment, cash and cash equivalents (and, during 2012, other receivables partly arising from our Corporate Reorganization), and, as of December 31, 2011, 2012 and 2013 and June 30, 2014, the total value of these assets was THB18,425.9 million, THB23,881.5 million, THB23,213.6 million (US\$715.3 million) and THB28,013.8 million (US\$863.2 million), respectively, accounting for 67.1% to 82.0% of our total assets as of the dates considered.

#### ***Total Current Assets***

As of December 31, 2011, 2012, 2013 and June 30, 2014, we had total current assets of THB3,954.9 million, THB7,843.9 million, THB5,714.5 million (US\$176.1 million) and THB3,345.1 million (US\$103.1 million). The principal components of our total current assets are cash and cash equivalents, and trade and other receivables which accounted for 66.1%, 84.9%, 74.1% and 76.5% of the current assets in as of December 31, 2011, 2012 and 2013 and June 30, 2014, respectively.

*Cash and cash equivalents:* As of December 31, 2011, 2012, 2013 and June 30, 2014, we had cash and cash equivalents of THB1,359.1 million, THB3,665.7 million, THB2,552.9 million (US\$78.7 million) and THB1,419.6 million (US\$43.7 million). Cash and cash equivalents increased in 2012 principally due to cash flows generated from our business operations. In 2012, we also received a deposit payment for shares in the amount of THB1,898.5 million from our major shareholder and Chief Executive Officer. Cash and cash equivalents fell in 2013 and the six months ended June 30, 2014 as we paid dividends in the amount of THB2,424.2 million in 2013, and invested in other higher yielding current investments in 2013.

*Current investments:* Current investments consists of investment in securities held for trading. As of December 31, 2011, 2012, 2013 and June 30, 2014, we had current investments of THB26.3 million, THB59.7 million, THB511.0 million (US\$15.7 million) and THB31.2 million (US\$1.0 million). The increase in

current investments in 2013 was principally attributable to the purchase of bills of exchange, at call, in the amount of THB470.0 million (US\$14.5 million). The decrease in current investments in the six months ended June 30, 2014 was principally due to the sale of bills of exchange.

*Trade and other receivables:* As of December 31, 2011, 2012, 2013 and June 30, 2014, we had trade and other receivables of THB1,255.5 million, THB2,991.9 million, THB1,679.2 million (US\$51.7 million) and THB1,139.4 million (US\$35.1 million). As of December 31, 2011, 2012, 2013 and June 30, 2014, we had trade receivables before allowance for doubtful debt of THB1,359.1 million, THB1,737.8 million, THB1,686.5 million (US\$52.0 million) and THB1,236.1 million (US\$38.1 million), respectively.

Trade receivables—related (before allowance for doubtful debt) parties amounted to THB150.8 million as of December 31, 2011, THB177.9 million as of December 31, 2012, THB67.5 million (US\$2.1 million) as of December 31, 2013 and THB13.5 million as of June 30, 2014 for which we had a provision for bad debt of THB144.8 million as of December 31, 2011, THB176.3 million as of December 31, 2012, THB18.0 million as of December 31, 2013 and nil as of June 30, 2014. Allowance for doubtful debt decreased in 2013 mainly because the Company wrote-off bad debt for a company that closed down its business in the amount of THB126.3 million (equivalent to US\$4.13 million or THB145.69 million as of the record date), Bangkok Airtour (1988) Co., Ltd. in the amount of THB10.5 million, Samui Accom Co., Ltd. in the amount THB2.0 million, and Thai Cargo Airline Co., Ltd. in the amount of THB0.5 million, the approval of which was granted by the President of the Company. The Company was repaid from Bangkok Airtour (1988) Co., Ltd., in the amount of THB12.2 million and Samui Park Avenue Co., Ltd. in the amount of THB6.9 million. The Company received the allowance for doubtful debt in the amount of THB18.0 million at the end of 2013 from Samui Park Avenue Co., Ltd. for the amount of THB7.2 million and Samui Palm Beach Resort Co., Ltd for the amount of THB10.8 million. Net trade receivables—related parties (after allowance for doubtful debt) amounted to THB6.0 million as of December 31, 2011, THB1.6 million as of December 31, 2012, THB49.5 million as December 31, 2013 and THB13.5 million as of June 30, 2014. Our credit policy is a 30-day term and we will make a provision for bad debt for 100% of the amount of trade receivables due more than one year. For write-off determinations, if the Company has set a provision for doubtful debt in the full amount of such debt and there is a high probability that the Company will not be repaid, the write-off of bad debts must be approved by either the President, the Executive Committee or the Board of Directors of the Company (depending on the amount to be written off). Our trade receivables—unrelated parties were in the amount of THB1,208.3 million as of December 31, 2011, THB1,559.9 million as of December 31, 2012, THB1,619.0 million as of December 31, 2013 and THB1,222.6 million as of June 30, 2014. We set a provision for bad debt of THB70.2 million as of December 31, 2011, THB82.1 million as of December 31, 2012, THB112.1 million as of December 31, 2013 and THB106.8 million as of June 30, 2014. The increased trade receivables in 2012 and 2013 resulted from our normal course of business. The decrease in trade receivables as of June 30, 2014 was due to reduced bookings resulting from the political unrest experienced in Thailand in the first six months of 2014. The Company's allowance for doubtful debt is categorized into 2 types. The principal portion represents the outstanding receivables (which are over one year past due for the amount of THB35.0 million, for which the Company set a provision for doubtful debt for the full amount). The remainder is not yet due from tickets sold through BSP Agents. The Company is still doing business through and granting credit terms to such BSP Agents. The other portion represents other trade receivables for which the Company is in the process of collecting. The Company does not grant credit terms for those debtors whose debt is outstanding and for which the Company has set a provision for bad debt.

Other receivables as of the end of 2012 were mainly receivables from the Corporate Reorganization of THB1,467.8 million in 2012, arising from sales of assets and investment in subsidiaries, which were non-recurring special items and were not in our normal course of business. These note receivables from the sales of assets and investments in connection with the Corporate Reorganization were guaranteed by a financial institution and were settled on December 27, 2013. As of December 31, 2013, other receivables-net the allowance for doubtful debt accounted for THB122.8 million, comprised other receivables-related in the amount of THB38.4 million, which principally were other receivables with the Sahakol Estate Co., Ltd. in the amount of THB30.4 million. Such other receivables with the Sahakol Estate Co., Ltd. principally comprise expenses incurred from the Corporate Reorganization in an amount of THB25.6 million, receivables for general advisory fees in an amount of THB3.8 million and receivables for loans without interest in an amount of THB1.0 million. In addition, there were other receivables-related with another three companies amounting to THB5.8 million. As of December 31, 2013 and June 30, 2014, the Company had an allowance for doubtful debt for other receivables-unrelated parties in the amount of THB9.0 million. Such allowance accounts for the provision set aside for litigation. Other receivables-net the allowance for doubtful debt accounted for THB10.0 million, which was principally comprised of a credit note received from the seller, for which the Company did not set a provision for bad debt. For more details, see Note 11 of our 2013 Audited Financial Statements included elsewhere in this Offering Memorandum.

The table below sets out trade and other receivables based on due date:

Related Parties	As of December 31,				As of June 30,	
	2011	2012	2013	2013	2014	2014
	THB	THB	THB	US\$	THB	US\$
				(in millions)		
Not yet due	5.2	8.2	7.9	0.2	5.7	0.2
Past due – up to 3 months	0.8	7.5	5.3	0.2	6.6	0.2
Past due – up to 3-6 months	0.0	0.4	4.5	0.1	1.2	0.0
Past due – up to 6-12 months	1.2	2.0	37.4	1.2	0.0	0.0
Past due – more than 12 months	143.6	159.8	12.4	0.4	0.0	0.0
Total trade account receivables related parties	150.8	177.9	67.5	2.1	13.5	0.4
Allowance for doubtful debt	(144.8)	(176.3)	(18.0)	(0.6)	—	—
Net of total trade account receivables related parties	6.0	1.6	49.5	1.5	13.5	0.4
<b>Unrelated Parties</b>						
Not yet due	969.5	1,260.8	1,037.9	32.0	920.5	28.4
Past due – up to 3 months	138.1	180.5	451.4	13.9	145.0	4.5
Past due – up to 3-6 months	24.7	39.4	22.2	0.7	45.9	1.4
Past due – up to 6-12 months	50.8	19.1	20.3	0.6	9.4	0.3
Past due – more than 12 months	25.3	60.1	87.1	2.7	101.9	3.1
Total trade account receivables unrelated parties	1,208.3	1,559.9	1,619.0	49.9	1,222.6	37.7
Allowance for doubtful debt	(70.2)	(82.1)	(112.1)	(3.5)	(106.8)	(3.3)
Net of trade account receivables unrelated parties	1,138.1	1,477.8	1,506.8	46.4	1,115.9	34.4
<b>Total trade account receivables before allowance for doubtful accounts</b>	1,359.1	1,737.8	1,686.5	52.0	1,236.1	38.1
<b>Total trade account receivables – net the allowance for doubtful debt</b>	1,144.1	1,479.5	1,556.3	47.9	1,129.4	34.8

*Prepaid expenses:* Prepaid expenses consist of the prepaid aircraft rental, the prepaid insurance fees and the prepaid property tax. As of December 31, 2011, 2012, 2013 and June 30, 2014, we had prepaid expenses of THB274.2 million, THB256.9 million, THB334.2 million (US\$10.3 million) and THB275.7 million (US\$8.5 million) as of June 30, 2014, respectively.

*Short-term loans to related parties:* Short-term loans to related parties are loans made to related persons being our directors, our associated company, BFS Cargo, and related parties with common directors. As of December 2011 and 2012, we had short-term loans to related parties of THB557.6 million and THB289.0 million, respectively, due to the repayment of loans by the directors. We did not have short-term loans to related parties in the year ended December 31, 2013 or in the six months ended June 30, 2014.

*Inventories:* Inventories principally consisted of spare parts and food and catering equipment. As of December 2011, 2012, 2013 and June 30, 2014, we had inventories of THB187.0 million, THB230.6 million, THB228.4 million (US\$7.0 million) and THB242.1 million (US\$7.5 million). The increase in inventory in 2012 is principally due to increases in spare parts and duty-free inventory as a result of increased number of aircraft and flight frequency. Inventory remained relatively constant between 2012 and the six months ended June 30, 2014.

*Other current assets:* Other current assets consisted of the accrued interest receivable, value added tax and advance payment. As of December 2011, 2012, 2013 and June 30, 2014, we had other current assets of THB295.3 million, THB350.0 million, THB408.8 million (US\$12.6 million) and THB237.0 million (US\$7.3 million).

#### Total Non-Current Assets

As of December 2011, 2012, 2013 and June 30, 2014, we had total non-current assets of THB23,496.0 million, THB24,164.3 million, THB24,678.5 million (US\$760.4 million) and THB30,833.2 million (US\$950.0 million). The principal components of our total non-current assets consist of other long-term investments, property plant and equipment, investments in associates and other non-current assets, which accounted for 91.0%, 93.8%, 94.5% and 95.5% of the total non-current assets as of December 31, 2011, 2012, 2013 and June 30, 2014. The increase in other long-term investment in 2012, 2013 and the six months ended June 30, 2014 was mainly due to an increase in other long-term investments due to an increase in the market value of our shares in BGH, which resulted in unrealized gains arising from the fair value re-measurement of such investments.

*Investment in associates:* Investment in associates principally consisted of our investment in BFS Cargo, Samui Property Fund and S.E.A Aviation Co., Ltd (in which the Company has paid up capital of S.E.A. Aviation

Co., Ltd. in an amount representing 10% of the registered capital of S.E.A. Aviation Co., Ltd.), which was recorded under comparable equity method. As of December 2011, 2012, 2013 and June 30, 2014, we had investment in associates of THB1,953.8 million, THB1,957.4 million, THB1,925.7 million (US\$59.3 million) and THB1,983.1 million (US\$61.1 million), of which the main factor was the Samui Property Fund, with its carrying amounts based on equity method accounting for THB1,716.6 million as of December 31, 2011, THB1,628.2 million as of December 31, 2012 and THB1,539.2 million as of December 31, 2013, which decreased slightly to THB1,493.8 million (US\$46.0 million) as of June 30, 2014 because Samui Property Fund was a leasehold property fund.

*Other long-term investments:* As of December 2011, 2012, 2013 and June 30, 2014, we had other long-term investments of THB9,918.7 million, THB13,836.4 million, THB14,321.9 million (US\$441.3 million) and THB20,208.6 million (US\$622.7 million). Other long-term investments principally consisted of investment of shares in BGH. As of December 31, 2011, 2012, 2013 and June 30, 2014, we and our subsidiary companies owned 121.9 million, 121.3 million, 121.3 million and 1,213.4 million BGH shares, respectively. The increase of other long-term investment resulted from the increase of the value of shares in BGH from THB82.0 per share as of December 31, 2011 to THB113.5 per share as of December 31, 2012 and to THB117.5 per share as of December 31, 2013. 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. Other long-term investments were placed as collateral for financing with financial institutions.

*Restricted bank deposits:* Restricted bank deposits as of December 31, 2011, 2012, 2013 and June 30, 2014 accounted for THB19.8 million, THB170.1 million, THB189.1 million (US\$5.8 million) and THB187.1 million (US\$5.8 million) relating to a bank account in Bangalore which was suspended in relation to pending litigation. See “Business—Litigation” for details.

*Long-term loans to related parties:* Long-term loans to related parties are long-term loans made to related persons being our directors, our associated company, BFS Cargo, and related parties with common directors. As of December 2011, 2012 and 2013 long-term loans to related parties decreased from THB212.1 million in 2011, to THB200.0 million in 2012, to THB56.2 million in 2013 (US\$1.7 million) due to repayment of loans by the directors. As of June 30, 2014, the balance of the long-term loan to the related parties was THB34.5 million (US\$1.1 million). Loans to the Company’s associated company are in accordance with shareholding percentage.

*Investment properties:* As of December 31, 2011, 2012, 2013 and June 30, 2014, we had investment properties of THB1,010.4 million, THB317.7 million, THB312.3 million (US\$9.6 million) and THB309.6 million (US\$9.5 million). In 2011, we purchased land in the Ploenjit area for THB362.1 million. The decrease in investment properties in 2012 is principally due the sale of investment properties in the Corporate Reorganization with the value of THB1,281.3 million. As of June 30, 2014, our investment properties comprised land awaiting for sale in Sukhothai and Trat, office and shop for rent at the Samui Airport. A part of investment properties was used as collateral for loans with financial institutions.

*Property, plant and equipment:* As of December 31, 2011, 2012, 2013 and June 30, 2014, we had property, plant and equipment of THB7,148.1 million, THB6,379.4 million, THB6,338.8 million (US\$195.3 million) and THB6,385.6 million (US\$196.8 million). Property, plant and equipment principally comprised the head office building at Vipavadee-Rangsit Road, the office building at Tubsuwan, airports, aircraft spare parts and ground equipment, machine and equipment for ground services of BFS ground. The machine and equipment for ground services of BFS Ground mainly consisted of equipment for marshaling and push back, aerobridges and equipment for baggage handling. As of June 30, 2014, 19 aircraft out of 25 aircraft in our fleet operated under operating lease agreements and accordingly, are not recorded as assets. We are required under the operating lease agreements to pay the remaining rental expenses of US\$161.0 million. Five aircraft were recorded as assets under finance lease agreements in the form of conditional sale agreements with their value as of June 30, 2014 of THB2,023.2 million. We are obliged to pay remaining rental expenses of THB604.2 million under such finance lease agreements. Since July 2014, we own two of the ATR aircraft that used to be under a finance lease agreement.

*Intangible assets:* Intangible assets principally comprise concession fees and to a lesser extent computer software. As of December 31, 2011, 2012, 2013 and June 30, 2014, we recorded concession fee in the amount of THB696.9 million, THB699.6 million, THB717.1 million (US\$22.1 million) and THB775.3 million (US\$23.9 million). The concession fee was incurred by our subsidiary companies, namely BAC and BFS Ground, which signed agreements with AOT to engage in various projects at the Suvarnabhumi Airport for 20 years from September 27, 2006. BAC and BFS Ground have to pay annual benefits to AOT in amounts not less than the minimum consideration rates set for each year throughout the period of concession. The ownership in buildings and other components of each project were transferred to the Ministry of Finance.

*Leasehold rights:* As of December 31, 2011, 2012, 2013 and June 30, 2014, our leasehold rights for overseas properties amounted to THB63.3 million, THB61.0 million, THB58.7 million (US\$1.8 million) and THB50.3 million (US\$1.5 million), respectively. Currently, the Company possesses leasehold rights for overseas properties at two locations in Guilin and one location in Shenzhen.

*Deferred tax assets:* As of December 31, 2011, 2012, 2013 and June 30, 2014, our deferred tax assets amounted to THB104.5 million, THB52.4 million, THB23.5 million (US\$0.7 million) and THB23.3 million (US\$0.7 million), respectively. The decrease of the deferred tax assets in 2012, 2013 was due to the adoption of TAS 12 (Income Taxes).

*Other non-current assets:* Other non-current assets principally comprise deposit, share deposit, withholding tax and others. As of December 2011, 2012, 2013 and June 30, 2014, we had other non-current assets of THB2,368.4 million, THB490.3 million, THB735.1 million (US\$22.6 million) and THB875.7 million (US\$27.0 million), respectively. The decrease in other non-current assets in 2012 was compared to 2011 was principally due to the repayment of a deposit upon termination of an agreement in 2011 and the decrease of share deposit payment of THB1,898.5 million in 2012, which we received from our major shareholder and Chief Executive Officer. The increase in other non-current assets in 2013 and the six months ended June 30, 2014, was due to higher withholding tax assets recorded and an increase in deposits.

### **Total Liabilities**

As of December 31, 2011, 2012, 2013 and June 30, 2014, our total consolidated liabilities amounted to THB23,461.4 million, THB24,288.6 million, THB23,201.3 million (US\$714.9 million) and THB22,072.3 million (US\$680.1 million), respectively. Our liabilities principally comprise long-term loans relating to long-term lease agreements of the Samui Airport, deferred tax liabilities, long-term loans from financial institutions and related parties, liabilities under finance lease agreements in the form of conditional sale agreements, trade and other payables, unearned air ticket income and bank overdraft and short-term loans from financial institutions. As of December 31, 2011, 2012 and 2013 and June 30, 2014, the total value of these liabilities was THB22,315.1 million, THB23,009.0 million, THB21,697.5 million (US\$668.5 million) and THB20,795.2 million (US\$640.7 million), respectively, accounting for 93.5% to 95.1% of our total liabilities as of the dates considered.

	As of December 31,				As of June 30,	
	2011	2012	2013	2013	2014	2014
	THB	THB	THB	US\$	THB	US\$
	(in millions)					
<b>Liabilities</b>						
Long-term loans-related party relating to long-term lease agreements of the Samui Airport .....	10,910.6	11,097.4	11,207.5	345.3	11,230.7	346.0
Long-term loans from financial institutions .....	4,095.3	3,144.8	2,107.1	64.9	1,491.3	45.9
Deferred tax .....	1,540.8	2,404.5	2,486.1	76.6	3,627.9	111.8
Liabilities arising from lease of aircraft .....	1,390.4	1,122.5	832.5	25.7	604.2	18.6
Trade and other payables .....	1,752.3	1,829.0	2,356.9	72.6	2,168.3	66.8
Unearned air ticket income .....	1,427.1	1,740.7	2,035.9	62.7	1,661.4	51.2
Bank overdraft and short-term loans from financial institutions .....	1,198.6	1,670.0	671.4	20.7	11.5	0.4

### **Total Current Liabilities**

As of December 2011, 2012, 2013 and June 30, 2014, we had total current liabilities of THB6,348.9 million, THB7,497.3 million, THB7,594.1 million (US\$234.0 million) and THB5,968.6 million (US\$183.9 million), respectively. Total current liabilities principally comprise trade and other payables, unearned air ticket income and bank overdrafts and short-term loans from financial institutions which accounted for 69.0%, 69.9%, 66.7% and 64.4% of the total current liabilities as of December 31, 2011, 2012, 2013 and as of June 30, 2014, respectively.

*Trade and other payables:* As of December 31, 2011, 2012, 2013 and June 30, 2014, we had trade and other payables of THB1,752.3 million, THB1,829.0 million, THB2,356.9 million (US\$72.6 million) and THB2,168.3 million (US\$66.8 million), respectively. Trade and other payables—unrelated parties accounted for THB1,571.6 million, THB1,589.4 million, THB2,088.0 million and THB1,954.4 million (US\$60.2 million) as of December 31, 2011, 2012, 2013 and June 30, 2014. Trade and other payables—related parties accounted for THB167.6 million as of December 31, 2011, THB168.9 million as of December 31, 2012, THB236.9 million as of December 31, 2013 and THB167.3 million as of June 30, 2014. The increase in trade and other payables in

2012 and 2013 was mainly attributable to an increase in trade and other payables to unrelated third parties. The decrease in trade and other payables as of June 30, 2014 was mainly due to a decrease in trade and other payables to related parties.

*Unearned air ticket income:* As of December 31, 2011, 2012, 2013 and June 30, 2014, we had unearned air ticket income of THB1,427.1 million, THB1,740.7 million, THB2,035.9 million (US\$62.7 million) and THB1,661.4 million (US\$51.2 million), respectively. The increase in unearned income in 2012 and 2013 was due to increased ticket sales in the airline business operations. In the six months ended June 30, 2014, the decrease in unearned income was due to a reduction in airline ticket sales, which is a result of seasonality and the political unrest experienced in Thailand in the first six months of 2014.

*Bank overdraft and short-term loans from financial institutions:* As of December 31, 2011, 2012, 2013 and the June 30, 2014, we had bank overdraft and short-term loans from financial institutions in the amount of THB1,198.6 million, THB1,670.0 million, THB671.4 million (US\$20.7 million) and THB11.5 million (US\$0.4 million), respectively, with the interest rate at 3.25% to 10.0%. We reduced the debt outstanding in 2013 and the six months ended June 30, 2014.

#### *Total Non-Current Liabilities*

As of December 31, 2011, 2012, 2013 and June 30, 2014, we had total non-current liabilities of THB17,112.5 million, THB16,791.3 million, THB15,607.3 million (US\$480.9 million) and THB16,103.7 million (US\$496.2 million). Our non-current liabilities principally consist of deferred tax liabilities, long-term loans relating to long-term lease agreements with the Samui Property Fund, long-term loans with financial institutions, liabilities under finance lease agreements in the form of conditional sale agreements and a provision for long-term employee benefits. For more details, see “—Indebtedness” below.

#### *Deferred Tax Liabilities*

Deferred tax liabilities are derived from the temporary difference between the value of assets and liabilities representing in the statement of financial position and the tax base. Deferred tax liabilities accounted for THB1,540.8 million, THB2,404.5 million, THB2,486.1 million (US\$76.6 million) and THB3,627.9 million (US\$111.8 million) as of December 31, 2011, 2012, 2013 and June 30, 2014 as a result of the increase in the value of available-for-sale investment in BGH shares, due to an increase in the market price of our shares in BGH.

#### *Other Liabilities*

Other liabilities comprised income tax payable, current portion of finance lease liabilities, finance lease liabilities—net of current portion, other current liabilities, provision for long-term employee benefits and other non-current liabilities which amounted to THB1,146.3 million, THB1,279.6 million, THB1,503.9 million (US\$46.3 million) and THB1,277.1 million (US\$39.3 million) in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

#### *Shareholders' Equity*

As of December 31, 2011, 2012, 2013 and June 30, 2014, our shareholders' equity was THB3,989.5 million, THB7,719.5 million, THB7,191.7 million (US\$221.6 million) and THB12,105.9 million (US\$373.0 million), respectively. As of June 30, 2014, shareholders' equity consisted of paid up capital of THB1,580.0 million (US\$48.7 million), an accumulated deficit in unappropriated retained earnings of THB3,960.1 million (US\$122.0 million) and other components of shareholders' equity of THB13,670.3 million (US\$421.2 million). Shareholders' equity increased due to gain on changes in value of available-for-sale investments, comprising shares in BGH, and other components of shareholders' equity, increasing from THB6,216.9 million as of December 31, 2011, THB8,753.4 million as of December 31, 2012, THB8,961.0 million (US\$276.1 million) as of December 31, 2013 and THB13,670.3 million (US\$421.2 million) as of June 30, 2014.

On February 26, 2013, pursuant to an employee share option plan, the Company allotted 30 million shares to employees and directors of the Company, with an exercise price equal to or higher than the net book value of the Company as at December 31, 2012 (approximately equal to THB10.0 per share). Allocations varied depending on the position, length of service and responsibilities of the directors and employees. For purposes of the financial statements, the Company estimated the fair value of each share option granted at THB16.91, calculated by an independent financial advisor. In 2013, we recorded expenses amounting to THB207.3 million as personnel expenses and as at December 31, 2013, the Company had capital reserves for share-based payments of THB207.3 million (US\$6.4 million).

The Company made dividend payments in 2011, 2012 and 2013, as follows:

- on April 27, 2011, the meeting of the board of directors approved the dividend payment from the result of operation in 2010, in the amount of THB120.0 million or THB1.0 per share, based on 120 million shares outstanding;
- on June 23, 2011, the meeting of the board of directors approved the interim dividend payment for 2011, in the amount of THB480.0 million or THB4.0 per share, based on 120 million shares outstanding;
- on August 25, 2011, the annual general meeting approved the interim dividend payment for 2011, in the amount of THB300.0 million or THB2.5 per share, based on 120 million shares outstanding;
- on November 22, 2012, the meeting of the board of directors approved the interim dividend payment for 2012, in the amount of THB654.8 million or THB5.4 per share, based on 121.3 million shares outstanding;
- on February 26, 2013, the extraordinary general meeting approved the interim dividend payment for 2012, in the amount of THB850.0 million or THB7.0 per share, based on 121.3 million shares outstanding;
- on April 25, 2013, the annual general meeting approved the dividend payment from the results of operation in 2012, in the amount of THB350.0 million or THB0.2 per share, based on 1,580 million shares, par value at THB1.0 per share, outstanding, and an interim dividend payment for the three months end March 31, 2013 totaling THB450.0 million or THB0.28 per share, based on 1,580 million share shares outstanding, par value at THB1.0 per share;
- on August 22, 2013, the meeting of the board of directors approved the interim dividend payment for 2013, in the amount of THB379.2 million or THB0.24 per share, based on 1,580 million shares, par value at THB1.0 per share, outstanding; and
- on November 28, 2013, the meeting of the board of directors approved the interim dividend payment for 2013, in the amount of THB395.0 million or THB0.25 per share, based on 1,580 million shares, par value at THB1.0 per share, outstanding.

We did not pay any dividends in the first six months of 2014.

Even though the Company has continued to generate profit through its operational performance, as a result of the changes in accounting policies described in Notes 4.1 (the adoption of Thai Accounting Standard Interpretation 27 relating to Evaluating the Substance of Transactions Involving the Legal Form of Lease whereby it includes variable lease expenses in the calculation of the effective interest rate), 4.2 (the change of accounting policy regarding income taxes) and 5 (the adjustment of an accounting item in relation to the House and Land tax) to the 2013 Audited Financial Statements, we recorded an unappropriated retained earnings deficit in the amount of THB3,421.7 million as at June 30, 2014 of the Company's standalone financial statements and THB3,960.1 million (US\$122.0 million) as at June 30, 2014 of the Company's consolidated financial statements. Under Thai law, the Company is not entitled to pay dividends if it has an accumulated deficit in retained earnings. See "Dividend Policy" for further information.

#### *Book value per share*

As of December 31, 2013, we had book value per share at THB4.55 per share, based on 1,580.0 million shares outstanding, with par value THB1.0 per share. As of June 30, 2014, we had book value per share of THB7.7 per share, based on 1,580.0 million shares outstanding, with par value of THB1.0 per share.

### **Liquidity and Capital Resources**

#### *Liquidity*

Our primary sources of funding are cash from operating activities, proceeds from increase in share capital, bank loans and to a lesser extent, loans from related parties, have also been important sources of funding for our business.



The availability of funding from external sources and the cost of such funding is subject to a number of factors that are beyond our control, including general economic and capital market conditions, interest rates, availability of credit from banks and other lenders, lender and/or investor confidence in our group, tax and securities laws that may be applicable to us, and political and economic conditions in the markets in which we operate and internationally.

We may from time to time incur additional bank loans to finance our future capital expenditures. Our ability to obtain such borrowings will be affected primarily by limitations on incurring additional indebtedness under our existing loan agreements, the liquidity of the financial markets and governmental policies in effect in the relevant jurisdiction at the time and other factors. Our primary uses of funds have been for capital expenditure and repayments of bank loans. We expect that our cash flows from operations, together with our cash and cash equivalents and the proceeds of this Combined Offering will be sufficient to fund our planned capital expenditures and to fund our current anticipated working capital needs for the remainder of 2014 and in 2015.

### **Consolidated Cash Flows**

The following table sets out certain information from our consolidated condensed statements of cash flows for the periods indicated.

<b>Cash Flow Data:</b> <sup>(1)</sup>	<b>Year Ended December 31,</b>				<b>Six Months Ended June 30,</b>		
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2014</b>	<b>2014</b>
	<b>THB</b> <b>(unaudited)</b> <b>(restated)</b>	<b>THB</b> <b>(unaudited)</b> <b>(restated)</b> <b>(in millions)</b>	<b>THB</b>	<b>US\$</b>	<b>THB</b> <b>(unaudited)</b> <b>(restated)</b>	<b>THB</b> <b>(unaudited)</b> <b>(in millions)</b>	<b>US\$</b>
<b>Cash flows from (used in) operating activities:</b>							
Profit from operating activities before changes in operating assets and liabilities . . . . .	2,893.8	3,359.3	3,406.3	105.0	2,033.2	949.2	29.2
Cash flows from (used in) operating activities . .	4,020.5	4,767.3	3,807.8	117.3	1,648.9	472.9	14.6
Cash paid for interest expenses . . . . .	(1,525.2)	(1,669.3)	(1,641.0)	(50.6)	(836.3)	(826.9)	(25.5)
Cash paid for income tax expenses . . . . .	(28.9)	(58.3)	(267.9)	(8.3)	(112.3)	(25.2)	(0.8)
Net cash flows from (used in) operating activities . . . . .	2,466.4	3,039.7	1,898.9	58.5	700.3	(379.2)	(11.7)
<b>Cash flows from (used in) investing activities:</b>							
(Increase) decrease in restricted bank deposits . .	19.8	(150.3)	(19.0)	(0.6)	(7.1)	2.0	0.1
(Increase) decrease in current investments . . . .	—	—	(470.0)	(14.5)	—	470.0	14.5
Acquisition of short-term investments . . . . .	(104.4)	(176.3)	(112.2)	(3.5)	(107.8)	—	—
Acquisition of long-term investments . . . . .	(919.3)	(946.9)	(43.9)	(1.4)	(43.9)	—	—
Acquisition of investment property . . . . .	(362.1)	(1.4)	—	—	—	—	—
Acquisition of property, plant and equipment . .	(686.8)	(437.1)	(529.0)	(16.3)	(170.1)	(289.7)	(8.9)
Proceeds from sales of leasehold rights . . . . .	44.1	—	—	—	—	10.9	0.3
Cash received from sales of short-term investments . . . . .	77.9	145.0	116.7	3.6	103.2	10.4	0.3
Cash received from sales of long-term investments . . . . .	418.9	1,011.3	45.5	1.4	45.1	—	—
Cash paid for investment in subsidiaries . . . . .	—	—	(293.5)	(9.0)	(293.5)	—	—
Net cash flows from (used in) investing activities . . . . .	(1,155.9)	(22.1)	816.6	25.2	51.2	521.7	16.1
<b>Cash flows from (used in) financing activities:</b>							
Increase (decrease) in bank overdrafts and short-term loans from financial institutions . . . . .	(132.4)	492.1	(998.6)	(30.8)	(1,670.0)	(659.9)	(20.3)
Cash received from long-term loans . . . . .	801.3	483.5	14.7	0.5	—	—	—
Repayment of long-term loans . . . . .	(432.6)	(1,057.2)	(1,052.3)	(32.4)	(660.7)	(615.9)	(19.0)
Dividend paid . . . . .	(900.0)	(654.8)	(2,424.2)	(74.7)	(1,650.0)	—	—
Net cash flows from (used in) financing activities . . . . .	(663.7)	(710.9)	(3,828.2)	(118.0)	(3,343.1)	(1,275.8)	(39.3)
<b>Net (decrease) increase in cash and cash equivalents . . . . .</b>	<b>647.3</b>	<b>2,306.6</b>	<b>(1,112.8)</b>	<b>(34.3)</b>	<b>(2,591.9)</b>	<b>(1,133.2)</b>	<b>(34.9)</b>

(1) For the complete cash flows statements please see our consolidated Financial Statements included elsewhere in this Offering Memorandum.

*Six months ended June 30, 2014*

In the six months ended June 30, 2014, we had profit from operating activities before changes in operating assets and liabilities of THB949.2 million (US\$29.2 million) and cash from operating activities of THB472.9 million (US\$14.6 million). Cash flows from operating activities were principally a result of the decrease in profit from operating activities before changes in operating assets and liabilities from THB2,033.2 million in the six months ended June 30, 2013 to THB949.2 million (US\$29.2 million) in the six months ended June 30, 2014, and a THB151.9 million (US\$4.7 million) decrease in trade and other payables. In addition, we paid interest expenses of THB826.9 million (US\$25.5 million), which comprises THB643.2 million (US\$19.8 million) in respect of our Sub-lease Agreement with the Samui Property Fund, and paid corporate income tax of THB25.2 million (US\$0.8 million). As a result, our net cash used in operating activities amounted to THB379.2 million (US\$11.7 million).

In the six months ended June 30, 2014, our net cash flows from investing activities of THB521.7 million (US\$16.1 million) were primarily from a THB470.0 million (US\$14.5 million) decrease in current investments, primarily due to the sale of bills of exchange, THB150.8 million (US\$4.6 million) in dividend income from investment in associates relating to Samui Property Fund and BFS Cargo, and THB10.9 million (US\$0.3 million) in proceeds received from sales of leasehold rights. This was partially offset by a THB289.7 million (US\$8.9 million) acquisition of property, plant and equipment and a THB89.7 million (US\$2.8 million) acquisition of intangible assets.

In the six months ended June 30, 2014, our net cash flows used in financing activities of THB1,275.8 million (US\$39.3 million) were from a THB659.9 million (US\$20.3 million) decrease in bank overdrafts and short-term loans from financial institutions and a THB615.9 million (US\$19.0 million) repayment of long-term loans.

*Year Ended December 31, 2013*

In 2013, we had profit from operating activities before changes in operating assets and liabilities of THB3,406.3 million (US\$105.0 million) and cash flows from operating activities of THB3,807.8 million (US\$117.3 million) and net decrease in operating assets and liabilities of THB1,908.9 million (US\$58.8 million). Cash flows from operating activities were principally as a result of a THB96.7 million (US\$3.0 million) decrease in loans to director, relating to a director's repayment of a portion of a director's loan, a THB142.3 million (US\$4.4 million) decrease in loans to related parties, relating to BFS Cargo, a THB294.3 million (US\$9.1 million) increase in trade and other payables, and a THB474.6 million (US\$14.6 million) increase in other current liabilities, relating to an increase in unearned income from the sale of passenger tickets. Profit from operating activities was partially offset by a THB131.9 million (US\$4.1 million) increase in other current assets, a THB112.3 million (US\$3.5 million) increase in other assets, and a THB315.2 million (US\$9.7 million) decrease in liabilities under finance lease payable, relating to payments under our aircraft finance leases. In addition, we paid interest expenses of THB1,641.0 million (US\$50.6 million), which comprises THB1,331.7 million (US\$41.0 million) in respect of our Sub-lease Agreement with the Samui Property Fund, and paid corporate income tax of THB267.8 million (US\$8.3 million). As a result, our net cash from operating activities amounted to THB1,898.9 million (US\$58.5 million).

In 2013, our net cash flows from investing activities of THB816.6 million were primarily attributable to THB217.2 million (US\$6.7 million) in interest income relating to a loan to a director, THB425.6 million (US\$13.1 million) in dividend income from investment in associates relating to Samui Property Fund and BFS Cargo, THB219.6 million (US\$6.8 million) in dividend income from long-term investments relating to BGH, THB248.6 million (US\$7.7 million) in proceeds from sales of property, plant and equipment, and THB672.8 million (US\$20.7 million) in proceeds from sales of investment properties relating to sales of bills of exchange received as consideration for properties sold as part of the Corporate Reorganization. This was partially offset by a THB470.0 million (US\$14.5 million) increase in current investments relating to bank deposits, a THB529.0 million (US\$16.3 million) increase in the acquisition of property, plant and equipment, principally due to the purchase of aircraft spare parts and equipment for ground services, and a THB293.5 million (US\$9.0 million) increase in cash paid for investment in subsidiaries relating to BAC and BFS Ground.

In 2013, net cash flows used in financing activities of THB3,828.2 million (US\$118.0 million) were primarily from a THB1,052.4 million (US\$32.4 million) repayment of long-term loans and a THB2,424.2 million (US\$74.7 million) payment of dividends and a THB998.6 million (US\$30.8 million) repayment of bank overdrafts and short-term loans from financial institutions, partially offset by a THB637.5 million (US\$19.6 million) increase in proceeds received from issuances of share capital.

*Year Ended December 31, 2012*

In 2012, we had profit from operating activities before changes in operating assets and liabilities of THB3,359.3 million and cash flows from operating activities of THB4,767.3 million and net decrease in operating assets and liabilities of THB1,727.6 million. Cash flows from operating activities were principally as a result of a THB284.3 million decrease in loans to director, relating to a director's repayment of a portion of a director's loan, a THB1,898.5 million decrease in a share deposit from a director, relating to the cancellation of a deposit for shares in BGH and a THB306.7 million increase in other current liabilities, relating to an increase in unearned income from the sale of passenger tickets. Profit from operating activities was partially offset by a THB748.3 million increase in trade receivables from normal operations, and a THB287.1 million (US\$8.8 million) decrease in liabilities under finance lease payable, relating to payments under our aircraft finance leases. In addition, we paid interest expenses of THB1,669.3 million, which comprises THB1,314.1 million in respect of our Sub-lease Agreement with the Samui Property Fund and paid corporate income tax of THB58.3 million. As a result, our net cash from operating activities amounted to THB3,039.7 million.

In 2012, our net cash flows used in investing activities of THB22.1 million were primarily from a THB946.9 million acquisition of long-term investments, relating to the acquisition of BGH shares in October 2012, a THB437.1 million acquisition of property, plant and equipment, relating to the acquisition aircraft parts and ground equipment and furniture, fixtures and equipment, a THB176.3 million acquisition of short-term investments, and a THB150.3 million increase in restricted bank deposits relating to the suspension of our bank accounts in Bangladesh as a result of a pending lawsuit in the country. This was partially offset by cash received from sales of long-term investments in the amount of THB1,011.3 million, relating to the sale in December 2012 of the BGH shares, THB145.0 million in cash received from short-term investments, THB355.4 million in dividend income from investments in associates and THB135.3 million in dividend from long-term investments. For details of our pending lawsuit in Bangladesh, see Note 39 to our 2013 Audited Financial Statements and "Business—Legal Proceedings—Proceeds as Defendant Relating to the Termination of an Appointment Agreement of General Sales Agent".

In 2012, net cash flows used in financing activities of THB710.9 million were from a THB1,057.2 million repayment of long-term loans and a THB654.8 million payment of dividends, partially offset by a THB492.1 million increase in bank overdrafts and short-term loans from financial institutions and THB483.5 million in cash received from long-term loans.

*Year Ended December 31, 2011*

In 2011, we had profit from operating activities before changes in operating assets and liabilities of THB2,893.8 million and cash flows from operating activities of THB4,020.5 million and net decreased of changes in operating assets and liabilities of THB1,554.1 million. Cash flows from operating activities were principally as a result of a THB514.6 million decrease in loans to director, relating to director's repayment of a portion of a director's loan, a THB517.4 million decrease in other assets, relating to the return of deposits due to the cancellation of one agreement, and a THB444.9 million increase in other current liabilities, attributable to an increase in unearned income from the sale of passenger tickets. This was partially offset by a THB189.9 million decrease in liabilities under finance lease payable, relating to payments under our aircraft finance leases. In addition, we paid interest expenses of THB1,525.2 million, which comprises THB1,283.0 million in respect of our Sub-lease Agreement with the Samui Property Fund and paid corporate income tax of THB28.9 million. As a result, our net cash from operating activities amounted to THB2,466.4 million.

In 2011, our net cash flows used in investing activities of THB1,155.9 million were primarily from a THB919.3 million acquisition of long-term investments, relating to the acquisition of BGH shares, a THB686.8 million acquisition of property, plant and equipment, attributable to the acquisition of land in Samui and aircraft parts and ground equipment and furniture, fixtures and equipment, and a THB362.1 million acquisition of investment properties, relating to an acquisition of land in Ploenjit and a THB104.4 million acquisition of short-term investments. This was partially offset by a THB418.9 million cash received from sales of long-term investments, relating to the sale of a portion of our BGH shares, THB77.9 million cash received from sales of short-term investment, THB225.6 million dividend income from investment in associates and THB91.6 million in dividend income from long-term investments.

In 2011, net cash flows used in financing activities of THB663.7 million were from a THB432.6 million payment of long-term loans, a THB900.0 million payment of dividends and a THB132.4 million payment of bank overdrafts and short-term loans from financial institutions, partially offset by a THB801.3 million increase in bank loans.

## **Indebtedness**

### ***Loans from Related Parties***

We have historically received funding from our related parties. Our lease and leaseback transaction with the Samui Property Fund under the Long-Term Lease Agreement and the Sub-lease Agreement is treated as a long-term loan from a related party. As of December 31, 2011, 2012, 2013 and June 30, 2014, we had THB10,910.6 million, THB11,097.4 million, THB11,207.5 million (US\$345.3 million) and THB11,230.7 million (US\$346.0 million), respectively, in aggregate principal amount outstanding from related parties. In 2013, the Company changed the way it recorded long-term loans to related parties to include fixed rental expenses, fixed service expenses and variable service expenses in computing the effective interest rate. This change in calculation method resulted in 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. For more detailed information on our related party transactions, see “Related Party Transactions”. For more information on our loans from related parties, see Note 26 to our 2013 Audited Financial Statements.

### ***Bank Loans***

We have obtained certain credit facilities from Bangkok Bank Public Company Limited, Krungthai Bank Public Company Limited and Kasikornbank Public Company Limited with amounts available to be drawn thereunder. In addition, BFS Ground and BAC have obtained certain credit facilities from Krungthai Bank Public Company Limited and Bangkok Bank, respectively. Our total long-term bank loans outstanding amounted to THB4,095.3 million in 2011, THB3,144.8 million in 2012, and THB2,107.1 million (US\$64.9 million) in 2013 and THB1,491.3 million (US\$45.9 million) in the six months ended June 30, 2014. Long-term loans decreased since 2011 due to repayments under our existing credit facilities. As of December 31, 2013, the effective interest rate of long-term loans ranged from 5.4% to 6.9% and long-term loans from related parties (being the Samui Property Fund) was 12.6%. In addition, certain of our bank loans are secured by land and project assets, rights on agreements with AOT, shares in our subsidiary and BGH shares pledged.

For more information on our bank loans, see Notes 21 and 23 to our 2013 Audited Financial Statements. See “Description of Material Agreements—Finance Agreements” for a summary of the material terms of our finance agreements.

### **Finance Lease Agreements in the Form of Conditional Sale Agreements**

We also have incurred indebtedness under finance lease agreements in the form of conditional sale agreements, which are treated as finance leases. As of June 30, 2014, we had five aircraft subject to finance lease agreements in the form of conditional sale agreements. The liabilities under such agreements were THB1,390.4 million, THB1,122.5 million, THB832.5 million (US\$25.7 million) and THB604.2 million (US\$18.6 million) as of December 31, 2011, 2012, 2013 and June 30, 2014. The amounts have been continually decreasing due to repayments under such finance lease agreements in the form of conditional sale agreements. As of June 30, 2014, the effective interest rate ranged from 6.7% to 7.1%.

## ATR Sale and Purchase Agreement

On February 12, 2014, we entered into a sale and purchase agreement to acquire six new ATR72-600 aircraft, which also includes purchase rights for an additional two ATR 72-600 aircraft, we acquired an additional purchase right for one more aircraft on May 27, 2014. On May 27, 2014, we exercised such purchase rights for the additional three ATR 72-600 aircraft. The Company intends to finance the purchase of such aircraft through financing lease arrangements with third parties. The delivery schedule for the nine aircraft is as follows:

Aircraft Number	Scheduled Delivery
Aircraft Number 1	4 <sup>th</sup> Quarter 2014
Aircraft Number 2	1 <sup>st</sup> Quarter 2015
Aircraft Number 3	3 <sup>rd</sup> Quarter 2015
Aircraft Number 4	4 <sup>th</sup> Quarter 2015
Aircraft Number 5	4 <sup>th</sup> Quarter 2015
Aircraft Number 6	1 <sup>st</sup> Quarter 2016
Aircraft Number 7	2 <sup>nd</sup> Quarter 2016
Aircraft Number 8	4 <sup>th</sup> Quarter 2016
Aircraft Number 9	1 <sup>st</sup> Quarter 2017

See “Description of Material Agreements—ATR Sale and Purchase Agreement”.

## Guarantees

The Company has entered into guarantees from time to time with Bangkok Bank, Thanachart Bank and Krung Thai to guarantee the bank credit facilities of our subsidiaries and associated companies and in the ordinary course of business. The Company has also provided mortgages over certain plots of land in Samui, Trat and Sukhothai and a pledge over certain shares in BGH as security for such obligations.

Our guarantee commitments to guarantee the bank credit facilities of our subsidiaries, BAC and BFS Ground, amounted to THB1,910.0 million (US\$58.9 million) as of December 31, 2013 and THB1,910.0 million (US\$58.9 million) as of June 30, 2014, and for our associated company, BFS Cargo, amounted to THB165.0 million (US\$5.1 million) as of December 31, 2013 and THB165.0 million as of June 30, 2014. See Note 38.3 to our 2013 Audited Financial Statements and Note 26.3 to our Unaudited Interim Financial Statements for details of our guarantee commitments, including our additional guarantee commitments issued in the ordinary course of business.

## Capital Expenditures

The following table sets forth our capital expenditures 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)			
Aircraft spare parts and ground equipment	104.2	151.1	285.6	8.8	69.2	171.5	5.3
Non-aircraft expenditures <sup>(1)</sup>	621.2	340.4	277.9	8.6	113.3	157.8	4.8
Total	<u>725.4</u>	<u>491.5</u>	<u>563.5</u>	<u>17.4</u>	<u>182.5</u>	<u>329.3</u>	<u>10.1</u>

(1) Non-aircraft expenditures comprises the cost of land and construction in progress in relation to our flight simulator building at the Suvarnabhumi Airport and a new international terminal at the Samui Airport as part of our ongoing upgrading works and to accommodate potential additional passengers in the future, and ground service equipment.

For 2014, we have budgeted capital expenditures for aircraft expenditures in the amount of THB495.3 million (US\$15.3 million), and non-aircraft capital expenditures of THB2,493.6 million (US\$60.4 million), of which THB329.3 million has been incurred as of June 30, 2014 for both aircraft and non-aircraft capital expenditures.

We anticipate that our capital expenditures in 2014 will be financed primarily by a combination of operating cash flow, proceeds from the Combined Offering and additional debt from financial institutions.

We plan to expand our total fleet size to 43 aircraft by December 31, 2018. While historically the majority of our aircraft are currently subject to operating leases, given our financial condition and operating performance, we may in the future purchase aircraft through finance leases, in addition to obtaining aircraft under operating leases. However, we do not expect that purchased aircraft would account for more than three-fourths of our total aircraft fleet. By also continuing to lease aircraft under operating leases, we are able to retain flexibility in adjusting our fleet size pending manufacture and purchase of new aircraft. In the future, these planned purchases may substantially increase our capital expenditures beyond amounts which we have historically incurred.

We cannot assure you that our capital expenditure budget will not vary or can be financed on commercially acceptable terms, or at all. Our ability to obtain adequate financing, including new facilities, to satisfy our capital expenditures, contractual obligations and debt service requirements may be limited by our financial condition and results of operation and the liquidity of domestic and international financial markets. In addition, certain budgeted capital expenditures may be denominated in foreign currencies, with these amounts converted into Thai Baht. As such, these amounts are subject to foreign exchange rate fluctuation and may increase or decrease from time to time. 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” and “—We have substantial indebtedness and fixed payment obligations and will continue to have substantial indebtedness and fixed payment obligations following the consummation of the Combined Offering”.

### Contractual Obligations

The following table sets forth our contractual obligations included in our consolidated Financial Statements as of June 30, 2014 for the periods indicated. The table below excludes the Company’s (i) operating lease commitments under its aircraft lease agreements, which amounted to US\$161.0 million as of June 30, 2014, and (ii) financial commitments relating to the ATR Sale and Purchase Agreement, under which the Company agreed to purchase each ATR 72-600 aircraft. See “Description of Material Agreements—ATR Sale and Purchase Agreement”.

	Payment Due by Period				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	
	(in millions)				
Bank loans <sup>(1)</sup>	797.6	615.2	89.9	—	1,502.7
Related party loans <sup>(2)</sup>	—	—	—	11,230.7	11,230.7
Liabilities arising from financing lease of aircraft <sup>(3)</sup>	473.5	130.7	—	—	604.2
Finance lease payable <sup>(4)</sup>	28.5	37.9	2.5	—	68.9
Concessions <sup>(5)</sup>	353.7	739.7	792.4	3,474.5	5,360.3
Rental agreements <sup>(6)</sup>	298.5	308.6	97.1	421.6	1,125.8
Total	1,951.8	1,832.1	981.9	15,126.8	19,892.6

(1) Consists of liabilities under our bank overdrafts and short-term loans from financial institutions and our long-term loans. See “—Description of Material Agreements—Finance Agreements” and Notes 21 and 23 to our 2013 Audited Financial Statements.

(2) Consists of liabilities under our long-term related party loans relating to the Samui Property Fund.

(3) Consists of liabilities arising from the lease of aircraft net of deferred interest expenses.

(4) Consists of liabilities under finance lease agreements with leasing companies for rental of motor vehicles and equipment.

(5) Consists of liabilities relating to our concession fees under our BAC Concession and BFS Ground Concession.

(6) Consists of liabilities under rental agreements of land and building and service agreements.

### Off-Balance Sheet Transactions

The Company has entered into guarantees from time to time with Bangkok Bank, Thanachart Bank, Kasikorn Bank and Krung Thai to guarantee the bank credit facilities of our subsidiary and associated companies and in the ordinary course of business. The Company has also provided mortgages over certain plots of land in Samui, Trat and Sukhothai and a pledge over certain shares in BGH as security for such obligations.

Other than as described above, we do not have any material off-balance sheet transactions.

Following the Combined Offering, the number of the Company's issued and outstanding shares will increase by 520,000,000 shares, from 1,580,000,000 shares, to a total of 2,100,000,000 shares (par value of THB1 per share), which results in a dilutive effect of 24.8%. Therefore, the Company's earnings per share may be diluted in the future in the event that the Company's net earnings do not increase at growth rate sufficient to cover the increase in the number of shares outstanding.

## **Market Risks**

We are exposed to market risk, including aircraft fuel price risk, foreign currency risk and interest rate risk. See Notes 40.1 and 40.2 to our 2013 Audited Financial Statements and Notes 28 and 29 to the Unaudited Interim Financial Statements for additional information.

### ***Fuel Price Risk***

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. Under consolidated financial statements, aircraft fuel costs represent 28.2%, 29.3%, 27.7% and 29.8% of our cost of sales and services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Our current policy is to generally hedge approximately 60.0% of our budgeted annual aircraft fuel consumption. While our internal policies do not require a particular hedging instrument to be used for hedging aircraft fuel prices, we typically use fuel price swap agreements, fuel price option agreements and fuel price collar agreements. As of June 30, 2014, the maturity periods for these contracts ranged from three to 12 months and we hedged average of 44.4% of our fuel consumption. In addition, we are subject to obligations under fuel price hedging until December 2014 for 255,000 barrels, with lowest hedging price at US\$112.0 per barrel and the highest hedging price of US\$125.0 per barrel. We are to be responsible for the differences of fuel prices in case that fuel price is lower than the lowest hedging price. On the contrary, we are to be compensated for the differences of fuel prices in case that fuel price is higher than such highest hedging price.

### ***Foreign Currency Exchange Rate Risk***

As of the six months ended June 30, 2014, our financial assets accounted for 8.0% of our total assets, and our financial liabilities accounted for approximately 11.8% of our liabilities denominated in other currencies than Thai Baht. In 2013, approximately 30.6% of our cost of sale and services were denominated in foreign currencies and the remainder in Thai Baht and we generated revenue of approximately 50.9% in foreign currencies and the remainder in Thai Baht.

As a result, we have a policy to manage our foreign exchange risk exposure by a policy of matching approach between receipts and payments in each individual currency. In addition, we are able to determine the currency in which we receive from the sales of passenger tickets by IATA-authorized agents. We manage any unavailable foreign currency by converting our foreign currency into desired currency, at the spot rate at the time of conversion. We have not entered into any hedging contracts to hedge against fluctuations in exchange rates. We recorded profit or loss from converting the net foreign currency as other revenues or other expenses as the case may be.

A depreciation in the value of the Thai Baht against these foreign currencies tends to have a beneficial effect on our operating revenues and a detrimental effect on our operating costs, in each case in Thai Baht terms. Conversely, an appreciation in the value of the Thai Baht against these foreign currencies tends to have a detrimental effect on our operating revenues in Thai Baht terms.

As a result of the foregoing, any significant movement in the value of the Thai Baht against these foreign currencies could have an adverse effect on our business, financial condition, results of operations and prospects. See “—Overview—Factors Affecting Our Business, Financial Condition and Results of Operations—Foreign Exchange Rates” for further details.

### ***Interest Rate Risk***

Changes in interest rates affect our interest expenses on floating rate debt instruments, loans and our interest income from cash and cash equivalents. Our policy is to manage interest rate risks through a combination of fixed and variable rate debt, depending on market conditions.

As of June 30, 2014, 8.1% of our indebtedness bore interest at floating rates. As of June 30, 2014, the interest rate that was applicable to such indebtedness ranged from MLR minus 1% to MLR. Such increase in floating rates would affect our interest expenses and as a result, affect our profits.

## **Investment Policy**

### ***Businesses***

Our investment policy with respect to businesses is to invest in businesses which are related to our core business and which are consistent with our business condition and strategy or increase our competitive ability. We focus on the long-term investment in subsidiaries, associated companies and businesses with growth potential and positive return on investment.

In making investments, we consider fundamental factors of the investment, including the trend of the business, potential risks and measures to mitigate risks from such investment. Our policy is to make an investment of a sufficient size to allow us to participate in the management and to direct the business outlook of the entities in which we invest, as well as to support the businesses of the entities in which we invest to promote sustainable growth. We assign a number of directors to our investments as we deem appropriate, or in accordance with our shareholding percentage, to control and/or monitor such businesses.

On April 28, 2014, BAC's board of directors adopted a business investment policy which tracks the Company's policy described above.

### ***Securities***

Our investment policy with respect to securities is to invest in securities listed on the SET 100 which have positive fundamentals, including continuous growth rate. We also consider other business fundamentals, including the trend of the business, potential risks and measures to mitigate risks from such investment. We invest in such securities using our excess cash liquidity. We do not have a policy to invest in securities for trading purposes.

On July 24, 2014, the Company's board of directors adopted a policy to cap the total value of the Company's investments in securities. Under this policy, the Company's total value of investments in securities may not exceed THB1,000.0 million, excluding its investments in BGH and the Samui Property Fund, as of June 30, 2014. After June 30, 2014, the calculation of the THB1,000.0 million cap will include the Company's investments in BGH and the Samui Property Fund. In addition, the policy requires the Company's subsidiaries to discontinue any further investments in securities.

As of December 31, 2013 and June 30, 2014, the Company and its subsidiaries recorded investments as available-for-sale securities in long-term investment in the amount of THB14,264.8 million and THB20,151.4 million (US\$620.9 million), respectively, which are divided into market capital in the amount of THB2,870.0 million and THB2,870.0 million (US\$88.4 million), respectively, and unrealized gain from revaluation in the amount of THB11,394.8 million and THB17,281.5 million (US\$532.5 million), respectively.

As of December 31, 2013 and June 30, 2014, BAC recorded investments as trading securities in current investments in the amount of THB41.0 million and THB31.2 million (US\$1.0 million), respectively. The decrease in the six months ended June 30, 2014 was principally due to BAC's revised investment policy relating to securities. On April 28, 2014, BAC's board of directors adopted a new investment policy which requires BAC and its subsidiaries to discontinue any further investments in securities (including BGH and the Samui Property Fund) and to gradually dispose of currently held securities. On June 30, 2014, BAC began gradually disposing its currently held securities on the SET (not big lot method). Under this policy, BAC is to use its excess cash flow to pay dividends to its shareholders. See “—Other Operating Policies and Procedures—Loan Facility”.

### ***Authorization***

Our board of directors is authorized to approve any investment. Our executive directors are authorized to approve each investment not exceeding THB500.0 million. Our executive directors are required to present to our board of directors, any investments in securities of entities which are connected or related to the Company or its directors or management, and any director(s) related to such entities will not attend or vote.

### ***Inflation***

According to the Bank of Thailand, Thailand's annual overall inflation rate, as measured by the heading consumer price index, was 3.8%, 3.0%, 3.2% and 2.2% in 2011, 2012, 2013 and for the first six months of 2014,



respectively. The Bank of Thailand estimates, in their inflation report dated October 2013, that the inflation rate for 2014 will be 2.6%. We believe that inflation in Thailand has not had a significant impact on our results of operations in recent years.

## **Taxation**

The prevailing corporate rate of income tax applicable to Thai companies generally is 30%, but was reduced to 23% in 2012, 20% in 2013 and 2014 and will revert to 30% thereafter, unless the Thai Government extends the tax reduction period. The Company's corporate income tax expenses continue to be subject to changes in the tax policies of the Thai Government.

### ***Tax Loss Carry-Forwards***

Tax loss carry-forwards primarily comprise our tax losses arising before 2013 amounting to THB163.0 million and THB1,361.9 million as of December 31, 2012 and December 31, 2011, respectively. Under Thai tax regulations, tax loss carry-forwards resulting from the normal course of business activity can be used for a period of five years after the year of the tax loss. We recorded no tax loss carry-forward as of and for the year ended December 31, 2013.

### ***Thai Board of Investment Tax Incentives***

We have received various Thai Board of Investment ("BOI") tax incentives for certain of our aircraft, our airports and our catering business in the Samui Airport. This resulted in BOI tax privileges of THB109.4 million, THB212.4 million and THB252.8 million (US\$7.8 million) in 2011, 2012 and 2013, respectively.

## **Prospective Accounting Pronouncements**

### ***Application of New Accounting Standards for 2014***

The Federation of Accounting Professions has issued notifications, which have been published in the Royal Gazette during the current period, mandating the use of a new financial reporting standard, accounting standard interpretation and financial reporting standard interpretations as follows:

- Financial Reporting Standard:
  - TFRS 4 for Insurance Contracts, effective January 1, 2016;
- Accounting Standard Interpretation:
  - SIC 29 for Service Concession Arrangements: Disclosures, effective January 1, 2014;
  - SIC 15 for Operating Leases – Incentives, effective January 1, 2014; and
  - SIC 32 for Intangible Assets – Web Site Costs, effective January 1, 2014.
- Financial Reporting Standard Interpretations:
  - TFRIC 1 for Changes in Existing Decommissioning, Restoration and Similar Liabilities, effective January 1, 2014;
  - TFRIC 4 Determining whether an Arrangement Contains a Lease, effective January 1, 2014;
  - TFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation funds, effective January 1, 2014;
  - TFRIC 7 The retrospective improvement under accounting standard 29 for Financial Reporting in Hyperinflationary Economics, effective January 1, 2014;
  - TFRIC 10 Interim Financial Reporting and Impairment, effective January 1, 2014;

- TFRIC 12 Service Concession Arrangements, effective January 1, 2014;
- TFRIC 13 Customer Loyalty Programs, effective January 1, 2014;
- TFRIC 17 Distributions of Non-cash Assets to Owners, effective January 1, 2014; and
- TFRIC 18 Transfers of Assets from Customers, effective January 1, 2014.

Our management and our subsidiaries' management have assessed and are of the opinion that the financial reporting standard, accounting standard interpretation and financial reporting standard interpretations, as stated above will not have any significant impact on our financial statements when they are initially applied, except for TFRIC 12 (Service Concession Arrangements), for which we are still evaluating the impact to our financial statements of the adoption of the above and we have yet to reach a conclusion. See Note 3 to our 2013 Audited Financial Statements for details. We have already adopted TSIC 27 (Evaluating the Substance of Transactions Involving the Legal Form of Lease) as described in Note 4 to our 2013 Audited Financial Statements.

### **Consolidated Non-GAAP Financial Measures**

We use EBIT, EBITDA and EBITDAR to provide additional information about our operating performance. EBITDAR represents earnings before interest and taxation after adding depreciation and amortization and aircraft operating lease expenses. EBITDAR is calculated from the total revenues (excluding dividend income, gain on sales of assets, gain on sales of investments, gain on sales of investments in subsidiaries, interest income, and compensation for termination of a contract), after deducting total expenses (excluding loss from disposal of leasehold right), after adding the share from gain on sales of investments in associated company, and after adding depreciation and amortization and aircraft operating lease expenses.

EBITDA represents earnings before interest and taxation after adding depreciation and amortization. EBITDA is calculated from total revenues (excluding dividend income, gain on sales of assets, gain on sales of investments, gain on sales of investments in subsidiaries, interest income, and compensation for termination of a contract), after deducting by total expenses (excluding loss from disposal of leasehold right), after adding the share from gain on sales of investments in associated company, and after adding depreciation and amortization.

EBIT represents earnings before interest and taxation. EBIT is calculated from total revenues (excluding dividend income, gain on sales of assets, gain on sales of investments, gain on sales of investments in subsidiaries, interest income, and compensation for termination of a contract), after deducting by total expenses (excluding loss from disposal of leasehold right), and after adding the share from gain on sales of investments in associated company.

EBIT margins, EBITDA margins and EBITDAR margins represent EBIT, EBITDA or EBITDAR, as the case may be, divided by total revenues.

EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR or EBITDAR margins are not standard measures, nor measurements of financial performance or liquidity, under TFRS or IFRS, and should not be considered alternatives to net profit (loss), profit (loss) before finance costs and income tax or any other performance measure derived in accordance with TFRS or IFRS, or as an alternative to cash flow from operating activities. EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR and EBITDAR margins are supplemental measures of the Company's performance that are not required by, or presented in accordance with, TFRS or IFRS.

As a measure of operating performance, we believe that the most directly comparable measure to EBIT, EBITDA and EBITDAR is net profit. We use EBIT, EBITDA and EBITDAR in addition to net profit because net profit includes many accounting items associated with capital expenditures, such as depreciation, as well as certain other non-operating transactions, such as interest income and interest expenses and income tax expenses. These accounting items may vary between companies depending on the method of accounting adopted by each company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, goodwill amortization and interest income and expenses, EBIT, EBITDA and EBITDAR provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by EBIT, EBITDA and EBITDAR may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our consolidated net profit under TFRS to our definition of EBIT, EBITDA and EBITDAR for the periods indicated:

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013 <sup>(1)</sup>	2013	2014	2014 <sup>(1)</sup>
	THB	THB	THB	US\$	THB	THB	US\$
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(restated)	(restated)		(restated)			
	(in millions, except for percentages)						
<b>Other Financial Data:</b>							
Net profit (loss) for the period	290.6	1,832.4	990.0	30.5	881.9	204.8	6.3
Add:							
Finance cost	1,846.3	1,867.8	1,765.6	54.4	880.5	825.2	25.4
Income tax expense	298.1	458.4	139.9	4.3	129.3	21.3	0.7
Loss on sales of investment in subsidiaries	—	—	—	—	—	—	—
Loss on sales from leasehold rights	369.3	—	—	—	—	—	—
Loss from write-off fixed assets	—	—	72.2	2.2	19.4	11.8	0.4
Less:							
Dividend income	(91.6)	(135.3)	(219.6)	(6.8)	(219.3)	(243.8)	(7.5)
Gain on sale of investments	(325.3)	(818.9)	(41.6)	(1.3)	(41.9)	(3.4)	(0.1)
Gain on sale of investments in subsidiaries	—	(226.8)	(3.0)	(0.1)	(3.0)	—	—
Gain on sale of assets	(0.8)	(99.7)	(2.4)	(0.1)	(4.6)	(4.1)	(0.1)
Interest received	(63.5)	(69.3)	(24.7)	(0.8)	(10.9)	(10.2)	(0.3)
Other non-operating income <sup>(2)</sup>	(545.8)	—	—	—	—	—	—
EBIT <sup>(5) (7)</sup>	1,777.3	2,808.6	2,676.4	82.5	1,631.4	801.6	24.7
Add:							
Depreciation and amortization	623.9	592.6	572.9	17.7	277.5	305.9	9.4
EBITDA <sup>(4) (7)</sup>	2,401.2	3,401.2	3,249.3	100.1	1,908.9	1,107.5	34.1
Add:							
Operating lease expenses	1,211.2	1,352.8	1,530.2	47.1	706.2	930.0	28.7
EBITDAR <sup>(3) (7)</sup>	3,612.4	4,754.0	4,779.5	147.3	2,615.1	2,037.5	62.8
Total Revenue	15,523.0	19,519.9	20,721.4	638.5	10,256.7	10,980.3	338.3
Operating Revenue <sup>(8)</sup>	14,496.0	18,169.9	20,430.1	629.5	9,977.0	10,718.8	330.3
EBIT margin <sup>(6) (7)</sup>	12.3%	15.5%	13.1%	13.1%	16.4%	7.5%	7.5%
EBITDA margin <sup>(6) (7)</sup>	16.6%	18.7%	15.9%	15.9%	19.1%	10.3%	10.3%
EBITDAR margin <sup>(6) (7)</sup>	24.9%	26.2%	23.4%	23.4%	26.2%	19.0%	19.0%

(1) The U.S. dollar translations are provided for indicative and convenience purposes only and are unaudited. These translations were calculated based on an exchange rate as of June 30, 2014: Baht/US\$ = Baht 32.455 to US\$1.00.

(2) Includes income from the cancellation of an agreement in 2011.

(3) EBITDAR represents earnings before interest and taxation after adding depreciation and amortization and aircraft operating lease expenses. Because there are various EBITDAR calculation methods, our presentation of EBITDAR may not be comparable to similarly titled measures used by other companies.

(4) EBITDA represents earnings before interest and taxation after adding depreciation and amortization. Because there are various EBITDA calculation methods, our presentation of EBITDA may not be comparable to similarly titled measures used by other companies.

(5) EBIT represents earnings before interest and taxation. Because there are various EBIT calculation methods, our presentation of EBIT may not be comparable to similarly titled measures used by other companies.

(6) Represents EBIT, EBITDA or EBITDAR, as the case may be, divided by operating revenues.

(7) EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR or EBITDAR margins are not standard measures, nor measurements of financial performance or liquidity, under TFRS or IFRS, and should not be considered alternatives to net profit (loss), profit (loss) before finance costs and income tax or any other performance measure derived in accordance with TFRS or IFRS, or as an alternative to cash flow from operating activities. EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR and EBITDAR margins are supplemental measures of the Company's performance that are not required by, or presented in accordance with, TFRS or IFRS. As a measure of operating performance, we believe that the most directly comparable measure to EBIT, EBITDA and EBITDAR is net profit. We use EBIT, EBITDA and EBITDAR in addition to net profit because net profit includes many accounting items associated with capital expenditures, such as depreciation, as well as certain other non operating transactions, such as interest income and interest expenses and income tax expenses. These accounting items may vary between companies depending on the method of accounting adopted by each company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, goodwill amortization and interest income and expenses, EBIT, EBITDA and EBITDAR provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by EBIT, EBITDA and EBITDAR may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

(8) Comprises total revenue net of non-operating revenue (dividend income, gain on sale of investments, gain on sale of investments in subsidiaries, gain on sale of assets, interest received, and other non-operating income).

You should not consider EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR and EBITDAR margins in isolation or construe it as an alternative to net income, or as an indicator of operating performance or any other standard measure under TFRS or IFRS. EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR and EBITDAR margins measures used in this Offering Memorandum may not be comparable to similarly titled measures used by other companies.

EBIT increased 58.0% from THB1,777.3 in 2011 to THB2,808.6 million in 2012 and decreased by 4.7% to THB2,676.4 million (US\$82.5 million) in 2013. As a percentage of operating revenue, EBIT increased from 12.3% in 2011 to 15.5% in 2012 and decreased to 13.1% in 2013. In the six months ended June 30, 2014, as a percentage of total revenue, EBIT decreased to 7.5% from 16.4% in the six months ended June 30, 2013.

## Other Financial Ratios

The table below sets forth the Company's other financial ratios, required to be presented by the SEC regulations in connection with the public offering in Thailand.

	As of and for the year ended December 31,			As of and for six months ended June 30,
	2011 <sup>(1)</sup>	2012	2013	2014
<b>Liquidity Ratios:</b>				
Current ratio (times) <sup>(3)</sup>	1:0.6	1:1	1:0.8	1:0.6
Quick ratio (times) <sup>(4)</sup>	1:2.0	1:2.5	1:2.4	1:3.8
Cash flow liquidity ratio (times) <sup>(5)</sup>	1:0.4	1:0.4	1:0.3	1:(0.2) <sup>(2)</sup>
Account receivable turnover (times) <sup>(6)</sup>	1:12.3	1:13.4	1:13.1	1:15.5 <sup>(2)</sup>
Average collection period (days) <sup>(7)</sup>	29.4	26.8	27.5	23.2 <sup>(2)</sup>
Inventory turnover (times) <sup>(8)</sup>	1:57.7	1:63.0	1:65.5	1:74.4 <sup>(2)</sup>
Inventory days (days) <sup>(9)</sup>	6.2	5.7	5.5	4.8 <sup>(2)</sup>
Account payable turnover (times) <sup>(10)</sup>	1:8.5	1:10.3	1:10.5	1:11.6 <sup>(2)</sup>
Account payable days (days) <sup>(11)</sup>	42.6	35.1	34.3	31.1 <sup>(2)</sup>
Cash cycle (days) <sup>(12)</sup>	(7.0)	(2.6)	(1.3)	(3.1) <sup>(2)</sup>
<b>Profitability Ratios:</b>				
Gross profit margin (%) <sup>(13)</sup>	23.4	25.5	24.4	16.2
Operating profit margin (%) <sup>(14)</sup>	12.6	15.9	13.5	7.7
Non-operating profit margin (%) <sup>(15)</sup>	9.2	9.5	4.1	5.0
Cash flow to income ratio (%) <sup>(16)</sup>	138.8	108.2	71.0	(47.3)
Net profit margin (%) <sup>(17)</sup>	1.9	9.4	4.8	1.9
Return on equity (%) <sup>(18)</sup>	7.3	31.3	13.3	4.2 <sup>(2)</sup>
<b>Efficiency Ratios:</b>				
Return on total assets (%) <sup>(19)</sup>	1.1	6.2	3.2	1.3 <sup>(2)</sup>
Return on fixed assets (%) <sup>(20)</sup>	12.8	35.9	24.6	16.1 <sup>(2)</sup>
Total assets turnover (times) <sup>(21)</sup>	1:0.6	1:0.7	1:0.7	1:0.7 <sup>(2)</sup>
<b>Financial Policy Ratios:</b>				
Debt to equity ratio (times) <sup>(22)</sup>	1:5.9	1:3.1	1:3.2	1:1.8
Interest coverage ratio (times) <sup>(23)</sup>	1:2.6	1:2.9	1:2.3	1:0.6
Debt service coverage ratio (times) <sup>(24)</sup>	1:0.9	1:1.1	1:0.4	1:(0.4)
Dividend payout ratio (%) <sup>(25)</sup>	309.7	35.7	244.9	—

(1) For the year ended December 31, 2011, ratios are calculated using the end-of-period balance sheet figure as there is no comparable restated opening balance sheet figures.

(2) For the six months period ended June 30, 2014, ratios are annualized figures.

(3) Current ratio is calculated as current assets divided by current liabilities.

(4) Quick ratio is calculated as the sum of cash and bank deposit plus marketable securities plus trade account receivables and note receivables divided by current liabilities.

(5) Cash flow liquidity ratio is calculated as cash flow from operation divided by average current liabilities.

(6) Account receivable turnover is calculated as sales divided by average of the sum of trade account receivables before allowance for doubtful account plus note receivables.

(7) Average collection period is calculated as 360 divided by account receivable turnover.

(8) Inventory turnover is calculated as cost of goods sold (COGS) divided by average inventory.

(9) Inventory days is calculated as 360 divided by inventory turnover.

- (10) Account payable turnover is calculated as COGS divided by average of the sum of trade payables plus note payable.
- (11) Account payable days is calculated as 360 divided by account payable turnover.
- (12) Cash cycle is calculated as the sum of account receivable turnover plus inventory turnover minus account payable turnover.
- (13) Gross profit margin is calculated as gross profit divided by sales.
- (14) Operating profit margin is calculated as operating profit divided by sales.
- (15) Non-operating profit margin is calculated as non-operating revenues divided by total revenues.
- (16) Cash flow to income ratio is calculated as cash flow from operation divided by operating profit.
- (17) Net profit margin is calculated as net profit divided by total revenues.
- (18) Return on equity is calculated as net profit divided by average shareholders' equity. Average shareholders' equity is calculated by averaging the opening and closing balance sheet figures.
- (19) Return on total assets is calculated as net profit divided by average total assets. Average total assets is calculated by averaging the opening and closing balance sheet figures.
- (20) Return on fixed assets is calculated as the sum of net profit plus depreciation divided by average fixed assets. Average fixed assets is calculated by averaging the opening and closing balance sheet figures.
- (21) Total assets turnover is calculated as total revenue divided by average total assets. Average total assets is calculated by averaging the opening and closing balance sheet figures.
- (22) Debt to equity ratio is calculated as total liabilities divided by total shareholders' equity.
- (23) Interest coverage ratio is calculated as the sum of cash flow from operation plus interest expense from operation plus tax expenses divided by interest expenses from operation and investment activity.
- (24) Debt service coverage ratio is calculated as cash flow from operation divided by the sum of debt repayment plus investment expense plus asset acquisition expense plus dividend payment.
- (25) Dividend payout ratio is calculated as dividend divided by net profit.

Set out below is a discussion of certain key financial ratios.

*Current ratio.* As of December 31, 2011, 2012, 2013 and June 30, 2014, the Company's current ratio was 1:0.6 times, 1:1.0 times, 1:0.8 times, and 1:0.6 times, respectively. The ratio has not changed significantly because the proportion between current assets and current liabilities has remained relatively constant. The ratio was higher in 2012 than in the other periods primarily because we had receivables from the Corporate Reorganization of THB1,467.8 million which were recorded in other receivables. These receivables were settled on December 27, 2013, which resulted in a decline in current ratio.

*Average collection period.* In 2011, 2012, 2013 and the first six months of 2014, the Company's average collection period was 29.4 days, 26.8 days, 27.5 days, and 23.2 days, respectively, which was in line with our credit policy of 30 days.

*Account payable days.* In 2011, 2012, 2013 and the first six months of 2014, the Company's account payable days was 42.6 days, 35.1 days, 34.3 days, and 31.4 days, respectively, which was in line with the credit terms of our suppliers of 30 to 60 days.

*Return on total assets.* In 2011, 2012, 2013 and the first six months of 2014, the Company's return on total assets (ROA) was 1.1%, 6.2%, 3.2%, and 1.3%, respectively. Our ROA changes were principally attributable to the changes in our net profit, as discussed above.

*Debt to equity ratio.* As of December 31, 2011, 2012, 2013 and June 30, 2014, the Company's debt to equity ratio was 1:5.9 times, 1:3.1 times, 1:3.2 times, and 1:1.8 times, respectively. The significant decrease in our debt to equity ratio was principally attributable to the significant increase in gain on changes in value of available-for-sale investments and other components of shareholders' equity.

## BUSINESS

### Overview

We are a boutique full service airline in Thailand, offering premium, quality service to our passengers. We were founded in 1984 as “Sahakol Air” to take over the airline business which had been operating under the company Krungthep Sahakol Co., Ltd., owned by Dr. Prasert Prasarttong-Osoth. 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. Through our code-share and other cooperative arrangements with other airlines such as Etihad Airways, Japan Airlines, Malaysia Airlines, British Airways, Cathay Pacific Airways, 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 from two principal hubs, the Suvarnabhumi International Airport in Bangkok and Samui Airport in Surat Thani, which we also own and operate. We also own and operate two other airports at Sukhothai and Trat. We target markets that are less than a five-hour flight time from our hubs, which give us access to passengers travelling to and from Southeast Asia and South Asia, including India. We believe that Thailand’s growing economy provides an attractive market in which we can increase passenger growth as an increasing proportion of the Thai population are able to access air transport. We also believe that our premium, quality services, strong culture of hospitality and access to unique cultural and leisure destinations differentiates us from other competing airlines. We have also been awarded “Asia Best Regional Airline” for five of the six years from 2004 to 2009 by Skytrax Research, a leading aviation research organization. In each of the years between 2006 and 2013, the Samui Airport was placed top 10 in the Smart Travel Asia annual best airports worldwide polls. In 2012, we were ranked number 4 for the “World’s Best Regional Airline” award from Skytrax Research and number 3 for “Asia Best Regional Airline” award from Skytrax Research. In 2013, we were ranked number 3 for “World’s Best Regional Airline” award from Skytrax Research and number 2 for “Asia Best Regional Airline” award from Skytrax Research. Also in 2013, BFS Ground and BFS Cargo were awarded “2013 Frost & Sullivan Thailand Aviation Support Service Provider of the Year” from Frost & Sullivan, a global growth consulting and research organization. Additionally, in 2014, we were ranked number 1 for “World’s Best Regional Airline” and number 1 for “Best Regional Airline in Asia” by Skytrax Research.

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 profits of THB290.6 million, and THB1,832.4 million and THB990.0 million (US\$30.5 million), respectively. For the six months ended June 30, 2013 and 2014, we generated total consolidated revenues of THB10,256.7 million and THB10,980.3 million (US\$338.3 million), respectively, and consolidated profits of THB881.9 million and THB204.8 million (US\$6.3 million), respectively. Similarly, our fleet size grew from 18 aircraft as of December 31, 2011 to 25 aircraft as of 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. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. We have been able to achieve this growth despite a difficult period for the airline industry, including for us, caused by, among other factors, the adverse effects of the global economic crisis which started in 2007, and continued through subsequent years from, 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.

We operate in three main business lines:

- **Airline services:** We carried approximately 4.2 million and 2.3 million passengers on scheduled flights, accounting for 2,759.2 million and 1,788.4 million RPKs during 2013 and the six months ended June 30, 2014, respectively.
- **Airport-related services:** Through our subsidiary and associated companies we also provide airport-related services including ground services, in-flight catering services and cargo terminal services in the Suvarnabhumi International Airport.

- Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd. (“BFS Ground”), our 90.0%-owned subsidiary, is one of two ground services providers at the Suvarnabhumi International Airport. WFS provides management services to BFS Ground through the Ground Service Agreement. The Ground Services Agreement is valid for a term of seven years, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Ground. In 2013, we entered into an amendment to the Ground Services Agreement with WFS to temporarily extend the Ground Services Agreement for six months after the expiration of such agreement. The Ground Services Agreement is valid until September 27, 2018. We also provide ground services in the Samui Airport through our 99.99%-owned subsidiary, Bangkok Airways Ground Services Co. Ltd (“BAGs”).
- Bangkok Air Catering Co., Ltd. (“BAC”), our 90.0%-owned subsidiary, is one of three catering service providers at the Suvarnabhumi International Airport. In the six months ended June 30, 2014, BAC provided in-flight catering services to 21 airlines.
- WFS-PG Cargo Co., Ltd. (“BFS Cargo”), our 49.0% owned associated company, is a joint venture between us and WFS, a global independent cargo handler. BFS Cargo is one of two international cargo terminal service providers at the Suvarnabhumi International Airport. WFS provides management services to BFS Cargo through the Cargo Services. The Cargo Services Agreement is valid for a term of seven years, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Cargo. In 2013, we entered into an amendment to the Cargo Services Agreement with WFS to temporarily extend the Cargo Services Agreement for six months after the expiration of such agreement. The Cargo Services Agreement is valid until September 27, 2018.
- **Airports:** We own and operate airports in Samui, located in the southern part of Thailand, Trat, located in the eastern part of Thailand, and Sukhothai, located in the northern part of Thailand. The Samui Airport is our most important airport in terms of passenger traffic and contribution to income. Flights to and from Samui comprised 45.7%, 45.7%, 43.6% and 37.7% of our total number of scheduled passenger flights and 51.5%, 49.9%, 52.0% and 51.2% of our passenger revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. In November 2006, we leased the assets of the Samui Airport to the Samui Property Fund for a period of 30 years under the terms of a Long-Term Lease Agreement dated November 24, 2006 (the “Long-Term Lease Agreement”). The Samui Property Fund in turn sub-leased the Samui Airport to us pursuant to a three-year sub-lease agreement originally dated November 24, 2006, and last renewed on November 24, 2012 for an additional three-year term (the “Sub-lease Agreement”). We continue to act as operator of the Samui Airport and we hold a 25.0% interest in the Samui Property Fund, which is listed on the SET. See “Description of Material Agreements—Agreements Relating to the Samui Property Fund” for summaries of the material terms of the Long-Term Lease Agreement and the Sub-lease Agreement.

## History and Corporate Milestones

Our Company was founded by Dr. Prasert Prasarttong-Osoth in 1984 as “Sahakol Air” to take over the airline business, which had been operating under Krungthep Sahakol Co., Ltd.

We officially commenced our scheduled flight services in 1986 under our current name, “Bangkok Airways”. However, we only received rights for routes which Thai Airways was not operating, so our challenge was to find new routes.

Major milestones in our corporate history from 1986 include the following:

- **1986.** Our airline was renamed “Bangkok Airways”.
- **1989.** We completed construction of our first airport, located in Samui, an island in the Gulf of Thailand, which was beginning to be developed as an international tourist destination. We obtained an International Air Transport Association (“IATA”) code, “PG”, and commenced operations of our Samui Airport. In addition, we also received approval to fly our first route, Bangkok—Samui.

- **1994.** We became an IATA Clearing House member. In the same year, we added two ATR 72 to our fleet.
- **1998.** We commenced operations of our second airport in Sukhothai.
- **2000.** We put our first Boeing 717-200 into operations. The Boeing 717-200 jet aircraft provided higher speeds and more seat capacity so we could increase capacity and reduce flight frequency. This also allowed us to expand our capacity on routes to and from Samui. In the same year, we commenced operations of our first hangar located in the Don Mueang International Airport. We also became a member of the IATA Billing and Settlement Plan (“BSP”).
- **2002.** We received full IATA membership which means that we upgraded our operations in adherence to the international commercial aviation standards under IATA Operational Safety Audit (“IOSA”), such membership entitles us to voting rights in respect of the fare adjustment process.
- **2003.** We entered into three project agreements with the AOT for the provision of cargo services, ground support equipment services and in-flight catering operations at the Suvarnabhumi International Airport.
- **2004.** We received our ISO9001:2000 certification. In the same year, we added two Airbus A320 aircraft to our fleet to allow us to reduce cost per ASK, increase our competitiveness, and expand our international destinations to destinations such as Yangon.
- **2006.** We commenced operations of our catering facilities at the Samui Airport. In the same year, we listed the Samui Property Fund (which holds a 30-year lease to the assets of the Samui Airport) on the SET, in which we own a 25.0% interest. In the same year, we commenced operations of our third airport in Trat.
- **2007.** We were awarded the royal warrant appointment to display the Garuda emblem. We began introducing six Airbus A319 aircraft to our fleet to increase our passenger capacity into our most profitable destination, the Samui Airport. In the same year, we entered into a code-share arrangement with Thai Airways, the flag carrier of Thailand, which arrangement is currently inactive.
- **2008.** We expanded the Samui Airport’s runway to increase its capacity to accommodate larger jet aircraft. In the same year, we introduced our *Blue Ribbon* business class.
- **2009.** We entered into code-share arrangements with Air Berlin (currently not operating flights to/from Thailand), Etihad Airways and Air France.
- **2010.** We entered into a code-share arrangement with EVA Airways.
- **2011.** We entered into a code-share arrangement with Malaysia Airlines.
- **2012.** We established code-share arrangements with Silk Air, Japan Airlines, Finnair, and KLM Royal Dutch.
- **2013.** We marked our 45th anniversary since Dr. Prasert Prasarttong-Osoth first established an airlines business department under Krungthep Sahakol Co., Ltd. in 1968, which he later transferred to the Company. We also entered into code-share arrangements with Qatar Airways, British Airways and Cathay Pacific Airways, and added two Airbus A319 aircraft and two Airbus A320 aircraft to our fleet under operating leases.
- **2014.** We entered into the ATR Sale and Purchase Agreement for nine new ATR 72-600 aircraft to serve our passengers on our planned routes. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. We also entered into a code-share arrangement with Qantas Airways.

### **Corporate Reorganization**

In anticipation of the Combined Offering, in 2012, we effected the Corporate Reorganization pursuant to which certain non-core subsidiaries and several parcels of vacant land, which are irrelevant to airline and airport related services and airport businesses, were sold as described below.



The following non-core subsidiaries were sold to 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	Selling price	Gain (loss) on sales of investment - net  (in millions)	Cost	Remarks
1. 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 claims of THB159.0 million debt.
2. Sukhothai Property Co., Ltd. owns and operates a hotel in Sukhothai .....	225.7	238.0	12.3	322.0	—
3. Samui Park Avenue Co., Ltd. provides management services for the sale of a strip of outlets in the Samui airport .....	(9.0)	—	(7.2)	10.0	We disposed of the investment and set a provision for bad debt of THB16.2 million.
4. Bangkok Flight Training Center Co., Ltd. operates flight training center inactive entity with no businesses .....	26.9	26.3	(0.7)	26.3	—
5. Plots of lands located in Ploen Jit, Sukhothai, Nakhon Ratchasima .....	1,194.6	1,281.3	86.7	1,194.6	—

The below non-core subsidiary was sold to Ms. Thanun Bunchongdee, Mrs. Supaporn Rodkul, Mr. Boonsom Puangkaew and Mr. Suchin Thanasumitra.

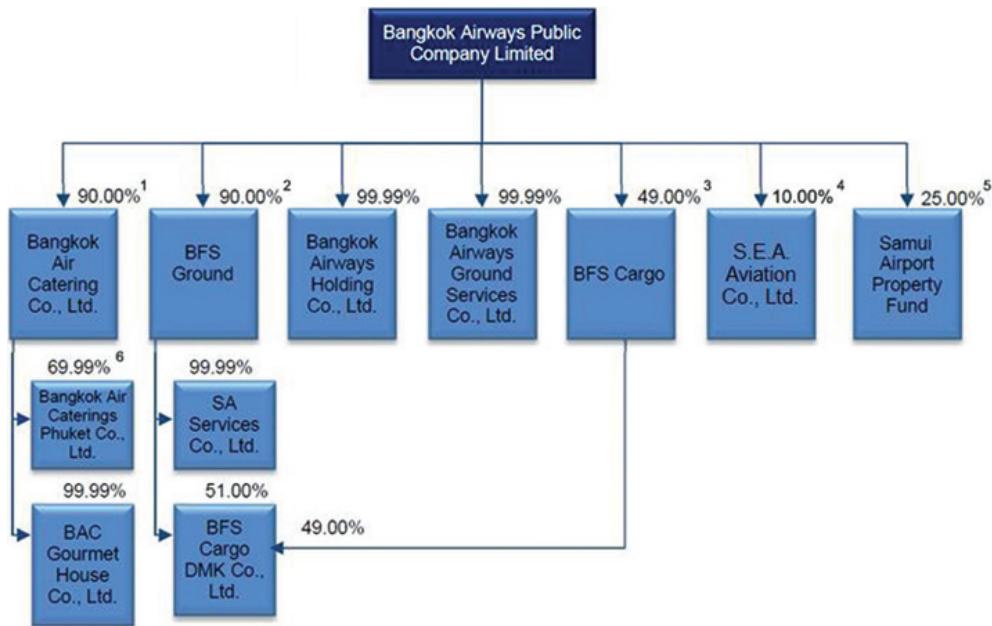
Details	Book value as of investment disposal date	Selling price	Gain (loss) on sales of investment - net  (in millions)	Cost	Remarks
1. BAGs Ground Services Co., Ltd. engages in ground support equipment services in airports such as the Samui Airport, the Chiang Mai Airport and the Phuket Airport .....	80.9	43.0	(37.9)	2.5	—

Remarks:

- (1) Ms. Thanun Bunchongdee and Mrs. Supaporn Rodkul are currently employees of the Company, as manager of Office of Vice President-Management and Executive Secretary, respectively.
- (2) Mr. Boonsom Phoungaew is a former employee of the Company (resigned from the position of Senior Station Manager on May 20, 2011).
- (3) Mr. Suchin Thanasumitr is a former employee of the Company (resigned from the position of Advisor to President on March 31, 2012).

In 2012, the Company sold BAGs Ground because its business was not a core business of the Company and the operation of its business requires concessions from operators of other airports. Following the sale of BAGs Ground, the Company continues to hire BAGs Ground to operate ground services for the Company and its subsidiaries. For example, the Company engaged BAGs Ground to provide services to the Company at all airports in Thailand, except the Suvarnabhumi International Airport. In 2013 and the six months ended June 30, 2014, the total service fees paid by the Company to BAGs Ground for these services were THB174.83 million and THB100.07 million, respectively. BAGs also engaged BAGs Ground to provide services to airlines, other than Bangkok Airways, at the Samui Airport. In 2013 and the six months ended June 30, 2014, the total service fees paid by BAGs were THB18.88 million and THB17.66 million, respectively. The related party transaction between the Company and BAGs Ground is calculated based on the contract price which is comparable to the fees paid by the Company to BFS Ground. Prior to extending the term of any agreement between the Company and BAGs Ground, the Company will review the transaction price paid to BAGs Ground to determine it is reasonable.

The chart below sets forth our corporate structure as of the date of this Offering Memorandum.



- (1) The remaining 10% of registered capital is held by Food and Stores Co., Ltd. Food and Stores Co., Ltd.'s majority shareholder is the Prasarttong-Osoth family, our current shareholder.
- (2) The remaining 10% of registered capital is held by Food and Stores Co., Ltd. and PV Consulting Co., Ltd. (a deemed related party). Food and Stores Co., Ltd.'s majority shareholder is the Prasarttong-Osoth family, our current shareholder.
- (3) The remaining 51% of registered capital is held by Worldwide Flight Services Holding S.A.
- (4) As of June 30, 2014, the Company has fully paid up capital of S.E.A. Aviation Co., Ltd. in the amount of THB3.0 million, representing 10.00% of the registered capital of S.E.A. Aviation Co., Ltd. S.E.A. Aviation Co., Ltd. is an affiliate of the Company and two/fifths of S.E.A. Aviation Co., Ltd.'s directors are also directors of the Company. The remaining shares are held by two third parties.
- (5) The Samui Airport Property Fund is listed on the SET.
- (6) Bangkok Air Caterings Phuket Co., Ltd. is not currently in operation, and the remaining 30.01% of its registered capital is held by three third parties.

## Competitive Strengths

We believe the following are our competitive strengths:

- **Boutique Model:** Our boutique business model offers our passengers a distinct and enhanced flying experience, driving passenger growth while maintaining full service fares;
- **Route Network:** We have an attractive and robust route network that includes cultural and leisure destinations in Southeast Asia, with an emphasis on destinations in the Mekong sub-region and Indochina, and have a track record in successfully developing attractive new routes and destinations;
- **Tourism Industry:** We are well-positioned to ride on the resilient growth of tourism in Thailand and Southeast Asia;
- **Samui Airport:** Our rights to the vast majority of slots at the Samui Airport provides us with a competitive advantage in our route network;
- **Code-shares:** Our strong and growing network of international code-share partners feeds traffic to our route network;
- **Distribution:** Our diversified distribution channels provide extensive reach to both domestic and international passengers;

- Fleet: We have a policy of maintaining a reliable and modern fuel-efficient fleet which is well suited for our unique route network;
- Airport-related businesses: Our diversified airport-related businesses provide additional sources of revenue and income; and
- Management: We have a highly experienced and committed management team with a proven track record.

***Boutique Model: Our boutique business model offers our passengers a distinct and enhanced flying experience, driving passenger growth while maintaining full service fares***

We are a boutique full service airline, offering our passengers an attractive network of cultural and leisure destinations and a distinct and enhanced end-to-end travel experience, combined with friendly and personalized customer service which reflects a strong sense of Thai hospitality. Our premium service starts upon arrival at the airport where all passengers have use of our complimentary lounges with free snacks, beverages and internet access. For our business class passengers, we also offer the enhanced *Blue Ribbon Lounge*, which offer additional services, including hot meals, shower rooms, and library rooms. We also aim to provide a highly enjoyable in-flight experience, operating a modern fuel efficient fleet of aircraft with comfortable seating and quality food and beverage services provided by our well-trained in-flight staff.

We believe that our boutique business model differentiates us from competing airlines. We also believe that this drives our passenger growth and builds customer loyalty. Our passenger number has grown from approximately 3.1 million in 2011 to approximately 3.6 million in 2012, and approximately 4.2 million in 2013. For the six months ended June 30, 2014, our passenger number was 2.3 million. Our point-in-time reservation numbers have also increased gradually from 2011 to 2013. We had approximately 390,000 regular members and approximately 2,300 premier members enrolled in our frequent flyer program, *FlyerBonus*, as at June 30, 2014.

Our boutique business model also supports our ability to maintain full service fares. Our average passenger per sector fare in 2011, 2012, 2013 and the six months ended June 30, 2014 was THB3,789.4, THB4,089.0, THB4,039.9 and THB3,928.2, respectively. We also believe that among competing airlines, our boutique business model provides an attractive value proposition to our passengers, which allows us to achieve a higher per unit profitability as measured by the difference between RASK and CASK relative to our peers.

From 2006 to 2007 and 2009 to 2013, we were also voted as the “Top 10 Best Airline Worldwide for Cabin Service” in the Smart Travel Asia Best in Travel Poll, an independent online frequent traveler magazine with over a million readers. We have been awarded “Best Regional Airline” for five of the six years from 2004 to 2009 by Skytrax Research, a leading aviation research organization. In 2012, we were ranked number 4 for the “World’s Best Regional Airline” award from Skytrax Research and number 3 for “Asia Best Regional Airline” award from Skytrax Research. In 2013, we were ranked number 3 for “World’s Best Regional Airline” award from Skytrax Research and number 2 for “Asia Best Regional Airline” award from Skytrax Research. Also in 2013, BFS Ground and BFS Cargo were awarded “2013 Frost & Sullivan Thailand Aviation Support Service Provider of the Year” from Frost & Sullivan, a global growth consulting and research organization. Additionally, in 2014, we were ranked number 1 for “World’s Best Regional Airline” and number 1 for “Best Regional Airline in Asia” by Skytrax Research. We believe that these awards and polls reflect our strong branding as a boutique full service airline. Leveraging on this brand recognition, we believe that we are well positioned to continue to grow our route network and passenger numbers in both domestic and international markets.

***Route Network: We have an attractive and robust route network that includes cultural and leisure destinations in Southeast Asia, with an emphasis on destinations in the Mekong sub-region and Indochina, and have a track record in successfully developing attractive new routes and destinations***

Our route network connects regional and global passengers to more than 20 cultural and leisure destinations across Southeast Asia, with an emphasis on destinations in the Mekong sub-region and Indochina, and India. We currently also operate four charter flights weekly to China. In Thailand, apart from our hub in Bangkok, we also serve a host of key destinations, including Samui, Chiang Mai, Krabi, Udonthani and Phuket. We have also successfully developed routes to emerging regional destinations in Southeast Asia, which include destinations in the Mekong sub-region and Indochina, such as Bangkok to Vientiane and Luang Prabang in Laos, Phnom Penh and Siem Reap in Cambodia and Yangon, Mandalay and Naypyidaw in Myanmar, routes that are

currently served by a limited number of airlines. We believe that we are well-positioned to benefit from strong tourism growth in these destinations. For example, from 2012 to 2013, international tourist arrivals at Cambodia and Myanmar grew 13.7% and 33.2%, respectively.

Our creativity in developing attractive new routes and destinations, which are both viable on a standalone basis to Bangkok Airways and appealing to our code-share partners, is demonstrated in our current robust route network. For example, we built an airport in Samui, establishing the island as major leisure destination and developing Samui into a hub which could launch other potentially attractive routes, such as Samui – Beijing, Samui – Kunming, Samui – Shanghai and Samui –Guangzhou.

***Tourism Industry: We are well-positioned to ride on the resilient growth of tourism in Thailand and Southeast Asia***

International travel and tourism rates for countries in Southeast Asia have increased at strong rates from 2012 to 2013. For example, from 2012 to 2013, international tourist arrivals at Cambodia and Myanmar grew 13.7% and 33.2%, respectively. In particular, despite significant disruptions due to various economic, political, health and environmental shocks, international tourist arrivals in Thailand have continued to grow from 2009 to 2013 at a compound annual growth rate of 17.2%. According to SAP, compared among countries in Southeast Asia for 2012, Thailand reported the second highest total number of arrivals, with approximately 22.4 million tourist arrivals, the fourth highest arrivals growth rate of 17.0% from 2011 to 2012, and the largest total increase of 3.3 million arrivals from 2011 to 2012. As tourists from China and other Asian countries continue to travel within the region, air travel in the region can be expected to continue to experience strong growth. We believe that with our attractive route network that includes the major culture and leisure destinations in Thailand and emerging regional destinations in Southeast Asia, we are well positioned to benefit from this growth.

***Samui Airport: Our rights to the vast majority of slots at the Samui Airport provides us with a competitive advantage in our route network***

We are the only airline in Thailand to have built and operate airports. We constructed, own and operate the privately-operated airport at Samui. With over two dozen five-star hotels, Samui has established itself as a major leisure and luxury destination. In November 2006, we leased the assets of Samui Airport to the Samui Property Fund, which is listed on the SET, for a period of 30 years. The Samui Property Fund then sub-leased the Samui Airport to us pursuant to the Sub-lease Agreement.

We continue to act as the operator of the Samui Airport, which enables us to retain the vast majority of slots at the Samui Airport. This provides us with a competitive advantage in our route network as we are often the only airline or the dominant player for routes to Samui. For example, we are the only airline flying the Samui-Hong Kong route, while we operate the most number of flights on the Samui-Singapore route. We are also able to capitalize on this competitive advantage to develop attractive future routes on which we expect to be the dominant carrier, such as Samui – Beijing, Samui – Kunming, Samui – Shanghai and Samui – Guangzhou.

***Code-shares: Our strong and growing network of international code-share partners feeds traffic to our route network***

Our boutique full service model offers access to cultural and leisure destinations and the premium service levels necessary to make us an attractive code share partner to leading international full-service airlines. Through our hub at the Suvarnabhumi International Airport, the main international gateway to Thailand, we are able to provide efficient same airport transfer to the passengers of our code-share partners and connect them to our host of regional and domestic destinations. This is in contrast to some other airlines in Thailand that require passengers arriving on international flights at Suvarnabhumi International Airport to transfer to Don Muang Airport in order to make a domestic connection. We believe that our premium service, high dispatch reliability and high flight frequency offers assurance to our code-share partners that their code-share passengers will arrive at their final destination in a comfortable and timely manner, which further increases our attractiveness to code-share partners.

In addition, as our route network is regional in scope, we do not provide long-haul flights. We believe that this enables us to provide short-haul flights with higher frequency, resulting in a higher supply of seats on our regional routes for our code-share partners as compared to our competitors who have to prioritize their own long-haul passengers or passengers of alliance members on regional flights. We also do not compete with our code-share partners on long-haul flights, which we believe further increases our appeal to long-haul code share partners.

As at December 31, 2011, we had entered into code share arrangements with six international airlines comprising Thai Airways (which is currently inactive), EVA Airways, Air Berlin (currently not operating flights to/from Thailand), Air France, Etihad Airways and Malaysia Airlines. In 2012, we successfully entered into code-share arrangements with Silk Air, Japan Airlines, Finnair, KLM Royal Dutch, in 2013 with Qatar Airways, British Airways and Cathay Pacific Airways, and in 2014 with Qantas Airways, growing our network of international code-share partners to 14 airlines as at June 30, 2014. With these code-share arrangements, we are able to feed our network with passengers from the broader global markets without investing in a long-haul fleet and competing for feed with full service international airlines.

***Distribution: Our diversified sales and distribution channels provide extensive reach to both domestic and international passengers***

We have two principal sales and distribution channels: direct sales and indirect sales. We believe that our diversified sales distribution channels provide us with extensive reach to a broad array of both domestic and international passengers. The following table shows the proportion of our total tickets sold through each of our major distribution channels, and the percentage of our separate revenues each major distribution channel contributes, for the periods indicated.

Distribution Channel	Year Ended December 31,		Six Months Ended June 30,	
	2013		2014	
	% of passengers	% of revenue	% of passengers	% of revenue
<b>Direct sales:</b>				
Sales offices, ticket counters and airport counters . . . . .	16.5	14.5	15.5	13.5
Internet . . . . .	26.9	25.1	28.0	25.9
Subtotal . . . . .	43.3	39.6	43.5	39.4
<b>Indirect sales:</b>				
Code-share and interline . . . . .	4.6	4.8	5.2	5.3
IATA authorized sales agents (BSP agents) . . . . .	49.8	53.4	48.9	52.5
General sales agents (Reporting agents) . . . . .	2.3	2.2	2.4	2.8
Subtotal . . . . .	56.7	60.4	56.6	60.6
Total . . . . .	100.0	100.0	100.0	100.0

In 2013 and the six months ended June 30, 2014, our tickets were distributed to approximately 4.2 million passengers and 2.3 million passengers, respectively, and distributed over eight global distribution systems in 43 countries such as France, Germany and United Kingdom. Also, we operate a total of 33 sales offices located in Thailand, Singapore, Hong Kong, Cambodia, Laos, Myanmar and Germany, as at June 30, 2014. In addition, our customers can reserve their seats 24 hours a day through our call center and website. Flight reservations booked through our website increased from 23.1% of our total passengers in 2011 to 26.6% in 2012, and 26.9% in 2013 and 28.0% in the six months ended June 30, 2014, and we expect this trend to continue in the future. We also appoint general sales agents to broaden the reach of our distribution network. These general sales agents perform functions similar to our sales offices and play an important role in connecting passengers arriving on code-share flights from international destinations to our domestic and regional flights.

Being a member of the IATA BSP provides us with direct access to a distribution network of IATA accredited travel agents. The number of countries which we cover under the IATA BSP has increased from one country in 2000 to 40 countries in 2013. We believe that the IATA BSP network allows us to drive additional passenger sales, improves our relationship with IATA accredited travel agents and reduces fare collection risks and documentation processes for fare collection.

***Fleet: We have a policy of maintaining a reliable and modern fuel-efficient fleet which is well-suited for our route network***

In line with our policy of maintaining a modern fuel-efficient fleet, we operate a fleet of fuel-efficient streamlined aircraft comprising three types of aircraft, including eight ATR 72-500, ten Airbus A319 and seven Airbus A320 as at June 30, 2014. These aircraft, with an average age of approximately 8.7 years as at June 30, 2014 are well-suited for our route network of cultural and leisure destinations in Thailand and Southeast Asia and also enable us to maintain fuel efficiency and minimize maintenance expenses. 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 2017. We expect to gradually replace all existing ATR 72-500 fleet with the new ATR 72-600 model. Additionally, we are currently in discussion with three aircraft manufacturers in preparation for mid-term and long-term fleet management which will result in the selection of a new generation of fuel efficient aircraft type to be procured and leased for our current fleet replacement. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party. In anticipation of future new aircraft deliveries, we applied for and have been granted tax incentives from the Thailand Board of Investment for 29 new aircraft on July 31, 2014. The new aircraft are expected to increase our aircraft seat capacity from 3,014 seats as of June 30, 2014 to 5,682 seats as of December 31, 2018.

The ATR 72-500, a 70-seater turboprop aircraft, and the ATR 72-600, a 70-seater turboprop aircraft, are suitable for short-haul routes and smaller airports, such as Samui Airport, enable us to access airports that cannot be served by large aircraft. For example, ATR aircraft are required for flights to the Trat airport, which cannot be served by jet engine aircraft. This also allows us to make adjustments to effectively manage flight frequency on routes with lower demand or during periods of low traffic or periods which can be expected a low traffic on high frequency routes. 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.

The Airbus A319 permits a dual-class configuration and operational flexibility that extends to 3,700.0 nautical miles (6,850.0 km). This aircraft is the largest commercial aircraft that is able to land at Samui Airport as the runway imposes restrictions on aircraft that are heavier than an Airbus A319.

The Airbus A320, a 162-seater aircraft in a single-class layout, provides larger passenger capacity, allowing us to carry more passengers between our hub at Suvarnabhumi International Airport and our other cultural and leisure destinations. The Airbus A320's ability to fly longer distances also serves us well in reaching our passengers in international destinations like Mumbai.

***Airport-related businesses: Our airport-related businesses provide additional sources of revenue and income and diversify our business risks***

We generate additional revenue and income through diversified businesses related to our core airline business. This enables us to also diversify risk. Our airport-related businesses, undertaken by our subsidiaries and associated company, include the provision of in-flight catering through BAC, provision of ground services by BFS Ground and provision of cargo terminal operation services by BFS Cargo. As at June 30, 2014, BFS Ground was the first and only IATA Safety Audit for Ground Operations ("ISAGO") provider in Thailand.

For the year ended December 31, 2013, BAC and BFS Ground accounted for 4.5% and 7.3% of our total consolidated revenue, respectively. For the six months ended June 30, 2014, BAC and BFS Ground accounted for 4.1% and 6.9% of our total consolidated revenue, respectively. BFS Cargo accounted for THB189.7 million and THB102.9 million of our comprehensive income for the year ended December 31, 2013 and the six months ended June 30, 2014, respectively.

All of our airport-related businesses are operated through agreements entered into with the AOT. The income from these businesses are recurrent in nature and are driven by number of flights as well as cargo growth (including growing numbers of passengers and cargo from other airlines flying into the Suvarnabhumi International Airport) giving rise to stable margins for these businesses. In addition, given that the agreements are granted to limited number of operators, there is limited threat from new competitors with regards to these businesses. The agreements are for a period of 20 years each through September 27, 2026.

BAC, BFS Ground and BFS Cargo serve Bangkok Airways as well as other international airlines, including some of our code-share partners. Although BAC, BFS Ground and BFS Cargo have been in operation for only approximately seven years, each business has proven its ability to successfully attract customers. For example, as at June 30, 2014, BAC, BFS Ground and BFS Cargo serve 21 airlines, 60 airlines and 54 airlines, respectively, of the 107 airlines which operate at the Suvarnabhumi International Airport. Our airport-related businesses benefit from passenger and cargo growth at the Suvarnabhumi International Airport and provide us with additional sources of revenue and income that are less affected by competition and fuel prices. BAC, BFS Ground and BFS Cargo are led by standalone management teams with the relevant experience and specialized industry knowledge. These management teams take direct responsibility in the management of BAC, BFS Ground and BFS Cargo. These management teams have been able to successfully implement our business strategies and grow these airport-related businesses.

As the success of these airport-related businesses is aligned with the increase in flights to Bangkok, we believe that these airport-related businesses provide diversification and lower our business risks. Furthermore, we believe that the success and brand recognition of our airline business will assist in enhance the success of these airport-related businesses as our relationships with current partners and potential partners in the aviation industry grow. For example, as at December 31, 2013, seven out of 14 of our code-share partners engage the services of BFS Cargo and seven out of 14 engage the services of BFS Ground. There are ongoing discussions with partners who have expressed interests in engaging the services of these airport-related businesses.

***Management: We have a highly experienced and committed management team and existing shareholders with a proven track record***

Our senior management team members have been with the Company for an average of 17 years and have built up extensive managerial experience and technical knowledge. For example, our CEO Mr. Prasert Prasarttong-Osoth was instrumental in the set up of Bangkok Airways in 1968, which was then known as Sahakol Air. Mr. Puttipong Prasarttong-Osoth, our President, has been in the position since 2008. He possesses the Certificate for Commercial Pilot for the Airbus A319/A320 family of planes and is on the Board of Directors for Aeronautical Radio of Thailand. Our long, successful history demonstrates the management team's ability to expand the business, establish brand identity and nurture customer loyalty, while steadily navigating through various economic, political, health and environmental shocks.

Our management team, collectively, hold an interest of 55.4% in the Company before the Combined Offering. After the completion of the Combined Offering, our management team will hold a collective interest of 41.7% in the Company. We believe the collective interest that our management team holds will align their interest with those of our shareholders and commit to the long-term growth and development of our Company.

In addition, we continue to receive support from our existing shareholders, who have established themselves as pioneers in Thai aviation. Our existing shareholders have been crucial in the development of our boutique business model.

**Business Strategies**

***Continue to focus on enhancing our customer service, brand recognition, and customer loyalty***

We plan to continue to provide our passengers with premium, quality services and products to continue to enhance our brand recognition as "Asia's Boutique Airline".

To further enhance the awareness and recognition of our brand name, we also intend to increase marketing and public relations activities in Thailand, existing regional markets, and in new markets that we intend to serve, through both traditional marketing channels as well as social media. We expect these marketing and public relation activities to emphasize our premium, quality services and our unique network of cultural and leisure destinations. For example, we intend to conduct more aggressive joint promotions with GDSs at all our destinations and introduce customer satisfaction surveys at our ticketing counters. We also intend to expand our sales network by bringing in more interline e-Ticketing partners as well as setting up call centers in Myanmar and Cambodia.

To further enhance customer loyalty, we intend to continue to strengthen our relationships with our frequent flyers. For example, we intend to find more partners in the lifestyle industry such as hotels, to enhance the benefits of *FlyerBonus* and offer more perks and benefits to corporate members. We also maintain constant communications with our *FlyerBonus* members through emailing them on promotions and new benefits.

***Grow passenger volumes by adding capacity on existing routes, adding new routes, and expanding the number of our code-share flights***

In Thailand, we intend to increase flight frequencies and add route-appropriate aircraft to key existing routes with high growth potential, leveraging on our existing operations and brand recognition.

We also intend to add new routes primarily within Southeast Asia by identifying additional cultural and leisure destinations with strong tourist demand but which we believe are underserved by other airlines. We intend to expand our route network by using our hubs at Suvarnabhumi International Airport in Bangkok and the Chiang Mai International Airport as a platform to operate domestic routes to Phuket, Krabi, U-Tapao Pattaya, Trat, Sukhothai, Lampang, Chiang Rai and Udonthani. We also intend to leverage on our hub in Samui to expand into other potential destinations in Asia by developing international routes from Samui to destinations in China and we also intend to increase flight frequency of existing routes.

Furthermore, we intend to continue developing strong relationships with our code-share partners to feed traffic from Southeast Asia and North Asia, Australia, Middle East and Europe into our network. As at June 30, 2014, we had code-share agreements in place with 14 airlines. We expect contribution from our code-share arrangements to increase further as we continue to expand our code-share network. We plan to focus on major airlines that are expected to drive new tourists arrivals to Southeast Asia, and service important markets that are currently outside our code-share network. According to SAP, countries which are expected to drive new tourists arrivals to Southeast Asia are China, Australia, India, Pakistan and Bangladesh. We are in ongoing discussions with potential partners which will increase our code-share network.

***Enhance our profitability as we grow our revenue***

To enhance our profitability, we intend to optimize our routes by continually evaluating our route network to increase frequencies on profitable routes, eliminate unprofitable routes, and add new routes to destinations with strong growth prospects. We plan to improve our aircraft utilization by increasing the flight frequency on selected routes and to improve our passenger load factors by increasing customer awareness of our airline both inside and outside of Thailand, primarily through an increase in our efforts in marketing and public-relations. For example, we have budgeted for television programs and advertisements in Chiang Mai, Phuket, Hong Kong, Singapore and Myanmar.

We expect to continue to seek to reduce our fuel costs by operating modern and fuel-efficient aircraft as well as enhancing our fuel management techniques on all aircraft. We have initiated discussions with three aircraft manufacturers to select a new generation of more fuel efficient aircraft for our mid-term and long-term fleet management and acquisition program. On July 18, 2014, we entered into an aircraft lease agreement for an A320 aircraft with a third party.

We expect to reduce non-fuel operating costs through training our own cadet pilots. We also intend to minimize operating costs by offering our lowest fares through the Internet to encourage travelers to make Internet bookings, which lower the administrative costs and related expenses.

***Continue to grow revenue and income from our airport-related businesses and explore new business opportunities***

We intend to increase revenue derived from our airport-related businesses, namely our in-flight catering, ground and cargo terminal services to leverage on continued traffic growth at Suvarnabhumi International Airport.

BAC plans to grow its catering business through expansion into niche segments such as hospital catering. BAC has set up a joint venture which will operate an in-flight catering facility business in Phuket. The joint venture is in the process of obtaining the necessary permits. BAC also intends to expand its business into Samui by building in-flight catering facilities there in order to cater for potential increases in demand for in-flight catering services for flights from Samui.

BFS Ground plans to expand its business regionally. It is currently in discussions to provide ground services to an airport in neighboring countries.

In addition, we intend to explore new business opportunities, such as the offering of aircraft maintenance services (daily check) to other airlines in Suvarnabhumi International Airport, particularly in respect of aircraft we are operating where we can leverage on our experience in operating these particular type of aircraft.

***Continue to encourage the growth of Samui as a major leisure destination to grow our passenger revenue and to leverage our strong market leadership at Samui***

We intend to continue to encourage the growth of Samui as a major leisure destination. On June 24, 2013, we submitted an environmental impact assessment report to the Office of Environmental Policy and Planning to increase the number of flights in and out of the Samui Airport to a maximum of 50 flights daily, which was approved by the Office of Environmental Policy and Planning. 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. Once we receive such permission from the DCA, we plan to 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, which will allow for the growth of passenger volume to this key destination. We intend to continue to leverage on our rights to the vast majority of slots at the Samui Airport (as of June 30, 2014, 36 flights are permitted to fly in and out of the Samui Airport daily, 32 of which are Bangkok Airways' flights) to grow our passenger revenue from the potential increase in passenger volume and to enhance Bangkok Airways' strong market leadership at Samui.

*We will continue to explore opportunities which can leverage on our expertise in improving, upgrading and operating airports*

We are exploring airport development projects in Thailand and abroad, leveraging on our experience in developing and operating the Samui, Trat and Sukhothai airports. We have explored opportunities in operating existing airports in Thailand, and also the setting up of joint ventures with local partners in regional countries to participate in the improvement and operation of airports. These may include airports at destinations that are currently not in our route network. In addition, we may consider including such destinations in our route network if we believe that they have the potential to develop into new cultural and leisure hubs.

### **Passenger Services**

Our airline passenger services comprise scheduled passenger full service carrier flights and non-scheduled charter flights. Our passenger service revenues accounted for approximately 73.5%, 74.8%, 79.6% and 79.0% of our total consolidated revenues in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively.

## Scheduled Passenger Services

We provide premium scheduled passenger services to business and leisure travelers. Our scheduled passenger services accounted for approximately 72.8%, 74.6%, 79.2% and 78.9% of our total consolidated revenues, in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. The table below sets forth, for the periods indicated, certain information relating to our scheduled passenger services.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
Scheduled passenger revenues (millions) <sup>(1)</sup> . . . . .	11,780.7	14,848.1	16,859.8	8,330.9	9,046.9
Domestic . . . . .	7,565.6	9,222.4	10,724.5	5,306.4	5,709.1
International . . . . .	4,215.1	5,625.7	6,135.3	3,024.5	3,337.8
RPKs (millions) <sup>(2)</sup> . . . . .	1,957.9	2,405.4	2,759.2	1,332.9	1,788.4
Domestic . . . . .	1,206.1	1,399.6	1,667.8	804.4	1,084.8
International . . . . .	751.8	1,005.9	1,091.5	528.6	703.7
ASKs (millions) <sup>(2)</sup> . . . . .	2,899.5	3,587.3	4,062.8	1,912.8	2,726.9
Domestic . . . . .	1,599.6	1,856.2	2,175.4	1,026.3	1,546.8
International . . . . .	1,299.9	1,731.1	1,887.4	886.5	1,180.1
Passenger or cabin load factor <sup>(2)</sup> . . . . .	67.5%	67.1%	67.9%	69.7%	65.6%
Domestic . . . . .	75.4%	75.4%	76.7%	78.4%	70.1%
International . . . . .	57.8%	58.1%	57.8%	59.6%	59.6%
Number of scheduled passengers carried (thousands) <sup>(2)</sup> . . . . .	3,108.9	3,631.2	4,173.4	2,036.9	2,363.4
Domestic . . . . .	2,340.6	2,671.8	3,118.7	1,523.2	1,762.3
International . . . . .	768.2	959.4	1,054.7	513.7	601.1
Total seat capacity (thousands) . . . . .	4,516.5	5,192.0	6,005.2	2,852.6	3,602.9
Domestic . . . . .	3,153.7	3,582.7	4,122.7	1,960.8	2,495.8
International . . . . .	1,362.8	1,609.3	1,882.6	891.8	1,107.1
Average stage length (kilometers per flight) . . . . .	629.8	662.4	661.2	654.4	756.7
Kilometers flown (millions) <sup>(2)</sup> . . . . .	25.2	30.1	32.2	15.5	21.5
Aircraft utilization (block hours per day per aircraft) <sup>(3)</sup> . . . . .	9.7	10.0	9.1	9.2	9.1
Airbus A320 . . . . .	9.8	10.9	9.9	10.4	9.9
Airbus A319 . . . . .	11.3	10.8	10.1	9.0	9.0
ATR 72-500 . . . . .	8.4	8.9	8.4	8.6	8.6
Revenue ASK (Baht) <sup>(4)</sup> . . . . .	4.3	4.5	4.5	4.6	3.5
Cost per ASK (Baht) <sup>(4)</sup> . . . . .	3.9	3.9	4.0	4.5	3.7
Cost per ASK excluding fuel cost (Baht) <sup>(4)</sup> . . . . .	2.9	2.8	3.0	3.5	2.8
RASK less CASK (Baht) <sup>(4)</sup> . . . . .	0.5	0.6	0.5	0.1	(0.25)
Number flights flown . . . . .	42,512.0	47,205.0	51,441.0	24,715.0	29,716.0
Domestic . . . . .	30,457.0	33,213.0	35,914.0	17,357.0	20,765.0
International . . . . .	12,055.0	13,992.0	15,527.0	7,358.0	8,951.0
Passenger yield (Baht per RPK) <sup>(5)</sup> . . . . .	6.0	6.2	6.1	6.3	5.1
Number of scheduled destinations served (winter schedule/summer schedule) <sup>(6)</sup> . . . . .	17/19	19/20	23/22	20	24
Scheduled flight frequency (flights per week) (winter schedule/summer schedule) <sup>(6)</sup> . . . . .	841/798	920/896	1,045/951	981/961	1,212/1,167
Number of aircraft at year/period end . . . . .	18	21	25	23	25
Airbus A320 . . . . .	3	5	7	5	7
Airbus A319 . . . . .	7	8	10	10	10
ATR 72-500 . . . . .	8	8	8	8	8
Average number of aircraft . . . . .	17	19	23	21	25
Average fare <sup>(7)</sup> . . . . .	3,789.4	4,089.0	4,039.9	4,089.9	3,928.2
Fuel consumed (barrels) . . . . .	728,857	882,581	1,004,683	471,990.9	595,978.4
Average fuel price (US\$ per barrel) . . . . .	125.6	126.8	123.0	122.3	120.9

(1) These figures are different from those included in our 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 us on a code-share basis, revenues derived from non-codeshare interline sales by us of seats on other airlines' flights, fuel and insurance surcharge revenue. Excludes revenues from cargo services, charter services and other revenue.

(2) Excludes non-scheduled flights and flights operated by other airlines and marketed by us but includes flights operated by us and marketed by other airlines.

(3) Excludes non-scheduled flights.

(4) Data is not equivalent to the airline operation data calculated by SAP because different assumptions were used to calculate this data. The Company used the following assumptions:

Revenue ASK means 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 mean 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.

Cost per ASK excluding fuel costs means 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.

The RASK, CASK and RASK-CASK spread in 2013 was US\$13.85, US\$12.33 and US\$1.52, respectively (calculated from the Company's operating data and assuming the exchange rate of THB32.455=US\$1.00 (exchange rate as specified by the BOT as of June 30, 2014).

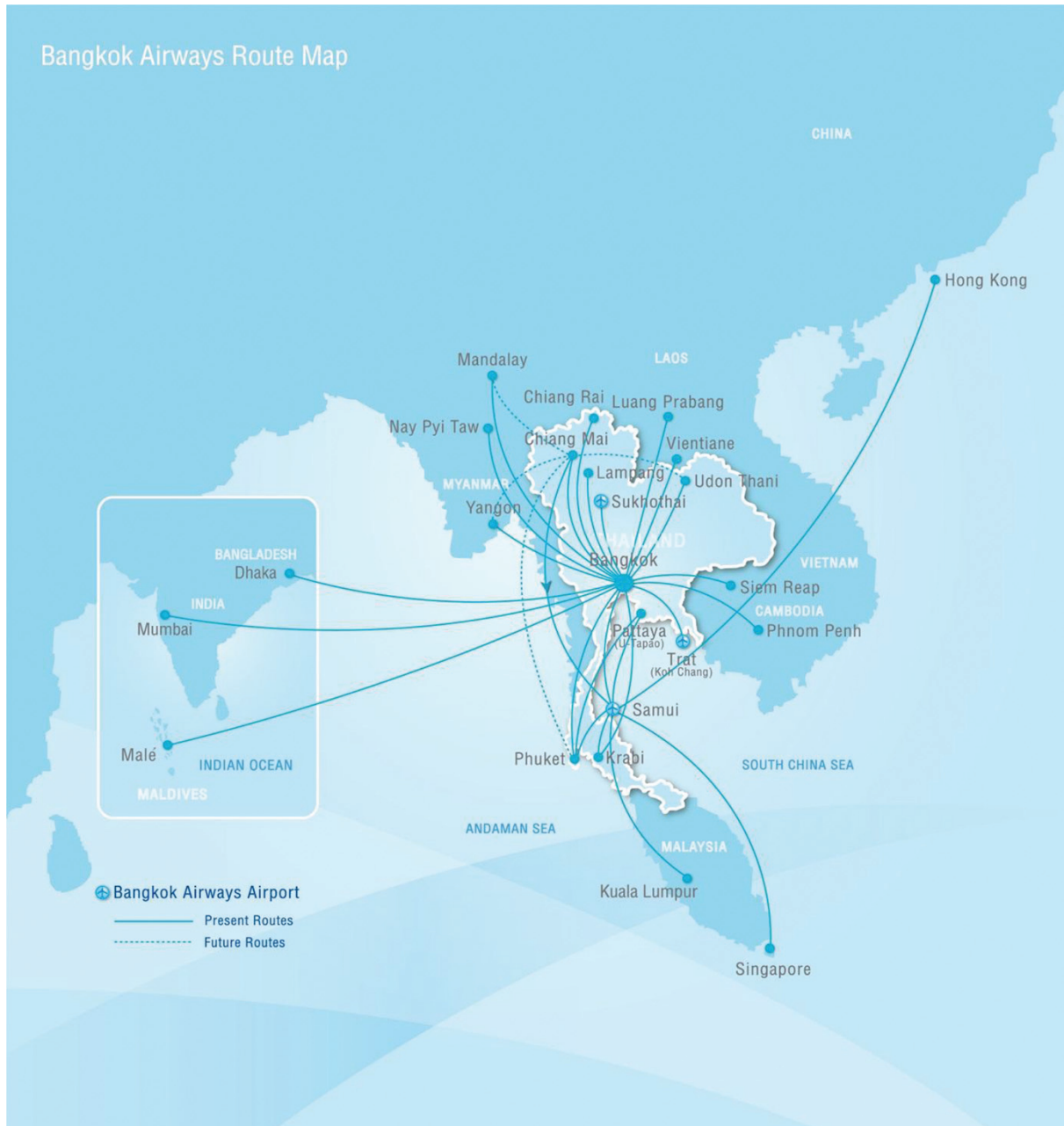
- (5) Scheduled passenger revenues excluding fuel surcharge, insurance surcharge and excess baggage divided by RPKs.
- (6) The winter schedule runs from the last Sunday of October of the previous year to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October each year.
- (7) Calculated as total scheduled passenger revenues divided by total number of scheduled passengers carried.

### *Route Network*

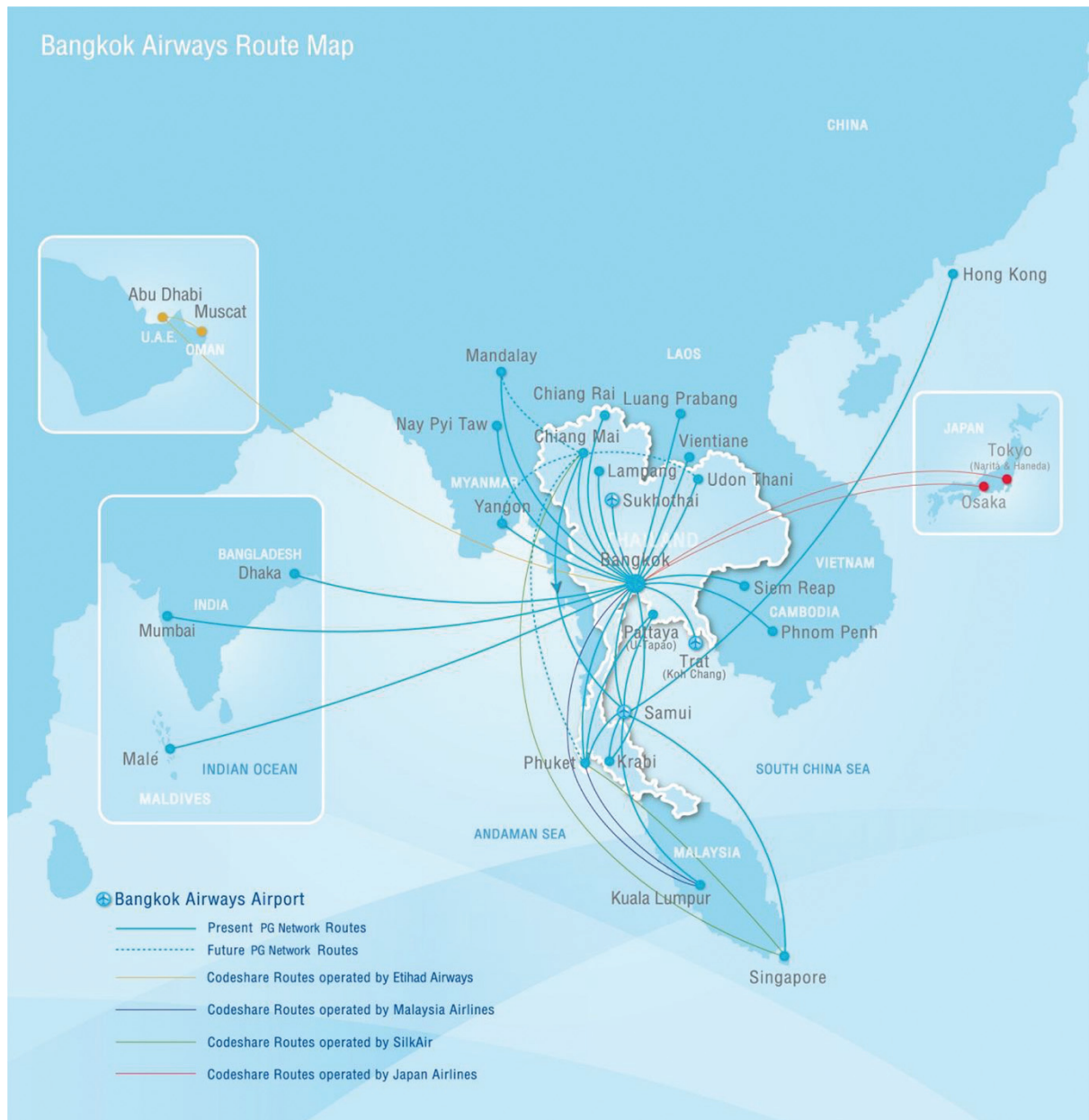
We operated a route network ("PG Route Network") covering 23 scheduled destinations (excluding Bangkok) in 10 countries (including Thailand) with 1,186 scheduled flights per week as of June 30, 2014. Our extended route network, which covers the PG Route Network as well as destinations covered in our code-share arrangements ("Extended Route Network"), extended our route network to cover eight international destinations in five countries (excluding Thailand) with 353 scheduled international flights per week as of June 30, 2014.

Our PG Route Network focuses on short-haul routes to airports around leisure and cultural destinations, typically operating within a radius of up to 3,120 kilometers and a flight duration of up to five hours. Through our code-share and other cooperative arrangements with other airlines, we are able to extend our reach to passengers originating from destinations including Europe and Japan. We also reach passengers in China through our charter flights.

The map below illustrates our international and domestic PG Route Network as of June 30, 2014.



The map below illustrates our PG Route Network and Extended Route Network as of June 30, 2014.



*PG Route Network.* As of June 30, 2014, our PG Route Network covered ten scheduled domestic destinations (excluding Bangkok) and 13 scheduled international destinations with 826 scheduled domestic flights per week and 360 scheduled international flights per week.

An airline must obtain traffic rights to operate domestic and international passenger services and must obtain time slots to gain access to airports. Time slots correspond to the capacity of an airport’s facilities and the ability of a carrier to land at, or take off from, an airport at a specified time and date. See “Regulation of the Airline Industry in Thailand” for further details. As of June 30, 2014, we have traffic rights to all the routes that we currently operate as well as two future international routes. The traffic rights for two future domestic routes for which we have not commenced services are pending approval by the MOT. As of June 30, 2014, we have commenced selling seats for all four future routes. Traffic rights in any jurisdiction granted to airlines may be withdrawn by the relevant government. The availability of landing and departure slots may affect our ability to increase frequencies to existing destinations and our proposed new routes.

We require the approval of the MOT to commence new domestic routes, which we seek through the DCA. In addition, to increase frequencies to existing domestic routes, we need to obtain a permit from the DCA. As for international routes, we need to apply to the DCA to be designated as a Thai airline under the relevant bilateral agreement between the Thai government and the government of the foreign countries to which we

propose to fly before seeking the approval of the relevant regulator in such a foreign country. In addition, the Bali Concord II declaration endorsed by ASEAN member countries aims to establish a fully integrated ASEAN community, with air travel and tourism as one of the stated priorities. Consistent with the Bali Concord II, the ASEAN Multilateral Agreement on Air Services envisages that these countries will enter into implementing protocols with each other, to be effective by 2015, to implement “open-skies” arrangements covering all flights between all ASEAN capital cities.

Thailand has signed “open-skies” treaties with the following countries that we serve: Singapore, Malaysia, Cambodia, Laos and Myanmar. Thailand has also signed “open-skies” treaties with Vietnam, Indonesia, the Philippines and Brunei.

When we are considering adding a new route to our network, we consider factors such as potential load factors, potential connecting traffic to support the current PG Route Network, the population density and tourism industry at the point of departure and destination, current and potential competition, airport fees, traffic rights and distance. We also conduct market research and quantitative analysis of customer feedback and survey customer feedback to analyze customer needs, behavior and travel patterns of both our passenger flight services and those of our potential competitors. We utilize the results of these surveys to support our new routes analysis and match our new routes to the needs of our customers. This process of considering new routes typically takes three months and new routes are approved by our board of directors as part of their approval of Bangkok Airway’s annual budget. If a new route is not profitable after a trial period of between 18 to 24 months, we will consider many possible improvements prior to either lowering the frequency of the route or canceling the route. For example, we closed our route to and from Bangalore in October 2012, which had not been profitable since its commencement in September 2011 due to insufficient passenger numbers. In 2013 and in the six months ended June 30, 2014, however, we did not close any routes.

In 1989, we built an airport in Samui, establishing the island as major leisure destination and developing Samui into a hub which could launch other potentially attractive routes, such as Samui—Beijing, Samui—Kunming, Samui—Shanghai and Samui—Guangzhou. Also, we continue to act as the operator of the Samui Airport, which enables us to retain the vast majority of slots at the Samui Airport. We are also able to capitalize on this competitive advantage to develop such attractive future routes on which we expect to be the dominant carrier.

The map below illustrates potential new flight routes expanding into North Asia.



As of June 30, 2014, in respect of our PG Route Network, a summary of our current flight schedule and flight schedule for routes on which we plan to increase or decrease frequency or start or terminate operations by the end of 2014, subject to the receipt of applicable government approvals, is set out below.

	Flight schedule as of June 30, 2014		Planned flight schedule as of June 30, 2014	
	Date service commenced	Number of flights per week	Expected date of commencement <sup>(1)</sup> or increase	Expected number of new flights per week
<b>Domestic:<sup>(2)</sup></b>				
Bangkok—Chiang Mai	October 2001	98	October 2014	14
Bangkok—Sukhothai	April 1996	28	October 2014	14
Chiang Mai—Samui	May 2005 <sup>(3)</sup>	14	—	—
Bangkok—Trat	December 2003	42	—	—
Phuket—Utapao	March 2004	14	—	—
Utapao—Samui	April 1993	14	—	—
Bangkok—Samui	April 1989	266	—	—
Bangkok—Chiang Rai	March 2014	28	November 2014	14
Samui—Krabi	October 2007	14	—	—
Bangkok—Phuket	November 2002	112	—	—
Samui—Phuket	October 1989	70	—	—
Bangkok—Lampang	March 2012	42	—	—
Bangkok—Krabi	April 2013	42	October 2014	14
Bangkok—Udonthani	November 2013	42	—	—
Chiang Mai—Phuket	—	—	October 2014	14
Chiang Mai—Udonthani	—	—	October 2014	28
Subtotal		826		98
<b>International:<sup>(2)</sup></b>				
Bangkok—Phnom Penh	September 1997	70	—	—
Bangkok—Siem Reap	January 1998	70	—	—
Bangkok—Luang Prabang	October 2002	28 <sup>(4)</sup>	—	—
Bangkok—Yangon	April 2004	56	—	—
Samui—Hong Kong	April 2005	28	—	—
Samui—Singapore	March 1997	14	—	—
Bangkok—Maldives	October 2004	14	—	—
Bangkok—Dhaka	March 2011	14	—	—
Bangkok—Mumbai	March 2011	14	—	—
Samui—Kuala Lumpur	March 2012	14	—	—
Bangkok—Vientiane	November 2012	14	—	—
Bangkok—Mandalay	September 2013	14	—	—
Bangkok—Naypyidaw	September 2013	10	—	—
Chiang Mai—Yangon	—	—	October 2014	8
Chiang Mai—Mandalay	—	—	October 2014	6
Subtotal		360		14
Total		1,186		112

(1) Subject to change, pending receipt of governmental approvals.

(2) Routes are round trip unless otherwise stated.

(3) The Company commenced service of its Chiang Mai — Samui route in May 2005 as a one-way route. In December 2013, the Company commenced service of the round trip route between Samui — Chiang Mai.

(4) Subject to change during low-season.



Our code-share arrangements increase our passenger load, and thus our operating revenues, as they facilitate passengers travelling from international destinations on other airlines to connect to the PG Route Network. As of June 30, 2014, a summary of flights on the PG Route Network which are code-shared with our partners is set out below. One or more airlines can code-share the same Bangkok Airways flight.

	Code-share Partners				
	Qatar Airways	Air Berlin	Air France	Finnair	EVA Airways
<b>Domestic:</b>					
Bangkok—Chiang Mai	77	98	14	—	49
Bangkok—Sukhothai	28	—	—	—	—
Chiang Mai—Samui	14	—	—	—	—
Bangkok—Trat	42	42	14	—	—
Phuket—Utapao	—	—	—	—	—
Utapao—Samui	—	—	—	—	—
Bangkok—Samui	266	266	14	21	63
Samui—Krabi	—	—	—	—	—
Bangkok—Phuket	112	105	14	—	56
Phuket—Samui	—	70	—	—	—
Bangkok—Lampang	42	—	—	—	—
Bangkok—Chiang Rai	—	—	—	—	—
Bangkok—Krabi	42	42	14	—	—
Bangkok—Udonthani	—	—	—	—	—
Subtotal	623	623	70	21	168
<b>International:</b>					
Bangkok—Phnom Penh	56	56	14	—	—
Bangkok—Siem Reap	—	—	—	—	—
Bangkok—Luang Prabang	—	—	14	—	—
Bangkok—Yangon	56	—	14	—	—
Samui—Hong Kong	—	—	14	18	—
Samui—Singapore	—	—	14	14	—
Bangkok—Maldives	—	—	—	—	—
Bangkok—Dhaka	—	—	—	—	—
Bangkok—Mumbai	—	—	—	—	—
Samui—Kuala Lumpur	—	—	—	—	—
Bangkok—Vientiane	—	—	14	—	—
Bangkok—Mandalay	14	—	—	—	—
Bangkok—Naypyidaw	—	—	—	—	—
Subtotal	126	56	84	32	0
Total	749	679	154	53	168

	Code-share Partners			
	Etihad Airways	Japan Airlines	KLM Royal Dutch Airlines	Malaysia Airlines
<b>Domestic:</b>				
Bangkok—Chiang Mai	70	21	21	28
Bangkok—Sukhothai	—	—	14	—
Chiang Mai—Samui	—	—	—	—
Bangkok—Trat	28	—	21	—
Phuket—Utapao	—	—	—	—
Utapao—Samui	—	—	—	—
Bangkok—Samui	266	28	28	28
Samui—Krabi	14	—	—	—
Bangkok—Phuket	112	35	21	28
Phuket—Samui	70	—	—	28
Bangkok—Lampang	—	—	—	—
Bangkok—Chiang Rai	—	—	—	—
Bangkok—Krabi	35	—	—	—
Bangkok—Udonthani	—	—	—	—
Subtotal	595	84	105	112
<b>International:</b>				
Bangkok—Phnom Penh	56	—	14	—
Bangkok—Siem Reap	—	—	—	—
Bangkok—Luang Prabang	28	—	—	—
Bangkok—Yangon	35	—	—	—
Samui—Hong Kong	—	—	—	—
Samui—Singapore	14	—	14	—
Bangkok—Maldives	—	14	—	—
Bangkok—Dhaka	—	—	—	—
Bangkok—Mumbai	—	14	—	—
Samui—Kuala Lumpur	—	—	—	14
Bangkok—Vientiane	14	—	—	—
Bangkok—Mandalay	14	—	—	—
Bangkok—Naypyidaw	—	—	—	—
Subtotal	161	28	28	14
Total	756	112	133	126

	Code-share Partners			
	Silk Air	British Airways	Cathay Pacific Airways	Qantas
<b>Domestic:</b>				
Bangkok—Chiang Mai	—	98	28	35
Bangkok—Sukhothai	—	—	—	—
Chiang Mai—Samui	14	—	—	—
Bangkok—Trat	—	—	—	—
Phuket—Utapao	—	—	—	—
Utapao—Samui	—	—	—	—
Bangkok—Samui	—	266	—	63
Samui—Krabi	—	—	—	—
Bangkok—Phuket	—	112	—	42
Phuket—Samui	70	—	—	—
Bangkok—Lampang	—	—	—	—
Bangkok—Chiang Rai	—	—	—	14
Bangkok—Krabi	—	—	28	42
Bangkok—Udonthani	—	—	—	—
Subtotal	84	476	56	196
<b>International:</b>				
Bangkok—Phnom Penh	—	—	—	—
Bangkok—Siem Reap	—	—	—	—
Bangkok—Luang Prabang	—	—	—	—
Bangkok—Yangon	—	—	—	—
Samui—Hong Kong	—	—	28	—
Samui—Singapore	14	14	—	14
Bangkok—Maldives	—	—	—	—
Bangkok—Dhaka	—	—	—	—
Bangkok—Mumbai	—	—	—	—
Samui—Kuala Lumpur	—	—	—	—
Bangkok—Vientiane	—	—	—	—
Bangkok—Mandalay	—	—	—	—
Bangkok—Naypyidaw	—	—	—	—
Subtotal	14	14	28	14
Total	98	490	84	210

*Extended Route Network.* As of June 30, 2014, our Extended Route Network added eight scheduled international destinations and 353 scheduled international flights per week to our PG Route Network. See “—Airline Cooperation Arrangements—Code-share Agreements” for details of our code-share arrangements.

As of June 30, 2014, in respect of our Extended Route Network, a summary of our current extended flight schedule and extended flight schedule for codeshare routes on which we plan to increase or decrease frequency or start or terminate operations by the end of 2014 is set out below.

	Flight schedule as of June 30, 2014		Planned flight schedule as of June 30, 2014		
	Date service commenced	Number of roundtrip flights per week	Expected date of commencement, increase or termination	Expected number of new/ (terminated) roundtrip flights per week	Operating Airlines <sup>(1)</sup>
<b>International:</b>					
Bangkok—Abu Dhabi . . . . .	October 2012	42	—	—	Etihad Airways
Abu Dhabi—Muscat . . . . .	October 2012	35	—	—	Etihad Airways
Bangkok—Narita— Haneda <sup>(2)</sup> . . . . .	December 2012	52	—	—	Japan Airlines
Bangkok—Osaka . . . . .	December 2012	14	—	—	Japan Airlines
Bangkok—Kuala Lumpur . . . . .	October 2012	56	—	—	Malaysia Airlines
Kuala Lumpur—Phuket . . . . .	October 2012	28	—	—	Malaysia Airlines
Singapore—Phuket . . . . .	October 2012	84	—	—	Silk Air
Singapore—Chiang Mai . . . . .	October 2012	28	—	—	Silk Air
Singapore—Samui . . . . .	October 2012	14	—	—	Silk Air
Total . . . . .		353			

(1) Airlines operating these routes with which we have existing or planned code-share arrangements.

(2) For the purposes of calculating the number of scheduled international destinations served by our Extended Route Network, we consider Narita and Haneda one destination.

### **Chartered Passenger Services**

Our charter flights and charter services accounted for approximately 0.7%, 0.2%, 0.4% and 0.1% of our total consolidated revenues in 2011, 2012, 2013 and six months ended June 30, 2014, respectively. Chartered passenger services enhance our aircraft utilization and revenues. We determine our charter flight arrangements in accordance with aircraft availability by primarily treating the scheduled passenger services as our first priority. As we increase aircraft block hour per day utilization for our scheduled passenger services, our chartered passenger services will decrease accordingly.

### **Rent, Fees and Charges for Airports**

The following table presents the amounts and types of rent, fees and charges paid to airports in which we have operations for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
	(in millions of Baht)				
Rent <sup>(1)</sup> . . . . .	36.0	38.0	40.9	20.1	23.9
Fees and charges <sup>(2)</sup> . . . . .	708.3	920.6	1,182.5	534.3	737.2
Landing and parking fees, aviation bridge service charge and concession fees (catering and snack bar) . . . . .	192.4	214.1	256.1	113.9	164.0
Electricity, water and telephone charges . . . . .	31.7	36.3	32.5	16.0	18.2
Total . . . . .	968.4	1,209.0	1,512.0	684.3	943.3

(1) Rent comprises rental expenses in respect of flight operations at each station located outside Thailand.

(2) The Company has paid fees and charges to BAGs Ground (which we sold in 2012) amounting to THB174.8 million and THB100.1 million in 2013 and first six months of 2014, respectively.

## **Airline Cooperation Arrangements**

### ***Code-share Agreements***

Code-share arrangements allow marketing carriers to sell tickets on flights operated by their code-share partner airlines. The tickets of code-shared flights are issued under the marketing airline's designator code, although they are operated by the code-share partner airlines. The marketing carriers are liable for any damages to passengers and cargo throughout the flight as if they were an operating carrier, and consequently, audits of code-share partners are required to check for substantially equivalent standards of management, safety, security and passenger services. We are permitted to sell available tickets for our code-share partners' flights on a free-sale basis through Global Distribution System (GDS) or on a block-sale basis as determined by the Company at prices agreed under our code-share agreements.

We have successfully established code-share arrangements with various international airlines including Etihad Airways, Malaysia Airlines, Finnair, KLM Royal Dutch, Air France, Silk Air, EVA Airways, Air Berlin (currently not operating flights to/from Thailand), Japan Airlines, Qatar Airways, British Airways, Cathay Pacific Airways and Qantas Airways. We also have a code-share agreement with Thai Airways; however, we do not currently code-share any of our flights, or *vice versa*. We are currently in negotiations with Thai Airways to agree on future code-share routes. We are also in advanced negotiations with major carriers in Asia and Europe to further extend our Extended Route Network in 2014.

We typically seek code-share arrangements that would either increase our passenger traffic on our PG Route Network or add desirable destinations to our Extended Route Network. Our code-share arrangements enable us to access connecting passenger traffic from other airlines traveling from various international destinations in Europe, South Asia, the Middle East, Japan, the People's Republic of China, Australia and elsewhere. These interline and code-share arrangements enable us to access broader international markets and serve additional long-distance passengers without operating our own long-distance international flights and having to invest in long-haul fleet. We believe that code-share arrangements are a cost-effective means to expand the scope of our passenger services and enhance our image in the international market. Through our hubs at Suvarnabhumi International Airport and the Samui Airport, we are able to provide efficient same airport transfer for passengers of our code-share and interline flights and to connect them to regional and domestic destinations that are part of our PG Route Network, as compared to Thailand's other airlines based on the Don Meung Airport. This is because passengers do not need to travel from the Suvarnabhumi International Airport to the Don Meung Airport for flight transfers. Our code-share arrangements also enable us to add desirable destinations to our Extended Route Network. As of June 30, 2014, our code-share arrangements extended our route network to cover eight international destinations in five countries (excluding Thailand). See “—Passenger Services—Scheduled Passenger Services—Route Network—Extended Route Network” for details of our Extended Route Network. Such code-share arrangements allow us to extend our route network to service important markets that we cannot profitably serve due to low passenger volumes.

### ***Interline Cooperation Agreements***

Interline cooperation is a marketing arrangement allowing for, in accordance with agreements between airlines, mutual acceptance of passenger tickets, air waybills and other transportation documents issued by signatory airlines. This arrangement allows marketing airlines to sell tickets on flights operated by their interline partner airlines. The tickets are issued under the designator code of the carrier operating the flight, and the interline partners are separately liable for any damages to passengers and cargo on their respective flights. This arrangement facilitates passenger travel for passengers who require flights of more than one airline to reach their final destination.

As of June 30, 2014 we had standard interline cooperation arrangements with 82 carriers, including all of our code-share partners. We participate in the IATA clearing house, which enables the prompt settlement of interline balances between member airlines. Interline sales between member airlines may be of either passenger tickets or freight capacity. Payment for interline sales are collected in accordance with rules set out by IATA that are applicable to all member airlines. Our revenues from interline cooperation agreements and code-share agreements accounted for 18.5% of our passenger revenue for the six months ended June 30, 2014.

## Our Fleet

### *Fleet Composition*

As of June 30, 2014, we had an operating fleet of 25 passenger aircraft, which include eight ATR 72-500 aircraft, 10 Airbus A319 aircraft, and seven Airbus A320 aircraft. We have not disposed of any aircraft from 2011 to June 30, 2014.

The following tables presents certain data pertaining to our operating fleet as of June 30, 2014.

	<u>Total Number of Aircraft</u>	<u>Under Finance Lease</u>	<u>Under Operating Lease</u>	<u>Owned by the Company</u>	<u>Passenger Capacity per Aircraft<sup>(1)</sup></u>	<u>Average Age</u>
Airbus A320 .....	7	—	7	—	162Y	9.1
Airbus A319 .....	10	—	10	—	4:12C/108Y 4: 138Y 2: 144Y	6.9
ATR 72-500 .....	8	5	2	1	70Y	10.5
Total .....	<u>25</u>	<u>5</u>	<u>19</u>	<u>1</u>		

(1) C = business class; Y = economy class.

Our total fleet size was 18, 21, 25 and 25 as of December 31, 2011, 2012, 2013 and June 30, 2014, respectively. The average age of our fleet was 6.3, 7.3 8.2 and 8.7 years as of December 31, 2011, 2012, 2013 and June 30, 2014, respectively. According to industry standards, the actual operating life of an aircraft ranges from 20 to 25 years, depending on its aircraft type, maintenance record, utilization rate and operating environment. Ageing aircraft typically requires higher maintenance, repair and overhaul services to maintain safe and efficient operations. As of June 30, 2014, 21 aircraft in our fleet were over six years of age and the oldest aircraft in our fleet was approximately 12.6 years of age.

In 2013, we added two Airbus A319 aircraft and two Airbus A320 aircraft under operating leases. The average age of these four aircraft was 8.7 year of age as of 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 fleet of ATR 72-500 aircraft 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.

Our ATR 72-500 aircraft enable us to access smaller airports, such as the Lampang Airport, in Thailand that are inaccessible by the larger aircraft such as the Airbus and to serve routes with lower passenger volume, such as Trat. 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 or periods which can be expected to have lower traffic. We believe the new ATR 72-600 aircraft will offer the same flexibility and versatility as the ATR 72-500 aircraft. 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 allows us to expand our international routes to include destinations such as India, Cambodia and the Maldives, with lower cost per ASK. This enables us to be cost competitive which effectively strengthens our competitiveness against other regional airlines.

All of our seven Airbus A320 aircraft and six of our Airbus A319 aircraft are configured to seat a single class in order to maximize seating capacity. Our remaining four Airbus A319 aircraft are configured to seat a dual class to maximize yield in order to be able to serve passengers of our code-share flights. These aircraft also carry a flight crew consisting of one pilot, one co-pilot and up to four cabin crew. Our fleet of eight ATR 72-500 aircraft is configured to seat 70 passengers. These aircraft also carry a flight crew consisting of one pilot, one co-pilot and up to two cabin crew. The ATR 72-600 aircraft has a more modern seat configuration and a new cockpit format, which will facilitate pilot training and transition to larger fleet models.

### ***Aircraft Delivery and Disposal Schedule***

Based on our current business plan, we expect to increase our fleet size to 43 aircraft by the end of 2018. The following table shows our budgeted future aircraft deliveries as of June 30, 2014, based on our current business plan, and does not take into account any decommissioning or non-renewals of our aircraft.

	Expected Delivery Year					Total
	2014	2015	2016	2017	2018	
Aircraft with not more than 78 seats .....	1	4	3	1	0	9
Aircraft with 120 to 160 seats .....	4	3	4	3	3	17
Total .....	5	7	7	4	3	26

The foregoing figures represent expected delivery dates only. We cannot assure you that we will enter into operational leases or otherwise acquire any or all of the indicated aircraft on the expected dates. See “Risk Factors—Risks Relating to Our Business—Any real or perceived problem with Airbus A319, Airbus A320 or ATR 72-500 aircraft or International Aero Engines V2500-A5 series engines or Pratt & Whitney PW 127F or 127M series engines, including their unavailability, or any decision to operate a new aircraft type or engine type, could have a material adverse effect on our business, financial condition, results of operation and prospects”. In addition, we may need to consider procuring additional aircraft of existing models during gap periods in which we wait for the production and delivery of new aircraft models.

### ***Aircraft Procurement and Disposal Strategy***

We seek to maintain a rationalized, fuel-efficient and modern fleet to serve our route network. When evaluating our aircraft procurement and disposition plan, we consider many factors, including demand forecasts for the aviation industry, current fleet capacity, current and future aircraft requirements, capital structure, cash flows, purchase and leasing costs, prevailing interest rates and other market conditions which may impact financing costs. We evaluate on a case-by-case basis the retirement or disposal of a particular aircraft based on a number of factors, including operating and safety efficiency and market demand for a particular aircraft type. Moreover, we carefully balance fuel consumption and maintenance costs of ageing aircraft against financing costs and depreciation expenses which may be incurred by acquiring newer replacement aircraft. We typically lease new aircraft. 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 three additional 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. See “Description of Material Agreements—ATR Sale and Purchase Agreement”.

### ***Aircraft Leasing and Purchasing Arrangements***

In addition to the one aircraft we own, our fleet includes aircraft leased pursuant to operating and finance leases. As of June 30, 2014, we operated 19 aircraft subject to operating lease agreements and five aircraft subject to finance lease agreements in the form of conditional sale agreements. All of these aircraft are registered in Thailand. See “Description of Material Agreements—ATR Sale and Purchase Agreement”.

#### ***Operating Leases***

As of June 30, 2014, 19 of our 24 leases are operating leases, and we generally have original terms ranging from four to eight years from the aircraft’s delivery. The remaining terms of our aircraft subject to operating leases are 3.4 years as of June 30, 2014. See “Description of Material Agreements—Aircraft Leases” for details of the remaining terms of our operating leases. Under the leases, we are entitled to use the aircraft and are obliged to make rental payments according to the terms in the relevant lease agreements. 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 leased term. Although the title remains with the lessor, we are responsible during the lease term for legal and regulatory compliance, maintenance, servicing, insurance, tax and repair of the aircraft. Under the terms of our lease agreements, the lessors are either (i) required to assign to us the benefit of all subsisting warranties and other product support relating to the aircraft, to the extent the lessor is permitted to do so or (ii) to make all subsisting warranties and other product support known to us and to pursue warranty claims on our behalf and cooperate with us to cause any proceeds to be paid directly to us.

Lease payments are generally due on a monthly or quarterly basis. Our leases generally require us to maintain and make contributions to maintenance and repair reserve funds as additional rent which shall be retained by lessor as lessor's property during the term of the lease. This additional rent for maintenance and repair reserve fund contributions is based on the use of the aircraft during the lease term and typically include reserves for airframe structure maintenance, engine performance restoration maintenance, engine life limited parts maintenance, landing gear maintenance and auxiliary power unit maintenance. We are required to maintain the aircraft to agreed standards during the term of the lease and are entitled to reimbursement by the lessor from the maintenance and repair reserve fund upon presentation of documentation of completion of required maintenance work, provided that no default has occurred. Under our operating leases, the remainder of such additional rent shall not be returned to us upon the termination of leases. Under certain of our operating leases, the lessor has the right to terminate a lease early and require us to surrender the aircraft upon the occurrence of an event of default, such as the non-payment of rent, failure to make contributions to the maintenance and repair fund and failure to maintain insurance coverage for the aircraft or insolvency. As a result of the business slowdown during the global financial crisis from 2007 to 2009, we were late in making payments under the terms of nine of our operating leases. We were served notices of late payment and subsequently entered into negotiations with the relevant third party lessors and consensually restructured the lease payments for all nine aircraft. For three of the aircraft, we also negotiated to apply our rent payment from the maintenance repair reserve funds, which is the property of the lessor, but which we are entitled to be reimbursed after maintenance work has been completed in accordance with the aircraft maintenance plan, as stipulated under each operating lease agreement towards the past due lease payments and agreed to provide standby letters of credit as collateral in place of our rent payment from maintenance repair reserve funds. However, such standby letters of credit issued by the Company expired in 2011 and in 2012. As of the date of this Offering Memorandum, the Company has been able to make timely payments as specified in the agreements and has not issued standby letters of credit as collateral in place of our rent payment from maintenance upon reserve fund. Aside from the nine aircraft for which we received late payment notices, we also negotiated the return of one aircraft with a negotiated early redelivery fee. In addition, we cancelled the delivery of a new aircraft and forfeited our deposit under the operating lease agreement. See "Risk Factors—Risks Relating to Our Business—We have failed to comply in the past and any future failure to comply with covenants contained in our aircraft operating lease agreements could have a material adverse effect on our business, financial condition, results of operation and prospects".

#### *Finance Lease Agreements in the form of Conditional Sale Agreements*

As of June 30, 2014, five of our 24 leases were leased by third party lessors pursuant to finance lease agreements and sub-leased to us pursuant to finance lease agreements in the form of conditional sale agreements. Our finance lease agreements in the form of conditional sale agreements generally have a term of 12 years. The remaining terms of our aircraft subject to finance lease agreements in the form of conditional sale agreements ranged from five months to 1.4 years as of June 30, 2014. See "Description of Material Agreements—Aircraft Leases" for details of the remaining terms of our finance lease agreements in the form of conditional sale agreements. Under our finance lease agreements in the form of conditional sale agreements, we make lease payments to the third parties. See "Risk Factors—Risks Relating to Our Business—Lenders of our third party lessors may have a security interest in our aircraft which were purchased by our third party lessors under finance leases, and may take possession of such aircraft in the event our third party lessors fail to adhere to certain requirements under the terms of the finance leases and related financing documents". We bear substantially all of the economic risks and rewards of owning the aircraft. The title of the aircraft remains vested in the owner. Under the finance lease agreements in the form of conditional sale agreements, we may also purchase the aircraft from the lessor upon the expiration or termination of such lease, or in the case of an early purchase, 60-days written notice, and obtain title to the aircraft upon payment of all amounts owed. The terms of our finance lease agreements in the form of conditional sale agreements vary depending on the commercial agreements reached by the parties concerned. Lease payments are generally paid on monthly installments.

The Company is obliged to make rent payments to the contracting party, a special purpose vehicle, under the conditional sale agreement. Such special purpose vehicle is established for the exclusive purpose of aircraft acquisition through entering into a finance lease in the form of a conditional sale agreement between the Company and a foreign financial institution (lender). The foreign financial institution determined the structure of such agreement.

Although the title to the aircraft has not been transferred to us under the facility arrangement for aircraft acquisition, the Company is required to make contributions to a maintenance and repair reserve fund to the manufacturer. The Company is entitled to reimbursement by the manufacturer upon completion of the maintenance work under finance lease in form of the conditional sale agreement at actual maintenance cost but

not more than contributions made by the Company, provided that no default has occurred under the terms of the finance lease in form of the conditional sale agreement. The balance of the maintenance and repair reserve fund will be returned to the Company following the transfer of title to the aircraft. The amount of contributions to the maintenance and repair reserve fund depends on aircraft utilization, which typically includes aircraft structural maintenance and landing gear maintenance. The Company is required to maintain the aircraft in accordance with the agreed standards.

Circumstances under which a lessor may have the right to terminate a lease early and require us to surrender the aircraft include the occurrence of an event of default. Events of default under our finance lease agreements in the form of conditional sale agreements, include but are not limited to, the non-payment of rent, the non-payment of other indebtedness exceeding certain amounts, insolvency and the termination of our Bangkok—Samui route. As of June 30, 2014, our lessors have not involuntarily terminated any finance lease agreements in the form of conditional sale agreements or required us to return any aircraft as a result of a default by us.

## **Our Hubs**

### ***Bangkok Hub and Facilities***

We believe that Bangkok enjoys a number of advantages over many other cities in Thailand as a hub. These advantages include its role as a gateway to Southeast Asia, the Mekong region, South Asia and Southern China, and its convenient location as a stopover on routes linking Europe to North Asia and both Europe and North Asia to destinations in Australia, New Zealand and Southeast Asia.

Our primary hub is at the Suvarnabhumi International Airport, which is Thailand's principal international and largest domestic airport in terms of the number of aircraft movements and passenger volume. According to Airports Council International, Suvarnabhumi International Airport was, in terms of passenger movements in 2013, the 17th busiest airport in the world and the seventh busiest airport in Asia. In 2013, according to the AOT, the Suvarnabhumi International Airport hosted approximately 88.3 million passengers, consisting of 55.2 million international passengers and 33.1 million domestic passengers.

The Suvarnabhumi International Airport commenced operations in 2006, and occupies approximately 8,000.0 acres of land in the sub-district of Bang Phil, in Samut Prakarn Province, 25.0 kilometers east of Bangkok.

Following our commencement of operations at the Suvarnabhumi International Airport, we transferred the bulk of our operations previously based at the Don Mueang International Airport, except our heavy maintenance services, to the Suvarnabhumi International Airport. We pay various rents, fees and charges to AOT at the Suvarnabhumi International Airport, including landing and parking charges, space rental and other charges, and concession fees for several revenue-generating activities in which we engage at the Suvarnabhumi International Airport through our subsidiary and associated companies.

We also lease a plot of land at the Don Mueang International Airport which we use for our maintenance services. Our maintenance facility comprises a hangar, a C-check maintenance facility and adjacent workshops servicing a broad range of equipment. See “—Airline Operations—Aircraft Maintenance, Repair and Overhaul” for details.

### ***Samui Hub and Facilities***

See “—Airport Operations—Samui Airport” for details of our Samui hub and facilities.

## **Airline Operations**

We operated our aircraft for an average of 9.1 block hours per day utilization in 2013, which is typical of regional full-service airlines. This comprises an average of 9.9, 10.1 and 8.4 block hours per day utilization for our Airbus A320, Airbus A319 and ATR 72-500 aircraft, respectively.

### ***Route Planning***

We focus on short-haul routes to airports in and around major leisure and cultural destinations, typically operating within a radius of up to 3,120 kilometers and a flight duration of up to five hours from our hubs at the Suvarnabhumi International Airport and the Samui Airport.



We cooperate with the DCA in seeking additional air traffic rights under new or existing air services agreements. Our ability to expand our route network and to increase frequency and capacity is subject to our ability to obtain sufficient traffic rights and time slots to these destinations. The principal factors considered in adding a new route to our existing route network or increasing the frequency of flights on an existing route are aircraft availability and projected passenger and cargo load factors, profitability of the route and contribution to traffic on other routes.

In our current route network strategy, we intend to focus more on network connecting traffic going through our Bangkok hub and our airports, particularly the Samui Airport. Additionally, we intend to focus on connecting travelers through Chiang Mai, a gateway location for Northern Thailand. Code-share and other cooperative arrangements are also key to our route network strategy, as they enable us to both extend our route network and to increase our passenger load with passengers connecting onto our flights from various international locations, including Europe, South Asia, Japan and other countries. In addition, we are able to reach passengers in China through our chartered flights. 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 peak travel season in the international markets and fluctuations in demand on these routes.

### ***Flight Scheduling***

Our network management team formulates flight schedules, based on market demand for various routes. Consistent with market demand and with IATA guidelines, we publish summer and winter flight schedules each year. The winter schedule runs from the last Sunday of October of the previous year to the last Saturday of March and the summer schedule runs from the last Sunday of March to the last Saturday of October each year. From time to time, we also vary the flight frequency and type of aircraft utilized on scheduled routes based on anticipated seasonal demand.

### ***Flight Operations***

Our operations control center (“OCC”) located outside the Suvarnabhumi International Airport supervises and controls our flights in accordance with our flight operation schedules and relevant regulations of the authorities. Our OCC collects and analyzes information relating to the projected payload, weather and airport conditions and aircraft status. Our OCC also approves flight dispatches and coordinates necessary ground service equipment and maintenance services for our aircraft. Our OCC monitors and tracks flights by air and ground radar displays, radio communications, the Air Communication Addressing and Reporting System and Air-to-Ground Data Link communications. In the event of irregularities, our OCC may adjust flight schedules, combine flights and, if necessary, cancel flights. See “—Passenger Experience” for details of our cancelled or rescheduled flights.

### ***Fuel***

Fuel is a major cost component for airlines. Our fuel costs in 2011, 2012, 2013 and the six months ended June 30, 2014 were THB3,049.2 million, THB3,852.7 million, THB4,158.8 million (US\$128.1 million) and THB2,606.9 million (US\$80.3 million), or 28.2%, 29.3%, 27.7% and 29.8% of consolidated cost of sales and services, respectively. See “Risk Factors—Risks Relating to Our Business—Our business, financial condition, results of operation and prospects are materially and adversely affected by the cost or unavailability of sufficient quantities of fuel”.

In purchasing fuel, we consider not only pricing, but also the security of supply and the need to maintain long-term relationships with suppliers. In 2013 and the six months ended June 30, 2014, we purchased 68.1% and 68.7% of our fuel, respectively, from PTT and 26.5% and 26.8% of our fuel, respectively, from Shell Thailand, under supply contracts with two to three year terms. We believe that these or other suppliers would be able to meet our expected fuel requirements in the event that any one of these suppliers were to suffer an supply disruption.

In Asia, jet fuel prices are benchmarked against MOPS. Jet kerosene prices, and therefore fuel prices, are extremely volatile and subject to many global economic and geopolitical factors. We implement various fuel management strategies to manage the risk of rising fuel prices, including hedging. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Market Risks—Fuel Price Risk” for details. We cannot assure you that we will be able to continue to secure new fuel derivative contracts on commercially reasonable terms or at all.

In addition to hedging fuel prices, we have implemented the following fuel management strategies in order to reduce costs and minimize inherent risks:

- *Fuel policy.* We control our fuel supply by uplifting as much fuel as possible within optimal limits and regulatory requirements, in destinations where fuel is least expensive, to facilitate the use of the least expensive fuel stock;
- *Fuel consumption policy.* We attempt to minimize fuel consumption by adopting the IATA Fuel Efficiency Gap Analysis to establish clear guidelines covering all areas of flight operations so that aircraft fuel burn rates can be maintained at a functional minimum. This includes selecting the route that is the shortest distance to fly, selecting the closest alternate airport, allowing the aircraft to reach optimum height within the shortest amount of time, determining the optimum flight level to match the engine performance versus weight as less fuel is consumed at optimum height, applying best practice flying techniques for all flight profiles taking straight-line paths as much as possible, and decreasing the overall weight of the aircraft by reducing excess weight and, as far as possible, matching supply with demand for food and beverages, on board documents and water; and
- *Fuel surcharge.* Effective September 2001, we introduced fuel surcharges for all our international routes. The DCA prohibits the imposition of fuel surcharges that are separate from air fares for domestic routes. The fuel surcharges range from US\$33 to US\$70 per sector for international routes, depending on the scheduled time of the route.

### ***Passenger Experience***

We are committed to enhancing our passenger experience by providing them with premium, quality services, including the use of complimentary lounges at the airports, friendly and passenger-focused service, a modern and fuel efficient fleet of aircraft and cultural and leisure destinations.

We distinguish our passenger experience with complimentary lounges for all passengers. Our economy class lounges offer our passengers free snacks, beverages and Internet access. We also operate separate business class lounges, or *Blue Ribbon* lounges, to service our business class passengers. Our *Blue Ribbon* lounges offer hot meals, shower rooms, library rooms and Internet access.

We are committed to providing high quality, reliable service. On-time departure and arrival are important to our customer satisfaction, brand reputation and cost control. According to our internal reports, in 2011, 2012 and 2013, our average on-time departure rate (flights departing and arriving within one minute of scheduled departure or arrival time) was 88.6%, 83.3% and 82.9%, respectively. In 2013, the decrease in on-time departures was mainly due to factors we believe are beyond our control (such as airport closure, airport congestion, limitations of airport facilities, air traffic control, poor weather, delays in flights operated by our code-share partners). We also try to efficiently manage our scheduled flights, which may include rescheduling and cancelling flights. However, we try to limit flight rescheduling and cancelling flights, and in 2011, 2012 and 2013, only 0.4%, 0.7% and 0.5% of our flights, respectively, were rescheduled or cancelled.

To provide the highest quality customer service, we strive to employ staff who speak English and who are friendly and professional. Staff are selected through a rigorous recruitment process, which is followed by extensive and ongoing training and performance management activities. We specifically budget for training for each customer service personnel every year to ensure staff are fully prepared to assist passengers effectively and efficiently.

### ***Aircraft Maintenance, Repair and Overhaul***

Aircraft maintenance, repair and overhaul (“MRO”) is critical to the safety and comfort of our passengers, the efficient use and maintenance of our aircraft and the optimization of our fleet utilization. The schedule and cycle of our maintenance services for our fleet varies depending on certain factors, including the age and type of aircraft and the manufacturers’ specifications. We conduct our maintenance services in compliance with the maintenance module issued by the European Aviation Safety Agency (“EASA”), the IATA Operational Safety Audit (“IOSA”) and International Civil Aviation Organization (“ICAO”). We are certified by the International Organization for Standardization (“ISO”) and authorized by the DCA.

Our aircraft maintenance checks involve light maintenance and line maintenance. These periodic inspections are conducted after either a certain period of time, aircraft operational cycle or period of flight hour, depending on the type of the aircraft and the manufacturer's specifications. Generally, our aircraft maintenance checks can be divided as follows:

1. light maintenance which includes A Checks and B Checks; and
2. line maintenance which includes C Checks and D Checks.

Daily maintenance checks, which include visual testing and inspections of equipment and hygiene, fuel levels and emergency equipment, are conducted before and after flights to ensure that aircraft are airworthy. In addition to the daily checks, we also perform A Checks and C Checks to maintain our fleet as follows:

Company	Light maintenance: A Checks/B Checks	Line Maintenance: C Checks
<b>ATR-72-500 Maintenance Schedule</b>	Every 500 hours	Every 5,000 hours
<b>Airbus A319 Maintenance Schedule</b>	Every 4 months or 750 flight hours or 750 cycles, whichever comes first	Every 24 months or 7,500 flight hours or 5,000 cycles, whichever comes first
<b>Airbus A320 Maintenance Schedule</b>	Every 4 months or 750 flight hours or 750 cycles, whichever comes first	Every 24 months or 7,500 flight hours or 5,000 cycles, whichever comes first
<b>Maintenance Station</b>	Bay or aircraft parking area	Hangar
<b>Scope of inspection</b>	<ul style="list-style-type: none"> <li>● A Check <ul style="list-style-type: none"> <li>● Includes lower check, i.e., daily check</li> </ul> </li> <li>● B Check <ul style="list-style-type: none"> <li>● Includes a detailed maintenance inspection for components and aircraft systems which may require specific equipment and testing.</li> </ul> </li> <li>● B Check includes lower check, i.e., daily check and A check.</li> </ul>	Includes lower check, i.e., daily check, A Check and B Check
<b>Example: MPD specified by Aircraft Manufacturers</b>	<ul style="list-style-type: none"> <li>● General external visual inspection of aircraft structure for evidence of damage, deformation, corrosion and missing parts</li> <li>● Check and test switch control</li> <li>● Check crew oxygen system pressure</li> <li>● Operationally check emergency lights</li> <li>● Operationally check hydraulic system</li> </ul>	<ul style="list-style-type: none"> <li>● General internal inspection of aircraft structure for evidence of damage, deformation, corrosion and missing parts</li> <li>● Check and test entry door and emergency exit</li> <li>● Check the condition of entry door seals</li> <li>● Check the condition of pressure systems</li> <li>● Check operation of DC and Auxiliary control unit</li> <li>● Operationally check RAT deployment and system</li> <li>● Operationally check flap asymmetry system</li> <li>● Check operation of flight control mechanism</li> </ul>

Note: D Check is line maintenance which inspects the structure of aircraft and tests for traces of decay, abnormality of aircraft structure, cracking or other traces of damages. This type of maintenance is conducted by experts who deconstruct the aircraft to perform the maintenance check. The Company does not provide D Check maintenance, and in the event that the Company requires this kind of maintenance, the Company will outsource to other service maintenance providers.

In 2013, our total costs and expenses relating to aircraft maintenance was THB1,411.2 million, including those that we reserved and delivered for aircraft repair and maintenance to our lessors in accordance with the terms under our aircraft lease agreements.

Our operating lease agreements and finance leases agreement in the form of conditional sales agreements generally require us to maintain and contribute to maintenance and repair reserve funds as additional rent, which is retained by the lessor as lessor's property during the term of the lease. We are required to maintain the aircraft to the agreed standards during the term of the lease and are entitled to reimbursement by the lessor from the maintenance and repair reserve fund upon presentation of documentation of completion of required maintenance work, provided that no default has occurred. Under our operating leases and finance leases agreement in the form of conditional sales agreements, such additional rent will not be returned to us upon the termination of leases. See "—Aircraft Leasing and Purchasing Arrangements" for further details.

Since 1999, we have had an aircraft hangar where we perform C checks on aircraft, which is adjacent to an area used for conducting maintenance for other equipment, aircraft components and cabin materials. We perform maintenance in-house for our fleet, and we also perform aircraft maintenance for other airlines' aircraft.

The Company conducts aircraft maintenance services in a hangar at Don Mueang International Airport which can accommodate any one of our Airbus A320, Airbus A319 and ATR 72-500 aircraft with full support systems. In the year ended December 31, 2013 and six months ended June 30, 2014, we serviced customers such as Orient Thai Airlines, Thai Air Asia, and Nok Air, and generated total revenues of approximately THB1.0 million from such services in each period. In the year ended December 31, 2013 and six months ended June 30, 2014, the Company also conducted aircraft maintenance services at Suvarnabhumi International Airport, servicing customers such as Druk Air, Bulgaria Air and Air Bagan. Revenue generated from such maintenance services was an immaterial amount. In addition, we conduct line maintenance and light maintenance at the Samui Airport. Any other maintenance, including component overhaul, engine overhaul and calibration services, are outsourced to third party service providers. Through our lease agreements we are able to rely on, or enjoy the benefits of, manufacturer's warranties and product support granted to our lessors.

We maintain an inventory of rotatable and consumable spare parts at our facilities at the Don Mueang International Airport and the Samui Airport.

### *Safety and Security*

We are fully committed on all levels of operation to the safety and security of our passengers and employees. This commitment is reflected in our system of maintenance of our aircraft, extensive training given to our pilots, cabin crew and employees and the strict policies and procedures in compliance with local regulations, international standards and best practices regarding all areas of our business that are involved with the operation of our aircraft. In addition, we have a process and management system that aims to continuously improve our safety standards and take proactive measures to improve overall safety standards and flight operation safety to enable us to be competitive in our operation process, products and services.

#### *Safety*

Our aircraft are equipped with advanced and highly accurate instrument landing systems ("ILS") that provide necessary lateral and vertical guidance to the pilot in navigating the aircraft for a precision approach. A precision approach is a descent procedure using a navigation facility aligned with a runway. The ILS in our aircraft has a height call-out feature that further assists the pilot in navigating the aircraft's descent. In addition, our aircraft are equipped with traffic alert and collision avoidance system ("TCAS") technology and enhanced ground proximity warning system ("EGPWS"). TCAS technology allows pilots to detect the presence of all other TCAS and transponder-equipped aircraft, as well as coordinate maneuvers between two opposing aircraft which are equipped with TCAS, thereby reducing the risk of mid-air collisions. EGPWS is a terrain awareness and alerting system which uses aircraft inputs, including geographic position, altitude, airspeed and glide slope, together with internal terrain, obstacles and airport databases to predict a potential conflict between the aircraft flight path and terrain or an obstacle. In addition, EGPWS provides alerts for excessive glide slope deviation and incorrect landing configurations, and is able to provide flight path angle indications and altitude call-outs.

However, the above mentioned safety and security systems will work to their full capacity efficiently when the airports to which our flights fly are equipped with those systems as well.

We have established processes to assist in the identification of potential safety issues. These include:

- a reliability program that tracks the reliability of the aircraft's system and components;
- monthly review of the results of the reliability program;

- technical crew and cabin safety emergency procedures training;
- safety awareness program for all our staff; and
- ramp safety awareness training.

We have developed a quality assurance system to monitor all areas related to ground and flight operations as part of our wider quality management objectives. Our quality assurance teams oversee and monitor all aspects of our aircraft operations to ensure that industry safety standards, including DCA's guidelines, are strictly adhered to. We are subject to regular audits by the DCA, IOSA and our code-share partners.

Since we began operations in 1986, we have experienced one serious incident in 2009 involving an ATR 72-500 aircraft from Krabi to Samui when the aircraft skidded off the runway during landing and collided with an inactive control tower. For a few years prior to the incident, the tower was used as office space by the meteorological department. Such control tower has not been in use since the incident in 2009. Such tower was written-off in 2009. See "Risk Factors—Risks Relating to Our Business—Our business, financial condition, results of operation and prospects have been in the past and could be in the future materially and adversely affected in the event of an emergency, accident or incident involving any of our aircraft" for further details of the incident and for a discussion of the potential consequences of any future accident or incident. Following the incident, we hired an external consultant to improve the structure of our Crisis Management and Emergency Response Division to enable coordinated and effective crisis management. For example, we will now activate a Crisis Management and Emergency Response Division comprising three management personnel during a crisis to ensure availability of management and timely decision-making. We also have three sections within the division, namely the emergency response, family assistance and crisis management sections to effectively and efficiently deal with various aspects of emergency situations.

As real-time information is critical during a crisis, we implemented a web-based Crisis Management System, WebEOC-Air, to enable all crisis team members to have access to the latest information, as well as to input, update and respond through the system on a real-time basis. We also provide regular training to crisis team members which includes media response training and humanitarian support training. During the widespread flooding in 2011, we activated our Crisis Management and Emergency Response Division which enabled us to minimize any disruption to our business and efficiently deal with any cancelled or delayed flights.

We have implemented a flight data monitoring system ("FDM") to reduce accident and incident rates, while optimizing costs to remain competitive. FDM is a quality assurance process, which involves the analysis of flight data on a routine basis, with the aim of promoting the early detection of situations which require, or potentially require, corrective action. We believe that the adoption of the FDM contributes to increased flight safety and operational efficiency as it enables our engineers and management to track and evaluate flight operations trends, identify risk precursors, and take the appropriate preventive action where necessary.

### *Security*

While the relevant airport operators (or the Company in respect of our airports in Samui, Trat and Sukhothai) are responsible for security screening of passengers and baggage at our domestic and international destinations, we train our staff to remain vigilant in identifying potential security breaches, as well as to handle unruly passengers. All potential employees undergo thorough screening of their background prior to being hired.

We provide extensive training to ensure that our staff have appropriate skills to carry out their relevant duties as stipulated in our employee manuals. All crew and ground handling staff are required to undergo dangerous goods awareness training to be able to identify potentially dangerous goods and items that threaten the safety of the flight (these include flammable liquids and containers that are likely to explode under pressure). In addition, our Aviation Security Division staff undertake advanced training in all aspects of aviation security, in compliance with the ICAO standards and recommended practices and Thai law.

Following the terrorist attacks in the United States on September 11, 2001, the ICAO required member states to implement regulations and guidelines requiring airlines to adhere to certain security measures. These include:

- installation of reinforced doors and review of policies and procedures on cockpit visits;
- occupying of jump seats;
- removal of checked-in luggage from the aircraft when the passenger fails to board the aircraft;

- review of items allowed as cabin luggage;
- enhanced surveillance of baggage; and
- crew training on handling of disruptive passengers and passenger profiling.

The DCA has implemented the regulations required by the ICAO, and we are in compliance with all of DCA's regulations in respect of aviation safety.

### **Pricing and Revenue Management**

Our business is impacted by the number of passengers flown and the fares charged. We have implemented a revenue management system to maximize revenues by flight, by market and across our entire operations. Revenue management is an integrated set of business processes used to calculate the optimal pricing and seat inventory for premium and budget passengers to maximize revenue generated by the sale of tickets based on forecasting of demand behavior for each market. Through our current revenue management system, we seek to maximize revenue per flight by optimizing allocation of seat inventory in the fare classes as described below.

We have a multiple pricing structure to meet the varying demands of each market segment. Certain of our aircraft cabins are physically divided into business and economy cabins and virtually divided into 15 to 16 fare sub-classes. We determine the number of seats offered at each fare through a continual process of competitive analysis, being one of the most critical processes in revenue management, forecasting and optimization. Generally, booking history and seasonal trends are used to forecast anticipated demand. We use historical forecasts, combined with current bookings, upcoming events, competitive pressures and other factors to establish a fare structure to maximize revenues.

We use AirVision Revenue Manager, a revenue management system developed by Sabre Inc. This system uses forecasting and optimization models to rapidly analyze economic tradeoffs required to determine the number of seats offered at each fare, which enables us to maximize revenues from existing capacity. We have implemented this system with respect to all of our international and domestic routes since 2008.

We actively manage passenger yields through our marketing and sales policies to maximize passenger revenues. Among other measures, we seek to increase passenger revenues by:

- simplifying the pricing structures and at the same time, introducing pricing policies at each point of sale to match the characteristic of each point of sale and channel in order to maximize yield and minimize revenue dilution;
- introducing automated ticketing to prevent revenue losses due to human error and increase revenue from optional service fees such as excess baggage fees;
- employing marketing initiatives in high-yield markets such as Samui and Siem Reap;
- optimizing seat allocation within each booking category according to fare classes and forecasted demand based on historical data for each route (such as by allocating fewer lower fare seats for routes with higher expected demand); and
- optimizing priority allocation to passengers based on forecast demand to maximize revenue on a network basis rather than on an individual sector basis.

Like most other airlines, we overbook some flights to account for no-shows. Our overbooking percentage varies route by route and depends on historical rates of no-shows and late cancellation. Our overall overbooking rate on a system basis was approximately 14,969 seats in 2013.

### **Advertising and Marketing**

We believe that Thailand's popularity as a tourist destination has historically provided us with a competitive advantage. Our marketing efforts have historically emphasized the unique appeal of Thai culture, including the attributes of hospitality and friendliness, with the goal of enhancing our positioning as a boutique airline and building a strong reputation of quality personal service.

In 2011, 2012, 2013 and the six months ended June 30, 2014 we had advertising and sales promotion expenses of THB249.9 million, THB261.4 million, THB456.3 million (US\$14.1 million) and THB155.6 million (US\$4.8 million), or 2.2%, 1.8%, 2.8% and 1.8% of consolidated passenger revenues, respectively.

Our expenditure on marketing relates primarily to media advertising, support for tour operators and support for travel agents. We advertise mainly through our Internet website, social media, international and domestic trade fairs, outdoor billboards, newspapers and television and radio commercials. We also target college students who we hope will become loyal customers in the future by running advertising campaigns at college campuses with discount fares for off-peak flights. While our marketing efforts focus on destinations within Thailand and Southeast Asia, through our code-share and other cooperative arrangements and our general sales agents and marketing offices located in various locations internationally, we are also able to reach international passengers connecting domestically and regionally to the destinations we serve.

Since its establishment in 2005, our frequent flyer program, *FlyerBonus*, has played a key role in our marketing strategy and is one of our principal means of creating and retaining customer loyalty. *FlyerBonus* has two membership tiers: regular and premier. The premier tier is by invitation only. We had approximately 390,000 regular members and approximately 2,300 premier members enrolled as of June 30, 2014. *FlyerBonus* members collectively accounted for 16.6% of total passengers in the six months ended June 30, 2014, respectively. We believe our frequent flyer program promotes loyalty by offering fare redemption for continued patronage. Members can earn mileage credits on our flights and with all of our code-share partners. We occasionally also offer double or triple point *FlyerBonus* promotions to promote our new routes. Mileage credits can be redeemed for free, discounted or upgraded travel on our flights or exchanged for certain goods sold through in-flight sales. *FlyerBonus* also has more than 30 travel partners, including all of our code-share partners, financial institutions, car rental companies and local and international hotel chains, allowing members to earn miles through everyday spending, car rentals and hotel stays.

*FlyerBonus* generates revenue through repeat ticket sales on our flights and stimulates interline sales with our airline partners through the members' ability to earn miles on our airline partners' frequent-flyer programs. We also earn revenue through redemption seating purchased by our airline partners when members of their frequent flyer programs redeem miles for flights on Bangkok Airways. The aggregate number of seats available for redemption seating purchased by *FlyerBonus* members is controlled by flight and class, as part of our efforts to maximize total yield. Air miles expire if they are unused for three years.

## Sales and Distribution

We have two principal distribution channels: direct sales through our sales offices, call centers and website, and indirect sales. The following chart shows the proportion of our total tickets sold through each of our major distribution channels for the periods indicated.

Distribution Channel	Year Ended December 31,						Six Months Ended June 30,			
	2011		2012		2013		2013		2014	
	% of passengers	% of revenue	% of passengers	% of revenue	% of passengers	% of revenue	% of passengers	% of revenue	% of passengers	% of revenue
<b>Direct sales:</b>										
Sales offices, ticket counters and airport counters	17.0	14.6	12.6	11.3	16.5	14.5	16.3	13.8	15.5	13.5
Internet	23.1	21.4	26.6	24.8	26.9	25.1	25.8	23.9	28.0	25.9
Subtotal	40.1	36.0	39.2	36.1	43.3	39.6	42.1	37.7	43.5	39.4
<b>Indirect sales:</b>										
Code-share and interline	4.6	4.8	4.4	4.5	4.6	4.8	4.6	4.9	5.2	5.3
IATA authorized sales agents (BSP agents)	52.7	55.8	53.3	55.9	49.8	53.4	51.1	55.2	48.9	52.5
General sales agents (Reporting agents)	2.6	3.4	3.1	3.5	2.3	2.2	2.2	2.2	2.4	2.8
Subtotal	59.9	64.0	60.8	63.9	56.7	60.4	57.9	62.3	56.6	60.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Our target customers are primarily tourists, as we believe that we are well-positioned to benefit from the growth of tourism in Thailand. Our boutique business model provides extra amenities to our customers such as

lounge services without charging additional cost, while also supporting our ability to maintain full service fares, which we believe differentiates us from our competitors. Our passenger base consists of primarily international passengers, but we have been and intend to continue expanding our domestic passenger base concurrently to benefit from the expanding domestic passenger market and to minimize our dependence on international passengers.

### ***Direct sales***

Direct sales are made at sales offices, ticket counters, airport counters, call centers and on our website.

*Sales offices, ticket counters and airport counters.* As of June 30, 2014, we operated an aggregate of 33 sales offices via 50 selling agents located in Canada, Australia, Europe, Thailand, Singapore, Hong Kong, Cambodia, Laos and Myanmar. We also sell tickets at our ticket counters located in the airports which we serve. These sales offices, ticket counters and airport counters allow guests to walk in to make or change reservations and settle payments either in cash or by using a credit or debit card.

*Call centers.* We offer our customers the ability to reserve their seats 24-hours a day by calling a telephone number in Thailand. Guests may settle payment of their call center bookings by using a credit card, or by M-Pay and other similar services, as well as certain convenience shops throughout Thailand.

*Internet.* We rely on our website, <http://www.bangkokair.com>, for our Internet sales. Online bookings are paid for by credit card or direct debit, reducing credit risk and accounting processes. This also improves our operating cash flows as all revenues from Internet sales are received directly by our acquiring bank for crediting to our account. In 2010, we upgraded our website to increase Internet sales and reduce agency commissions. We also revamped the layout to be more sales-focused with more prominent fares and promotional displays. Use of the Internet to make flight reservations increased from 23.1% of our total passengers in 2011 to 26.6% in 2012 and 26.9% in 2013 and 28.0% in the six months ended June 30, 2014, and we expect the trend to continue in the future. The Internet has become our least expensive distribution channel as it requires lower overhead and operating costs.

### ***Indirect sales***

We generally appoint general sales agents in locations inside and outside Thailand in order to reach a broader customer network. We have general sales agents in various locations including the United States, Canada, Australia and Europe. General sales agents perform similar functions to our own sale offices, including marketing, promotional functions and ticket sales. General sales agents are particularly important for code-share flights arriving from international destinations to connect to our domestic and regional flights.

IATA-authorized sales agents may also sell tickets on our flights. We became a member of the IATA BSP in 2000, and as of June 30, 2014, we had established relationships with over 40 countries around the world to sell our tickets through IATA-authorized sales agents. Payments for tickets sold through IATA-authorized sales agents are typically settled via a bank settlement plan administered by IATA. The services that travel agents provide are particularly useful for travelers who do not have Internet access and/or credit cards, especially in rural remote areas of Thailand or in other developing countries.

### **Pilots and Flight Attendants**

We require highly-skilled, dedicated and efficient pilots, engineers and other personnel. Our growth plans will require us to hire, train and retain a significant number of new employees in the future. See “Risk Factors—Risks Relating to Our Business—We depend on our personnel, especially our executive officers and key management, and any difficulties in attracting or retaining such personnel or failure to maintain our corporate culture may have a material adverse effect on our business, financial condition, results of operation and prospects”.

We hire both experienced licensed pilots from the military and lateral hires from other airlines. We also hire qualified commercial pilots with no type ratings. Such pilots are required to obtain 250 flight hours prior to becoming licensed. In addition, during recent years we have recruited, and we will continue to recruit, university graduates directly and guarantee them with jobs at Bangkok Airways following graduation from local pilot schools (at their own expense).



We continuously train and develop the skill and knowledge of our pilots through a combination of both ground and our in-flight simulator training program, which is in compliance with standards set by DCA, ICAO, IATA and other leading airline alliances. Such training program focuses on pilots' knowledge and understanding in aircraft operation, aircraft system and emergency procedures and incorporates in-flight simulator training every six months. In order to ensure that pilots are capable of operating the aircraft safely and properly and are able to resolve efficiently any problems which may occur during flights, we also provide academic courses on an annual basis, which include Crew Resource Management, Fire Fighting, Transportation of Dangerous Goods, Aviation Security, Evacuation Plans for Ground and Water Emergencies (Slide and Wet Drill) and Flight Safety and Aircraft Operation with Low Visibility. In addition, we also encourage pilots and pilot instructors to attend external seminars or training held in Thailand or other foreign countries so that they may assist in developing our training program.

We continuously train and develop the skill and knowledge of our flight attendants through a combination of both ground and our training program, which is in compliance with standards set by DCA, ICAO, IATA and other leading airline alliances. Such training program focuses on competence in assisting passengers under normal and emergency circumstances. We also provide annual academic courses similar to those provided to our pilots, including First Aid training. In order to further enhance our in-flight service, we also encourage cabin crew instructors to attend external seminars or training held in Thailand or elsewhere so that they can assist in developing our training program.

### Airport-related Services

We provide airport-related services such as cargo services, in-flight catering services and ground services.

The following table presents operating and financial information of our subsidiaries and associated company for airport-related services for the periods indicated.

	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
<b>International cargo terminal services data:<sup>(1)</sup></b>					
Freight cargo revenue (in million Baht) <sup>(5)</sup>	1,186.7	1,370.9	1,420.8	682.9	759.8
Freight EBITDA (in million Baht)	505.3	608.1	622.8	297.4	320.1
Freight net income (in million Baht)	248.5	372.0	389.7	184.0	209.9
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	121.8	182.3	191.0	90.2	102.9
Tonnage	328,901	369,245	349,935	171,833	181,509
Cargo Capacity	400,000	400,000	550,000	275,000	275,000
Utilization (%)	82.2	92.3	63.6	62.5	66.0
Number of airway bills	658,017	690,119	694,451	230,679	361,406
<b>Catering services data:<sup>(2)</sup></b>					
Catering revenue (in million Baht) <sup>(6)</sup>	899.6	1,083.6	1,231.4	608.0	646.8
Catering EBITDA (in million Baht)	196.9	310.4	324.2	191.0	189.6
Catering net income (in million Baht)	83.1	168.4	183.9	115.1	118.7
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	49.7	100.7	145.2	83.3	106.8
Number of meals produced and uplifted (million)	6.3	7.5	8.6	4.3	4.4
Bangkok Airways flights (million)	2.2	2.9	3.4	1.6	2.0
Other airline flights (million)	4.1	4.6	5.2	2.7	2.4
<b>Ground services data:<sup>(3)</sup></b>					
Ground revenue (in million Baht) <sup>(7)</sup>	1,400.3	1,571.1	1,893.9	895.3	996.3
Ground EBITDA (in million Baht)	218.5	252.5	373.9	176.4	147.4
Ground net income (in million Baht)	102.6	148.1	258.1	129.0	75.4
Number of flights handled	38,417	43,856	51,838	24,454	27,984
Profit attributable to equity holder of the Company (in million Baht) <sup>(4)</sup>	90.4	130.5	230.9	114.7	67.9

(1) BFS Cargo is a 49.0% owned associated company and is not consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum. Our share of income from BFS Cargo is reflected in our statements of comprehensive income as share of income from associates as per the equity method.

(2) BAC is a 90.0% owned subsidiary company and is consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum.

(3) BFS Ground is a 90.0% owned subsidiary company and is consolidated in our consolidated Financial Statements included elsewhere in this Offering Memorandum.

- (4) Calculated from net profit multiplied by shareholding of the Company.
- (5) Revenue generated from Bangkok Airways Plc was THB 8.1 million, THB 12.3 million, THB 10.7 million and THB7.8 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 0.7%, 0.9%, 0.8% and 1.0 % of total revenue of BFS Cargo, respectively.
- (6) Revenue generated from Bangkok Airways Plc was THB 204.5 million, THB 308.8 million, THB 345.4 million and THB211.3 million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 22.7%, 28.5%, 28.1% and 27.8% of total revenue of BAC, respectively.
- (7) Revenue generated from Bangkok Airways Plc was THB 295.6 million, THB 330.0 million, THB 372.1 million and THB221.6million, in 2011, 2012, 2013, and the first six months of 2014, respectively, representing 21.1%, 21.0%, 19.6% and 22.2% of total revenue of BFS Ground, respectively.

## Cargo Services

BFS Cargo provides international cargo terminal services at the Suvarnabhumi International Airport. Our joint venture partner, WFS, a global independent cargo handler, owns the remaining 51.0% of BFS Cargo. WFS provides certain management services to BFS Cargo through the Cargo Services Agreement dated August 24, 2006, which include monitoring and evaluating the quality of the operational services, marketing the services and facilities of BFS Cargo, developing controls and best practice for operating costs, maintaining and administering all agreements of BFS Cargo, including the Cargo Project Agreement, and assisting in procuring relevant industry certification. The Cargo Services Agreement is valid for a seven year term and expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Cargo. In 2013, we entered into an amendment to the Cargo Services Agreement with WFS to temporarily extend the Cargo Services Agreement for six months after the expiration of such agreement. In 2014, we entered into an amendment dated June 16, 2014 to extend the Cargo Services Agreement for an additional 4 years and 6 months, or until September 27, 2018. See “Airport-related Services—Cargo Services Agreement” for a summary of the material terms of the Cargo Services Agreement.

The AOT granted BFS Cargo the right to operate airport cargo services under a build-transfer-operate project agreement dated February 11, 2004, and amended in February 2010, between the AOT and BFS Cargo (“Cargo Project Agreement”) for a period of 20 years from September 28, 2006. The Cargo Project Agreement covers the operation and provision of cargo services for international air cargos in the Suvarnabhumi International Airport. See “Description of Material Agreements—Agreements Relating to Our Airport-related Services—Cargo Project Agreement” for a summary of the material terms of the Cargo Project Agreement.

BFS Cargo’s facilities enable it to handle premium cargo, including perishable goods and valuable cargo, in respect of which it is able to earn higher margins. Security in BFS Cargo’s facilities is important to BFS Cargo. BFS Cargo has installed 186 closed circuit televisions located throughout its facilities, and in the areas where BFS Cargo stores high value cargo, BFS Cargo’s facilities are equipped with static cameras. BFS Cargo also has x-ray machines to screen for explosives and has outsourced a total of 113 dedicated aviation trained security personnel and security guards. In 2010, BFS Cargo installed a barcode scanning system to allow it to track the location and status of all of its packages. BFS Cargo’s customers can also track their packages through our website which is updated 24 hours a day, seven days a week. BFS Cargo is certified by the Transported Asset Protection Association and the International Organization of Standards, and as of June 30, 2014, BFS Cargo was the first and only IATA Safety Audit for Ground Operations (“ISAGO”) certified provider in Thailand.

BFS Cargo’s cargo terminal is a 55,370 square meter facility at the Suvarnabhumi International Airport. Within BFS Cargo’s facilities, it has a 39,744 square meter cargo warehouse comprising a 16,000 square meter cold storage area with four direct loading bays, a 120 square meter secured storage area with an enclosed steel vault and biometric access control for valuables, a dedicated ventilated area for livestock and a 120 square meter room to store hazardous cargo. The capacity of BFS Cargo’s cargo facility is 550,000 tons per annum, and in 2011, 2012 and 2013, it was operating at 82.2%, 92.3% and 63.6% of capacity, respectively. BFS Cargo expanded its capacity in January 2013 when it began operating an automatic storage and retrieval system which allows BFS Cargo to extend part of its storage area to a height of 4.9 meters, compared to 2.6 meters for its normal shelves. The installation of this system increased the capacity of BFS Cargo’s facility by 150,000 tons to 550,000 tons per annum. As of June 30, 2013 and 2014, BFS Cargo was operating at 62.5% and 66.0% of capacity for the year, respectively. To increase revenue, in 2013, BFS Cargo improved pricing and the way that fees are charged, for example, charging cargo exports by unit weight instead of by per airway bills.

In 2011, 2012, 2013 and the six months ended June 30, 2014, BFS Cargo handled 328,901, 369,245, 349,935 and 181,509 tons of cargo, respectively. In addition, in 2012, BFS Cargo benefited from an increase in imports as a result of the flooding in Thailand, which was not experienced in 2013. In 2013, cargo tonnage also decreased as a result of the economic climate and political unrest, which caused a decrease in exports.

As of June 30, 2014, BFS Cargo had over 50 customers, and its principal customers (other than us) include Qatar Airways, FedEx and DHL. BFS Cargo's cargo terminal service contracts are typically for terms of two to three years and are typically priced in Thai Baht. BFS Cargo's principal competitor for its international cargo terminal services is Thai Airways.

### ***In-Flight Catering***

BAC, provides in-flight catering for passengers on our own flights as well as for passengers on 20 other airlines as of June 30, 2014. The AOT granted BAC the right to operate in-flight catering services under a build-transfer-operate project agreement dated March 10, 2004 between the AOT and BAC (the "Catering Project Agreement") for a period of 20 years commencing from September 28, 2006. See "Description of Material Agreements—Agreements Relating to Our Airport-related Services—Catering Project Agreement" for a summary of the material terms of the Catering Project Agreement. BAC's catering facilities are located at the Suvarnabhumi International Airport and occupy approximately 20,000 square meters. Within BAC's facilities, it has a 2,000.0 square meter kitchen dedicated to preparing Kosher meals, a 6,000 square meter kitchen for the preparation of normal meals and a 5,000.0 square meter halal-compliant section. For 2013 and the six months ended June 30, 2014, BAC produced and uplifted 3.4 million and 2.0 million meals, respectively, for our flights and 5.2 million and 2.4 million meals, respectively, for other airlines. This amounted to an average of 23,430 and 24,306 meals, per day, respectively, in the same periods. BAC also provides in-flight catering for charter flights and produces frozen kosher meals for our flights and other airlines. Frozen Kosher meals contributed to 3.4%, 2.4%, 2.2% and 2.8% of BAC's total revenues in 2011, 2012, 2013 and six months ended June 30, 2014, respectively. BAC prepared over 54,000 and 34,000 frozen Kosher meals for our flights and flights of other airlines in 2013 and the six months ended June 30, 2014, respectively. BAC produces all meals to Good Manufacturing Practice and Hazard Analysis Critical Control Point global standards. In addition, BAC is Halal-certified by the Central Islamic of Thailand and Kosher-certified by the Thai Kashrut Services Ltd.

As of June 30, 2014, BAC had 21 customers, and its principal customers (other than Bangkok Airways) include Emirates, Qatar Airways, Turkish Airways, EL AL Israel Airlines, China Southern Airlines, Kenya Airways, Oman Air and Ethiopia Airlines. BAC's contracts are typically for terms of one to three years. Such contracts are mostly priced in Thai Baht. BAC's principal competitors for its in-flight catering services are Thai Airways and LSG Skycheffs Co., Ltd., which is an affiliate of Lufthansa.

BAC procures its food supplies from various sources. In 2013 and in the six months ended June 30, 2014, no supplier accounted for over 10.0% of BAC's total cost of sales.

BAC also provides catering services to our economy class and business class lounges, as well as to the business class lounges of Emirates and Oman Air in the Suvarnabhumi International Airport. In addition, BAC provides outside catering services in Bangkok through its 99.99% owned subsidiary, BAC Gourmet House Co., Ltd. ("Gourmet House") which also operates "Brasserie 9" (located at the Asiatique River Front), a fine dining French restaurant and "Al Saray", a fine dining Lebanese and Indian restaurant (located at Bangkok Hospital). For detailed information, see "Related Party Transactions".

### ***Ground Services***

Our ground services include passenger services and ground support equipment services.

At the Suvarnabhumi International Airport, our 90.0%-owned subsidiary, BFS Ground provides ground support equipment services for our own scheduled and chartered domestic and international flights, and also both passenger and ground support equipment services on a contract basis for other airlines. WFS provides certain services to BFS Ground through the Ground Services Agreement dated August 24, 2006, which include monitoring and evaluating the quality of the operational services, marketing the services and facilities of BFS Ground, developing controls and best practice for operating costs, maintaining and administering all agreements of BFS Ground, including the Ground Project Agreement, and assisting in procuring relevant industry certification. The Ground Services Agreement is valid for a term of seven years, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Ground. In 2013, we entered into an amendment to the Ground Services Agreement with WFS to temporarily extend the Ground Services Agreement for six months after the expiration of such agreement. In 2014, we entered into an amendment dated June 16, 2014 to extend the Ground Services Agreement for an additional 4 years and 6 months, or until September 27, 2018. See "Airport-related Services—Ground Services Agreement" for a summary of the material terms of the Ground Services Agreement. BFS Ground is an ISAGO certified provider.

The AOT granted BFS Ground the right to operate ground equipment and ramp services under a build-transfer-operate project agreement dated February 11, 2004, and amended in February 2010, between the AOT and BFS Ground (the “Ground Project Agreement”) for a period of 20 years, commencing from September 28, 2006. See “Description of Material Agreements—Agreements Relating to Our Airport-related Services—Ground Project Agreement” for a summary of the material terms of the Ground Project Agreement.

BFS Ground’s principal competitor for its ground services is Thai Airways.

At the Samui Airport, we provide ground services through our 99.99% owned subsidiary, Bangkok Airways Ground Services.

At airports in foreign countries, third-party ground service providers or principal airlines based at such airports provide ground services to our flights, typically based on pre-set contractual fees.

#### *Passenger Services*

BFS Ground provides a wide range of passenger services for other airlines, scheduled flights, charter flights and private jets at the Suvarnabhumi International Airport. Passenger services include check-in and ticketing service, boarding service, lounge service (including business class lounge service), baggage handling and interline baggage handling. BFS Ground also operates lounge management services at the Suvarnabhumi International Airport for British Airways, Qantas Airways, Emirates, Air France and KLM Royal Dutch Airlines.

BFS Ground provides ramp and passenger services to over 40 other airlines at the Suvarnabhumi International Airport and its principal customers for passenger services include British Airways, Emirates, Jetstar Airways, Qantas Airways, and Qatar Airways. BFS Ground’s passenger service contracts are typically for terms of two to three years, and are denominated in Thai Baht.

#### *Ground Support Equipment Services*

BFS Ground provides a wide range of ground support equipment services at the Suvarnabhumi International Airport for other airlines, charter flights and private jets. Ground support equipment services include aircraft loading and unloading, marshaling and push back, baggage handling, ramp handling cabin cleaning, air conditioning, lavatory and water servicing, ground service equipment maintenance, crew transit service and flight operations support.

BFS Ground also provides ground support equipment services to 60 other airlines at the Suvarnabhumi International Airport, including Emirates, British Airways, Qantas Airways, Qatar Airways. BFS Ground’s ground support equipment service contracts are typically for terms of two to three years, and are denominated in Thai Baht. As of June 30, 2014, BFS Ground was the first and only ISAGO certified provider in Thailand.

### **Airport Operations**

During 2011, 2012, 2013 and the six months ended June 30, 2014, our airports served a total of approximately 1.6 million, 1.8 million, 2.0 million and 1.0 million total passengers, respectively. Of that total in 2013 and the six months ended June 30, 2014, 13.1% and 13.0%, respectively, were international and 86.9% and 87.0%, respectively, were domestic. In 2013, the Samui Airport, Sukhothai Airport and Trat Airport accounted for 44.3%, 1.2% and 1.7% of our total number of scheduled passengers, respectively. In the six months ended June 30, 2014, the Samui Airport, Sukhothai Airport and Trat Airport accounted for 40.2%, 1.0% and 1.7% of our total number of scheduled passengers, respectively.

The following table sets forth the total passengers of our three airports.

Airport	Year Ended December 31,			Six Months Ended June 30,	
	2011	2012	2013	2013	2014
			(in thousands)		
Samui .....	1,420.6	1,660.5	1,848.9	945.5	949.9
Sukhothai .....	89.2	56.4	50.9	24.8	23.0
Trat .....	72.9	61.4	68.8	36.0	41.2
Total .....	1,582.8	1,778.2	1,968.6	1,006.3	1,014.1

## *Samui Airport*

The Samui Airport is our most important airport in terms of passenger traffic and contribution to income. During 2011, 2012, 2013 and the six months ended June 30, 2014, our airport operations at the Samui Airport was responsible for THB5,873.0 million, THB7,286.2 million, THB8,572.4 million (US\$264.1 million) and THB4,440.3 million (US\$136.8 million) of our revenue, respectively, representing 51.5%, 49.9%, 52.0% and 51.2% of our total consolidated passenger revenues, respectively. During the same periods, it accounted for 1.4 million, 1.7 million, 1.8 million and 949,982 passengers (departing and arriving), respectively.

We commenced operations at the Samui Airport in 1989 as the only privately-owned public airport in Thailand. We commenced operations with the Samui Airport Incorporation License, which expired on January 31, 2009. We submitted an application to renew the Samui Airport Incorporation License on May 26, 2008, which is pending receipt of an audit report from the DCA affirming that we rectified certain findings made by the DCA and our compliance with new implementing regulations, effective January 9, 2013, relating to physical conditions of the airport. We are also required to obtain a PAOC to operate the Samui Airport. We submitted an application for the PAOC on August 20, 2010. However, the issuance of the PAOC to us and other airport operators in Thailand require implementing regulations which have not yet been passed, and accordingly, the PAOC has not been issued to any airport operator in Thailand, including us. Further, we are required to obtain Air Navigation Facility Establishment Licenses for the Samui Airport. Our Air Navigation Facility Establishment License for the Samui Airport was issued on August 13, 2014, and is valid until the Samui Airport Incorporation License is revoked. Under the Air Navigation Act (as amended), the applicable ministerial regulations, and the DCA letter dated May 30, 2014, we are permitted to continue to operate the Samui Airport until otherwise notified by the DCA. See “Risk Factors—Risks Relating to Our Business—We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects” and “—Risks Relating to Thailand—Substantially all of our assets and operations are located in Thailand and we are subject to economic, legal and regulatory uncertainties in Thailand”.

At the Samui Airport, we provide ground services for our own flights, while BAGs provides such services for other airlines. BAGs’ customers are Thai Airways, Firefly and SilkAir.

In 2005, we completed an extension to the airport which now allows the airport to handle up to 16,000 passengers per day and six million passengers annually. The extension in 2005 included the extension of the operating runway which is under a long-term lease of the Samui Airport Property Fund. We were the only airline that flew into Samui until February 2008 when Thai Airways commenced two daily flights into the Samui Airport. However, we still operate the majority of flights to Samui. As of June 30, 2014, 36 scheduled flights flew in and out of the Samui Airport daily, comprising 32 Bangkok Airways flights. The remaining scheduled flight slots in and out of the Samui Airport are utilized by Firefly, Silk Air and Thai Airways. In 2013, the Samui Airport served approximately 1.8 million passengers and 22,417 flights.

The Samui authorities limit flight capacity due to environmental considerations. 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 to a maximum of 50 flights daily, which was approved by the Office of Environmental Policy and Planning. On May 22, 2014, we submitted the application for permission from the DCA 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. See “Passenger Services—Scheduled Passenger Services—Route Network—PG Route Network” for further details on our Bangkok—Samui route. In addition, we carefully coordinate any flight capacity adjustments with local hotels and resorts to maintain good relationships with the local community. See “Risk Factors—Risks Relating to Our Business—Our airline and airport businesses are heavily dependent on travel to Thailand and the broader Southeast Asian markets, in particular Samui, by Thai, regional and European passengers, and a reduction in demand for air travel in these markets may have a material adverse effect on our business, financial condition, results of operation and prospects”.

Samui is located approximately 700 kilometers from Bangkok and is Thailand’s third largest island. Approximately 50,000 people live on the island. Samui is home to over 450 hotels and resorts, with over one million tourists visiting in 2013.

The Samui Airport operates 16 hours a day. The total area of the airport's premises is approximately 96 hectares. The airport has one operating runway, with a length of 2,060 meters. The airport's approximate runway capacity is 4.5 air traffic movements per hour or 72 flights per day. The Samui airport has four taxiways with an area of approximately 28,000 square meters. The airport can accommodate ATR 72-500, Airbus A319 and Boeing 737-400 aircraft, as well as business and private jets, and the aircraft parking bay has the capacity to accommodate seven Airbus A319 aircraft or five Airbus A319 aircraft and four ATR 72-500 aircraft. The Samui Airport has the infrastructure to increase its capacity to approximately 72 flights per day, but any increase in flights per day from the current 36 flights is subject to the approval of the Samui authorities.

The airport has six terminals, which cover an area of 12,113 square meters, of which 1,939 square meters is commercial space. Within the arrival terminal, there are eight immigration officers on duty for 16 hours a day.

There have been news reports in the past that a second airport may be constructed in Samui to support the expected growth in number of travelers. See "Risk Factors—Risks Relating to Our Business—Competition from other airports and destinations could adversely affect our airport business, in particular, our traffic through the Samui Airport".

#### *Samui Property Fund*

In November 2006, we leased the assets of the Samui Airport to the Samui Property Fund for a period of 30 years from November 24, 2006 in accordance with the terms of the Long-Term Lease Agreement. We hold a 25.0% interest in the Samui Property Fund, which is listed on the SET.

Under the Long-Term Lease Agreement, we have agreed to, at our expense, among others, maintain the general environment of the Samui Airport and perform required marketing activities. The Company received THB9,300.0 million for the 30-year lease under the Long-Term Lease Agreement.

The Company continues to act as the operator of the Samui Airport in accordance with the terms and conditions under the Sub-lease Agreement and the service agreement dated November 24, 2006 (the "Service Agreement"). Under the Sub-lease Agreement, the Samui Property Fund sub-leased the Samui Airport to us for a three year term, renewable for up to nine additional three year terms upon agreement by both parties. Accordingly, we have the ability to sub-lease the Samui Airport for aggregate term of not exceeding 30 years. The second renewal of the Sub-lease Agreement was made on November 24, 2012. Under the Service Agreement, the Company agrees to provide services relating to equipment, machinery and other systems (such as equipment for maintenance of runway, communication system and other systems) in the Samui Airport to the Samui Property Fund for a period of 30 years from the date of the Service Agreement. The Company also agrees to pay to the Samui Property Fund, (i) rent in an amount of THB26.1 million per month and (ii) a service fee, which consists of a fixed service fee in the amount of THB21.4 million and a variable service fee in an amount calculated based on the formula specified in the Service Agreement. Such formula is based on several factors, including the number of the departing passengers and the aircraft (excluding the rent of commercial areas within the Samui Airport).

Major revenues of the Samui Airport are obtained from passenger service charges, aircraft landing fee, aircraft parking fee and ground handling services fee charged to other airlines operating at the airport. Since we granted BAGs the right to provide ground services for other airlines at the Samui Airport, revenues from ground service charges provided to other airlines will not be directly paid to us. Instead, we obtain revenue from granting BAGs such rights. A substantial portion of our revenue from the Samui Airport operation will be paid to the Samui Property Fund as rent, fixed service fee and variable service fee and they will in turn be paid to us as dividend income because we hold a 25.0% ownership interest in the Samui Property Fund.

According to the Thai accounting standards, the Company has recorded the sale and leaseback transaction as a lending transaction and has recorded the THB9,300.0 million in rent for the long-term lease as a long-term loan and has recorded the rent for the sub-lease and the service fees paid to the Samui Property Fund as (i) repayment of principal and (ii) payment of interest and financing expenses. During 2013, we changed the way we recorded long-term loans to include fixed rental expenses, fixed service expenses and variable service expenses in computing the effective interest rate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Change in Basis of Presentation" and Notes 4.2 and 26 to our 2013 Audited Financial Statements included elsewhere in this Offering Memorandum for details. See the Financial Statements included elsewhere in this Offering Memorandum for further details. See "Description of Material Agreements—Agreements Relating to the Samui Property Fund" for a summary of the material terms of the Long-Term Lease Agreements and related agreements.

### ***Sukhothai Airport***

During 2011, 2012, 2013 and the six months ended June 30, 2014, the Sukhothai Airport was responsible for THB158.3 million, THB123.3 million, THB119.1 million (US\$3.7 million) and THB47.8 million (US\$1.5 million) in revenue, respectively, representing 1.4%, 0.8%, 0.7% and 0.6% of our total consolidated passenger revenues, respectively. During the same periods, it accounted for approximately 89,244, 56,370, 50,893 and 22,928 passengers (departing and arriving), respectively. The decrease in revenue and passengers in the Sukhothai Airport is due to the commencement of our direct flight from Bangkok to Lampang in March 2012, resulting in a decrease of departing passengers at the Sukhothai Airport.

We commenced operations at the Sukhothai Airport in 1998 under the Sukhothai Airport Incorporation License which expired on January 31, 2008. We submitted an application to renew the Sukhothai Airport Incorporation License on August 27, 2007, which is pending receipt of an audit report from the DCA affirming that we rectified certain findings made by the DCA and our compliance with new implementing regulations, effective January 9, 2013, relating to physical conditions of the airport. We are also required to obtain a PAOC to operate the Sukhothai Airport. We submitted an application for the PAOC on August 20, 2010. However, the issuance of the PAOC to us and other airport operators in Thailand require implementing regulations which have not yet been passed, and accordingly, the PAOC has not been issued to any airport operator in Thailand, including us. Under the Air Navigation Act (as amended), the applicable ministerial regulations, and the DCA letter dated May 30, 2014, we are permitted to continue to operate the Sukhothai Airport until otherwise notified by the DCA. See “Risk Factors—Risks Relating to Our Business—We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects” and “—Risks Relating to Thailand—Substantially all of our assets and operations are located in Thailand and we are subject to economic, legal and regulatory uncertainties in Thailand”.

Sukhothai is located 440 kilometers north of Bangkok. Approximately 600,000 people live in the town. Old Sukhothai, which is located 12 kilometers west, has been a UNESCO World Heritage site since 1991. As of June 30, 2014, we are the only airline that flies into Sukhothai. We operate two flights a day in and out of Sukhothai.

The Sukhothai Airport operates 12 hours and can handle up to 3,360 passengers per day. The total area of the airport’s premises is approximately 163 hectares. The airport has one operating runway with a length of 2,100 meters and a capacity of four air traffic movements per hour or 48 flights per day. The Sukhothai Airport has one taxiway, which covers 3,870 square meters and two operative aprons, with an area of approximately 9,975 square meters. Current traffic movement does not exceed two flights per day. The airport has two terminals which cover an area of 1,026 square meters, of which 784 square meters is commercial space.

### ***Trat Airport***

During 2011, 2012, 2013 and the six months ended June 30, 2014, the Trat Airport was responsible for THB173.0 million, THB179.6 million, THB202.8 million (US\$6.2 million) and THB121.0 million (US\$3.7 million) in revenue, respectively, representing 1.5%, 1.2%, 1.2% and 1.4% of our total consolidated passenger revenues, respectively. During the same periods, it accounted for approximately 72,956, 61,391, 68,812 and 41,210 passengers (departing and arriving), respectively.

We commenced operations at the Trat Airport in 2006 under the Trat Airport Incorporation License which is valid until March 14, 2016. We are also required to obtain a PAOC to operate the Trat Airport. We submitted an application for the PAOC on August 20, 2010. However, the issuance of the PAOC to us and other airport operators in Thailand require implementing regulations which have not yet been passed, and accordingly, the PAOC has not been issued to any airport operator in Thailand, including us. Under the Air Navigation Act (as amended), we are permitted to continue to operate the Trat Airport until otherwise notified by the DCA. On March 11, 2013, the Ministry of Finance announced the Trat Airport as a Custom Inspection and Quarantine Airport. See “Risk Factors—Risks Relating to Our Business—We operate our airports under airport licenses” and “—Risks Relating to Thailand—Substantially all of our assets and operations are located in Thailand and we are subject to economic, legal and regulatory uncertainties in Thailand”.

Trat is located 387 kilometers east of Bangkok and is closest town to the Cambodian border. We are the only airline that flies into Trat. In 2013, we carried approximately 68,812 passengers to and from the Trat Airport. We operate three flights a day in and out of Trat.

The Trat Airport operates 13 hours and can handle up to 3,640 passengers per day. The total area of the airport's premises is approximately 208 hectares. The airport has one operating runway with a length of 1,800 meters and a capacity of 52 flights per day, although its current traffic movement does not exceed three flights per day. The airport's approximate runway capacity is four air traffic movements per hour and 52 flights per day. The Company is considering whether to commence construction of an aircraft parking bay, with an area of approximately 4,800 square meters which would include an apron for four airplanes. The first phase of the construction would expand the aircraft parking bay to accommodate two aircraft. The expected investment value for the first phase is THB16.5 million. The airport has one terminal which covers an area of 2,560 square meters, of which 1,250 square meters is commercial space

## Insurance

We carry various types of aviation insurance to cover our airline and cargo operations, including (i) aircraft hull, spares and liability insurance (including cargo all risks insurance), with a limit of US\$750.0 million per occurrence in an annual aggregate of combined single limit (bodily injury and property damage); (ii) excess liability insurance in relation to aviation war, hijacking and other perils, which provides a higher limit of protection for aircraft hull and third party liability; (iii) war and allied perils insurance; (iv) office and hangar property insurance; (v) aircraft hull and spares deductible insurance; (vi) aviation personal accident insurance; and (vii) insurance against acts of terrorism.

We believe that our overall insurance coverage is consistent with industry practice and is maintained at adequate levels. In addition, we carry non-aviation insurance which covers our assets, accident and hospitalization insurance for our employees, neon sign insurance and money insurance. We also carry business interruption insurance for the Samui Airport.

We execute insurance policies through Thai insurance companies that reinsure substantially all of the relevant risks outside Thailand. Our insurance premiums and coverage limits are denominated in both Thai Baht and US dollars and the exchange rate used is THB32.0 = US\$1.00.

The following table presents the aggregate amount insured, and the aggregate premiums paid, under our insurance policies for the periods indicated. Our insurance policies relating to aircraft start from March 28 of the previous year and end on March 27 of the next year.

	Year Ended March 27,			Three Months ended June 28,	
	2012	2013	2014	2013	2014
	(in Bt millions)				
Aircraft casualty coverage:					
Aircraft casualty:					
aggregate amount insured (fleet value) .....	16,516.2	17,888.1	25,992.3	5,838.0	6,498.1
Maximum insured value per aircraft <sup>(1)</sup> .....	2,250.0	2,250.0	2,400.0	562.5	600.0
War and allied perils in aggregate .....	16,516.2	17,888.1	25,992.3	5,838.3	6,498.1
Liability coverage:					
Combined single limit liability <sup>(2)</sup> .....	22,500.0	22,500.0	24,000.0	5,625.0	6,000.0
Excess war and allied perils liability to third parties (AV52E) <sup>(3)</sup> .....	22,500.0	22,500.0	24,000.0	5,625.0	6,000.0
Aggregate premiums paid <sup>(4)</sup> .....	123.6	133.5	87.9	29.8	22.0

(1) Per occurrence and per year limit for each aircraft in our fleet.

(2) Includes passenger, baggage, cargo, mail, aircraft third-party and general third-party liability coverage, subject to applicable sub-limits.

(3) For this type of insurance, coverage under our Main Aviation Insurance Policy is limited to an aggregate of US\$750.0 million per occurrence in an annual aggregate of combined single limit.

(4) Includes brokerage fees.

We have agreed to pay premiums of THB87.9 million (US\$2.7 million) for 2014, based on fleet value of THB25,992.3 million (US\$800.9 million).

Our premiums are affected not just by accidents relating to us, but generally incidents and accidents that occur to other airlines worldwide. In the future, we expect that premiums of airlines, including our premiums, will increase. See "Risk Factors—Risks Relating to the Aviation Industry—We are exposed to certain risks against which we do not insure, and may have difficulty obtaining insurance on commercially acceptable terms or at all".



## **Information Technology**

We have historically invested in information technology infrastructure and systems development to increase our competitiveness, achieve higher standards of customer service and improve the effectiveness and efficiency of our operations. On April 1, 2013, the Company implemented the Enterprise Resource Planning (ERP) software in order to improve central information storage and to efficiently retrieve the information for analysis in connection with the enhancement of management and business planning. The Company primarily plan to apply ERP to such areas as finance, accounting, assets, personnel, procurement, inventory, sales and project management and will further expand the application of ERP to other areas, for example, business planning and the analysis and management of revenues and expenses. In addition to systems integration, we utilize information technology as a platform for connection and sharing information and conducting business transactions with other airlines, travel agents, freight forwarders and government authorities. We have ensured a high level of infrastructure and systems availability on a 24/7 basis with back-up facility readiness.

We maintain and regularly update our website to reflect our corporate identity and services. Our website enables customers to make bookings, purchase electronic tickets, state seating preference and obtain information on flight availability, fares, arrivals and departures, check-in and *FlyerBonus*, as well as cargo schedules. We launched the purchase of electronic tickets on our website in September 2002 and web check-in services in September 2008. In September 2012, we extended our global IATA-authorized agents electronic ticketing system to replace paper tickets with the aim of providing more convenience for customers and promoting efforts to reduce global warming. The site also contains a broad range of public information pertaining to our Company, including information on procurement, and current and future employment opportunities available at our Company, as well as press releases. BFS Cargo's website ([www.bangkokflightservices.com/our\\_cargo\\_track.php](http://www.bangkokflightservices.com/our_cargo_track.php)) allows our air cargo customers to book space, track shipments and find schedules and other information pertaining to their consignments.

We are dependent on automated systems in the operation of our business. See "Risk Factors—Risks Relating to Our Business—We rely on automated systems and the Internet to operate our business and any failure or security breaches of these systems may have a material adverse effect on our business, financial condition, results of operation and prospects".

## **Competition**

The airline industry is intensely competitive. We face various degrees of competition from other full service carriers and low cost carriers in each of the markets we serve. The recent entry of new airlines, particularly low cost carriers has served to increase price competition. We try to differentiate Bangkok Airways by concentrating on premium service and prioritizing customer satisfaction. Certain of our competitors, particularly on popular routes such as Bangkok—Chiang Mai and Bangkok—Mumbai, have engaged in price-cutting or other tactics, including increasing capacity on existing routes, or conducting fare discounting or low-cost operations, in an attempt to gain market share. See "Risk Factors—Risks Relating to Our Business—The intense competition in the airline industry along with competition from other forms of transportation could materially and adversely affect our business, financial condition, results of operation and prospects".

Several low-cost carriers and other full-service carriers also fly on the domestic and international routes that we serve. The following table sets forth the other airlines which fly our current and planned routes as of June 30, 2014.

	<b>Existing Competitors</b>
<b>Domestic:</b>	
Bangkok—Chiang Mai	Thai Airways, Thai Smile, Thai AirAsia, Nok Air, Thai Lion Air
Bangkok—Sukhothai	—
Chiang Mai—Samui	—
Bangkok—Trat	—
Phuket—Utapao	—
Utapao—Samui	—
Bangkok—Samui	Thai Airways
Samui—Krabi	—
Bangkok—Phuket	Thai Airways, Thai Smile, Thai AirAsia, Nok Air, Orient Thai Airlines
Samui—Phuket	—
Bangkok—Lampang	—
Bangkok—Krabi	Thai Airways, Thai Smile, Thai AirAsia, Nok Air
Bangkok—Udonthani	Thai Smile, Thai AirAsia, Nok Air
Bangkok—Chiang Rai	Thai Airways, Thai Smile, Thai AirAsia, Nok Air
Chiang Mai—Phuket <sup>(1)</sup>	Thai AirAsia, Thai Smile
Chiang Mai—Udonthani <sup>(1)</sup>	Nok Air
<b>International:</b>	
Bangkok—Phnom Penh	Thai Airways, Thai AirAsia, Cambodia Angkor Air
Bangkok—Siem Reap	Cambodia Angkor Air, Thai AirAsia
Bangkok—Luang Prabang	Lao Airlines, Thai Smile
Bangkok—Yangon	Thai Airways, Thai AirAsia, Myanmar Airways International, Golden Myanmar Airlines, Nok Air
Samui—Hong Kong	—
Samui—Singapore	Silk Air
Bangkok—Maldives	—
Bangkok—Dhaka	Thai Airways, United Airways Bangladesh, Druk Air, Biman Bangladesh Airlines, Regent Airways
Bangkok—Mumbai	Thai Airways, Jet Airways, Air India, Cathay Pacific
Samui—Kuala Lumpur	Firefly
Bangkok—Vientiane	Thai Airways, Lao Airlines
Bangkok—Mandalay	Thai AirAsia, Thai Smile
Bangkok—Naypyidaw	—
Chiang Mai—Yangon <sup>(1)</sup>	Air Bagan
Chiang Mai—Mandalay <sup>(1)</sup>	Asian Wings Airways

(1) Planned routes, which are subject to change, pending receipt of government approvals.

### ***Scheduled Passenger Services***

We face competition from other scheduled airlines that service our domestic and international routes. Airlines compete primarily on fare levels, frequency, reliability of service, brand recognition, passenger amenities, frequent flyer programs and the availability and convenience of other passenger services. In addition, some of the airlines with which we compete are larger and have greater brand recognition, financial resources and penetration in key markets, including Thailand.

Our competitors include other full service carriers, low cost carriers in Thailand, Southeast Asia, China and India and other forms of transportation. On some of our routes, there is also competition from other transportation modes, such as ground and sea. See “Risk Factors—Risks Relating to Our Business—The intense competition in the airline industry along with competition from other forms of transportation could materially and adversely affect our business, financial condition, results of operation and prospects”.

The intensity of this competition varies from route to route and depends on a number of factors, including the strengths of competing airline and other transportation modes. We face competition on our principal domestic routes primarily from carriers such as Thai Airways, Thai AirAsia, Nok Air, Thai Lion Air and Thai Smile. On our routes to and from Samui, we face competition from Thai Airways, Silk Air and Firefly. We face competition on our principal international routes primarily from carriers such as Thai Airways, Thai AirAsia, Myanmar Airways and Cambodia Angkor Air. In recent years, we have also faced increased

competition from low cost carriers on some of our routes. A number of such low cost carriers have emerged in Asia and Australia, including AirAsia, Jetstar Airways, Thai AirAsia, Tiger Airways and Thai Smile.

We believe that our focus on providing high quality personalized service to non-price sensitive passengers and access to unique cultural and leisure destinations differentiates us from other competing airlines. We also believe that our focus on establishing code-share arrangements with international airlines enables us to reach passengers from broader markets.

### ***Airport-related Services***

We face competition in the airport-related services we provide at the Suvarnabhumi International Airport, including cargo, ground and in-flight catering services. See “—Airport-related Services—Air Cargo Transportation Operations”, “—Ground Services” and “—In-Flight Catering” for details of our competition for our air cargo, ground and in-flight catering services.

### ***Airport Operations***

Our airports in Samui, Sukhothai and Trat are currently the only airports in Samui, Sukhothai and Trat. There have been news reports in the past that a second airport may be constructed in Samui to support the expected growth in number of travelers. See “—Airport Operations—Samui Airport” for a further discussion. See also “Risk Factors—Risks Relating to Our Business—Competition from other airports and destinations could adversely affect our airport business, in particular, our traffic through the Samui Airport”.

### **Environmental Issues**

We have implemented environmental management programs throughout our operations designed to achieve minimum impact on the environment from our operations. Such programs include the treatment and disposal of wastewater, the discontinued use of harmful chemicals such as those containing chlorofluorocarbon gases, and measures to control and prevent the leakage of oil and toxic chemicals. We also encourage the use of recycled paper throughout our Company. We believe that our aircraft and engines satisfy all noise and emissions standards currently applicable at the destinations to which we fly.

In 2007, we commissioned an environmental impact assessment reports for the Samui Airport. The report imposes measures on us to minimize environmental impact including noise, and impact on air and water. We strive to comply with the proposed measures by, among others, minimizing or avoiding flights at night, making adjustments for the appropriate flight scheduling, installing and improving a system for the disposal of wastewater and performing engine maintenance in compliance with ICAO requirements. The report also requires us to compensate 239 households residing within the “airport noise line area” as determined by the Office of Environmental Policy and Planning. In this respect, the DCA has appointed a compensation committee to consider noise mitigation measures and the appropriate compensation for such affected households, which is in line with the compensation guidelines approved by the Koh Samui Municipality. The compensation committee comprises a representative from the Company, as well as representatives from public sectors including the DCA, the Surat Thani Provincial Office of Natural Resources and Environment, the Pollution Control Department, the Environmental Research and Training Center, the Department of Public Works and Town & Country Planning, the Chief District of Koh Samui, Koh Samui Municipality and the people sector. As of March 4, 2014, we have compensated THB22,155,751.7 for 229 households. As of March 4, 2014, 10 households totaling THB704,031.0 have rejected our compensation, and the compensation committee is in the process of negotiating with these households.

The environmental impact assessment reports for the Sukhothai Airport and the Trat Airport also impose measures on us to minimize environmental impact including noise, and impact on air and water. We strive to comply with the proposed measures. As of the date of this Offering Memorandum, there are no disputes concerning environmental issues relating to the Sukhothai Airport or the Trat Airport.

### **Intellectual Property**

Our business and operations are conducted under the name “Bangkok Airways” in English. Our logo is registered as a trademark in various classes in Thailand and Cambodia. We are also registered owner of various other trademarks and service marks.

## Employees and Training

The following table sets forth, as of the dates indicated, the number of our employees:

	As of December 31,			As of June 30
	2011	2012	2013	2014
<b>By Function:</b>				
<b>Flight crew:</b>				
Pilots .....	169	204	257	230
Flight attendants .....	290	352	492	538
Sub-total .....	459	556	749	768
<b>Ground Personnel:</b>				
Ground services .....	276	258	230	210
Maintenance .....	163	168	188	211
Sub-total .....	439	426	418	421
<b>Other centralized functions:</b>				
Marketing, reservations and sales				
Cargo .....	211	216	245	260
Head office .....	280	283	261	331
Others .....	455	489	568	560
Sub-total .....	946	988	1,074	1,151
Total .....	1,844	1,970	2,241	2,340
<b>By Location:</b>				
Bangkok .....	1,179	1,290	1,519	1,828
Samui .....	221	226	218	150
Others .....	444	454	504	362
Total .....	1,844	1,970	2,241	2,340

There has been no material change in the number of our employees during the six months ended June 30, 2014.

We are not involved in any material labor dispute which has a material effect on our financial position and business, and we are not aware of any circumstances that would give rise to any labor disputes which may materially and adversely affect our financial position and business.

However, we cannot assure you that we will not experience any labor disputes in the future. In addition, we have not entered into collective bargaining arrangements with our employees or with any trade unions and our employees are not unionized.

We recognize the need to ensure continuity in our management in order to maintain our edge over our competitors. Our directors believe that our continued success depends, among other factors, on the support and dedication of our management personnel. We have put in place human resource strategies, which include competitive compensation, fit-for-purpose recruitment and a succession plan.

The loss of any key personnel could materially and adversely affect us. See “Risk Factors—Risks Relating to Our Business—We depend on our personnel, especially our executive officers and key management, and any difficulties in attracting or retaining such personnel or failure to maintain our corporate culture may have a material adverse effect on our business, financial condition, results of operation and prospects”. In view thereof, we have made efforts to motivate and retain our staff through performance-based incentives, and to enhance employees’ skills and competencies by providing training. To this end, we engage our employees continuously in conferences and training for them to acquire and enhance relevant skills and competencies (both functional and developmental) in line with our business objectives. On-the-job training is another significant approach of transferring knowledge from specialists to new or junior employees. The investment in human capital increases the competency of our existing employees. In addition, these development activities serve to groom the lower and middle management staff to progressively assume the responsibilities of senior management.

## Major Suppliers

In 2011, 2012, 2013 and the six months ended June 30, 2014, the only supplier which accounted for 10.0% or more of our total cost of sales was PTT. Our fuel purchases from PTT accounted for 68.7%, 66.7%, 68.1% and 68.7% of our aircraft fuel expenses and 19.4%, 19.5%, 18.8% and 20.5% of our total consolidated

cost of sales and services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Our fuel purchases from Shell Thailand accounted for 25.5%, 25.3%, 26.5% and 26.8% of our aircraft fuel expenses and 7.2%, 7.4%, 7.3% and 8.0% of our total consolidated cost of sales and services in 2011, 2012, 2013 and the six months ended June 30, 2014, respectively. Nevertheless, we believe that comparable fuel supply, in terms of quality and quantity, and support is available from other established suppliers. Save as disclosed above, there were no other suppliers which accounted for 10.0% or more of our total cost of sales in 2011, 2012, 2013 and the six months ended June 30, 2014.

## **Major Customers**

### ***Scheduled Passenger Services***

No customer contributed more than 10.0% of our total revenue in 2011, 2012, 2013 or the six months ended June 30, 2014. For details on revenue generated by passenger seat sales, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Year Ended December 31, 2013 Compared with Year Ended December 31, 2012—Revenue—Passenger revenue” and “—Year Ended December 31, 2012 Compared with Year Ended December 31, 2011—Revenue—Passenger revenue”.

### ***Other Aviation Services***

See “—Airport-related Services—Air Cargo Transportation Operations”, “—Ground Services” and “—In-Flight Catering” for details of our customers for our air cargo, ground and in-flight catering services.

## **Legal Proceedings**

From time to time, we may be involved in legal proceedings concerning matters that arise in our day-to-day operations. Other than as described below, we are not engaged in any material litigation, regulatory proceedings, claims or arbitration either as plaintiff or defendant, which would have a material effect on our business, financial condition, results of operations and prospects, and our directors have no knowledge of any such litigation, proceedings, claims or arbitration pending or threatened against us.

### ***Proceedings as Plaintiff Relating to House and Land Taxes for the Samui Airport***

The Samui local authorities have imposed house and land tax assessments on the Samui Airport for the years between 2007 and 2013 of approximately an aggregate of THB119.0 million from 2007 to 2010, and THB38.8 for each of 2011, 2012 and 2013. Although we paid the tax assessments for each of the years, we do not agree as to the basis on which such assessments were made and have filed cases against the Samui local authorities to reclaim such tax payments. The Central Tax Court ruled in favor of us for the 2007 to 2012 tax assessments, which the Samui local authorities subsequently appealed to the Supreme Court. The claims for the 2007 to 2012 tax assessments are still pending at the Supreme Court. Moreover, we filed an appeal against the house and land tax assessments for the year 2013. In August 2014, Koh Samui Municipality charged the Company property tax amounting to THB38.8 million for the year 2014. The Company paid the full amount and filed an appeal against the assessment, which is currently under the consideration of the Koh Samui Municipality.

### ***Proceedings as Plaintiff Relating to Corporate Income Tax***

On December 21, 2012, we filed a claim against the Thai Revenue Department to reclaim approximately THB86.0 million in corporate income taxes paid in 2005 and 2006. Although we paid the tax assessments for 2005 and 2006, we have filed a case against the Thai Revenue Department on the basis that such tax liability should have been offset against the income tax losses we incurred in 2005 and 2006. We have appealed to the Supreme Court, and currently the case is pending at the Supreme Court.

### ***Proceedings as Defendant Relating to the Termination of an Appointment Agreement of General Sales Agent***

We entered into an appointment agreement dated December 21, 2011 with Jupiter Logistics (Bangladesh) Co., Ltd. (“Jupiter”), a company registered in Bangladesh, under which we appointed Jupiter as a general sales agent in Bangladesh for the distribution of our passenger tickets and cargo transportation services until December 31, 2012. We served a notice dated October 26, 2012 to inform Jupiter of our intent to not renew the existing appointment agreement for future periods. Jupiter subsequently on November 26, 2012 filed a civil

lawsuit in the Lower Court of Bangladesh against us to claim for damages in the amount of approximately BDT807.0 million (equivalent to THB308.0 million) resulting from our unilateral termination of our appointment agreement of general sales agent without the prior consent of Jupiter. At the same time, Jupiter also applied for a temporary injunction to seize our bank account of THB149.8 million in Bangladesh. The application was granted at the Supreme Court of Bangladesh, and our bank account was seized from December 10, 2012 until the disposal of the temporary injunction. As of the date of this Offering Memorandum, the civil lawsuit claim is still pending at the Lower Court of Bangladesh. Recently, Jupiter has expressed an intention to negotiate a dispute settlement with us. We are in the process of signing a settlement agreement with the plaintiff, whereby we would have to pay compensation amounting to THB52.0 million (US\$1.6 million) to the plaintiff. We have set aside the full provision for the compensation in our accounts. No assurance can be given that such settlement agreement will be executed.

***Proceedings as Defendant Relating to Employment Agreement***

On February 10, 2014, the Company was sued by a former employee, claiming damages in the amount of THB91.4 million as a result of tort and the breach of an employment contract. Subsequently, in April 2014, the Company countersued the plaintiff, claiming damages of THB10.2 million for breach of a training and learning contract. Currently, the case is being considered by the Labor Court.

***BFS Ground as a Defendant Relating to the Construction Contract***

In 2008, BFS Ground was sued for THB68.6 million by its construction contractor in a dispute between the parties over BFS Ground's opinion that the contractor had not complied with the terms and conditions of the construction contract. On April 20, 2010, the Court of First Instance ordered BFS Ground to pay compensation in the amount of THB25.4 million, together with interest at 7.5% per annum computed from October 15, 2007 until the compensation is fully settled. On July 14, 2010, BFS Ground sought a stay of execution from the Court of Appeal.

In March 2011, BFS Ground returned the retention, amounting to THB10.4 million, to the plaintiff, together with the corresponding interest, which amounted to a total of THB13.1 million. On March 17, 2011, BFS Ground placed the remaining THB15.0 million and the corresponding interest charge, which amounted to a total of THB19.8 million, as a bond given to the Court, in accordance with an order of the Court of Appeal. On June 2, 2011, the Court of Appeal ordered the BFS Ground to pay for incremental costs amounting to THB13.6 million. On September 30, 2011, BFS Ground filed an appeal of the case with the Supreme Court. Currently, the case is pending in the Supreme Court and the outcome cannot yet be determined. In 2007, BFS Ground recorded THB14.1 million for allowance for loss in relation to litigation. In 2013, BFS Ground recorded the remaining amount of allowance for loss in relation to litigation in accordance with an order of the Court of Appeal and retroactively adjusted such allowance for an additional amount of THB14.5 million, including interest related expenses, as detailed in the 2013 Audited Financial Statements. BFS Ground has now set aside the full provision for the judgment, and BFS Ground believes that the provisions made in the accounts are adequate to cover any losses that may arise from this case.

## Property

As of December 31, 2013 and June 30, 2014, the following table summarizes the details of the land which we own or lease.

Main Details of the Property	Type of Ownership	Book Value (million Baht) As of December 31, 2013	Book Value (million Baht) As of June 30, 2014	Security
<b>Description</b>				
Head Office, a 20-storey building, located at Vipavadee-Rangsit Rd., Chatuchak District, Bangkok . . . . .	The Company is entitled to the ownership of land and building	281.3	276.8	Mortgaged as collateral for a loan with the financial institution in the amount of THB550.0 million
Office Building (Tubsuwan), a 4-storey building, located at Amphur Bangplee, Samutprakarn Province . . . . .	The Company is entitled to the ownership of land and leasehold right in the building and certain part of land <sup>(1)</sup>	524.2	515.5	Mortgaged as collateral for a loan with the financial institution in the amount of THB550.0 million
Hangar located at the Don Mueang International Airport, Vipavadee-Rangsit Rd. Don Mueang District, Bangkok . . . . .	The Company is entitled to the leasehold in the land and building <sup>(2)</sup>	25.1	23.0	None
Samui Airport located at Amphur Koh Samui, Surat Thani Province . . . . .	The Company is entitled to the ownership in a certain part of the land and building and leasehold right in the building and certain part of the land <sup>(3)</sup>	1,597.5	1,590.6	Mortgaged a substantial portion of the property as a collateral with the mutual fund in the amount of THB20,900.0 million and mortgaged a certain part of the property as collateral for loans with the financial institution in the amount of THB190.0 million
Sukothai Airport located at Amphur Sawankhalok Sukhothai Province . . . . .	The Company is entitled to the ownership in the land and building and leasehold right in certain part of land <sup>(4)</sup>	200.3	189.1	Mortgaged as collateral for a financing with a financial institution under the guarantee amount of THB413.0 million
Trat Airport located at Amphur Khao Saming, Trad Province . . . . .	The Company is entitled to the ownership in building and certain part of the land and possession rights in a certain part of the land	508.1	504.2	Mortgaged as collateral for a loan with a financial institution in the amount of THB201.2 million

- (1) The Company entered into the land lease agreement dated April 1, 2004 for an approximately 17 Rai (27,200 square meter) land plot for the lease period of 30 years. The lease payment shall be paid annually in the amount agreed upon. The lease agreement expires in March 31, 2034.
- (2) The Company entered into the land lease agreement dated September 28, 2012 for an approximately 2,921 square meter land plot for the lease period of three years. The lease payment shall be made monthly in the amount agreed upon. The lease agreement expires in September 27, 2015.
- (3) (a) We leased the assets of the Samui Airport to the Samui Property Fund for a period of 30 years from November 24, 2006 in accordance with the terms of the Long-Term Lease Agreement. The Company continues to act as the operator of the Samui Airport in accordance with the terms and conditions under the Sub-Lease Agreement and the Service Agreement dated November 24, 2006 (the "Service Agreement"). Under the Sub-Lease Agreement, the Samui Property Fund sub-leased the Samui Airport to us for a three year term, renewable for up to nine additional three year terms upon agreement by both parties. Accordingly, the second renewal of the Sub-Lease Agreement was made on November 24, 2012. Moreover, we had a 25% ownership interest in the Samui Property Fund.

(b) The Company entered into the land lease agreement dated September 19, 2001 for an approximately 2 Rai 2 Ngan (4,000 square meter) land plot for the lease period of 15 years. The lease payment shall be made annually in the amount agreed upon annually. The lease agreement expires in September 18, 2016, subject to the agreement to lease of 15 years.

(c) The Company entered into the land lease agreement dated March 31, 2002 for an approximately 1 Rai (1,600 square meter) land plot for the period of 15 years. The lease payment shall be made annually in the amount agreed upon annually. The lease agreement expires in March 30, 2017, subject to the agreement to lease of 15 years.

(d) The Company entered into the land lease agreement dated September 19, 2001 for an approximately 3 Rai 2 Ngan (5,600 square meter) land plot for the period of 15 years. The lease payment shall be made annually in the amount agreed upon annually. The lease agreement expires in September 18, 2016, subject to an agreement to lease of 15 years.

(e) The Company entered into the land lease agreement dated August 30, 1999 for an approximately 16 Rai 1 Ngan (26,000 square meter) land plot for the period of 30 years. The lease payment is to be made annually in the amount agreed upon annually. The lease agreement expires in August 31, 2029.

(f) The Company entered into the land lease agreement dated December 18, 2013 for an approximately 3 Rai 3 Ngan (6,000 square meter) land plot for the period of 3 years. The lease payment is to be made annually in the amount agreed upon annually. The lease agreement expires in December 17, 2016, subject to an agreement to lease of three years.

(g) Certain of the lease agreements will terminate before the termination of the Samui Property Fund, but this will not have a material adverse effect on the Company because it does not include the Samui Airport.

- (4) The Company entered into the land lease agreement dated December 9, 1999 for an approximately 18 Rai (28,800 square meter) land plot for the lease period of 30 years. The amount of lease payment shall be made in the amount agreed upon the lease agreement expires in December 8, 2029.

### Leasehold rights over overseas properties

As of December 31, 2013 and June 30, 2014, the following table summarizes the details of the Company's leasehold rights over overseas properties.

Main Details of the Property	Type of Ownership	Book Value (million Baht) As of December 31, 2013	Book Value (million Baht) As of June 30, 2014	Security
<b>Description</b>				
Accommodation in Guilin, China . . . . .	The Company is entitled to the leasehold in the land and building	5.5	5.5	None
Office in Guilin, China . . . . .	The Company is entitled to the leasehold in the land and building	15.3	15.1	None
Accommodation in Shenzhen, China . . . . .	The Company is entitled to the leasehold in the land and building	9.5	9.4	None
Office in Xian, China . . . . .	The Company is entitled to the leasehold in the land and building	7.3	—	None

### Investment Holdings

As of June 30, 2014, the Company holds, directly, and indirectly through our subsidiaries, a 7.83% stake in Bangkok Dusit Medical Services Public Company Limited ("BGH"). BGH is a private hospital operator in Thailand providing quality healthcare services to both foreign and domestic patients. We have three directors on the board of directors of BGH. Mr. Prasert Prasarttong-Osoth, the Vice Chairman of our Board of Directors and our Chief Executive Officer, is also the Group Chief Executive Officer, President and a director of BGH. As of July 4, 2014, Mr. Prasert Prasarttong-Osoth owns 20.19%, of BGH's outstanding shares. We hold our stake in BGH for long-term investment and dividend income. We also purchase and sell portions of our BGH shares from time to time. Any further investment we make in BGH shares is required to comply with our investment policy in respect to securities in the resolution no. 7/2556 dated May 23, 2013 and as revised in the resolution no. 7/2557 dated July 24, 2014 by our board of directors, which emphasizes that we do not have a policy to invest for the purpose of trading shares and are to invest only from the excess cash generated from operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Investment Policy" for further details.

Additionally, our executive directors are required to present to our board of directors for approval, any investments in securities of entities which are connected or related to the Company, our directors, or management, and any director(s) related to such entities will not attend or vote at board meetings approving such investments.

As of July 4, 2014, which is the latest date of the close of share register book of BGH, the Company and its subsidiary, Bangkok Airways Holding Co., Ltd, held 1,008,418,690 shares and 205,000,000 shares,



respectively, at the par value of THB 0.10, which represents 6.51% and 1.32% of the paid-up share capital of BGH, respectively. As of July 4, 2014, BAC did not hold any shares of BGH.

The following table sets forth our direct, and indirect through Bangkok Airways Holding Company and BAC, purchases and sales of shares of BGH in the years ended December 31, 2011, 2012 and 2013, and the six months ended June 30, 2014. As of June 30, 2014, BGH shares comprised 58.9% of our total consolidated assets.

	Year Ended December 31,			Six Months Ended June 30, <sup>(1)</sup>
	2011	2012	2013	2014
Number of BGH shares beginning of period . . . . .	113,655,269	121,938,769	121,621,894	121,421,869 (par value THB1)
Number of BGH shares purchased in period . . . . .	15,251,700	9,541,425	703,400	3,500,000 (par value THB1) <sup>(2)</sup>
Number of BGH shares sold in period . . . . .	6,968,200	9,858,300	903,425	3,500,000 (par value THB1) <sup>(2)</sup> 800,000 (par value THB0.1) <sup>(2)</sup>
Number of BGH shares at end of period . . . . .	121,938,769	121,621,894	121,421,869	121,341,869
Difference between number of BGH shares beginning of period and end of period . . . . .	8,283,500	(316,875)	(200,025)	(80,000)
Turnover ratio (Times) <sup>(3)</sup> . . . . .	0.2	0.2	0.01	0.06

(1) In April 2014, BGH shares split ten-for-one, which resulted in an increase in the number of shares owned by the Company to 1,213,418,690 shares at the six months ended June 30, 2014. The par value of BGH shares was changed from THB 1 to THB 0.1. BGH registered the change of its par value at Ministry of Commerce on April 23, 2014.

(2) During the six months ended June 30, 2014, the Company sold 3,500,000 BGH shares (par value of THB1) to its subsidiary, Bangkok Airways Holding Company and BAC sold 800,000 BGH shares (par value of THB 0.10) to a third party.

(3) Calculated from the sum of the number of BGH shares purchased and sold in each period divided by number of BGH shares held at the beginning of the period.

## DESCRIPTION OF MATERIAL AGREEMENTS

*The following description summarizes selected provisions of certain material agreements of, or affecting our Group. This description is a summary and should not be considered to be a full statement of the terms and conditions of such agreements.*

### **Finance Agreements**

#### ***Loans from BBL***

##### ***BBL Term Loan Agreements***

The Company has entered into various term loan agreements (“BBL Term Loan Agreements”) with Bangkok Bank Public Company Limited (“BBL”) to finance various business operations.

The principal amounts outstanding under the BBL Term Loan Agreements bear monthly interest at either a fixed rate or a rate equivalent to the Minimum Lending Rate as set out by BBL or the respective banks for other loans (“MLR”), minus 0.5% to 1.0%, depending on the loan. Such interest rates are subject to adjustment at BBL’s discretion, as long as such rates do not exceed the maximum permitted interest rate as announced by BBL. In the event that the Company fails to repay the principal amount, the loans will be subjected to the maximum permitted default interest rate as announced by BBL. Under the BBL Term Loan Agreements, the loans are to be repaid in monthly installments for terms ranging from 60 months to 84 months.

Under the BBL Term Loan Agreements, the Company has agreed to notify BBL in writing for any material changes that occur in the nature of its business. The Company is also required to maintain insurance coverage over the assets used to secure the loans and to name BBL as the sole beneficiary. Certain of the loans also require the Company to maintain a debt to equity ratio of not more than three to one for certain types of loans.

The BBL Term Loan Agreements contain certain customary events of default, including, among others, non-payment, insolvency, cross-default, and the occurrence of any event which may be reasonably believed to adversely affect the Company’s financial condition and ability to repay the loans. Upon the occurrence of an event of default, BBL is entitled to terminate the relevant BBL Term Loan Agreement, demand an immediate repayment of the loan and any accrued interest, as well as claim any damages and expenses incurred.

Under the terms of our BBL Term Loan Agreements, certain of the BBL term loans require the Company to maintain a debt-to-equity ratio of not more than 3:1 by 2014. We notified BBL that we do not expect to meet this requirement in 2014, and as a result, BBL waived this requirement for 2014 in a letter to our Company dated May 29, 2014 (the “BBL Waiver”). The BBL Waiver imposes a requirement for us to maintain a debt-to-equity ratio of 3.5:1 in 2014, based on our 2014 financial statements.

The BBL term loans are secured by a combination of various pledges of shares in BGH from the Company and Bangkok Airways Holding Co., Ltd., our subsidiary that holds a portion of our BGH shares (“BGH Holdco”), and mortgages of certain plots of lands and buildings on the land owned by the Company. Under the BBL Term Loan Agreements, BBL is entitled to request additional collateral if it deems the values of the assets used to secure the loans already provided to be insufficient. The Company has also agreed to be responsible for any deficiencies should the values of the pledged and mortgaged assets, when foreclosed, are insufficient to repay the outstanding loans.

Certain details of the BBL Term Loan Agreements are set out below.

<u>Agreement Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Term (month)</u>	<u>Amount Outstanding (as of June 30, 2014) (million)</u>
October 29, 2009	THB420.0 million	Year 1-2: MLR-0.5% Year 3 onwards: MLR	72	THB189.0
October 29, 2009	THB135.0 million	Year 1-2: MLR-0.5% Year 3 onwards: MLR	72	THB14.3
August 27, 2010	THB1,100.0 million	Year 1: MLR-1.0% Year 2: MLR-0.5% Year 3 onwards: MLR	84	THB586.4
January 24, 2012	THB52.8 million	6.0% per annum	84	THB33.7
January 24, 2012	THB100.0 million	6.0% per annum	84	THB1.5
January 24, 2012	THB65.0 million	6.0% per annum	60	nil <sup>(1)</sup>
May 9, 2011	THB500.0 million	5.5% per annum	84	THB46.0
June 24, 2011	THB300.0 million	5.5% per annum	84	THB170.4

(1) All amounts outstanding under this loan were fully repaid on February 20, 2013.

#### *BBL Overdraft Agreement*

The Company entered into a THB30.0 million overdraft agreement dated March 23, 2006 with BBL (“BBL Overdraft Agreement”). The interest rate under this agreement accrues monthly at a rate equivalent to the Minimum Overdraft Rate (“MOR”) set by BBL, subject to adjustment at BBL’s discretion. As long as the Company continues to make withdrawals under this agreement, the BBL overdraft agreement is deemed to be renewed at the end of each 12 month term. As of June 30, 2014, nil was outstanding under the BBL Overdraft Agreement.

The BBL Overdraft Agreement contains certain customary events of default, including, among others, non-payment, insolvency, cross-default and the occurrence of any events which may be reasonably believed to adversely affect the Company’s ability to repay the loans.

#### *BBL Financial Support Agreement*

BAC entered into the BBL financial support agreement (“BBL Financial Support Agreement”) dated February 23, 2006 which consists of a term loan, an overdraft facility, a promissory note and a bank guarantee. The purpose of the of the BBL Financial Support Agreement is to refinance KTB loans used to fund the design and construction of buildings and purchase of equipment needed to provide catering services at the Suvarnabhumi International Airport and to be used as BAC’s working capital.

Under the BBL Financial Support Agreement, BAC has agreed to, among others, notify BBL in writing for any material changes that occur in the nature of its business and that cause the Company and Food and Stores Co., Ltd. to maintain their aggregate shareholding in BAC of not less than 66.0% of its registered capital at all times. Furthermore, BAC has agreed to maintain a debt to equity ratio of 2.5:1 from 2011 onwards and to maintain a debt service coverage ratio of at least 1.25 from 2012 onwards. The BBL Financial Support Agreement restricts BAC from paying dividends if it is in default under this agreement and other facility agreements with BBL.

The BBL Financial Support Agreement contains certain customary events of default, including, among others, non-payment, misrepresentation, insolvency and cross-default. Upon the occurrence of an event of default, BBL is entitled to terminate the BBL Financial Support Agreement and demand an immediate repayment of the loan and any accrued interest from BAC. The BBL Financial Support Agreement is secured by, among others, pledges of shares in BAC from the Company and a pledge of shares in BGH from the Company.

Certain details of the BBL Financial Support Agreement are set out below.

<u>Type of facility</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Term (months)</u>	<u>Amount Outstanding (as of June 30, 2014) (million)</u>
Term Loan	THB710.0 million	Range from MLR-1.0% to MLR (as set by BBL) per annum, depending on the remaining term of the loan	105	THB115.0
Overdraft Facility	THB30.0 million	MOR (set by BBL)	—	THB11.5
Promissory Note	THB20.0 million	MLR-0.5% per annum	—	nil
Bank Guarantee	THB252.0 million	1.0% per annum for issuance fee	—	THB141.4

### ***Loans from KTB***

#### ***BFS-KTB Loan Agreements***

BFS Ground has entered into various loan agreements (“BFS-KTB Loan Agreements”) with Krungthai Bank Public Company Limited (“KTB”) to finance various business operations, including the establishment of the operating system, including construction fees and purchases of equipment and computer system, for BFS Ground’s operations at the Suvarnabhumi International Airport.

The principal amounts outstanding under the BFS-KTB Loan Agreements bear month interest at a rate equivalent to the MLR minus 0.75% to 1.5% or MLR as set by KTB. Such interest rates as announced by KTB, subject to adjustment at KTB’s discretion as long as such rates do not exceed the maximum permitted interest rate as announced by KTB. In the event that BFS Ground fails to make an interest payment for not less than one year, BFS Ground has agreed to accrue the outstanding interest on the principal amounts and the accrued principal amount will be subjected to the maximum permitted default interest rate as announced by KTB. Under the BFS-KTB Loan Agreements, the loans are to be repaid in quarterly installments for terms ranging from 12 to 26 quarters.

Under the BFS-KTB Loan Agreements, BFS Ground is required to maintain insurance coverage over the assets used to secure the loans and to name KTB as the sole beneficiary. BFS Ground has also agreed not perform any action which may cause the value of the collateral asset to depreciate and not to create any encumbrances on the collateral assets.

The BFS-KTB Loan Agreements contain certain customary events of default, including, among others, non-payment or failure to perform under any agreement entered into with KTB and cross-default under any loans from KTB to BFS Ground or any of its affiliates. Upon the occurrence of an event of default, KTB is entitled to terminate the BFS-KTB Loan Agreements, demand an immediate repayment of the loan and any accrued interest, as well as claim any damages and expenses incurred.

The BFS-KTB loans are secured by, among others, an assignment of the Ground Project Agreement, a pledge of shares in BFS Ground at the ratio of 75.0% of its registered capital, a negative pledge of BFS Ground’s project assets used for the Ground Project Agreement at the Suvarnabhumi Airport, mortgages (in second rank) of various plots of lands owned by the Company and a pledge of shares in BGH. In addition, BFS Ground’s payment obligation is guaranteed by the Company.

Certain details of the BFS-KTB Loan Agreements are set out below.

<u>Agreement Date</u>	<u>Type of facility</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Term (quarters)</u>	<u>Amount Outstanding (as of June 30, 2014) (million)</u>
March 15, 2004	Term Loan	THB630.0 million	Range from MLR-0.75% - 1.5% per annum to MLR (set by KTB)	26	THB227.0
March 15, 2004	Letter of Guarantee	THB157.0 million	1.0% per annum for issuance fee	—	THB132.0
August 17, 2006	Term Loan	THB160.0 million	MLR (set by KTB)	12	nil
August 17, 2006	Letter of Guarantee	THB41.0 million	2.0% per annum for issuance fee	—	THB1.9
August 17, 2006	Promissory Note	THB40.0 million	MOR (set by KTB)	—	nil

### *BFS-KTB Overdraft Agreement*

BFS Ground entered into a THB30.0 million overdraft agreement dated March 15, 2004 with KTB (“BFS-KTB Overdraft Agreement”). Interest is payable monthly at the MOR set by KTB, subject to adjustment at KTB’s discretion. As long as the BFS Ground continues to make withdrawals under this agreement, the BFS-KTB Overdraft Agreement is deemed to be renewed. As of June 30, 2014, BFS Ground did not have any amounts outstanding under the BFS-KTB Overdraft Agreement.

The BFS-KTB Overdraft Agreement contains certain customary events of default, including, non-payment. The BFS-KTB Overdraft Agreement is secured by, among others, an assignment of the Ground Project Agreement, negative pledges of assets used for the Ground Project Agreement and a pledge of shares in BFS Ground at the ratio of 75.0% of its registered capital. In addition, the Company has provided a guarantee in the amount of THB30.0 million.

### *PG-KTB Loan Agreement*

The Company entered into a THB250.0 million loan agreement with Krungthai Bank Public Company Limited (“KTB”) dated November 9, 2010 (“PG-KTB Loan Agreement”). Interest is payable monthly at the MLR per annum. We are required to repay all outstanding debt within five years from the date of the first drawdown, which was November 17, 2010. As of June 30, 2014, THB89.0 million was outstanding under the PG-KTB Loan Agreement.

The PG-KTB Loan Agreement contains customary events of default, including, among others, a default under any other agreement with KTB and non-payment. This loan is secured by a mortgage over certain plots of land owned by us and a pledge of shares in BGH.

### *KTB Overdraft Agreement*

The Company entered into four overdraft agreements with KTB dated September 26, 1989, January 25, 1990, October 20, 1992 and July 12, 1993 (collectively, each as amended, the “KTB Overdraft Agreements”). The aggregate loan amount under the KTB Overdraft Agreements is THB30.0 million, and there is no term specified. Interest is payable monthly at the MOR set by KTB, subject to change at KTB’s discretion. We did not have any amounts outstanding under the KTB Overdraft Agreements as of June 30, 2014.

Non-payment is an event of default under the terms of the KTB Overdraft Agreements, and in the case of non-payment, the Company is required to pay for any damages incurred by the Company relating to the event of default and expenses in connection with any notice, claim, litigation proceeds and enforcement of the payment obligation. The KTB Overdraft Agreements is secured by mortgages of certain parcels of land.

### ***Loan from KBank***

#### *KBank Overdraft Agreement*

The Company entered into a THB10.0 million overdraft agreement with Kasikornbank Public Company Limited (“KBank”) dated December 6, 2012 (“KBank Overdraft Agreement”). Interest is payable monthly at the MOR set by KBank, subject to change at KBank’s discretion. Any amounts outstanding which exceed the limit of the overdraft facility are subject to the maximum interest rate announced by KBank. The term of the KBank Overdraft Agreement is 12 months from the date of the agreement. As of June 30, 2014, we did not have any amounts outstanding under the KBank Overdraft Agreement.

The KBank Overdraft Agreement contains customary events of default, including, among others, non-payment, ceasing all or a material part of our business, disposing all or a material part of our assets and the occurrence of events that may cause a material adverse change to our business, assets obligations or status, including insolvency. This overdraft facility is secured by a mortgage of certain parcels of land.

### **Agreements Relating to the Samui Property Fund**

In November 2006, we leased the assets of the Samui Airport to the Samui Property Fund for a period of 30 years from November 24, 2006 under the terms of the Long-Term Lease Agreement. The Samui Property Fund in turn sub-leased the Samui Airport to us pursuant to the Sub-lease Agreement.

### ***Long-Term Lease Agreement and Undertaking Agreement***

The Company entered into the Long-Term Lease Agreement dated November 24, 2006 and Undertaking Agreement dated November 24, 2006 (the “Undertaking Agreement”) with the Samui Property Fund. Under the Long-Term Lease Agreement, the Company agreed to lease the assets of the Samui Airport, including, among others, the land, runway, passenger terminals and other supporting buildings to the Samui Property Fund for a period of 30 years.

#### *Rights and Obligations of the Company*

Under the Long-Term Lease Agreement, the Company agreed to sub-lease the assets of the Samui Airport from the Samui Property Fund for the operation of the Samui Airport. The Company also agreed to, among others, maintain all necessary licenses and permits required for the operation of the Samui Airport, maintain the general environment and condition of the Samui Airport and its assets, provide the necessary equipment, machinery and systems and conduct certain marketing activities to promote Samui and the Samui Airport. Pursuant to the Long-Term Lease Agreement, the Company and the Samui Property Fund are required to enter into a long-term service agreement, under which the Samui Property Fund is required to provide the Samui Airport with certain services such as electricity, air conditioning, sanitation, and fire extinguishing system for a 30-year term.

For the purpose of increasing the Samui Airport’s operational capability, the Company is entitled to carry out addition construction at its own cost. Such construction can include improving the existing or constructing additional runways, passenger terminals, supporting buildings or other facilities, as well as procuring new equipment, machinery and other necessary systems. The parties agree that the Company has the ownership right to such extensions and improvements. However, the Company has agreed to grant the Samui Property Fund the right to purchase, lease or benefit from such assets throughout the term of the Long-Term Lease Agreement.

If the Sub-lease Agreement or the long-term service agreement is terminated without any fault of the Samui Property Fund, the Company is required to, among others, transfer all necessary licenses and provide necessary assistance to the new sublessee or the Samui Property Fund to operate the Samui Airport.

The Company is required to maintain adequate all risk insurance coverage (including risks of war and terrorism) over the assets of the Samui Airport for which the Company has the ownership rights, with the Samui Property Fund named as the beneficiary throughout the term of the Long-Term Lease Agreement. The Company is also required to pay taxes and fees in relation to the leasing of the assets of the Samui Airport under the Long-Term Lease Agreement.

#### *Covenants of the Company*

The terms of the Long-Term Lease Agreement restrict the Company from selling, disposing, transferring or encumbering the assets of the Samui Airport, unless such transfer or sale is made to the Company’s subsidiaries or with the written consent of the Samui Property Fund. The terms of the Undertaking Agreement also restrict the Company or its subsidiaries from holding less than 25.0% of the total amount of units issued and offered on the execution date of the Long-Term Lease Agreement for a period of 20 years from November 24, 2006.

#### *Rights of First Refusal*

Under the Long-Term Lease Agreement, the Company has agreed to provide the Samui Property Fund with a right of first refusal to purchase, receive leasehold rights or receive possession rights over the assets of the Samui Airport if the Company and/or its subsidiaries intend to dispose of, transfer and/or lease such assets in the first 17 years following the registration date of the Long-Term Lease Agreement. This right of first refusal also extends to the assets used to operate the Sukhotai Airport and the Trat Airport.

#### *Collateral*

The Company is required to register a mortgage on the assets of the Samui Airport to the Samui Property Fund in the amount equal to THB20.9 billion to guarantee the obligations of the Company under the Long-Term Lease Agreement throughout its term. The guarantee of such obligations include any loss of income suffered by the Samui Property Fund due to potential breaches by the Company.

### *Events of Default*

Events of default under the terms of the Long-Term Lease Agreement include a breach of the terms of the Long-Term Lease Agreement which is not remedied, a default in financial obligations exceeding THB100.0 million or in other obligations exceeding 20.0% of the Company's shareholders' equity which is not remedied, bankruptcy and ceasing of operations so as to cause the Samui Property Fund or the new sublessee to be unable to realize the material benefit from the assets of the Samui Airport.

### *Termination and Damages*

Under the Long-Term Lease Agreement, the Samui Property Fund is entitled to terminate the agreement and/or claim for damages from the Company upon the occurrence of an event of default or a resolution by the unitholders to dissolve the Samui Property Fund (if the Company votes for such resolution). If the Samui Property Fund terminates the Long-Term Lease Agreement, the Company has agreed to (i) return the rental payment received, including payment for damages or other expenses, in proportion to the remaining term of the Long-Term Lease Agreement and (ii) transfer to the Samui Property Fund, the ownership to the equipment, machinery and systems procured by the Company or to allow the new sublessee to use such equipment and provide services to such sublessee as requested by the Samui Property Fund.

The Company is entitled to terminate the Long-Term Lease Agreement if the Samui Property Fund breaches the terms of this agreement without remedy, provided such breaches are not due to any non-compliance on the Company's part. In this regard, the Company is also entitled to claim for damages from the Samui Property Fund if the assets of the Samui Airport are not returned to the Company in their existing condition upon the expiry or termination of the Long-Term Lease Agreement.

The Long-Term Lease Agreement terminates immediately upon its expiration. The Long-Term Lease Agreement can also be terminated upon mutual agreement by the parties and if the assets of the Samui Airport are expropriated under relevant laws. If the agreement is terminated due to its expiration or upon mutual agreement by the parties, neither party is entitled to damages and expenses. If the agreement is terminated due to expropriation, the Company is required to pay the Samui Property Fund the proportion of any amounts received from such expropriation relevant to the remaining term under the Long-Term Lease Agreement.

### *Sub-lease Agreement*

The Company entered into the Sub-lease Agreement dated November 24, 2006 with the Samui Property Fund. Under the Sub-lease Agreement, the Company agreed to sublease the assets of the Samui Airport from the Samui Property Fund for a three-year term, renewable upon agreement of both parties. The parties have renewed the Sub-lease Agreement on November 24, 2009 and again on November 24, 2012.

### *Rental Payment*

The Company is required to pay a monthly rental payment calculated as a percentage of the amount of capital of the Samui Property Fund on the registration date of the Samui Property Fund. The Company is also required to pay a deposit in the amount equal to one monthly rental payment. The Samui Property Fund is entitled to deduct the deposit for rental payment or for any damages.

The Company is also responsible for any taxes and fees in relation to the Sub-lease Agreement or to the assets of the Samui Airport.

### *Collateral*

The Company has agreed to provide collateral in an amount equal to 12 monthly rental payments to guarantee the Company's obligations under the terms of the Sub-lease Agreement. Such collateral could be in the form of a bank guarantee issued by a commercial bank in Thailand and/or a pledge of BGH's securities. Currently, our Chief Executive Officer has pledged a certain portion of his shares in BGH in favor of the Samui Property Fund. The Company is also required to register a mortgage on the assets of the Samui Airport to guarantee its performance under the Sub-lease Agreement.

### *Extension of the Sub-lease Agreement*

Under the terms of the Sub-lease Agreement, both the Samui Property Fund and the Company has the option to require the other party to renew the Sub-lease Agreement for not more than nine terms of three years each. Each renewal is to be on substantially the same terms and conditions (including the option to renew), provided that the party requesting such renewal complies with the conditions precedent specified in the Sub-lease Agreement. Such conditions precedent include advanced notice and compliance by the requesting party of the terms and conditions of the Sub-lease Agreement, Long-Term Lease Agreement and utilities service agreement.

### *Events of Default*

Events of default under the terms of the Sub-lease Agreement include a breach of the terms of the Sub-lease Agreement which is not remedied, a default in financial obligations exceeding THB100.0 million or in other obligations exceeding 20.0% of the Company's shareholders' equity which is not remedied, bankruptcy and ceasing of operations so as to cause the Samui Property Fund or the new sublessee to be unable to realize the material benefit from the assets of the Samui Airport.

### *Termination and Damages*

Under the Sub-lease Agreement, the Samui Property Fund is entitled to terminate this agreement and/or claim for damages from the Company upon the occurrence of an event of default or a resolution by the unitholders to dissolve the Samui Property Fund (if the Company votes for such resolution).

The Company is entitled to terminate the Sub-lease Agreement if the Samui Property Fund breaches the terms of this agreement without remedy, provided such breaches are not due to any non-compliance on the Company's part. The Company is also entitled to claim for damages from the Samui Property Fund if the assets of the Samui Airport are not delivered to the Company for sub-lease or if the Samui Property Fund fails to allow the Company to extend the term of the Sub-lease Agreement.

The Sub-lease Agreement terminates immediately upon its expiration without renewal. The Sub-lease Agreement can also be terminated upon mutual agreement by the parties and if the assets of the Samui Airport are expropriated under relevant laws. If the agreement is terminated due to its expiration, mutual agreement between the parties or expropriation, neither party is entitled to damages and expenses.

## **Agreements Relating to our Airport-related Services**

### ***Cargo Project Agreement***

The AOT and BFS Cargo entered into the Cargo Project Agreement dated February 11, 2004 and amended in February 2010, under which the AOT granted BFS Cargo the right to:

- operate airport cargo services at the Suvarnabhumi International Airport, including outbound cargo, inbound cargo and transshipment; and
- maintain the buildings, structures and annexes specified under the Cargo Project Agreement, including certain assets procured by BFS Cargo to use in the operation of the cargo services permitted under the Cargo Project Agreement, the "Cargo Project".

Under the terms of the Cargo Project Agreement, BFS Cargo agreed to operate and provide continuous services in accordance with international standards acceptable for an international airport performed by persons of such profession and at BFS Cargo's expense and risk without request for any security or guarantee from the AOT. The AOT reserves the rights to reasonably improve or alter the quality and standard for the efficient operation of the Suvarnabhumi International Airport generally.

### *Term and Termination*

The term of the Cargo Project Agreement is 20 years from the date of formal commencement of the Suvarnabhumi International Airport operation, which was September 28, 2006. Under the terms of the Cargo Project Agreement, termination events include, among others, non-performance without remedy, bankruptcy, national security according to government order.



Upon expiration or termination of the Cargo Project Agreement, AOT has the right to take possession of the buildings, structures and annexes. Further, under the Cargo Project Agreement, AOT is to be the only party to have the right to select, return or purchase the equipment.

#### *Project Fees and Other Payments*

BFS Cargo is also responsible for (i) fees in connection with the granting of the project to operate and provide services, at rates stipulated in the regulations governing the fee rate for operation at Suvarnabhumi International Airport and (ii) monthly project fees calculated under the terms of the Cargo Project Agreement and amounts no less than the minimum guaranteed amounts specified under the terms of the Cargo Project Agreement. The minimum guarantee amounts were waived under the terms of the Cargo Project Agreement from January 1, 2009 to December 31, 2009 as a result of the closure of Suvarnabhumi International Airport due to political unrest. Under the Cargo Project Agreement, the AOT has the right to increase the project fee and the minimum guaranteed amount every five years, following the minimum payment of the first year's guarantee, to reflect the aviation industry situation or similar situation at the time. Any increase requires at least one-month written notice.

#### *Service Fee*

BFS Cargo has the right to collect service fees and other charges, including value-added tax or similar taxes permitted by law from the service recipients.

#### *Buildings, Structures and Annexes*

Under the Cargo Project Agreement, BFS Cargo is required to enter into a separate lease agreement with the AOT to lease the land and/or premises for the Cargo Project simultaneously with the Cargo Project Agreement. The term of the lease is to be the same as the term of the Cargo Project Agreement. The rental fee is to be stipulated under the lease agreement.

BFS Cargo is also responsible for designing and constructing works in relation to the Cargo Project in compliance with the standards specified under the Cargo Project Agreement. BFS Cargo has agreed that ownership in the building, structures and annexes will be vested in the Ministry of Finance from the date of completion of the construction and any modification, alteration, expansion of those buildings, structures and annexes will require the prior written consent of the AOT.

#### *Other Obligations*

Under the Cargo Project Agreement, BFS Cargo has agreed to, among others, provide continuous services, indemnify the AOT and its employees from liability related to the Cargo Project Agreement, maintain insurance and provide performance security in the form of unconditional letters of guarantee or bonds.

If BFS Cargo breaches any provision of the Cargo Project Agreement, BFS Cargo is required to pay a daily penalty to the AOT at amounts specified under the terms of the Cargo Project Agreement until the breach is resolved.

#### ***Cargo Lease Agreement***

BFS Cargo entered into a lease agreement with the AOT dated September 14, 2011 (the "Cargo Lease Agreement"). The term of the Cargo Lease Agreement is 20 years from September 28, 2006 to September 27, 2026. BFS Cargo is required to make advance monthly rental payments in the amount calculated in accordance with the Cargo Lease Agreement, which rates are subject to fixed increases every three years unless the parties otherwise agree in writing. BFS Cargo has provided a bank guarantee dated August 24, 2011 in the amount of THB20.4 million. Under the Cargo Lease Agreement, the AOT is responsible for the provision of utilities services and BFS Cargo is responsible for expenses incurred.

BFS Cargo has agreed that the ownership in the buildings, structures and annexes built on the leased land will be vested in the Ministry of Finance from the date of completion of the construction. In accordance with the terms of the Cargo Lease Agreement, following the delivery of the ownership to the Ministry of Finance, BFS Cargo has the right to use such buildings, structures and annexes throughout the lease term, unless the Cargo Lease Agreement is terminated.

Termination events under the Cargo Lease Agreement include, among others, bankruptcy and non-performance without remedy or resulting in damage to public safety and national security according to government order. Under the Cargo Lease Agreement, the AOT has the right to take possession of the leased land, buildings, structures and annexes promptly following the termination of the Cargo Lease Agreement or the end of the lease term.

The parties agree that the Cargo Lease Agreement is to be subject to the rules of the Ministry of Finance, the DCA and other related rules relating to the use of state properties. Further, under the terms of the Cargo Lease Agreement, BFS Cargo agrees to remain subject to any obligations with respect of the lease to operate in accordance with the Cargo Project Agreement.

### ***Cargo Services Agreement***

BFS Cargo entered into the Cargo Services Agreement with WFS dated August 24, 2006, under which BFS Cargo exclusively engaged WFS to provide specified support services during the term of the agreement. Such support services include monitoring and evaluating the quality of the operational services, marketing the services and facilities of BFS Cargo, developing controls and best practice for operating costs, maintaining and administering all agreements of BFS Cargo, including the Cargo Project Agreement and the Cargo Lease Agreement and assisting in procuring relevant industry certification. The parties agreed that WFS is to provide these support services from outside Thailand. BFS Cargo is required to pay WFS a monthly service fee equal to a specified percentage of the gross revenues.

Under the terms of the Cargo Services Agreement, BFS Cargo's shareholders may participate to the extent such participation does not interfere with the performance or services rendered by WFS under the agreement. During the term of the agreement, WFS is prohibited from providing such support services to any other firm, entity or organization in Thailand. BFS Cargo has also agreed to consider, in good faith, any additional services recommended by WFS from time to time.

WFS is required to ensure that the support services provided to BFS Cargo pursuant to the Cargo Services Agreement are of the highest international quality and standard in accordance with IATA resolutions and recommended practices in respect of the operational services and are not of a lower standard than services of comparable types provided by WFS to any third party.

The Cargo Services Agreement is valid for a seven year term, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Cargo. On September 27, 2013, we entered into an amendment to the Cargo Services Agreement with WFS to temporarily extend the Cargo Services Agreement for six months after the expiration of such agreement. In 2014, we entered into an amendment dated June 16, 2014 to extend the Cargo Services Agreement for an additional 4 years and 6 months, or until September 27, 2018. The Cargo Services Agreement may be terminated by mutual agreement of the parties. Either WFS or BFS Cargo may terminate the Cargo Services Agreement upon bankruptcy or an uncured default under a material term of the agreement by the other party. In addition, either party has the right to terminate upon the termination of the Cargo Project Agreement or the complete destruction of the Suvarnabhumi International Airport.

### ***Ground Project Agreement***

The AOT and BFS Ground entered into the Ground Project Agreement dated February 11, 2004 and amended in February 2010, under which the AOT granted BFS Ground the right to operate ground services equipment and ramp services at the Suvarnabhumi International Airport (the "Ground Project").

Under the terms of the Ground Project Agreement, BFS Ground agreed to operate and provide continuous services in accordance with international standards acceptable for an international airport performed by persons of such profession and at BFS Ground's expense and risk without request for any security or guarantee from the AOT. The AOT reserves the rights to reasonably improve or alter the quality and standard for the efficient operation of the Suvarnabhumi International Airport generally.

### ***Term and Termination***

The term of the Ground Project Agreement is 20 years from the date of formal commencement of the Suvarnabhumi International Airport operation, which was September 28, 2006. Under the terms of the Ground

Project Agreement, termination events include, among others, non-performance without remedy, bankruptcy, national security according to government order.

Upon expiration or termination of the Ground Project Agreement, AOT has the right to take possession of the buildings, structures and annexes. Further, under the Ground Project Agreement, AOT is to be the only party to have the right to select, return or purchase the equipment.

#### *Project Fees and Other Payments*

BFS Ground is also responsible for (i) fees in connection with the granting of the project to operate and provide services, at rates stipulated in the regulations governing the fee rate for operation at Suvarnabhumi International Airport and (ii) monthly project fees calculated under the terms of the Ground Project Agreement and amounts no less than the minimum guaranteed amounts specified under the terms of the Ground Project Agreement. The minimum guarantee amounts were waived under the terms of the Ground Project Agreement from January 1, 2009 to December 31, 2009 as a result of the closure of Suvarnabhumi International Airport due to political unrest. Under the Ground Project Agreement, the AOT has the right to increase the project fee and the minimum guaranteed amount every five years, following the minimum payment of the first year's guarantee, to reflect the aviation industry situation or similar situation at the time. Any increase requires at least one-month written notice.

#### *Service Fee*

BFS Ground has the right to collect service fees and other charges, including value-added tax or similar taxes permitted by law from the service recipients.

#### *Buildings, Structures and Annexes*

Under the Ground Project Agreement, BFS Ground is required to enter into a separate lease agreement with the AOT to lease the land and/or premises for the Ground Project simultaneously with the Ground Project Agreement. The term of the lease is to be the same as the term of the Ground Project Agreement. The rental fee is to be stipulated under the lease agreement.

BFS Ground is also responsible for designing and constructing works in relation to the Ground Project in compliance with the standards specified under the Ground Project Agreement. BFS Ground has agreed that ownership in the building, structures and annexes will be vested in the Ministry of Finance from the date of completion of the construction and any modification, alteration, expansion of those buildings, structures and annexes will require the prior written consent of the AOT.

#### *Other Obligations*

Under the Ground Project Agreement, BFS Ground has agreed to, among others, provide continuous services, indemnify the AOT and its employees from liability related to the Ground Project Agreement, maintain insurance and provide performance security in the form of unconditional letters of guarantee or bonds.

If BFS Ground breaches any provision of the Ground Project Agreement, BFS Ground is required to pay a daily penalty to the AOT at amounts specified under the terms of the Ground Project Agreement until the breach is resolved.

#### ***Ground Lease Agreement***

BFS Ground entered into a lease agreement with the AOT dated September 14, 2011 and amended on May 30, 2012 (as amended, the "Ground Lease Agreement"). The term of the Ground Lease Agreement is 20 years from September 28, 2006 to September 27, 2026. BFS Ground is required to make advance monthly rental payments in the amount calculated in accordance with the Ground Lease Agreement, which rates are subject to fixed increases every three years unless the parties otherwise agree in writing. BFS Ground has provided bank guarantees dated August 24, 2011 and May 8, 2012 in the amounts of THB7.7 million and THB1.4 million, respectively. Under the Ground Lease Agreement, the AOT is responsible for the provision of utilities services and BFS Ground is responsible for expenses incurred.

BFS Ground has agreed that the ownership in the buildings, structures and annexes built on the leased land will be vested in the Ministry of Finance from the date of completion of the construction. In accordance with the terms of the Ground Lease Agreement, following the delivery of the ownership to the Ministry of Finance, BFS Ground has the right to use such buildings, structures and annexes throughout the lease term, unless the Ground Lease Agreement is terminated.

Termination events under the Ground Lease Agreement include, among others, bankruptcy and non-performance without remedy or resulting in damage to public safety and national security according to government order. Under the Ground Lease Agreement, the AOT has the right to take possession of the leased land, buildings, structures and annexes promptly following the termination of the Ground Lease Agreement or the end of the lease term.

The parties agree that the Ground Lease Agreement is to be subject to the rules of the Ministry of Finance, the DCA and other related rules relating to the use of state properties. Further, under the terms of the Ground Lease Agreement, BFS Ground agrees to remain subject to any obligations with respect of the lease to operate in accordance with the Ground Project Agreement.

### ***Ground Services Agreement***

BFS Ground entered into the Ground Services Agreement with WFS dated August 24, 2006, under which BFS Ground exclusively engaged WFS to provide specified support services during the term of the agreement. Such support services include monitoring and evaluating the quality of the operational services, marketing the services and facilities of BFS Ground, developing controls and best practice for operating costs, maintaining and administering all agreements of BFS Ground, including the Ground Project Agreement and the Ground Lease Agreement and assisting in procuring relevant industry certification. The parties agreed that WFS is to provide these support services from outside Thailand. BFS Ground is required to pay WFS a monthly service fee equal to a specified percentage of the gross revenues.

Under the terms of the Ground Services Agreement, BFS Ground's shareholders may participate to the extent such participation does not interfere with the performance or services rendered by WFS under the agreement. During the term of the agreement, WFS is prohibited from providing such support services to any other firm, entity or organization in Thailand. BFS Ground has also agreed to consider, in good faith, any additional services recommended by WFS from time to time.

WFS is required to ensure that the support services provided to BFS Ground pursuant to the Ground Services Agreement are of the highest international quality and standard in accordance with IATA resolutions and recommended practices in respect of the operational services and are not of a lower standard than services of comparable types provided by WFS to any third party.

The Ground Services Agreement is valid for a seven year term, which expired on September 27, 2013. Such term may be extended by mutual agreement between WFS and BFS Ground. On September 27, 2013, we entered into an amendment to the Ground Services Agreement with WFS to temporarily extend the Ground Services Agreement for six months after the expiration of such agreement. In 2014, we entered into an amendment dated June 16, 2014 to extend the Ground Services Agreement for an additional 4 years and 6 months, or until September 27, 2018. BFS Ground is an ISAGO certified provider. The Ground Services Agreement may be terminated by mutual agreement of the parties. Either WFS or BFS Ground may terminate the Ground Services Agreement upon bankruptcy or an uncured default under a material term of the agreement by the other party. In addition, either party has the right to terminate upon the termination of the Ground Project Agreement or the complete destruction of the Suvarnabhumi International Airport.

### ***Catering Project Agreement***

The AOT and BAC entered into the Catering Project Agreement dated March 10, 2004 and amended in February 2010 under which the AOT granted BAC the right to operate catering services at the Suvarnabhumi International Airport (the "Catering Project").

Under the terms of the Catering Project Agreement, BAC agreed to operate and provide continuous services in accordance with international standards acceptable for an international airport performed by persons of such profession and at BAC's expense and risk without request for any security or guarantee from the AOT. The AOT reserves the rights to reasonably improve or alter the quality and standard for the efficient operation of the Suvarnabhumi International Airport generally.

### *Term and Termination*

The term of the Catering Project Agreement is 20 years from the date of formal commencement of the Suvarnabhumi International Airport operation which was September 28, 2006. Under the terms of the Catering Project Agreement, termination events include, among others, non-performance without remedy, bankruptcy, national security according to government order.

Upon expiration or termination of the Catering Project Agreement, AOT has the right to take possession of the buildings, structures and annexes. Further, under the Catering Project Agreement, AOT is to be the only party to have the right to select, return or purchase the equipment.

### *Project Fees and Other Payments*

BAC is also responsible for (i) fees in connection with the granting of the project to operate and provide services, at rates stipulated in the regulations governing the fee rate for operation at Suvarnabhumi International Airport and (ii) monthly project fees calculated under the terms of the Catering Project Agreement and amounts no less than the minimum guaranteed amounts specified under the terms of the Catering Project Agreement. The minimum guarantee amounts were waived under the terms of the Catering Project Agreement from January 1, 2009 to December 31, 2009 as a result of the closure of Suvarnabhumi International Airport due to political unrest. Under the Catering Project Agreement, the AOT has the right to increase the project fee and the minimum guaranteed amount every five years, following the payment of the first year's guarantee, to reflect the aviation industry situation or similar situation at the time. Any increase requires at least one-month written notice.

### *Service Fee*

BAC has the right to collect service fees and other charges, including value-added tax or similar taxes permitted by law from the service recipients.

### *Buildings, Structures and Annexes*

Under the Catering Project Agreement, BAC is required to enter into a separate lease agreement with the AOT to lease the land of the Catering Project simultaneously with the Catering Project Agreement. The term of the lease is to be the same as the term of the Catering Project Agreement. The rental fee is to be stipulated under the lease agreement.

BAC is also responsible for designing and constructing works in relation to the Catering Project in compliance with the standards specified under the Catering Project Agreement. BAC has agreed that ownership in the building, structures and annexes will be vested in the Ministry of Finance from the date of completion of the construction and any modification, alteration, expansion of those buildings, structures and annexes will require the prior written consent of the AOT.

### *Other Obligations*

Under the Catering Project Agreement, BAC has agreed to, among others, provide continuous services, indemnify the AOT and its employees from liability related to the Catering Project Agreement, maintain insurance and provide performance security in the form of unconditional letters of guarantee or bonds.

If BAC breaches any provision of the Catering Project Agreement, BAC is required to pay a daily penalty to the AOT at amounts specified under the terms of the Catering Project Agreement until the breach is resolved.

### *Catering Lease Agreement*

BAC entered into a lease agreement with the AOT dated February 16, 2012 (the "Catering Lease Agreement"). The term of the Catering Lease Agreement is 20 years from September 28, 2006 to September 27, 2026. BAC is required to make advance monthly rental payments in the amount calculated in accordance with the Catering Lease Agreement, which rates are subject to fixed increases every three years unless the parties otherwise agree in writing. BAC has provided a bank guarantee dated January 9, 2012 in the amount of THB6.8 million. Under the Catering Lease Agreement, the AOT is responsible for the provision of utilities services and BAC is responsible for expenses incurred.

BAC has agreed that the ownership in the buildings, structures and annexes built on the leased land will be vested in the Ministry of Finance from the date of completion of the construction. In accordance with the terms of the Catering Lease Agreement, following the delivery of the ownership to the Ministry of Finance, BAC has the right to use such buildings, structures and annexes throughout the lease term, unless the Catering Lease Agreement is terminated.

Termination events under the Catering Lease Agreement include, among others, bankruptcy and non-performance without remedy or resulting in damage to public safety and national security according to government order. Under the Catering Lease Agreement, the AOT has the right to take possession of the leased land, buildings, structures and annexes promptly following the termination of the Catering Lease Agreement or the end of the lease term.

The parties agree that the Catering Lease Agreement is to be subject to the rules of the Ministry of Finance, the DCA and other related rules relating to the use of state properties. Further, under the terms of the Catering Lease Agreement, BAC agrees to remain subject to any obligations with respect of the lease to operate in accordance with the Catering Project Agreement.

### Licenses Relating to Our Airport Operations

Airport	Scope	Validity
<b>Samui Airport:</b>		
Samui Airport Incorporation License . . . . .	To establish the Samui Airport for public service with air traffic control.	Expired on January 31, 2009 <sup>(1)(3)</sup>
Air Navigation Facility Establishment License No. 16/2557 and Air Navigation Facility Establishment License No. 17/2557 . . . . .	To provide service of the air navigation facilities.	Valid until the Samui Airport Incorporation License is revoked
<b>Sukhothai Airport:</b>		
Sukhothai Airport Incorporation License . . . . .	To establish the Sukhothai Airport for public service with air traffic control.	Expired on January 31, 2008 <sup>(2)(3)</sup>
<b>Trat Airport:</b>		
Trat Airport Incorporation License . . . . .	To establish the Trat Airport for public service with air traffic control.	Valid until March 14, 2016
Air Navigation Facility Establishment License No. 196/2549 . . . . .	To provide service of the air navigation facilities.	Valid until March 14, 2016

- (1) We submitted an application for renewal on May 26, 2008 which is still pending for approval. See “Risk Factors—Risks Relating to Our Business—We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects “ for details.
- (2) We submitted an application for renewal on August 27, 2007 which is still pending for approval. See “Risk Factors—Risks Relating to Our Business—We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects “ for details.
- (3) According to the Air Navigation Act (as amended) and the DCA letter, dated May 30, 2014, we are authorized to continue to operate our airports until otherwise notified by the DCA.

We are also required to obtain a PAOC to operate each of our airports. We submitted applications for the PAOCs for each of our airports on August 20, 2010. However, the issuance of the PAOC to us and other airport operators in Thailand require implementing regulations which have not yet been passed, and accordingly, the PAOC has not been issued to any airport operator in Thailand, including us.

Although we do not currently hold a valid Airport Incorporation License for the Samui Airport or the Sukhothai Airport, the applicable ministerial regulations, or the PAOCs for all of our airports, according to the Air Navigation Act (as amended) and the DCA letter issued on May 30, 2014, we are authorized to continue operation of all three of our airports until otherwise notified by the DCA. See “Risk Factors—Risks Relating to Our Business—We are required to hold airport licenses to operate our airports and any default under the terms of, or inability to renew, our licenses may have a material adverse effect on our business, financial condition, results of operation and prospects “ for details.

## Aircraft Leases and Purchases

As of June 30, 2014, we have entered into 19 operating lease agreements, five finance lease agreements in the form of conditional sale agreements with various third party lessors dated as of the dates specified in the table below. We have also entered into the ATR Sale and Purchase Agreement for six new ATR 72-600 aircraft, which 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. Further, all our aircraft have been registered in Thailand.

<u>Aircraft Type</u>	<u>Serial Number</u>	<u>Date of Agreement</u>	<u>Date of Delivery</u>	<u>Term</u>
<b>Operating Leases: <sup>(1)</sup></b>				
Airbus A320	MSN 2254 . . . . .	March 12, 2004 (amended on July 10, 2009, September 21, 2010 and November 25, 2011)	September 10, 2004	Original term of 5 years and extended on December 1, 2012 until July 30, 2016
Airbus A320	MSN 2310 . . . . .	March 23, 2004 (amended on July 10, 2009, September 21, 2010 and November 25, 2011)	November 26, 2004	Original term of 5 years and extended on March 1, 2013 until November 30, 2016
Airbus A320	MSN 2509 . . . . .	January 12, 2005 (amended on October 12, 2007 and February 15, 2012)	August 30, 2005	Term of 7 years with an extension to a term of 12 years until August 29, 2017
Airbus A320	MSN 2531 . . . . .	October 18, 2012	December 20, 2012	Term of 4 years
Airbus A320	MSN 2417 . . . . .	October 10, 2012	November 23, 2012	Term expires March 20, 2017
Airbus A319	MSN 3421 . . . . .	July 27, 2007 (amended on March 5, 2008 and September 30, 2013)	March 5, 2008	Term of 6 years and extended on September 30, 2013 until March 4, 2020
Airbus A319	MSN 3424 . . . . .	July 27, 2007 (amended on March 10, 2008 and September 30, 2013)	March 10, 2008	Term of 6 years and extended on September 30, 2013 until March 9, 2020
Airbus A319	MSN 3454 . . . . .	July 27, 2007 (amended on April 7, 2008 and September 30, 2013)	April 7, 2008	Term of 6 years and extended on September 30, 2013 until April 6, 2020
Airbus A319	MSN 3694 . . . . .	July 27, 2007 (amended on October 31, 2008 and September 30, 2013)	November 13, 2008	Term of 6 years and extended on September 30, 2013 until November 12, 2020
Airbus A319	MSN 3911 . . . . .	July 27, 2007 (amended on October 31, 2008 and September 30, 2013)	May 22, 2009	Term of 6 years and extended on September 30, 2013 until May 21, 2021
Airbus A319	MSN 3759 . . . . .	September 25, 2007 (amended on October 31, 2008 and September 30, 2013)	January 23, 2009	Term of 6 years and extended on September 30, 2013 until February 22, 2021
Airbus A319	MSN 2648 . . . . .	June 6, 2011 (amended on November 29, 2011)	November 30, 2011	Term of 6 years
Airbus A319	MSN 2660 . . . . .	June 24, 2011 (amended on July 20, 2011 and November 29, 2011)	March 7, 2012	Term of 6 years
ATR 72-500	MSN 715 . . . . .	November 30, 2004 (amended on September 16, 2011 and August 28, 2014)	December 3, 2004	Valid until March 10, 2016
ATR 72-500	MSN 833 . . . . .	February 29, 2008	November 20, 2008	Term of 8 years
Airbus A320-232	MSN 2783 . . . . .	September 20, 2013	December 3, 2013	Valid until April 3, 2018
Airbus A320-232	MSN 2366 . . . . .	December 19, 2013	December 20, 2013	Valid until March 20, 2017
Airbus A319-100	MSN 2664 . . . . .	April 30, 2013	May 21, 2013	Valid until May 21, 2018
Airbus A319-131	MSN 2634 . . . . .	May 9, 2013	May 10, 2013	Valid until January 15, 2018

<u>Aircraft Type</u>	<u>Serial Number</u>	<u>Date of Agreement</u>	<u>Date of Delivery</u>	<u>Term</u>
Airbus A320-232	MSN 2600 . . . . .	July 18, 2014	July 23, 2014	Expires at the earlier of; (i) 65 months; or (ii) November 30, 2019; or (iii) the date on which the first C-Check after the 12-Year Check

**Sale and Purchase Agreement: <sup>(2)</sup>**

ATR 72-600	N/A . . . . .	February 12, 2014	4 <sup>th</sup> Quarter 2014	N/A
ATR 72-600	N/A . . . . .	February 12, 2014	1 <sup>st</sup> Quarter 2015	N/A
ATR 72-600	N/A . . . . .	February 12, 2014	3 <sup>rd</sup> Quarter 2015	N/A
ATR 72-600	N/A . . . . .	February 12, 2014	4 <sup>th</sup> Quarter 2015	N/A
ATR 72-600	N/A . . . . .	February 12, 2014	4 <sup>th</sup> Quarter 2015	N/A
ATR 72-600	N/A . . . . .	February 12, 2014	1 <sup>st</sup> Quarter 2016	N/A
ATR 72-600	N/A . . . . .	May 27, 2014	2 <sup>nd</sup> Quarter 2016	N/A
ATR 72-600	N/A . . . . .	May 27, 2014	4 <sup>th</sup> Quarter 2016	N/A
ATR 72-600	N/A . . . . .	May 27, 2014	1 <sup>st</sup> Quarter 2017	N/A

**Finance lease agreements in the form of Conditional Sale Agreements:**

ATR 72-500 <sup>(3)</sup>	MSN 692 . . . . .	December 23, 2004	July 4, 2002	Term of 12 years
ATR 72-500 <sup>(4)</sup>	MSN 680 . . . . .	February 9, 2006	November 23, 2001	Term of 12 years
ATR 72-500	MSN 704 . . . . .	June 11, 2004	February 20, 2003	Term of 12 years
ATR 72-500	MSN 700 . . . . .	June 11, 2004	December 5, 2002	Term of 12 years
ATR 72-500	MSN 708 . . . . .	June 11, 2004	December 12, 2003	Term of 12 years
ATR 72-500	MSN 710 . . . . .	June 24, 2004	July 24, 2003	Term of 12 years

- (1) In 2013, we received delivery of two Airbus A319 and two Airbus 320 aircraft under the operating lease agreements.
- (2) On February 12, 2014, we entered into the 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.
- (3) On July 9, 2014, the Company received title to this aircraft which was previously under a finance lease agreement 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.
- (4) On November 26, 2013, the Company received title to this aircraft.

For details of our operating lease agreements and finance lease agreements in the form of conditional sale agreements see “Business—Our Fleet—Aircraft Leasing and Purchasing Arrangements”.

***Finance Lease Agreements in the form of Conditional Sale Agreements***

For details of our finance lease agreements in the form of conditional sale agreements, see “Business—Our Fleet—Aircraft Leasing and Purchasing Arrangements—Finance Lease Agreements in the form of Conditional Sale Agreements”.

***ATR Sale and Purchase Agreement***

We entered into the ATR Sale and Purchase Agreement for six new ATR 72-600 aircraft, which also includes purchase rights for an additional two ATR 72-600 aircraft, dated February 12, 2014. We acquired an additional purchase right for one more aircraft on May 27, 2014. On May 27, 2014, we exercised such purchase rights for the additional three ATR 72-600 aircraft.



Under the ATR Sale and Purchase Agreement, the Company agrees to buy and Avions de Transport Regional G.I.E. agrees to sell each aircraft for a list price of US\$24.6 million, subject to certain negotiated discounts. Upon payment of all amounts owed for each aircraft, title to and risk of loss of or damage to such aircraft passes to the Company. The delivery schedule for the nine aircraft is as follows:

<b>Aircraft Number</b>	<b>Scheduled Delivery</b>
Aircraft Number 1	4 <sup>th</sup> Quarter 2014
Aircraft Number 2	1 <sup>st</sup> Quarter 2015
Aircraft Number 3	3 <sup>rd</sup> Quarter 2015
Aircraft Number 4	4 <sup>th</sup> Quarter 2015
Aircraft Number 5	4 <sup>th</sup> Quarter 2015
Aircraft Number 6	1 <sup>st</sup> Quarter 2016
Aircraft Number 7	2 <sup>nd</sup> Quarter 2016
Aircraft Number 8	4 <sup>th</sup> Quarter 2016
Aircraft Number 9	1 <sup>st</sup> Quarter 2017

Pursuant to the agreement, the Company must obtain and maintain, effective as of the delivery date, aircraft hull all risk insurances and comprehensive general third party legal liability and aircraft passengers and third party liability insurances.

Additionally, the agreement contains customary warranties in respect of the aircraft and seller and vendor parts.

Pursuant to the agreement, Avions de Transport Regional G.I.E. will provide performance guarantees relating to take-off, landing, single engine ceiling, maximum cruise speed and typical mission performance and available payload.

Either party can terminate all or part of the agreement by written notification upon the occurrence of certain customary termination events including, either party's inability to pay its debts, bankruptcy or insolvency liquidation of its business or any substantial part of its assets, becoming the object of certain proceedings or actions relating to a substantial part of its assets and divestment of its business or a substantial part of its assets, and such event continues for a certain period of time.

Additionally, if the Company fails to:

- take delivery of the aircraft when tendered on the scheduled delivery date;
- deliver the signed certificate of acceptance to Avions de Transport Regional G.I.E. on or prior to the scheduled delivery date;
- pay the purchase price on or prior to the scheduled delivery date; or
- pay any pre-delivery payment on the due date for such payment,

and such failure continues for a certain period of time after the Company receives written notice from Avions de Transport Regional G.I.E. to correct such failure, Avions de Transport Regional G.I.E.'s may terminate all or part of the agreement, proceed by court action to enforce performance of the agreement, and/or proceed by court action to recover damages.

Avions de Transport Regional G.I.E. agreed pursuant to the ATR Sale and Purchase Agreement that ATR Customer and Structured Finance Department will provide assistance to the Company in identifying potential sources of financing for the aircraft, which, if requested by the Company, could include either (i) European export credit financing support by applying to the export credit agencies of France and Italy (ECAs) or (ii) alternative sources of financing, such as commercial financing or operating lease through sale and lease-back transaction with an operating lessor, for the nine aircraft. The Company intends to finance the purchase of such aircraft through financing lease arrangements with third parties.

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.”

### Code-share Agreements

We have entered into 14 code-share agreements with Air Berlin (currently not operating flights to/from Thailand), Air France, Etihad Airways, EVA Airways, Finnair, Japan Airlines, KLM Royal Dutch Airlines, Malaysia Airlines, Silk Air, Thai Airways (which is currently inactive), British Airways, Qatar Airways, Cathay Pacific Airways and Qantas Airways. A substantial majority of our code-share agreements remain in force until terminated by three to six month written consent or notice.

### Privileges under BOI Certificates

#### *Airline Operations*

We have obtained BOI Certificates for airline operations under Investment Promotion Act B.E. 2520 (as amended). Tax privileges under the BOI Certificates include (i) corporate income tax exemption for net profit for a period of eight years from the date of first income derived from such activity; (ii) import duties exemption for machines; (iii) dividend tax exemption for each project throughout the period of corporate income tax exemption; and if we suffer losses from the operation of the relevant aircraft during the period of corporate income tax exemption, we are permitted to deduct such losses from the net profits incurred after the period of corporate income tax exemption for a period of not exceeding five years, whereby we may choose to deduct such losses from the net profit of any one year or several years. Non-tax privileges include the permission to import skill non-Thai experts/technicians in amounts and period as deemed appropriate by the Thai Board of Investment (the “BOI”).

As of July 31, 2014, we have obtained five BOI Certificates under which the corporate income tax exemption has been utilized for 16 aircraft. The following table sets forth the details of our BOI Certificates.

<b>BOI Certificate No.</b>	<b>Specific Conditions</b>	<b>The Date of First Income derived from Such Activity</b>	<b>The Date of Expiration of Corporate Income Tax Exemption</b>	<b>Imported Aircrafts under BOI Certificate</b>
2072(2)/2548	<ul style="list-style-type: none"> <li>Five aircraft with 651 seats</li> <li>Aircraft must be imported by May 23, 2011</li> <li>Corporate income tax exemption an amount not to exceed THB3,563,228,423.7</li> </ul>	July 1, 2007	June 30, 2015	MSN 3421 MSN 3424 MSN 3454 MSN 3694 MSN 833
2199(2)/2551	<ul style="list-style-type: none"> <li>Three aircraft with 430 seats</li> <li>Aircraft must be imported by June 19, 2014</li> <li>Corporate income tax exemption an amount not to exceed THB2,209,870,822.0</li> </ul>	January 30, 2009	January 29, 2017	MSN 3911 MSN 3759 MSN 2648
1204(2)/2555	<ul style="list-style-type: none"> <li>Two aircraft with 306 seats and hold 31.5 ton</li> <li>Aircraft must be imported by August 15, 2014</li> <li>Corporate income tax exemption an amount not to exceed THB1,459,200,000.0</li> </ul>	March 11, 2012	March 10, 2020	MSN 2660 MSN 2531
2019(2)/2555	<ul style="list-style-type: none"> <li>One aircraft with 162 seats</li> <li>Aircraft must be imported by February 7, 2015</li> <li>Corporate income tax exemption an amount not to exceed THB745,003,000.0</li> </ul>	November 30, 2012	November 29, 2020	MSN 2417
1208(2)/2556	<ul style="list-style-type: none"> <li>13 aircraft with 2,283 seats and hold 19.8 ton</li> <li>Aircraft must be imported by August 14, 2015</li> <li>Corporate income tax exemption an amount not to exceed THB13,996,000,000</li> </ul>	May 18, 2013	May 17, 2021	MSN 2634 MSN 2664 MSN 2783 MSN 2366 MSN 2600

In addition, we are entitled to import additional 21 aircraft under another two BOI Certificates together with an additional eight aircraft under BOI Certificate No. 1208(2)/2556 which the Company has not utilized, we are entitled to import an additional 29 aircrafts in total. As of July 31, 2014, we have not imported the additional aircraft. The following table sets forth the details of our additional two BOI certificates.

<b>BOI certificate No.</b>	<b>The date of approval</b>	<b>Certain specific conditions</b>
2604(2)/2555	September 14, 2012	<ul style="list-style-type: none"> <li>• 20 aircraft with 2,753 seats and hold 64 ton</li> <li>• Aircraft must be imported by April 30, 2015</li> <li>• Corporate income tax exemption in an amount not to exceed THB13,657,000,000<sup>(1)</sup></li> </ul>
1055(2)/2556	December 4, 2012	<ul style="list-style-type: none"> <li>• One aircraft with 120 seats</li> <li>• Aircraft must be imported by July 16, 2015</li> <li>• Corporate income tax exemption an amount not to exceed THB394,000,000<sup>(1)</sup></li> </ul>

(1) The exemption of corporate income tax is not to exceed amount as specified under BOI Certificate. However, this amount may be changed due to the investment capital excluding the cost of land and working capital on the date of commencement of the project operation.

We obtained the BOI Certificates for ten aircraft (MSN 680, 692, 700, 704, 710, 708, 715, 2254, 2310 and 2509) under which the exemption of corporate income tax has expired, but we are still subject to certain conditions under such BOI Certificates until the BOI Certificates have been terminated. Material conditions under each of such BOI Certificates include, but are not limited to, non-disposal of the machines, maintenance of at least a 51% Thai shareholding and requirement to report any change in the foreign shareholding ratio, financial status and overall operation.

The Company is considering whether to import the first ATR 72-600 aircraft (which is scheduled for delivery in the fourth quarter of 2014) (i) under the BOI certificate no. 1208(2)/2556 which covers one ATR 72-500 aircraft and/or ATR 72-600 aircraft; (ii) under the BOI certificate no. 2604(2)/2555 which covers 5 ATR 72-500 aircraft and/or ATR 72-600 aircraft, or (iii) to apply for new BOI certificate(s) in order to cover all 9 ATR 72-600 aircraft purchased under the Sale and Purchase Agreement.

### ***Airport Operations***

As of June 30, 2014, we have obtained BOI Certificates for airport operations under the Investment Promotion Act B.E. 2520 (as amended). Tax privileges under BOI Certificates include (i) the corporate income tax exemption for net profit for a period of eight years from the date of first income derived from such activity; (ii) the permission to deduct an amount not exceeding 25.0% of the cost of installation or construction of facility in addition to normal depreciation; (iii) import duties exemption from machines; and (iv) dividend tax exemption throughout the period of corporate income tax exemption. If we suffer losses from the operation during the period of the corporate income tax exemption, we are permitted to deduct of such losses from the net profits incurred after the period of corporate income tax exemption for a period of not exceeding five years, whereby we may choose to deduct such losses from the net profits of any one year or several years. Non-tax privileges include the permission to import skill non-Thai experts/technicians in amounts and period as deemed appropriate by the BOI.

As of June 30, 2014, we have obtained a BOI Certificate under which the corporate income tax exemption is still valid for the extension to Samui Airport as follows:

<b>BOI Certificate No.</b>	<b>Specific Conditions</b>	<b>The Date of First Income derived from Such Activity</b>	<b>The Date of Expiration of Corporate Income Tax Exemption</b>
1352(2)/2550	<ul style="list-style-type: none"> <li>• Type of service: Commercial airport</li> <li>• Corporate income tax exemption an amount not to exceed THB740,000,000</li> </ul>	May 1, 2007	April 30, 2015

We obtained the BOI Certificates for three airports (Samui Airport, Sukhothai Airport and Trat Airport) under which the exemption of corporate income tax have expired, but we are still subject to certain conditions under such BOI Certificates until the BOI Certificates have been terminated. Material conditions under each of such BOI Certificates include, but are not limited to, non-disposal of the machines, maintenance of at least a 51.0% Thai shareholding and requirement to report any change in the foreign shareholding ratio, financial status or overall operation.

### ***Catering Operations***

We have been granted a BOI Certificate for our catering business with respect to ready meals or semi ready meals. Our current BOI Certificate number 2110(3)/2549. Pursuant to this BOI Certificate, the corporate income tax exemption is from December 16, 2006 until December 15, 2014. Further, there is the requirement for capacity to provide 2.6 million set menus per year or the equivalent of 850 tons per year the type of product is ready meals or semi ready meals (set menu).

Tax privileges include (i) the exemption of corporate income tax for a period of eight years from the date of first income derived from such activity; (ii) the exemption of import duty for machines; (iii) the permission to deduct an amount not exceeding 25% of the cost of installation or construction of facility in addition to normal depreciation and (iv) the exemption of dividend tax for the shareholders throughout the period of corporate income tax exemption. If we suffer losses from the operation of our catering business during the period of the corporate tax exemption, we are permitted to deduct such losses from the net profits incurred after the period of corporate tax exemption for a period of not exceeding five years, whereby we may choose to deduct such losses from the net profits of any one year or several years. Non-tax privileges include the permission to import skill non-Thai experts or technicians in amounts and periods as deemed appropriate by the BOI.

The material conditions under the BOI Certificate include, but are not limited to, the non-disposal of the machines, the maintenance of at least a 51.0% Thai shareholding and the requirement to report any change in the foreign shareholding ratio, financial status or overall operation.

### ***Research and Development***

Our main product is our route network, therefore, we continuously place emphasis on research and development in searching out for potential new routes.

In deciding to add new routes, we conduct market research, perform quantitative analysis of customer feedback and commission surveys to analyze customer needs, behavior and travel patterns of both our passenger and those of our potential competitors. We utilize the results of these surveys to support our new routes analysis and to match our new routes with the needs of our customers. We also consider other factors such as potential enhancement to our load factors, potential connecting traffic to support our current route network and population density and potential boost to the tourism industry at our destinations, existing and future competition, airport fees, traffic rights and mileage.

We will continue to focus and emphasize on adding new routes and we plan to allocate a portion of our budget specifically for research and development in this manner.

## RELATED PARTY TRANSACTIONS

### Overview

The Company is a party to a number of agreements or transactions with “related parties” as defined, under Thai laws, regulations and accounting standards, including our directors and their associate companies, and we engage from time to time in transactions with them. We believe these agreements and transactions have generally been entered into on arm’s length terms or on terms that we believe have generally been at least as favorable to us as similar transactions with non-affiliates would have been, other than as described below. We describe below the material transactions that the Company has entered into with its directors, associate companies, and other related companies.

### Our Related Parties

Some of our key related parties include but are not limited to:

- BFS Cargo;
- Paradise Shopping Co. Ltd;
- Samui Accom Co. Ltd;
- The Sahakol Estate Co., Ltd.;
- BGH; and
- directors, including Mr. Prasert Prasarttong-Osoth, the Vice Chairman of our Board of Directors and our Chief Executive Officer.

Our related parties also include certain Deemed Related Parties. Deemed Related Parties are defined as third party companies, whose shareholders or directors include current or former employees of the Company. The SEC deems these entities to have a conflict of interest with the Company.

In 2013, the Company entered into transactions with 82 Deemed Related Parties. In 2013, the Company’s transactions with these Deemed Related Parties principally related to outsourcing for various services including cleaning services, security services, transporting goods, transporting passengers and airport management. As of June 30, 2014, 61 of the 82 Deemed Related Parties have been dissolved or liquidated. In the year ended December 31, 2013, transactions with these 82 Deemed Related Parties accounted for THB65.3 million (US\$2.0 million).

The Company regularly engages in transactions with the following nine Deemed Related Parties:

- Bangkok Aviation Services Company Limited;
- Bangkok Security Services Company Limited;
- A.P. Serve Company Limited;
- Food and Travel Company Limited;
- More Than Free Company Limited;
- More Than Free Tax Free Company Limited;
- PV Consulting Company Limited;
- BAGS Ground Services Company Limited; and
- Siem Reap Airways International Company Limited.

In 2013 and the six months ended June 30, 2014, the Company’s transactions with these Deemed Related Parties principally related to outsourcing for various services including cleaning services, ticket sales,

passenger services, security services, food supply, operation of its duty-free store and ground services. In the six months ended June 30, 2014, transactions with these nine Deemed Related Parties accounted for THB282.5 million (US\$8.7 million). The Company will continue to engage in transactions with the Deemed Related Parties (except for PV Consulting Company Limited and Siem Reap Airways International Company Limited) on terms that have been agreed and approved in compliance with the Company's policy on related party transactions.

The following tables summarize the Company's related party transactions, on a consolidated basis, for the periods and as of the dates indicated.

	Year Ended December 31,				Six Months Ended June 30,		
	2011	2012	2013	2013	2013	2014	2014
	Bt	Bt	Bt	US\$ (millions)	Bt	Bt	US\$
<b>Transactions with associated companies</b>							
Interest income	12	13	8	0.2	5	1	0.0
Ground service income	1	2	3	0.1	1	2	0.1
Collection fee income	2	2	1	0.0	1	1	0.0
Interest expenses	1,283	1,314	1,332	41.0	659	643	19.8
Shipping service expenses	13	18	18	0.55	7	8	0.2
Employee expenses	—	4	3	0.1	2	—	—
<b>Transactions with related companies</b>							
Catering service income	7	1	2	0.1	—	1	0.0
Duty fee income	—	—	31	1.0	25	—	—
Permission fee	—	30	—	—	—	1	—
Ground service income	2	2	3	0.1	1	1	0.0
Rental income	—	—	5	0.2	3	8	0.2
Passenger income	58	65	84	2.6	38	29	0.9
Charter flight	18	3	12	0.4	—	—	—
Gain on sales of investments	—	227	—	—	—	—	—
Consulting income	2	6	3	0.1	2	1	0.0
Sponsor income	1	1	1	0.0	1	1	0.0
Dividend income	91	134	219	6.7	218	243	7.5
Ground service expenses	35	64	175	5.4	75	117	3.6
Medical expenses	2	2	3	0.1	—	—	—
Catering service expenses	—	1	1	0.0	—	1	0.0
Management expenses	49	60	40	1.2	40	88	2.7
Security expenses	30	30	18	0.6	18	26	0.8
Stock management expenses	5	8	1	0.0	1	—	—
Rental expenses	—	—	1	0.0	1	4	0.1
Advertising expense	—	—	1	0.0	—	—	—
Employee expenses	3	7	20	0.6	11	16	0.5
Aeronautical radio	305	326	403	12.4	166	281	8.7
Organizing expenses	1	4	—	—	—	—	—
<b>Transactions with management and directors</b>							
Interest income	46	47	1	0.0	1	—	—
<b>As of December 31,</b>							
	2011	2012	2013	2013	<b>As of June 30,</b>		
	Bt	Bt	Bt	US\$	2014	2014	
					Bt	US\$	
<b>Trade and other receivables – related parties</b>							
Associated companies	0.4	0.6	0.9	0.0	0.6	0.0	
Related companies (related by shareholders and/or directors)	13.4	1,476.1	87.1	2.7	13.0	0.4	
Total trade and other receivables – related parties	13.7	1,476.7	88.0	2.7	13.6	0.4	
<b>Trade and other payables – related parties</b>							
Associated companies	105.8	109.6	115.5	3.6	97.3	3.0	
Related companies (related by shareholders and/or directors)	61.8	59.3	121.4	3.7	70.1	2.2	
Total trade and other receivables – related parties	167.6	168.9	236.9	7.3	167.3	5.2	

## Past and Ongoing Related Party Transactions

### Loans to Associated Companies and Interest Income

Loans to associated companies relate to loans to BFS Cargo. THB179.6 million, THB178.5 million, THB35.7 million (US\$1.1 million) and THB34.5 million (US\$1.1 million) were outstanding as of December 31, 2011, December 31, 2012, December 31, 2013 and June 30, 2014. The loans are subject to interest at the MLR

per annum, amounting to THB12.1 million in 2011, THB12.6 million in 2012, THB8.4 million (US\$0.3 million) in 2013 and nil in the six months ended June 30, 2014.

### ***Loans to Related Companies***

Loans to related companies relate primarily to loans to Paradise Shopping Co., Ltd., The Sahakol Estate Co., Ltd., Samui Convenient Store Co., Ltd. and Samui Palm Beach Resort Co., Ltd. THB152.0 million, THB141.6 million, THB0.21 million (US\$0.0 million) and nil were outstanding as of December 31, 2011, December 31, 2012, December 31, 2013 and June 30, 2014. The loans are not subject to interest.

### ***Loan to Director and Interest Income***

The Company provides loans to Mr. Prasert Prasarttong-Osoth from time to time. THB589.7 million, THB310.6 million, THB20.3 million (US\$0.6 million) and nil were outstanding as of December 31, 2011, December 31, 2012, December 31, 2013 and June 30, 2014. The loan is subject to interest at the MLR per annum, amounting to THB46.0 million in 2011, THB47.0 million in 2012, THB1.0 million (US\$0.0 million) in 2013 and nil in the six months ended June 30, 2014.

### ***Long-term Loan – Related Party***

Our lease and leaseback transaction with the Samui Property Fund under the Long-Term Lease Agreement and the Sub-lease Agreement is treated as a long-term loan from a related party. See “Description of Material Agreements—Agreements Relating to the Samui Property Fund—Long-Term Lease Agreement and Undertaking Agreement” and “—Sub-lease Agreement” for details. THB10,910.6 million, THB11,097.4 million, THB11,207.5 million (US\$345.3 million) and THB11,230.7 million (US\$346.0 million) were outstanding as of December 31, 2011, December 31, 2012, December 31, 2013 and June 30, 2014.

In 2013, our book value of such long-term loans from related parties increased due to a change in the way we record long-term loans from related parties to include fixed rental expenses, fixed service expenses and variable service expenses in computing the effective interest rate. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Change in Basis of Presentation” and Notes 4.2 and 26 of our 2013 Audited Financial Statements included elsewhere in this Offering Memorandum for details.

### ***Other Transactions***

In 2011, 2012, 2013 and the six months ended June 30, 2014, we also engaged in the following key related party transactions:

- we sold air tickets to Bangkok Travel Club Co., Ltd. and Bangkok Airtour (1988) Co., Ltd.;
- we provided shipping services to Paradise Shopping Co., Ltd. and Sukhothai Property Co., Ltd.;
- we leased areas in the Samui Airport to Paradise Shopping Co., Ltd., Samui Accom Co. and Samui Park Avenue Co., Ltd.;
- we provided chartered flight and medical flight services to Thai Cargo Airline Co., Ltd. and BGH;
- Sukhothai Property Co., Ltd., Samui Convenient Store Co., Ltd. Samui Palm Beach Resort Co., Ltd. provided hotel services to us at the Samui Airport and the Sukhothai Airport; and
- Bangkok Helicopter Services Co., Ltd. engaged us to provide management and maintenance services.

As a result of our above transactions, our trade and other receivables – related parties amounted to THB13.7 million, THB1,476.7 million, THB87.9 million (US\$2.7 million) and THB13.6 million (US\$0.4 million) as of December 31, 2011, 2012, 2013 and June 30, 2014. Our trade and other payables – related amounted to THB167.6 million, THB168.9 million, THB236.9 million (US\$7.3 million) and THB167.3 million (US\$5.2 million) as of December 31, 2011, 2012, 2013 and June 30, 2014.

## **Related Party Transaction Policies**

Our board of directors has established and approved policies governing related party and connected transactions to avoid conflicts of interest and to manage these transactions. Our audit committee is responsible for ensuring that the terms and conditions of related party transactions are consistent with market practice and that the prices to be charged in these transactions are evaluated and compared with market prices. If market prices are not available, our audit committee must ensure that the prices are reasonable and the transactions are carried out in the Company's and the shareholders' best interests. We may use information from the report of an independent third party appointed by us to evaluate the reasonableness of a proposed transaction as well as to compare prices and other terms to ensure reasonable pricing and provide the best arrangement for us. Approval for related party transactions is to be granted by our management, our board of directors or our shareholders, depending on the size of the proposed related party transaction.

Any manager or director or shareholder who has a conflict of interest will not be allowed to vote on or approve a transaction. In executing related party transactions, we comply with the regulations of the Thai SEC and SET, as well as the accounting standards regarding disclosure of information concerning related persons and companies as determined by the Institute of Certified Accountants and Auditors of Thailand.

In addition, all our Group members are required to comply with Standard Operating Procedures that set forth the guidelines, policies and procedures to govern the identification, recording, reporting and monitoring of intercompany transactions and balances. Under the Standard Operating Procedures, intercompany transactions should be carried out based on normal commercial terms that are generally available to third parties, on arm's length basis, not to the detriment of the minority shareholders and in compliance with the relevant legislative requirements of the jurisdiction of each party to the intercompany transaction. In addition, all intercompany transactions should be supported by written documents or contracts, and intercompany contracts should be approved in a similar manner as contracts with third parties. The Standard Operating Procedures also contain provisions regarding:

- the recording of intercompany transactions and balances;
- monitoring of intercompany transactions and balances;
- chargebacks to the relevant intercompany party;
- payments made on behalf of an intercompany party;
- collections received on behalf of an intercompany party; and
- detailed procedures relating to the above.



## REGULATION OF THE AIRLINE INDUSTRY IN THAILAND

### International Regulatory Framework

#### *The Chicago Convention*

The regulatory system for international air transport is based upon principles laid down by the Convention on International Civil Aviation signed at Chicago on December 7, 1944 (the “Chicago Convention”), which was entered into and ratified by Thailand in 1944 and 1947, respectively. The Chicago Convention recognizes the principle that each state has sovereignty over its airspace and has the right to regulate the operation of scheduled and unscheduled international air services over or into its territory.

The Chicago Convention also established ICAO, which operates as a specialized agency of the United Nations. ICAO has developed standards and recommended practices for a wide range of international air transport activities such as aircraft operations, rules of the air, personnel licensing, security standards, accident investigation, navigation services, airport design and environmental protection. As a member of ICAO, Thailand has adopted most of the standards and practices recommended by ICAO.

#### *Freedoms of the Air*

In addition, international air transport is founded on a collection of transport rights that derive from two multilateral air transport agreements among states, the International Air Transport Agreement of 1944 (the “Five Freedoms Agreement”) and the International Air Services Transit Agreement of 1944 (the “Transit Agreement”); in addition, these rights are referred to in air services agreements negotiated between individual states.

The Five Freedoms Agreement defines certain “air freedoms”, or traffic rights, which each signatory state may grant to another signatory state by agreement and which may be summarized as follows:

- *First Freedom.* Often referred to as “transit rights”, the privilege of a carrier to use the airspace of a sovereign state other than its home state without landing.
- *Second Freedom.* The privilege of a carrier to land in a sovereign state other than its home state for non-traffic purposes, such as refueling or maintenance.
- *Third Freedom.* Often referred to as “transport rights”, the privilege of a carrier to put down, in a sovereign state other than its home state, passengers, mail and cargo taken on in the home state.
- *Fourth Freedom.* The privilege of a carrier to take on passengers, mail and cargo destined for its home state.
- *Fifth Freedom.* The privilege of a carrier to take on passengers, mail and cargo in a sovereign state other than its home state, and then fly on to another sovereign state (rather than return to the home state) to unload the passengers, mail and cargo provided the flight originates from or continues to the carrier’s home state.

Thailand is not a party to the Five Freedoms Agreement but has entered into air services agreements that refer to such freedoms. Thailand also signed the Transit Agreement in 1944 and ratified it in 1947. The Transit Agreement gives airlines based in contracting states rights for scheduled flights to fly over the territories of the other contracting states without landing and to make non-traffic stops in such territories, while the Chicago Convention permits non-scheduled flights (including cargo flights) to fly over the territories of the signatory states and gives rights for non-scheduled flights to make stops for non-traffic purposes in territories of such states, subject to certain restrictions which can be imposed by individual states.

#### *General Agreement On Trade in Services*

Thailand became a founding member of the World Trade Organization (“WTO”) on December 28, 1994. All WTO members are also members of the General Agreement on Trade in Services (“GATS”) and, to varying degrees, have assumed commitments under GATS following the principle of progressive liberalization.

The GATS Annex on Air Transport Services applies to measures affecting trade in air transport services, whether scheduled or non-scheduled, and ancillary services, which are not relevant to traffic rights agreements. These are aircraft repair and maintenance services (excluding line maintenance), selling and marketing of air transport services (excluding their pricing and other conditions) and computer reservations system services.

However, Thailand made specific commitments under GATS in relation to air transport services to provide most favored nation access to the Thai economy only in relation to aircraft repair and maintenance services and the sale and marketing of air transport services. The specific commitments made by Thailand under GATS do not reduce Thailand's obligations under air service agreements.

## ***IATA***

In addition to the interstate regulatory framework, scheduled air transport companies created IATA, the trade association for international airlines, in 1945 in Havana, Cuba. IATA holds a mandate to establish regulations for the air transport profession and to supply participant members with a forum for the coordination and the proper implementation of tariffs on international routes. IATA provides a forum for tariff coordination on international routes by convening traffic conferences. IATA also serves as an international liaison and provides guidelines for operations by participant members.

## ***International Limitations on Liability of Carriers***

The Convention for the Unification of Certain Rules Relating to International Carriage by Air Signed at Warsaw on October 12, 1929 (the "Warsaw Convention") and the Protocol to Amend the Convention for the Unification of Certain Rules Relating to International Carriage by Air Signed at Warsaw on October 12, 1929 Done at The Hague, October 28, 1955 (the "Hague Protocol") established limited liability for air transport companies based on a presumption fault. The financial limits on liability set out in the Warsaw Convention may be exceeded only if the victim proves gross negligence on the part of the air transport company. Certain countries, particularly the United States, have contested both the principle of limited liability and the damage amounts available under the Warsaw Convention. Thailand has yet to accede to the Warsaw Convention or the Hague Protocol.

In 1999, member states of the ICAO adopted the Convention for the Unification of Certain Rules for International Carriage (the "Montreal Convention"), which amended the Warsaw Convention with respect to compensation for passengers and owners of cargo involved in aviation disasters. The Montreal Convention introduced a two-tier liability system for carriers. The first tier involves a strict liability regime for air transport companies with respect to the first 100,000 IMF Special Drawing Rights. The second tier provides for unlimited liability if an air transport company cannot disprove liability for an aviation disaster. As of December 31, 2009, the limitation of liability for passengers under the first tier was expanded by 13.1% under the auto-escalation mechanism provided for in the Montreal Convention. As a result, passengers are now afforded up to 113,100 IMF Special Drawing Rights per individual passenger, 19 IMF Special Drawing Rights per kilogram for cargo, IMF 1,131 Special Drawing Rights for baggage and 4,694 IMF Special Drawing Rights for passenger delays. Thailand has yet to accede to the Montreal Convention.

The Warsaw Convention, the Hague Protocol or the Montreal Convention may apply where a journey originates and terminates in countries that are parties to the relevant convention, even if the journey connects through a country that is not a party to the relevant convention.

The Rome Convention on Damage Caused by Foreign Aircraft to Third Parties on the Surface signed at Rome on October 7, 1952 (the "Rome Convention") also regulates third-party damages. Thailand has not ratified the Rome Convention and third-party damages in Thailand are regulated in accordance with the principles of Thai law.

## ***Allocation of Time Slots at International Airports***

Access to international airports is primarily regulated by the allotment of time slots. Time slots correspond to the capacity of an airport's facilities and the ability of a carrier to land at, or take off from, an airport at a specified time and date.

Time slots are allotted twice a year, at the time airline flight schedules for the relevant IATA timetable period are collected by the designated airport coordinator, according to the following procedures:

- the airport coordinator notifies all air carriers of airport capacity for the season and historical time slot information;
- airlines submit to the airport coordinator their requests for time slots five months prior to the beginning of each timetable period;
- the airport coordinator first allocates time slots to airlines exercising “grandfather rights” (airlines that had operated the same time slots during the previous equivalent timetable period);
- the airport coordinator gives airlines information regarding preliminary time slot allocations, including which time slots were allotted to incumbents and which time slots are required to be adjusted due to airport capacity limitations;
- a pool is created which includes all available time slots, whether they are newly created, unused or abandoned for any reason; and
- the airport coordinator allocates the pooled time slots to new entrants and to incumbents on a pro rata basis.

Requests for new time slots are rarely satisfied at busy airports. At the close of this preliminary allotment process, an IATA schedule coordination conference is organized in June and November of each year, to enable airlines to coordinate the time slots they are allotted in different airports, so that when a flight links two airports, the time slots granted on each platform are compatible with one another; and exchange time slots among themselves in the event that the time slots originally allotted by the airport coordinators are unsatisfactory. Unused time slots are typically re-allotted.

The grandfather rights of historic users give established airlines a decisive commercial advantage over other airlines at busy airports.

### ***International Air Traffic Tariffs and International Airport Landing Charges***

Airlines are subject to air transport tariffs which are divided into air navigation charges and airport charges. Air navigation charges include routing charges for overflights and terminal charges. Airport charges include landing fees. In 2013, we paid a total of THB256.1 million (US\$7.9 million), for these air navigation and airport charges.

### **Domestic Regulatory Framework**

#### ***The Air Navigation Act and NEC No. 58***

The airline industry in Thailand is governed by the Announcement of the National Executive Council No. 58 (“NEC No. 58”) and the Air Navigation Act (as amended). The authority responsible for overseeing the industry in Thailand is the DCA.

#### ***DCA***

The DCA is an organization within the MOT which administers aviation activities. The DCA is the authority for all activities that involve the transportation of passengers, mail and cargo from and into Thai airspace and is responsible for aircraft certification, registration, personnel licensing, airport licensing, air operator certification, air traffic control and air navigation equipment certification.

The DCA’s main objective is to ensure that the air transportation system operated by direct service providers is safe for passengers and to ensure that air transport service operators conduct their activities in compliance with appropriate regulations. As Thailand is a member of the ICAO, Thai aviation laws and regulations have been based on the ICAO standards and recommended practice.

## *Airline Operations in Thailand*

To operate either scheduled or non-scheduled air transport services in Thailand, the NEC No. 58 requires an air transport service operator to obtain an Air Operating License (“AOL”) from the MOT. An AOL can be suspended or revoked by the MOT if the licensee fails to comply with the conditions prescribed in the license or the laws and regulations regarding air navigation or safety standards prescribed by the DCA. The AOL is valid for a period determined by the DCA. Our current AOL was issued on January 15, 2009 and is valid for 10 years from February 1, 2009.

According to the Air Navigation Act, an air service operator is required to obtain an AOC. An AOC is issued by the DCA under the Rule of Civil Aviation Board of Thailand (“CAB”) No. 85 Re: AOC to certify that the licensee has complied with the safety standards prescribed by the CAB in the provision of air services. An AOC is issued for a term of not more than five years from the date of issue and can be renewed for further terms of not more than five years, subject to the licensee’s passing a safety inspection by the DCA. On February 10, 2010, the DCA issued the Notification Re: Application, Term of AOC and Operations Specifications which reduced the term of AOC given to first-time applicant to not more than two years. Our current AOC was issued on April 17, 2013 and will continue to be in effect under its terms until April 30, 2018, unless surrendered, suspended or revoked.

An AOC can be suspended or revoked if the air service provider fails to comply with the operations specifications attached to the AOC, the operating manuals approved by the relevant competent authorities, or the laws regarding air navigation and safety standards as prescribed by the DCA in a way that such incompliance may endanger or endangers the air navigation. Also, if the air service provider amends its operating manuals without obtaining the approval of the relevant competent authority and fails to rectify such amendment as provided by the relevant authority; or if the air service provider amends its operating manuals without obtaining the approval of the relevant competent authority in a way that such amendment may endanger or endangers the air navigation, the AOC can be suspended or revoked.

The Air Navigation Act contains provisions regulating air navigation in Thailand. The Air Navigation Act also contains provisions in relation to the registration of aircraft, external marking of aircraft, aircraft types, aircraft production, airworthiness control, journey log books, aerodromes, air navigation facilities, accidents, qualifications of operating personnel, ramp services and technical services.

The Air Navigation Act provides for the registration of aircraft to be administered by the DCA where the applicant (i) is the owner or (ii) has a right of possession over the aircraft and has received permission from the MOT to carry out the registration. All applicants must be Thai nationals. Where the applicant is a limited company or public company, (i) the company must be incorporated under Thai law, (ii) no shares in the company may be in bearer form, (iii) the majority of the directors must be Thai nationals, (iv) its head office must be located in Thailand and (v) at least 51.0% of its total shares must be held either singly or collectively by either Thai natural persons, ministries or sub-ministries or departments of Thai Government (“Government Entity”), or a limited company or public company in which not less than 51.0% of the total shares are held by a Government Entity or Thai natural persons.

In relation to any aircraft registered in Thailand (a “Thai aircraft”), the operator of the Thai aircraft is required to hold a certificate of registration granted by the DCA for such Thai aircraft. Such certificate is granted to certify that the aircraft has been duly entered on the register of Thailand and in accordance with the Chicago Convention and with the Air Navigation Act.

A Thai aircraft may fly only if it has been issued a certificate of airworthiness by the DCA. The DCA issues a certificate of airworthiness only when it is satisfied that the aircraft is fit to fly, having considered factors such as the design, construction and materials of the aircraft, the results of flying trials and such other tests as required by the DCA. A standard certificate of airworthiness is valid for a period of three years and can be renewed if the DCA is satisfied that such aircraft has undergone maintenance and is in a condition for safe operation.

The Air Navigation Act also established the CAB to issue rules in accordance with the Air Navigation Act and the Annexes to the Chicago Convention, subject to the approval of the MOT, as well as to (a) prescribe rules and method of calculation of domestic airfares and freight rates, subject to the maximum tariffs for domestic airfares and freight rates set out under the relevant MOT’s ministerial regulation and (b) approve the rates charged for the use of air navigation facilities. Under the MOT’s ministerial regulation, domestic airfares

must be distance based fares and must not exceed THB30 per kilometer. Pursuant to the Notification of the DCA Regarding Determination of Domestic Airfares dated January 13, 2010, domestic airfares must not exceed THB13.0 per kilometer for routes which have a flight distance of over 300 kilometers and THB22.0 per kilometer for routes which have a flight distance not exceeding 300 kilometers and which is inconvenient for ground travelling.

### ***Domestic Traffic Rights***

In order to operate scheduled domestic passenger services and to commence new domestic routes, an airline is required to secure domestic traffic rights from the MOT through the DCA. A permission from the DCA needs to be obtained for an airline to increase flight frequencies to existing domestic routes depending on traffic volume and the spread of services.

### ***International Traffic Rights***

The operation of international passenger services depends on traffic rights negotiated between the Thai government and the government of another country. These rights are enshrined in an air services agreement (“ASA”) between the two governments with the capacity of the international airline services to be negotiated. As ASAs are negotiated and agreed on a government-to-government basis, the relevant traffic rights under these agreements belong to the relevant governments. In Thailand, any application for the operation of passenger services to international destinations is required to be directed to the DCA for approval and allocation of the requested traffic rights. Our ability to expand our route network and to increase frequency and capacity is subject to our ability to obtain sufficient traffic rights and time slots to various destinations.

Beside traffic rights, international operators are also subject to slot coordination for each IATA season. The two IATA seasons annually are the summer season and winter season. The winter season runs from the last Sunday of October to the last Saturday of March and the summer season runs from the last Sunday of March to the last Saturday of October each year. Generally, schedules are planned approximately six months in advance.

### ***Thailand’s ASAs***

As of the date of this Offering Memorandum, Thailand is a party to bilateral air services agreements with 99 countries. Each air services agreement contains provisions regarding matters such as landing rights, routes, capacity, tariffs (including freight charges), sales and marketing, other commercial activities and operating authorization. Traffic rights granted in bilateral air services agreements are based on one or more of the air freedoms defined in the Five Freedoms Agreement. Each air services agreement may be amended from time to time at the request of either of the contracting states.

Traffic rights for non-scheduled flights are generally granted unilaterally by each state participating in the Chicago Convention in relation to its own airspace directly to the airlines concerned. The home states of these airlines are involved only in the case of disputes.

An initiative to liberalize air transport services among ASEAN countries within an “open skies” framework was initiated in 2004. In order to gradually remove restrictions and achieve greater flexibility and capacity in air services operations in ASEAN, as laid out in the initial policy in 2004, and to build a single unified ASEAN aviation market by 2015, the ASEAN countries signed the ASEAN Multilateral Agreement on Air Services in 2009 and the ASEAN Multilateral Agreement on the Full Liberalization of Passenger Air Services in November 2010.

Our status as a designated airline allows us to exercise the traffic rights granted to Thailand under the air services agreements to which Thailand is a contracting state. Although the Government has designated and may continue to designate additional airlines according to its liberalization policy, our rights, particularly in relation to frequency and capacity of flights, under the air services agreements would not necessarily be affected by the designation of additional carriers. Any subsequently designated airline would be entitled to enjoy the unused rights of Thailand under the air services agreements. Alternatively, the Government could negotiate with its contracting states to obtain additional traffic rights for the newly designated airline, rather than reducing the rights currently enjoyed by us.

### ***Domestic air traffic tariffs and domestic airport landing charges***

Pursuant to the Air Navigation Act, the CAB has the power to prescribe the regulations regarding landing and parking charges and passenger service charges, with approval from the MOT. The CAB prescribes the maximum landing and parking charges and passenger service charges chargeable by AOT and other airport operators. See “Regulation of the Airline Industry in Thailand—Airport Regulatory Framework—Airport Service Charges” for further details.

### ***Airport Regulatory Framework***

In Thailand, airports maintained and operated by private entities are governed by the Air Navigation Act. Under the Air Navigation Act, the DCA is the authority responsible for overseeing the airport industry as well as the airline industry in Thailand.

### ***Airport Operations in Thailand***

To establish a public airport in Thailand, the Air Navigation Act requires the permission from the DCA with the approval of the MOT. This permission will be granted in the form of the Public Airport Incorporation License (“PAIL”).

Pursuant to the Ministerial Regulations issued by MOT in 2007, an applicant that wishes to apply for an PAIL shall be a limited company or public company, and the following qualifications and characteristics shall be met;

- (i) the company must be registered under Thai law and its head office must be located in Thailand;
- (ii) at least 51.0% of the company’s shares must be held either singly or collectively by either Thai natural persons, a Government Entity or a limited company or public company in which not less than 51.0% of the shares are held by a Government Entity or Thai natural persons;
- (iii) directors, managers and the authorized persons of the company shall meet the required qualifications;
- (iv) the company has the ownership of, the possessory right over, or the right to utilize the land on which the public airport will be established; and
- (v) the company shall have strong financial status and potential to establish and operate a public airport business.

The DCA shall examine the qualifications of the applicant. Once the MOT approves the establishment of the public airport, the applicant is required to submit a public airport construction plan for the DCA’s approval. In the event that the applicant is obliged to comply with laws related to the Enhancement and Conservation of the National Environment Quality Act, the applicant must also submit an approved Environmental Impact Assessment Report. Upon the complete construction of the public airport, the applicant shall inform DCA and submit the public airport manual and provide the safety management system as prescribed in the rules of CAB.

A PAIL is valid for a period of 10 years from the date of issuance and can be renewed for a validity period of 10 years each time by submitting a renewal application to the DCA at least 90 days prior to its expiration date. When the application for renewal is duly submitted, the holder may continue operating the public airport until the disapproval is notified.

A PAIL can be suspended or revoked by the DCA if the person who has obtained the PAIL fails to comply with the ministerial regulations, procedures and conditions specified for that purpose. Under the MOT’s ministerial regulations, the DCA may impose certain conditions which has to be complied to by the licensee, for example, to operate the public airport by itself, to operate and maintain the public airport in compliance with the standard prescribed by the CAB, to provide security, including safety management system and screening of passengers, personnel and workers who will get on the aircraft, to provide the sufficient number of staff, to update and amend the public airport manual and the public airport master plan, to inform DCA at least 180 days prior to the cessation of airport operation (except for the temporary cessation of operation caused by technical

limitations and unsafe aviation services), to provide services equally and to collect fees and impose service charges and related tariffs subject to rates approved by the Director General of the DCA.

According to the Air Navigation Act, in order to provide services to the public, a PAOC shall be obtained from the Director General of the DCA in addition to a PAIL. The safety management system, security, internal audit system and public airport manual must meet the standard prescribed by the rules set out by the Director General of the DCA.

In obtaining the PAOC, the owner or operator of an airport to which a PAIL has been granted (the "Licensed Airport") shall submit an application for each Licensed Airport, together with the public airport manual and other documents to the Director General of the DCA. An applicant for the PAOC shall be a juristic person (i) who is a limited company or a public company incorporated under Thai law with a head office located in Thailand, (ii) whose voting shares of not less than 50.0% of the total shares are held by Thai nationals, and (iii) whose previous PAOC is not being suspended or, in the case of revocation, if any, whose PAOC has been revoked for at least 3 years since the date of revocation. The applicant is also required to possess a sufficient capital and knowledgeable and skilled staff for the operation of the public airport.

The PAOC will be issued by the Director General of the DCA provided that (i) the applicant meets the qualifications and characteristics stated above, (ii) its registered capital meets the amount specified in a notification by the Minister of Transport, and not less than 51.0% of the total shares are owned by Thai nationals, (iii) the business management of the applicant must be controlled by Thai nationals, (iv) directors, managers or persons who holds managerial power shall not possess the prohibited characteristics as stated under the Air Navigation Act and (v) the applicant must arrange for a Public Airport Manager who holds a Public Airport Manager Certificate obtained from the Director General to be responsible for the operation of the Licensed Airport.

In addition, further requirements regarding physical characteristics of the Licensed Airport including those regarding facilities, installations, equipment and services, under both normal and emergency situations, has to be met as prescribed in the regulations of the CAB. Furthermore, the Licensed Airport has to put in place certain rules on operating procedures, safety management system, security, internal audit system and airport manual, pursuant to the Air Navigation Act.

The issuance of the PAOC requires implementing regulations which have not yet been passed as of the date of this Offering Memorandum, and accordingly as of the date of this Offering Memorandum, the PAOC has not been issued to any airport operator in Thailand.

The PAOC is valid for a period of 10 years each but cannot exceed the validity period of the PAIL. To renew the PAOC, the holder shall submit an application to the Director General of the DCA at least 90 days before its expiration date. Upon the submission of the application for renewal, the holder may continue operating the airport until the disapproval is notified.

Pursuant to the Air Navigation Act, the PAOC shall be suspended if the holder of the PAOC is unable to perform its duties in operating the Licensed Airport and fails to rectify the operations to attain safety within the period of time as provided by the Director General of the DCA. Among other things, the duties of the holder of the PAOC are to control the performance of the Public Airport Manager, to provide sufficient staff, to improve the security in the operation, to update and amend the airport manual, and to supervise the Licensed Airport not to be used by others in breach of the conditions laid out in the PAOC. Also, the PAOC shall be suspended if the holder of the PAOC fails to allow the Director General of the DCA or the Competent Official to carry out their power and duties or refuse follow their orders for the purpose of controlling the operation of a Licensed Airport.

The PAOC can be revoked in the event that the holder violates or fails to perform its duties as stated above and such violation and failure leads to severely unsafe condition to the airport users, the holder lacks the required qualifications and characteristic and fails to rectify such deficiency within the period of time as provided by the Director General the DCA or the holder had obtained the PAOC as a result of producing false or incomplete information with the intention to unlawfully obtain the PAOC. Furthermore, the PAOC may be revoked by other reasons in relation to national security, the change in physical characteristics of the Licensed Airport, the change in safety standard for the operation of the Licensed Airport, and receipt of suspension orders twice or more within a period of two years.

### ***Air Navigation Facility***

An air navigation facility is required to be established in the airport. Pursuant to the Air Navigation Act, the provider is required to submit the application to obtain the Air Navigation Facility Establishment License (“ANFEL”) from DCA with the approval of the MOT. According to the rules of CAB, the air navigation facility shall be performed in accordance with the Chicago Convention.

Pursuant to the notification of the DCA issued in 2005, an ANFEL is valid for the period as specified in such license but not exceeding the period of 10 years from the date of issuance. To renew the ANFEL, the holder shall submit an application at least 30 days before its expiration date.

### ***Airport Service Charges***

According to the Air Navigation Act, a public airport may impose the following charges and service fees for the use of the public airport, subject to the following conditions.

(1) Passenger service charges may be imposed, subject to an approval from the MOT, as recommended by the CAB. However, such passenger service charges may not exceed the maximum rates prescribed under the rules issued from time to time by the CAB. Such maximum charges vary among each of the airports and are different between international or domestic passengers.

As at the date of this Memorandum, the maximum charges that are permitted to be imposed by the Samui Airport, the Sukhothai Airport and the Trat Airport are as follows:

Airport	International Passenger	Domestic Passenger
	Maximum Charge/Current Charge (Baht)	Maximum Charge/Current Charge (Baht)
Samui Airport	600/600	400/300
Sukhothai Airport	500/500	400/200
Trat Airport	400/400	200/200

(2) Aircraft landing fee may be imposed, provided that such fee may not exceed the maximum rates prescribed under the rules issued from time to time by the CAB. Such rates, in any case, may not exceed the maximum rate set forth in the relevant ministerial regulation, which as at the date of this Memorandum is THB120,000.0 per each landing. The maximum aircraft landing fee varies depending on the maximum take-off weights of each type of the aircraft as prescribed under the rule issued by the CAB. As at the date of this Memorandum, the maximum aircraft landing fee permitted to be charged by each of the Samui Airport, the Sukhothai Airport and the Trat Airport is THB100.0 per metric ton.

(3) Aircraft parking fee may be imposed; provided that such fee may not exceed the maximum rates prescribed under the rules issued from time to time by the CAB. Such rates, in any case, may not exceed the maximum rate set forth in the relevant ministerial regulation, which as at the date of this Memorandum is THB10,000.0 per day. The maximum aircraft parking fee varies depending on the maximum take-off weights of each type of the aircraft as prescribed under the rule issued by the CAB. As at the date of this Memorandum, the maximum aircraft parking fee permitted to be charged by each of the Samui Airport, the Sukhothai Airport and the Trat Airport is THB100.0 per metric ton per day.

Any other service charges, tariffs or monetary remuneration may be imposed subject to the conditions and rates as approved by the CAB, by taking into consideration fairness to the consumers and the airport’s ability to compete, as required by the Air Navigation Act.



## MANAGEMENT AND CORPORATE GOVERNANCE

### Board of Directors

Our board of directors has ultimate responsibility for the administration of affairs of the Company. Our Articles of Association provide for a board of directors of at least five directors, and not less than half of the directors are required to reside in Thailand. In addition, our Articles of Association provide that one-third, or the number of directors closest to one-third, of our board of directors is required to retire at each annual general meeting of shareholders. The directors who are to retire during the first and second years following the registration of the Company are to be drawn by lots. In subsequent years, those directors who have held the office the longest must retire first and retiring directors are eligible for re-election.

As of the date of this Offering Memorandum, our directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Business Address</u>
Air Chief Marshal Kaset Rochananil	80	Chairman	Bangkok Airways Public Company Limited, Vipavadee-Rangsit Rd., Chatuchak District, Chom Phon Sub-District, Bangkok 10900
Mr. Prasert Prasarttong-Osoth	81	Vice Chairman	Bangkok Airways Public Company Limited, Vipavadee-Rangsit Rd., Chatuchak District, Chom Phon Sub-District, Bangkok 10900
Mr. Pradit Theekakul	55	Director	Bangkok Airways Public Company Limited, Vipavadee-Rangsit Rd., Chatuchak District, Chom Phon Sub-District, Bangkok 10900
Mr. Puttipong Prasarttong-Osoth	49	Director	Bangkok Airways Public Company Limited, Vipavadee-Rangsit Rd., Chatuchak District, Chom Phon Sub-District, Bangkok 10900
Police Major General Visanu Prasarttong-Osoth	51	Director	Office of Commissioner General, Royal Thai Police, Rama 1 Rd., Pathumwan District, Wangnoi Sub-District, Bangkok 10330
Mr. Sripop Sarasas	57	Independent Director	No. 14, Soi Premier 1, Yak 14, Srinakarin Road, Nongbon District, Pravej Sub-District, Bangkok 10250
General Vichit Yathip	68	Independent Director	Tipco Asphalt Public Company Limited, 24th Floor, Tipco Tower, 118/1 Rama 6 Road, Samsen Nai, Phayathai District, Bangkok 10400
Mr. James Patrick Rooney	76	Independent Director	J.P. Rooney & Associates Ltd., 4th Floor, Panunee Building, 518/3 Ploenchit Road, Pathumwan District Lumpini Sub-District, Bangkok 10330

***Air Chief Marshal Kaset Rochananil.*** Air Chief Marshal Kaset Rochananil was appointed Chairman of our Board of Directors in 1998. He has been with the Company for 16 years. Prior to joining the Company he was the Chairman of the Board of Thai Airways International Public Co., Ltd. from 1992 to 1998 and was the Chairman of the Board of The Airports Authority of Thailand from 1989 to 1992. Air Chief Marshal Kaset Rochananil holds a Bachelor of Science degree from the Royal Thai Air Force Academy, where he graduated in 1958.

***Mr. Prasert Prasarttong-Osoth.*** Mr. Prasert Prasarttong-Osoth was appointed the Vice Chairman of our Board of Directors in 2013. He is also, among others, the Chief Executive Officer of the Company since 1984, the Chairman of the Board of Bangkok Chiangmai Hospital Co., Ltd. since 2012, the Chief Executive Officer of BGH since 1994 and a Director of Paradise Shopping Co., Ltd. Mr. Prasert Prasarttong-Osoth holds a Bachelor of Medicine degree from Siriraj Hospital, Mahidol University, where he graduated in 1960. He is also the father of Mr. Puttipong Prasarttong-Osoth and Ms. Ariya Prasarttong-Osoth.

***Mr. Pradit Theekakul.*** Mr. Pradit Theekakul was appointed Director to the Company in 2007. He is also the Executive Vice President of Administration and Board of Directors/ Senior President and Office Director for the Company since 2007, a Director for Bangkok Chiangmai Hospital Co., Ltd. since 2012, a Director for

Gourmet House since 2010, a Director for BDMS Training Co., Ltd. since 2010, a Director for Bangkok Hospital Udon Co., Ltd. since 2007, a Director of Bangkok Dusit Medical Services Public Co., Ltd. since 1994 and a Director for Thai Petroleum Service Co., Ltd. since 2004. He has been with the Company for 30 years. Mr. Pridit Theekakul holds a Bachelor of Law degree from Chulalongkorn University, where he graduated in 1981 and a Bachelor of Political Science degree from Ramkhamhaeng University, where he graduated in 1981.

**Mr. Puttipong Prasarttong-Osoth.** Mr. Puttipong Prasarttong-Osoth was appointed Director to the Company in 2008. He is also the President of the Company since 2008, Executive Vice President of Flight and Ground Operations for the Company since 2008, a Director of Bangkok Airways Ground Services Co., Ltd. since 2012, a Director of Bangkok Air Catering Phuket Co., Ltd. since 2012, a Director of Prasertbangkok Group Co., Ltd. since 2011, and a Director of S.E.A Aviation Co., Ltd. since 2009. He has been with the Company for 25 years. Mr. Puttipong Prasarttong-Osoth holds a Bachelor of Accounting degree from Chulalongkorn University, where he graduated in 1987. He is also the son of Mr. Prasert Prasarttong-Osoth and the brother of Ms. Ariya Prasarttong-Osoth.

**Police Major General Visanu Prasarttong-Osoth.** Police Major General Visanu Prasarttong-Osoth was appointed Director to the Company in 2013. He is also the Deputy Commissioner of Personnel Bureau of the Royal Thai Police since 2011, a Director and Chairman of the Audit Committee of Finansia Syrus Securities Public Co., Ltd. since 2004. He has been with the Company for 11 years. He was the Deputy Commissioner of Immigration Bureau of the Royal Thai Police from 2010 to 2011 and was the Commander of Immigration Bureau of the Royal Thai Police from 2009 to 2010. Police Major General Visanu Prasarttong-Osoth holds a Bachelor of Economics degree from Vanderbilt University, where he graduated in 1985, a Master of Business Administration Degree from University of San Francisco, where he graduated in 1987 and a Master of Political Science Degree from Sukhothai Tammathirat Open University, where he graduated in 2007. Police Major General Visanu Prasarttong-Osoth is the nephew of Mr. Prasert Prasarttong-Osoth.

**Mr. Sripop Sarasas.** Mr. Sripop Sarasas was appointed Independent Director and Chairman of the Audit Committee of the Company in 2013. He is also the Director and Chairman of the Audit Committee of Sutakagn Co. Ltd., since 2013, the Director and member of the Audit Committee of The Royal Ceramic Public Co., Ltd. since 2012, the Director and member of Audit Committee of Bangkok Dusit Medical Services Public Co., Ltd. and the Director of Parute (2008) Co., Ltd. Prior to joining the Company he was the President & Chief Executive Officer of Krung Thai Asset Management Public Co., Ltd. from 2003 to 2007, the President & Chief Executive Officer of General Environmental Conservation Public Co., Ltd. from 1999 to 2003 and the Managing Director of Phatra Thanakit Public Co., Ltd. from 1994 to 1999. Mr. Sripop Sarasas holds a Bachelor of Science degree in Medical Technology from Chulalongkorn University, where he graduated in 1979 and a Master of Business Administration degree from University of Southern California, where he graduated in 1981.

**General Vichit Yathip.** General Vichit Yathip was appointed Independent Director to the Company in 2013. He has also been a member of the Audit Committee of the Company since 2013, the Chairman of Nippon Pack (Thailand) Public Co., Ltd., since 2012, an Advisor to Loxley Public Co., Ltd. since 2011 and a Director of Three Sixty Five Public Co., Ltd. since 2009. He has been with the Company for 10 years. Prior to joining the Company he was the Chief Executive Officer of Thai-Chinese Culture and Economy Association from 2008 to 2009 and was a Member of the Board of Directors of Airport Authority of Thailand from 2004 to 2005. General Vichit Yathip holds a Bachelor of Science degree from Chulachomklao Royal Military Academy, where he graduated in 1973 and a Master of Public Administration Degree from Bangkokthonburi University.

**Mr. James Patrick Rooney.** Mr. James Patrick Rooney was appointed Independent Director to the Company in 2013. He is also a member of the Audit Committee of the Company since 2013, a Director of WCA Co., Ltd. since 2012, a Director of Diamond Buildings Public Co., Ltd. since 2003 and a Director of Samitivej Public Co., Ltd. since 2003. He has been with the Company for 20 years. He was a Director of The Siam Society under Royal Patronage from 2006 to 2008. Mr. James Patrick Rooney holds a Bachelor of Arts degree in International Relations from Pomona College, where he graduated in 1966 and a Master of Business Administration degree from The American Graduate School of International Management, where he graduated in 1967.

#### **Audit Committee of the Company**

Our audit committee was appointed by the Board of Directors' meeting on February 7, 2013. The Thai SEC and SET regulations require our audit committee to consist of at least three independent directors, one of

whom is to have sufficient knowledge and experience to review the reliability of the financial statements. As of the date of this Offering Memorandum, the members of our audit committee are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. Sripop Sarasas	57	Independent Director
General Vichit Yathip	68	Independent Director
Mr. James Patrick Rooney	76	Independent Director

Our audit committee is accountable to the board of directors of the Company for the performance of its duties. The scope of authority, duties and responsibilities of each member of the audit committee is outlined below.

#### *Policy and Compliance*

The audit committee is required to review and maintain compliance with the rules and regulations of the SET securities law and the law relating to the business of the Company.

#### *Financial*

The audit committee is required to:

- review that the Company's reports and disclose the correct and credible financial report and to cooperate with the external auditor and the management in preparing financial report which are in compliance with the prescribed period by the SET, laws and other applicable government authorities;
- consider, select and nominate an independent auditor and to propose such auditor's remuneration, as well as to attend a non-management meeting with such auditor at least once a year; and
- provide an independent and proper procedure for the employees to report evidence relating to unreasonable financial details.

#### *Internal Control, Internal Audit and Risk Management*

The audit committee is required to:

- review the internal control and internal audit system and ensure that they are suitable and efficient and together with the external auditor, to assess the internal audit unit's independence;
- review evidence from internal investigations where there are suspicions that corruption has occurred or the existence of unreasonable flaws in the internal control procedure and to report these to the Board of Directors;
- investigate the evidence where there is suspicion of violations of law or regulations of the SET, which materially affect or may materially affect the financial condition and the business operation of the Company;
- hire or procure a professional specialist to assist in the inspection and investigation, according to the Company's regulations, in cases where there are suspicions of transactions or acts which may materially affect the financial condition and operating results;
- approve the appointment, transfer, dismissal and evaluation of the performance of the chief of internal audit, if the Company establishes an internal audit unit. If the Company hires an internal audit company, the Audit Committee shall approve the hiring and propose the remuneration;
- review organizational risk management and recommend an efficient and suitable risk management approach relating to business operations; and
- review risk management reports, track potential risks and report on the adequacy of the internal control system and risk management to the Board of Directors.

Historically, we have not had an insider trading policy or an investment policy. In connection with the Offering, we have engaged an independent third party to review and advise on appropriate internal policies, including insider trading, which would include black-out periods between the time information is released and the time our directors and officers can resume trading in our Shares.

#### *Conflict of Interest Management*

The audit committee is required to review related party transactions, or any transactions that may lead to conflicts of interest, and ensure that they are done in compliance with laws and the regulations of the SET and are reasonable and beneficial to the Company

#### *Other*

The audit committee is required to:

- prepare and disclose in the annual report, the audit committee’s report, which must include information mandated by the SET regulations and related regulations;
- annually review the Audit Committee charter to ensure that it contains the minimum scope of operational requirements for the Audit Committee as prescribed by the regulations of the SET and to also ensure that it includes adequate support to the Audit Committee’s operation, such as the hiring of a professional specialist to opine on the specific subjects which require specialized expertise. If the Audit Committee is of the opinion that the Audit Committee charter needs to be amended to be in compliance with the rules and regulations, the Audit Committee shall seek the approval of the Board of Director; and
- to perform any other act as assigned by the Board of Directors.

#### **Executive Officers**

As of the date of this Offering Memorandum, our executive officers consist of the following persons:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Mr. Prasert Prasarttong-Osoth	81	Chief Executive Officer
Mr. Puttipong Prasarttong-Osoth	49	President and Executive Vice President—Flight and Ground Operations
Mr. Pradit Theekakul	55	Executive Vice President—Administration and Board of Directors/ Senior President Office Director
Mr. Chirstophe Clarenc	47	Senior Vice President—Technical
General Komkrich Sriyabhandha	72	Specialist—Policy and Strategy Department (Vice President)
Mr. Peter Wiesner	70	Senior Vice President—Network Management
Mr. Ping na Thalang	56	Vice President—Corporate Safety
Mr. Viroj Satitharopagorn	56	Vice President—Accounting
M.L. Nandhika Varavarn	57	Vice President—Corporate Communication
Mrs. Ariya Prasarttong-Osoth	47	Vice President—Sales
Mr. Narongchai Tanadchangsang	62	Vice President—Airport
Mr. Prote Setsuwan	52	Vice President—Marketing
Wg Cdr. Saravoot Thonglek	54	Vice President—Flight Operations/ Acting President—Flight Operations/ Captain Flight Crew
Mr. Kasem Akanesuwan	66	Vice President—Internal Audit and Compliance
Ms. Kanyratana Xuto	43	Vice President—Human Resources
Mr. Anawat Leelawatwatana	47	Deputy Vice President—Finance/Corporate Secretary
Mrs. Narumon Chainaknan	61	Executive Secretary to CEO office (Vice President)

Certain information with respect to our executive officers is set out below:

**Mr. Prasert Prasarttong-Osoth.** See “—Board of Directors” for information on Mr. Prasert Prasarttong-Osoth.

**Mr. Puttipong Prasarttong-Osoth.** See “—Board of Directors” for information on Mr. Puttipong Prasarttong-Osoth.

**Mr. Pradit Theekakul.** See “—Board of Directors” for information on Mr. Pradit Theekakul.

**Mr. Chirstophe Clarenc.** Mr. Chirstophe Clarenc was appointed Senior Vice President of the Technical Department of the Company in 2007 and was the Vice President of Maintenance & Engineering of the Company from 2004 to 2007. He has been with the Company for 10 years. Prior to joining the Company he was the Vice President of Sales Asia Pacific and President of Easter Support of ATR from 2002 to 2004 and was the Sales Director of ATR from 1995 to 2002. Mr. Chirstophe Clarenc holds a Bachelor of Mathematics and Physics from Lycee Montaigne, Bordeaux, where he graduated in 1988, and a Master’s degree in Aeronautical Engineering from the French National School of Civil Aviation, where he graduated in 1991.

**General Komkrich Sriyabhandha.** General Komkrich Sriyabhandha was appointed Vice President of Airports of the Company in 2006 to 2014. In 2014, he was appointed as a Specialist – Policy and Strategy Department of the Company. He has also been a Senior Director of Sukhothai Airport since 2006 and a Director of BFS Ground since 2004. He has been with the Company for nine years. Prior to joining the Company, he was the Chief of Coordinating Group of Ministry of Foreign Affairs from 1995 to 2000 and was the Personal Staff of Commander-In-Chief from 1991 to 1995. General Komkrich Sriyabhandha holds a Bachelor of Science degree from Chulachomklao Royal Military Academy, where he graduated in 1965.

**Mr. Peter Wiesner.** Mr. Peter Wiesner was appointed Senior Vice President of Network Management of the Company in 2010 and was the Senior Vice President of Marketing of the Company from 2000 to 2010. He has been with the Company for 14 years. Prior to joining the Company he was the General Manager for Thailand, Vietnam, Laos, Myanmar and Cambodia of Swiss International Air Lines AG from 1993 to 1999 and was the Cargo Marketing Manager, Switzerland of Swiss International Airlines AG from 1988 to 1993. Mr. Peter Wiesner holds a Commercial Diploma in Trade & Transport degree from Natural AG Basel, where he graduated in 1960.

**Mr. Ping na Thalang.** Mr. Ping na Thalang was appointed Vice President of the Corporate Safety Department to the Company in 2014 and was the Vice President of Information System Department of the Company from 2001 to 2013. He has also been the Advisor to the Chief Executive Officer of Bangkok Medical Center since 2011 and a Director of Davia Co., Ltd. since 2004. He has been with the Company for 13 years. He was the Advisor to the Group Chief Executive Officer and President of BGH from 2010 to 2011 and was the Chairman of Greenline Synergy Co., Ltd. from 2010 to 2011. Mr. Ping na Thalang holds a Bachelor of Computer Science degree from College of Wooster, where he graduated in 1983.

**Mr. Viroj Satitharopagorn.** Mr. Viroj Satitharopagorn was appointed Vice President of Accounting of the Company in 2004. He is also a Director of Bangkok Air Catering Co., Ltd. since 2012, a Director of Bangkok Air Catering Phuket Co., Ltd. since 2012 and an Authorized Director of Davia Co., Ltd. since 2004. He has been with the Company for 19 years. Prior to joining the Company he was the Asset Accounting Manager of Telecom Asia plc. from 1993 to 1995 and was the Accounting Officer of Thai Airways International plc. from 1981 to 1993. Mr. Viroj Satitharopagorn holds a Bachelor of Accounting degree from Chulalongkorn University, where he graduated in 1981.

**M.L. Nandhika Varavarn.** M.L. Nandhika Varavarn was appointed Vice President of Communication of the Company in 2004. She has also been a Director of Paradise Shopping Co., Ltd. since 1994. She has been with the Company for 15 years. Prior to joining the Company she was the Instructor for ‘Itim’ Hotel and Tourism Management School from 1988 to 1989 and was the General Conference Officer of the United Nations from 1984 to 1988. Ms. M.L. Nandhika Varavarn holds a Diploma from Faculty of Tourism, Cite University where she graduated in 1976 and a Bachelor from Ecole l’Hotellerie et du Tourisme de Glion where she graduated in 1978.

**Mrs. Ariya Prasarttong-Osoth.** Ms. Ariya Prasarttong-Osoth was appointed Vice President of Sales of the Company in 2006. She has also been a Director of Richness and Wealthy Co., Ltd. since 2012, a Director of Koh Chang Accom Partnership since 2012, a Director of Trat Golden Co., Ltd. since 2007, and a Director of Krung Thep Limousine Co., Ltd. since 2004. She has been with the Company for 20 years. Prior to joining the

Company she was the Marketing Manager of Samui Palm Beach Resort from 1992 to 1993. Ms. Ariya Prasartong-Osoth holds a Bachelor of Arts degree from Assumption University, where she graduated in 1990 and a Master of Business Administration degree from National University, where she graduated in 1992. She is also the daughter of Mr. Prasert Prasartong-Osoth and the sister of Mr. Puttipong Prasartong-Osoth.

**Mr. Narongchai Tanadchangsang.** Mr. Narongchai Tanadchangsang was appointed Vice President of Airport of the Company in April 2014 and was the Deputy of Vice President of Airport of the Company from 2013 to 2014. Prior to joining the Company, he served as the Deputy General Manager of Suvarnabhumi Airport (Operations) at Airports of Thailand Public Co., Ltd from 2009 to 2012. Mr. Narongchai holds a Bachelor of Science – Physics degree from Chulalongkorn University, where he graduated in 1973.

**Mr. Prote Setsuwan.** Mr. Prote Setsuwan was appointed Vice President of Marketing of the Company in 2008. He has been with the Company for nine years. Prior to joining the Company he was the Regional Manager, South East Asia of International Air Transport Association from 2004 to 2005 and was the IDFS Manager, Thailand of International Air Transport Association from 1996 to 2001. Mr. Prote Setsuwan holds a Bachelor of Accounting and Management degree from Benedictine College, Kansas, United States, where he graduated in 1984 and a Master of Business Administration degree from Sasin Graduate Institute of Business Administration, Chulalongkorn University, where he graduated in 2005.

**Wg Cdr. Saravoot Thonglek.** Wg Cdr. Saravoot Thonglek was appointed Vice President of Flight Operations, Acting President of Flight Operations and Captain Flight Crew of the Company in 2012. He was the Assistant Vice President of Flight Operations, Acting Flight Operations Director and Captain of Flight Crew of the Company from 2009 to 2011. He has been with the Company for 10 years. Wg Cdr. Saravoot Thonglek holds a Bachelor of Science degree from Royal Thai Air Force Academy, where he graduated in 1983.

**Mr. Kasem Akanesuwan.** Mr. Kasem Akanesuwan was appointed Vice President of Internal Audit and Compliance in 2013. He has also been a Director of BNH Medical Center Co., Ltd. and a Director and member of the Audit Committee of Asia Sermkij Leasing Plc. He has been with the Company for 17 years. Prior to joining the Company he held various positions with Esso (Thailand) Public Co., Ltd. from 1974 to 1987, was the Accounting Department Director of Dusit Thani Public Co., Ltd. from 1987 to 1989 and was the General Manager of Internal Control Department of Sony Thai Co., Ltd. from 1990 to 1991. Mr. Kasem Akanesuwan holds a Bachelor of Accounting degree from Chulalongkorn University, where he graduated in 1971 and a Master's degree in Accounting from Roosevelt University, where he graduated in 1973.

**Ms. Kanyratana Xuto.** Ms. Kanyratana Xuto was appointed Vice President of Human Resources of the Company in 2013. Previously, she served as Human Resources Director from 2011 to 2013, the Assistant Human Resources Director from 2010 to 2011 and the Senior Training Manager from 2007 to 2010. Ms. Kanyratana has worked with the Company for more than 19 years. Ms. Kanyratana holds a Bachelor of Arts degree from Bournemouth University, where she graduated in 1993 as well as a post graduate degree in Tourism Management from Bournemouth University, where she graduated in 1994.

**Mr. Anawat Leelawatwatana.** Mr. Anawat Leelawatwatana was appointed Deputy Vice President of Finance in 2012 and Corporate Secretary in 2013. He has been with the Company for two years. Prior to joining the Company he was the First Vice President of Syndicate Loan of Thanachart Bank Public Co., Ltd. from 2006 to 2012, the First Vice President of Investment Banking of Thanachart Bank Public Co., Ltd. from 2008 to 2009 and the First Vice President of Relationship Marketing of Thanachart Bank Public Co., Ltd. from 2003 to 2005. Mr. Anawat Leelawatwatana holds a Bachelor of Science in Agriculture degree from Kasetsart University, where he graduated in 1988 and a Master of Business Administration degree from Cleveland State University, where he graduated in 1992.

**Mrs. Narumon Chainaknan.** Mrs. Narumon Chainaknan was appointed Executive Secretary to CEO office in 2012. She has also been a Director of BFS Ground since 2012, a Director of Bangkok Airways Holding Co., Ltd. since 1987 and a Director of Thai Cargo Airline Co., Ltd. since 2012. She has been with the Company for 30 years. Mrs. Narumon Chainaknan holds a Bachelor of Accounting degree from Bangkok University, where she graduated in 1976.

## **Our Corporate Governance Policy**

Our board of directors has passed a resolution to approve our corporate governance policy, which lays down guidelines that comply with the SET principles of good corporate governance and best practice recommendations. The following is a summary of our corporate governance policy:

- protect and facilitate shareholders' rights by promoting the equal treatment of shareholders in all matters, timely dissemination of information, exercise of such rights, facilitating shareholder's attendance and voting at the meetings, giving information relating to shareholder's meeting and giving opportunity to shareholders to ask questions and express their opinions at the shareholder meetings;
- provide fair treatment of stakeholders, which includes the shareholders, customers, employees, business partners and the society, the community and the environment;
- provide a structure to implement clear duties, responsibilities and independence for the board of directors;
- provide timely and transparent disclosure of information;
- implement appropriate internal controls and risk management; and
- inculcate good ethics and implement appropriate codes of conduct.

This policy became effective on March 13, 2013 and we expect it will be updated annually to keep it in line with best business practices. On May 22, 2014, the policy was updated to comply with the new Principles of Good Corporate Governance for Listed Companies issued by the Stock Exchange of Thailand, which became effective in 2014. We expect these changes to be communicated to our board of directors, management and all employees to comply with both the letter and spirit of the corporate governance policy.

## **Corporate Social Responsibility Policy**

The Company is dedicated to good corporate governance, and is focused on operating its business with transparency, ethics and a commitment to promoting the interests of the community and the environment through its Corporate Social Responsibility (CSR) policies. As part of its CSR pledge, the Company organizes charitable events protect specifically to encourage employees to participate in various activities to strengthen the community and the environment. For example, the Company provides disaster relief aid for victims of natural disasters, organizes blood donation events, organizes art camps for local children and provides scholarships to high performing local students.

## **Code of Conduct**

In addition, the Company stipulates in its code of conduct and ethics that in the event of non-compliance with the Company's policies, procedures, manual and code of conduct and ethics regarding the investment in securities, the Company will impose punishment measures according to relevant policies, regulations and work rules as deemed appropriate.

## **Investment Policy**

### ***Businesses***

Our investment policy with respect to businesses is to invest in businesses which are related to our core business and which are consistent with our business condition and strategy or increase our competitive ability. We focus on the long-term investment in subsidiaries, associated companies and businesses with growth potential and positive return on investment.

In making investments, we consider fundamental factors of the investment, including the trend of the business, potential risks and measures to mitigate risks from such investment. Our policy is to make an investment of a sufficient size to allow us to participate in the management and to direct the business outlook of the entities in which we invest, as well as to support the businesses of the entities in which we invest to promote sustainable growth. We assign a number of directors to our investments as we deem appropriate, or in accordance with our shareholding percentage, to control and/or monitor such businesses.

On April 28, 2014, BAC's board of directors adopted a business investment policy which tracks the Company's policy described above.

### ***Securities***

Our investment policy with respect to securities is to invest in securities listed on the SET 100 which have positive fundamentals, including continuous growth rate. We also consider other business fundamentals, including the trend of the business, potential risks and measures to mitigate risks from such investment. We invest in such securities using our excess cash liquidity. We do not have a policy to invest in securities for trading purposes.

On July 24, 2014, the Company's board of directors adopted a policy to cap the total value of the Company's investments in securities. Under this policy, the Company's total value of investments in securities may not exceed THB1,000.0 million, excluding its investments in BGH and the Samui Property Fund, as of June 30, 2014. After June 30, 2014, the calculation of the THB1,000.0 million cap will include the Company's investments in BGH and the Samui Property Fund. In addition, the policy requires the Company's subsidiaries to discontinue any further investments in securities.

As of December 31, 2013 and June 30, 2014, the Company and its subsidiaries recorded investments as available-for-sale securities in long-term investment in the amount of THB14,264.8 million and THB20,151.4 million (US\$620.9 million), respectively, which are divided into market capital in the amount of THB2,870.0 million and THB2,870.0 million (US\$88.4 million), respectively, and unrealized gain from revaluation in the amount of THB11,394.8 million and THB17,281.5 million (US\$532.5 million), respectively.

As of December 31, 2013 and June 30, 2014, BAC recorded investments as trading securities in current investments in the amount of THB41.0 million and THB31.2 million (US\$1.0 million), respectively. The decrease in the six months ended June 30, 2014 was principally due to BAC's revised investment policy relating to securities. On April 28, 2014, BAC's board of directors adopted a new investment policy which requires BAC and its subsidiaries to discontinue any further investments in securities (including BGH and the Samui Property Fund) and to gradually dispose of currently held securities. On June 30, 2014, BAC began gradually disposing its currently held securities on the SET (not big lot method). Under this policy, BAC is to use its excess cash flow to pay dividends to its shareholders. See "—Other Operating Policies and Procedures—Loan Facility".

### ***Authorization***

Our board of directors is authorized to approve any investment that does not carry an unacceptable level of risk in the determination of the board of directors. Our executive directors are authorized to approve investments not exceeding THB500.0 million. Our executive directors are required to present to our board of directors for approval, any investments in securities of entities which are connected or related to the Company or its directors or management, and any director(s) related to such entities will not attend or vote.



We invested in subsidiaries and associated companies which operate the related business and other business. The summary of the investment structure of the Company in the subsidiaries and associated companies are shown in the following table.

<u>Company</u>	<u>Core Business</u>	<u>Paid-up capital (Million Baht)</u>	<u>Investment Ratio (Percentage)</u>
<b>Subsidiary Companies</b>			
Bangkok Airways Holding Co., Ltd	Holding shares in BGH	1,001	100.0
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	Ground service provider at the Suvarnabhumi International Airport	670.0	90.0
Bangkok Airways Ground Services Co. Ltd.	Ground service provider at the Samui Airport	0.3	100.0
SA Services Co., Ltd. <sup>(1)</sup>	Ground service provider at the Don Mueang International Airport	1.0	100.0
BFS Cargo DMK Co., Ltd. <sup>(1)</sup>	Cargo terminal operation services at the Don Mueang International Airport	25.0	51.0
Bangkok Air Catering Co., Ltd.	Catering services at the Suvarnabhumi International Airport	500.0	90.0
BAC Gourmet House Co., Ltd. <sup>(2)</sup>	Restaurant	25.0	100.0
Bangkok Air Catering Phuket Co., Ltd. <sup>(2)</sup>	Catering services at the Phuket International Airport	0.3	70.0
<b>Associated Companies</b>			
WFS-PG Cargo Co., Ltd.	Cargo terminal operation services at the Suvarnabhumi International Airport	300.0	49.0
The Samui Property Fund <sup>(3)</sup>	Investing in the holding of a 30-year lease to the assets of the Samui Airport	9,500.0	25.0
S.E.A Aviation Co. Ltd.	Transportation and cargo services	30.0	10.0

(1) Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd. is its shareholder.

(2) Bangkok Air Catering Co., Ltd. is its shareholder.

(3) The Samui Property Fund had registered capital of THB9,500.0 million on the registration date of the Samui Property Fund; however, the Samui Property Fund has decreased its capital by decreasing the par value. As a result, on December 31, 2013, the paid up capital of the Samui Property Fund was THB9,208.0 million.

#### **Table of Authority**

The Company's board of directors determined that certain transactions such as the annual investment budget, the proposal of annual expense budget, the approval of interim urgently required projects or assets exceeding THB 100.0 million, the approval of out-of-budget expenses exceeding THB100.0 million, the procurement, purchase and long term lease of aircraft and entering into agreements or transactions with related party on terms out of the ordinary course, require approval from the board of directors.

#### **Compensation**

The remuneration policy for the Company is for the remuneration of directors to be reviewed annually by the respective boards of directors and submitted to the respective shareholders for approval. In 2013 and as of June 30, 2014, the total remuneration paid to our directors and executive officers of the Company was THB172.4 million (US\$5.3 million) and THB91.5 million (US\$2.8 million), respectively.

#### **Interest in Shares**

Other than as described under "Principal and Selling Shareholders", none of our directors or executive officers owns any of our Shares.

## **Internal Control**

### ***Independent Third Party Internal Control Audit***

#### *January 4, 2013 to February 1, 2013 Audit*

In 2013, in connection with the Offering, the Company engaged an independent third party consultant (“third party consultant”) to review and advise on appropriate internal control policies between January 4, 2013 and February 1, 2014. In 2013, the scope of the review performed by the independent third party consultant comprised five main items, namely, the organization and its environment; risk management; internal control relating to the operational performance of the management; information system and communications; and the monitoring system. The review also covered seven important processes, namely, the recognition of revenue and receivables; procurement and purchasing; inventory management; purchasing, storage, and preparation of register of land, buildings and equipment; the recognition of expenses, payables and making payments; account closing and financial reporting; and the general control of information technology.

The third party consultant reported the results of its review and provided recommendations to the Audit Committee. In response, the Audit Committee deemed that the Internal Control Division should monitor the implementation of the third party consultant’s recommendations to enhance the efficiency of the Company’s internal control system. As of July 4, 2014, the Company revised its policies and procedures in accordance with the recommendations of the third party consultant.

#### *April 21, 2014 and May 23, 2014 Audit*

In 2014, the Company engaged the same independent third party consultant to monitor the internal control system of the Company between April 21, 2014 and May 23, 2014. The scope of the audit included four main items, namely, a review of the policies and procedures on emergency cash; a review of the investment policies; a review of the policies and procedures on related party transactions; and a review of the roles and responsibilities of the Treasury department. The independent third party consultant did not identify any material issues in its review of such aspects of the Company’s internal control system.

#### *Corporate Risk Profile Report*

The Company also engaged the third party consultant to develop Corporate Risk Profile Report, which included conducting interviews with the Company’s senior executives and holding a workshop for all of the Company’s executives on May 9, 2014. The information gathered from the interviews and the workshop was incorporated in the internal control section in the Corporate Risk Profile Report. The third party consultant determined the Company’s level of corporate risk based on information gathered from the workshop and classified various risks into different levels. Risks classified at high risk include risks that are relevant to business competition and human resources management and must be addressed immediately.

The Company is in the process of preparing the Corporate Risk Profile and addressing other types of control procedures derived from the workshop attended by all executives. The Company has remedied most of the major risks and it will continue to improve the remaining risks and communicate them to the staff of the Company and its subsidiaries.

#### *August 4, 2014 – September 1, 2014 Audit*

The same independent third party consultant conducted an audit of the Company’s cash-on-hand, petty cash, advances and emergency cash to ensure that the internal control of the Company, BFS Ground and BAC are in line with the international principles of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The scope of the audit included:

- a review of the policies and working procedures relating to control of cash;
- a review of compliance with policies and working procedures relating to cash by selecting transactions on a sampling basis from January 1 to July 31, 2014; and
- a review of the existence and completeness of cash for the selected locations as of the inspection date.

The third party consultant concluded that the Company, BFS Ground and BAC are continuing to try to improve their respective internal control policies and procedures in respect of cash to be in line with COSO principles. The companies have made improvements to their internal controls of cash as follows:

- revising the table of authority, which identifies the officers granted the authority to approve financial matters in order to appropriately distribute authority and to be in line with the role and responsibility of the approving person. This table of authority came into effect on August 29, 2014;
- appointing an additional member to the executive committee of Bangkok Airways with effect from August 28, 2014 in order to improve supervision of the management of work and strict approval of matters. The current executive committee is now comprised of: Mr. Prasert Prasarttong-Osoth, Mr. Puttipong Prasarttong-Osoth, Mr. Pradit Theekakul and Mr. Anawat Leelawatwatana. The newly adopted voting procedures of the Executive Committee are:
  - a quorum of an Executive Committee meeting is achieved by the presence of not less than half of the total number of directors;
  - any decisions made by the Executive Committee shall be passed by a majority of votes from all directors attending the meeting. Each director shall have one vote; and
  - the chairman of the meeting shall abstain from voting on each agenda item. Only in the case of a tie vote, shall the chairman cast a vote;
- revising and/or adopting operational policies and guidelines related to cash-on-hand, petty cash, advances, cash at Yangon station and emergency cash to be clear and in line with international principles for internal control; all of such operational policies and guidelines revised and/or adopted by the Company, BFS Ground and BAC became effective between September 4, 2013 and September 1, 2014; and
- appointing an expert in internal auditing outsourced by the companies to review and assess the quality of the internal audit function to assure quality and independence, which will be undertaken during the period between October 2014 to December 2015.

However, the Company, BFS Ground and BAC will continue to work towards addressing the shortcomings in their internal controls of cash. The Company, BFS Ground and BAC still need to perform the following tasks:

- setting a more stringent cash control environment and explaining to the staff the importance of compliance with such policies, regulations, rules and procedures, as well as requiring the Board of Directors and the Audit Committee to monitor the management's performance to ensure compliance with good corporate governance;
- emphasizing the internal control policy relating to advances which covers the approval of advances, follow-up, repayment, and use of supporting documents for disbursement and repayment;
- emphasizing the internal control policy relating to the approval of payments in accordance with the table of authority and communicating that it is prohibited for management and staff at every level to approve their own expenses;
- Emphasizing the internal controls relating to system access to information for payment of petty cash and advances for the Company. Only authorized persons shall have access to such information, and any changes to the information, such as bank account details, must be approved and strictly controlled;
- carrying out frequent cash counts by the Internal Audit Department or a department which is independent from the department performing cash keeping;
- classifying the cash accounts of the Company in accordance with the purposes of the cash, especially when the amount of cash is substantial;

- providing job descriptions in conformity with the duties concerned, as determined in the policies and operating procedures of the Company, BFS Ground and BAC; and
- ensuring that the internal auditor can perform its internal audit work independently and in accordance with the International Standards for the Professional Practice of Internal Auditing. The Audit Committee monitors the internal audit work to ensure compliance with good corporate governance.

With respect to the outstanding items, the executives of the Company, BFS Ground and BAC have agreed to take action in line with the recommended additional tasks outlined above. To improve the Company's internal auditing policies and procedures and to protect the interest of the Company's minority shareholders, the Company has reengaged the same independent third party consultant to assess the Company's internal audit function. The first phase of this audit will take place from September 2014 to December 2014 and will review the working paper of the Internal Auditor. The second phase will begin in 2015 and will assess the quality of the internal auditing function by reference to the internal auditing standards.

#### ***Company's Internal Audit Department Audit***

In 2013, the Company's Internal Audit Department conducted an audit of the Company's internal controls, identified a total of 11 material issues, made recommendations to and consulted with the executives and monitored the implementation of improvements made in response to such recommendations. The material issues identified included:

- Purchasing procedures of the purchasing division;
- Purchasing procedures for advertising and organization of corporate communication activities;
- Purchasing procedures for e-commerce advertising;
- Report for counting of emergency cash reserves;
- Purchasing procedures for aircraft and maintenance;
- Purchasing procedures for Samui International Airport;
- Purchasing procedures for raw materials for BAC;
- Report for counting cash from operating results of the Mandalay station in Myanmar;
- Report on cash management with respect to the flight operations at Sukhothai station;
- Recording the fixed asset cycle; and
- Report on cash management with respect to operations of the Trat Airport and flights.

#### ***2014 Internal Audit Plan***

In 2014, the Company's Internal Audit Department intends to audit various issues, follow-up on the issues identified in the 2013 audit and better prepare and train its staff on the internal control policies of the Company. The following is a summary of the internal audit plans for 2014:

<b>Internal Audit Plan</b>	<b>Action plan</b>
1. To audit the system for inventory in the hangars at Suvarnabhumi Airport and at the Company's subsidiaries, as well as conducting a surprise inventory count.	November - December
2. To audit the fixed assets and conduct a surprise count of the assets in the headquarters, the hangars, the Suvarnabhumi Airport and in the other three airports of the Company.	January – February
3. To audit the Company's other income which is not related to the airline business.	May – July
4. To audit the operation of the Ticketing and Ground Operations offices.	May – June

5. To audit the operation of Sukhothai Airport.	January
6. To audit the operation of Trat Airport.	February
7. To audit the operation of Samui International Airport.	February, June, October
8. To audit procedures in the subsidiaries which have a high risk potential.	March and October
9. To follow up on the purchasing which had been audited in 2013 (only with respect to material issues).	January
10. To audit the internal control system with respect to the Flight Operations Division at Suvarnabhumi Airport.	June – July and September– October
11. To hold training sessions on the COSO internal control for the staff of the Company and its subsidiaries.	June
12. To prepare for a meeting with the Audit Committee on a summary of internal audit results.	February – March, July and October
13. To implement and assess the implementation of the SAP system.	February – December
14. To audit efficient compliance with the Code of Conduct pursuant to the COSO.	February and August
15. To monitor various issues such as the counting of cash, connected transactions, and investments.	February, May and November – December
16. To monitor and conduct auditing on the income after the completion of auditing in 2012.	January and July

#### ***External Auditor's Management Letter***

In addition, in connection with the audit of the financial statements for the year ended December 31, 2013, the independent auditor examined the effectiveness of the Company's internal controls. During the review, the independent auditors made certain observations, including identifying significant deficiencies, in respect of the Company's internal controls and recommended remedial action. The definition of significant deficiency according to International Standards on Accounting 265 is: a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance. The following table, which is presented herein as required by the SEC in connection with the public offering in Thailand, outlines the independent auditor's observations, their recommendations and the responses provided by management at the time the management letter was produced. Management is currently implementing these responses or other alternatives.

#### ***Purchasing and Payable System***

<b>Observation</b>	<b>Suggestion/ Opinion of the Management</b>
There is no adequate control for requisitions from storage and there is no person authorizing requisitions.	<p><u>Suggestion</u></p> <p>The Company should add more steps for checking requisitions for materials by the Engineering Department. Every requisition must be signed by an authorized person before the release of materials in order to prevent unauthorized requisitions and comply with the principles of good internal control.</p> <p><u>Opinion of the Management</u></p> <p>The Engineering Department should proceed accordingly as suggested by the Auditor.</p>

Observation	Suggestion/ Opinion of the Management
<p>The audit reveals that purchase requisitions and purchase orders are prepared after placing orders for goods and services that are considered the direct costs of the Company, such as fuel, in-flight meals, ground services, aeronautical radio services, etc.</p>	<p><u>Suggestion</u></p> <p>Each unit that is required to purchase goods and services, should prepare purchase requisitions and have them approved by the authorized persons in compliance with the Company's policy before placing any order for goods and services.</p> <p><u>Opinion of the Management</u></p> <p>Under the SAP System (a new accounting system), once the Company has been provided with the services, such services receiver will record and link it to the SAP System directly and compare the price and the received services with the invoice of the supplier or the service provider. If they are correct and consistent, the Accounts Department will proceed with the setting of debt.</p>
<p>The account codes in payment orders from the Operation Department do not match the details of the purchase vouchers recorded in the accounting system.</p>	<p><u>Suggestion</u></p> <p>The Operations Department should verify the account codes and other details to ensure that the information is accurate and complete before submitting it to the Accounts Department.</p> <p><u>Opinion of the Management</u></p> <p>In 2014, the Company changed the method for recording in the accounting system. Under the new method, the relevant department can record the receipt of goods and the details as first agreed and the Accounts Department does not need to re-record such details.</p>

*Sales and Receivables System*

Observation	Suggestion/ Opinion of the Management
<p>The Company has a policy on the provision of doubtful debts based on one factor, where an allowance of doubtful debts will be provided at the rate of 50% of receivables which are more than one year overdue.</p>	<p><u>Suggestion</u></p> <p>The Company should consider key indicators or other factors which result in debtors being unable to make payment when due, together with the consideration of debt ageing. If it is possible that the Company will not receive payment, the Company should consider providing an allowance for the total amount due for the doubtful debts.</p> <p><u>Opinion of the Management</u></p> <p>The Company will reconsider this rule during this year.</p>
<p>No contracts were entered into between the Company and its customers for chartered flights for medical services or VIP chartered flights in accordance with the Company's policy. Only quotations were prepared.</p>	<p><u>Suggestion</u></p> <p>To prevent any disputes regarding the provision of services between the Company and its customers, the Company should execute contracts or documents affixed with the customers' authorized signatures every time a service is agreed, and the duration should be fixed on a short term basis (i.e., three to six months)</p>

Observation	Suggestion/ Opinion of the Management
	<p><u>Opinion of the Management</u></p> <p>The Management will arrange for the relevant departments to comply with the suggestion of the auditor within the third quarter.</p>

*Transactions between related companies*

Observation	Suggestion
The Company does not send related confirmation to its related companies each time an account is closed.	<p><u>Suggestion</u></p> <p>The Company should establish a policy for sending related confirmation to all related companies, and should reconcile the accounts to check for differences at least once a month in order to ensure that the records of the accounts are accurate.</p> <p><u>Opinion of the Management</u></p> <p>The Company will arrange for the relevant divisions to comply with the suggestion of the auditor within the third quarter.</p>

*Inventory System*

Observation	Suggestion / Opinion of the Management
The recording of the inventory and spare parts in the AMASIS system was not in THB, but recorded in USD, using average rates.	<p><u>Suggestion</u></p> <p>When recording the inventory and spare parts, the Company should convert the values into THB on the date the inventory and spare parts are received, in order to ensure that the value of the inventory and spare parts are accurate and in accordance with accounting standards.</p> <p><u>Opinion of the Management</u></p> <p>The AMASIS system will be recorded in THB from July 1, 2014 onwards.</p>
The Company does not prepare a separate report on the age of the inventory and has no policy to fix depreciation costs. As a consequence, the inventory balance may not be valued appropriately.	<p><u>Suggestion</u></p> <p>The Company should have a policy to establish an allowance for depreciation costs, as well as to review the sufficiency of the aforementioned allowance at least once each quarter, in order to comply with the duty of care and to ensure that the inventory balance shown in the financial statements is appropriate.</p> <p><u>Opinion of the Management</u></p> <p>The policy should be centralized and the management will consider this policy within the third quarter.</p>
The Warehousing Division requires that the inventory at each storage location be counted separately on a monthly basis. However, no specific date and time have been determined.	<p><u>Suggestion</u></p> <p>The Company's Warehousing Division should determine the specific date and time when the inventory is to be counted at each location in order to enable the Accounts Department to appropriately determine the date for counting the inventory.</p>

Observation	Suggestion / Opinion of the Management
	<p><u>Opinion of the Management</u></p> <p>The Engineering Division will determine a time when there is a lighter maintenance schedule for the counting of the inventory and submit such schedule to the department which will be an observer to determine the exact date, and send the schedule back to the Engineering Division for the exact date of counting.</p>
<p>The Company's Warehouse Department supplied spare parts to the Engineering Division for use in aircraft maintenance during the time in which the inventory was being counted.</p>	<p><u>Suggestion</u></p> <p>The Warehouse Department should cease the receiving and supplying of spare parts during the period in which the inventory is being counted, in order to minimize problems pertaining to the reconciliation of the actual inventory balance and the inventory balance stated in the system.</p> <p><u>Opinion of the Management</u></p> <p>The Warehouse Department and the Engineering Division should comply with the suggestion of the auditor.</p>

*Others*

Observation	Suggestion / Opinion of the Management
<p>The Company does not keep a register of the various types of assets which are placed as guarantees, pledged, and mortgaged with financial institutions.</p>	<p><u>Suggestion</u></p> <p>The Company should keep a register of the various types of assets which are placed as guarantees, pledged, and mortgaged with each financial institution. This will allow the Company to immediately identify the assets which are placed as guarantees, pledged, and mortgaged, with which financial institutions, and for how much. The register will also prevent material documents, land title deeds, and relevant documents of title from being lost.</p> <p><u>Opinion of the Management</u></p> <p>The Finance Department will prepare a register of the various types of assets within the fourth quarter.</p>
<p>The Company should ensure that the general ledger and control accounts are audited, such as trade accounts receivable, trade accounts payable, other accounts receivable and accounts payable.</p>	<p><u>Suggestion</u></p> <p>To help the auditing process, the Company should ensure that the general ledger and control accounts are audited on a monthly basis in order to avoid accumulated problems from the increasing differences in the account balances. The Company should also endeavor to find the causes of such differences with a view to rectifying the accounts and to ensure that the accounts are accurately recorded.</p> <p><u>Opinion of the Management</u></p> <p>The Company assigned the relevant divisions, namely, the Accounts Department, to reconcile any control accounts on a monthly basis as suggested.</p>



Observation	Suggestion / Opinion of the Management
<p>The Company's FlyerBonus Program Report was submitted to the Accounts Department without having been checked by the relevant persons. (Loyalty Marketing Manager)</p>	<p><u>Suggestion</u></p> <p>The Company should ensure that the FlyerBonus Program Report is checked for accuracy by the relevant officers prior to being submitted to the Accounts Department.</p> <p><u>Opinion of the Management</u></p> <p>The Company will arrange for the Loyalty Marketing Manager to check the report before sending it to the Accounts Department.</p>
<p>The Company should specify the limit of cash-on-hand. From the audit, it was found that the Company did not limit cash-on-hand in account no. 1001 held by Khun Ampai Bunsong and Khun Suthi.</p>	<p><u>Suggestion</u></p> <p>The Company should regularly review the limit of cash-on-hand held by staff for the financial amount and the Company should specify a clear policy regarding the limit of cash-on-hand to minimize the risks associated with cash holding.</p> <p><u>Opinion of the Management</u></p> <p>The cash-on-hand is reviewed by the Accounts Department, and in cases where there have been no spending, the Accounts Department will make a request to return such cash-on-hand.</p>
<p>At Samui Station, petty cash of THB 25,000 is kept by a staff member in his/her personal bank account.</p>	<p><u>Suggestion</u></p> <p>Any staff responsible for keeping petty cash should separate the petty cash from his/her personal bank account or open another account under the Company's name instead.</p> <p><u>Opinion of the Management</u></p> <p>The Company will make the suggested changes within the third quarter.</p>
<p>The Company does not keep a register of its vehicles indicating their status, namely, which department is in possession of the vehicles, and whether or not relevant taxes are paid in accordance with the law. From the audit, it was found that the registration books of some of the vehicles were missing.</p>	<p><u>Suggestion</u></p> <p>The Company should keep a register of all vehicles in order to be aware of the existence of these assets and for keeping track of the status of the said vehicles, as well as overseeing the maintenance of material documents related to such assets.</p> <p><u>Opinion of the Management</u></p> <p>The new accounting system, the SAP system, can itemize the vehicles and maintain a register of vehicles as per the suggestion of the Auditor.</p>
<p>A number of staff took more leave than the quota prescribed by the Company. The Human Resources Department did not deduct their salaries despite these employees taking excessive leave.</p>	<p><u>Suggestion</u></p> <p>The Human Resources Department should check to ensure that salaries are accurate each time information on the system is updated and should exercise more care when checking the payment of employees' salaries.</p> <p><u>Opinion of the Management</u></p> <p>The Human Resources Department should exercise more care in the payment of employees' salaries and create a module for preventing payment errors.</p>

Observation	Suggestion / Opinion of the Management
<p>Funds invested in SEA Aviation Co., Ltd in the amount of 300,000 shares, with a par value of THB 100 per share, cannot be verified against the share certificates.</p>	<p><u>Suggestion</u></p> <p>The Company should issue share certificates as soon as an investment is made, given that the share certificates are important legal documents which evidence the Company's ownership of the investment funds in the aforementioned company.</p> <p><u>Opinion of the Management</u></p> <p>The Company is in the process of preparing the share certificates.</p>

*Observation from Tax Audits*

Observation	Suggestion / Opinion of the Management
<p>The Company has entered into a significant number of related party transactions. Therefore, prices should be fixed in accordance with the market prices.</p>	<p><u>Suggestion</u></p> <p>The Company should prepare and produce documentation in support of transfer prices between related parties which are reasonable and appropriate and in line with the provisions in the Revenue Code for use as a basis in response to questions from the Revenue Department Officers.</p> <p><u>Opinion of the Management</u></p> <p>The Company should arrange for the relevant department to prepare the documents to be ready for inspection.</p>
<p>Software with indefinite useful life is amortized at 20 percent of the acquisition cost whilst Section 4 (4) of the Royal Decree No. 145 provides that the "cost of acquisition of the right in process, formula, goodwill, trademark, business license, patent, any other copyright, with indefinite useful life is amortized at 10 percent a year. Assets with a definite useful life can be amortized at 100 percent divided by the estimated useful life"</p>	<p><u>Suggestion</u></p> <p>The Company must add the amount of the amortization which is in excess of the limit prescribed by law to the net profit for the calculation of corporate income tax in order to prevent any dispute with the Revenue Department and additional tax assessment by the Revenue Department.</p> <p><u>Opinion of the Management</u></p> <p>The Company has determined that the Accounts Department, in every tax filing, must comply with the regulations of the Revenue Department.</p>
<p>The Company does not add certain kinds of benefit and welfare given by the Company to its staff, such as a food allowance, to the base amount of personal income used for the calculation of withholding tax, but the Revenue Code provides that such benefits shall be added to the base income when calculating a person's income tax.</p>	<p><u>Suggestion</u></p> <p>To reduce the risk that the Company may be penalized due to inaccurate calculation and submission of withholding tax of its staff, the Company should include such benefits and welfare in the base income of the staff when calculating the withholding tax for each month. Under the Revenue Code, for inaccurate calculation and submission of withholding tax, the Company is liable to pay a penalty of 1.5 percent of the deficit amount per month.</p> <p><u>Opinion of the Management</u></p> <p>The Company will consider the issue on the benefits and welfare given to its staff and revise it to comply with the suggestion.</p>

## ***Head of Internal Audit Department and Head of Compliance***

As of the date of this Offering Memorandum, the Internal Audit Department is headed by Mr. Kasem Akanesuwan. The Internal Audit Department is comprised of seven staff members (including the head of the department) and can be divided into 2 units: (i) internal audit, which is responsible for auditing and assessing the adequacy of the internal control system, and (ii) risk and compliance, which is in charge of identifying and supervising the risk management.

At Audit Committee Meeting No. 3/2014 held on May 15, 2014, the Audit Committee was of the opinion that Mr. Kasem Akanesuwan is qualified to perform the duties as the Head of Internal Audit in an appropriate, adequate and efficient manner, given his educational background, training and experience in internal audit in the business and/or industry of the same nature as that of the Company for a period of 16 years. He has also attended training courses on internal audit, namely the Internal Auditor Course run by the Institute of Internal Auditors of Thailand and he has an understanding of and is independent in relation to the activities and operations of the Company.

## **Other Operating Policies and Procedures**

### ***Cash Management***

The Company's cash accounts are divided into three parts, namely, cash-on-hand and petty cash, emergency cash and advance payments.

#### *Cash-on-Hand and Petty Cash*

The cash-on-hand of the Company refers to cash that must be reserved for the purpose of foreign currency exchange. The use of cash-on-hand must be in accordance with the determined cash limit without reimbursement.

Petty cash refers to cash that must be available for miscellaneous expenses, not exceeding THB3,000 for each expense incurred in Thailand and THB30,000 for each expense incurred abroad. The aforementioned limits do not apply to reimbursements for travelling expenses, lost baggage claims and customs and immigration fees, which are fully reimbursed. Furthermore, the petty cash balance must be maintained at a prescribed level at all times.

#### *Storage*

The Company requires each employee holding petty cash to open a bank account for depositing the Company's petty cash so it can be kept separate from their own personal bank accounts and to facilitate the transfer, utilization, supervision and inspection of the petty cash by the Company.

#### *Approvals*

An authorized person may, in accordance with the table of authority, approve reimbursements of expenses, stipulate or increase any petty cash limits and initiate cash-on-hand for cash floats and for any exchanges.

#### *Review of Limits on Cash-on-Hand and Petty Cash*

The Deputy Vice President of Accounting is responsible for reviewing the limit on levels of cash-on-hand and petty cash at least once a year, taking into account any relevant factors.

#### *Emergency Cash*

The Company has implemented policy, limits and operating procedures for dealing with emergency cash to support any unexpected emergency situations which may arise during the Company's operations to minimize the impact of such situations on the Company's continuing operations.

#### *Emergency Cash Limit*

The Company has established a limit on emergency cash, both in THB and USD to deal with any domestic or international emergency situations which may arise. The Company requires the finance department and the emergency management team to jointly review and determine limits on emergency cash at least once a year.

### *Storage*

Emergency cash is stored in a secured vault at the Company's premises with a separate key holder and a code keeper to ensure security and control the utilization of such cash in an event of emergency.

### *Operating procedures*

Emergency cash may be utilized once an emergency situation arises or there is a declaration of crisis. The emergency management team, which comprises members of the Company's management allocated a specified category of emergency, must estimate the expenses for dealing with such emergency situation and the leader of the emergency management team will be instructed to designate a person who can withdraw the necessary amount of emergency cash. Following the withdrawal of such cash, the relevant departments and personnel of the Company must oversee and inspect the use of such cash in the following manner:

<b><u>Department / Personnel</u></b>	<b><u>Role</u></b>
Finance Department	Operate, control and inspect the withdrawal of emergency cash in accordance with the operating procedures
Personnel withdrawing cash	Withdraw and control the withdrawal of emergency cash as well as compile necessary documents as evidence
Accounts Department	Verify the accuracy of the documents and prepare and maintain records for accounts
Internal Audit Department	Inspect the operating procedures and report the results to the President and Audit Committee

### *Advance Payment*

The Company makes advance payments available for its management and staff for business-related expenses, such as travel expenses and aviation expenses. Each request for approval must be accompanied by supporting documentation and reasons for incurring such expense. The approval by the management shall be determined in accordance with the table of authority. There is no limit on the amount of advance payment that can be made to an employee but the Board of Directors must be informed of any withdrawals exceeding THB5 million.

In the past, in addition to the withdrawal of advance payments for expenses incurred during the conduct of normal business operations, the Company also provided advance payments for management and employees in the accounting and finance departments during weekends and long holidays as reserves for when there had been an unexpected emergency situation and cash could not be withdrawn from the banks during the holidays. Furthermore, during the protests in Bangkok from late 2013 to early 2014, the Company withdrew a sum of advance payment as a reserve to be stored in the Company's secured vault in the event the circumstances were to become violent and the Company would not be able to withdraw cash or process any transactions at banks. However, the Company returned such advance payment to its bank account during the first quarter of 2014.

In order to ensure the careful and sufficient utilization of advance payments and to avoid possible losses or corruption, the Company made an announcement on August 29, 2014 setting out the procedures for withdrawing advance payments, including the proper procedures for withdrawal and repayment, time limits for submitting supporting documentation and follow-up actions.

### *Cash Maintained at One Station*

At one of the Company's overseas station locations, the Company earns its revenues from selling tickets and excess baggage weight fees and incurs expenses which arise during business operations such as ground service fees, office rent, and other employee-related expenses. After deducting all such expenses, the Company is left with an amount of profit which is held in cash at such station due to the high costs associated with repatriating such money back to Thailand. However, in order to maintain control over the funds, the Company's Auditing Committee has resolved that the Company implements cash control using a secured vault and keeping the vault key separate in different places, and also requires the Accounts Department check the amount of such cash at least twice a month.

### *Loan Facility*

In 2011, BAC, an affiliate of the Company, gave a sum of money to a staff member to purchase shares from a company listed on the SET amounting to THB7 million and such shares were held in the name of the staff

member. The staff member had confirmed to the auditors of BAC repeatedly that he held such shares on behalf of BAC, and BAC recorded the shares as an investment of BAC in its accounts. Upon receiving any dividends, the staff member would deliver such dividends to BAC and BAC would record the dividends as its revenue. The staff member sold the shares in July 2014 and delivered the proceeds from the sale to BAC. During a Board of the Directors' Meeting, it was resolved that the affiliates will no longer be permitted to make further investments in securities and are required to gradually dispose of all remaining securities that are still held as investments. Therefore, such policy of prohibiting any further investments in securities by the Company or BAC should prevent the same situation from reoccurring in the future.

Furthermore, before the Company was converted to a public limited company, the directors who are shareholders of the Company would take out loans from the Company for their personal use, without any involvement of the Company and the Company would record such loans as loan facilities to the directors. Such directors have since repaid all loans, together with interest, to the Company. After the Company was converted to a public limited company, it was resolved during an audit committee meeting that there should no longer be any right to borrow and/or lend, provide guarantees or provide any assets of the Company as security for the benefit of related persons. Therefore, such policy dealing with related transactions should prevent the same situation from reoccurring in the future.

### ***Fixed Asset Inspection***

In 2013, the Company had written-off some of its fixed assets as a result of an inspection of the Company's asset accounts before the SAP system was implemented, during which inspection the responsible authority informed the Company that some assets could not be located. Therefore, at a Board of the Directors' meeting held on January 23, 2014, the Board approved writing-off such assets from the asset accounts. Such assets were valued at approximately THB85.18 million as of December 31, 2013. The approval was based on the procedures for writing-off assets from the asset accounts in compliance with rules on asset management of the Company. However, following the approval by the Company's Board of the Directors, the Maintenance Department performed another inspection and found some of the assets which had been written-off and thus the value of written-off assets decreased to THB52.60 million.

The assets which had been written-off can be categorized into the following:

- aircraft parts, which are rotatable parts with serial numbers for repairing aircrafts – the total value that was written-off was approximately THB36.50 million.
- the improvements to airport, buildings and improvements to Samui Airport valued at approximately THB9.36 million – the majority of this figure came from the improvement of the passenger terminal at around THB7.85 million.
- office and pantry appliances and other equipment valued at approximately THB6.70 million.

As of June 30, 2014, the Company had not written-off other assets other than those which have already been written-off as mentioned above. In addition, the Company has revised its rules on asset management on July 3, 2014, and now requires effective supervision of all assets owned by the Company.

## PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our Shares immediately before and after completion of the Combined Offering.

Name	Shares Owned Immediately Before Completion of the Combined Offering		Shares Purchased/ (Sold) in the Combined Offering	Shares Owned Immediately After Completion of the Combined Offering	
	No. of Shares	%	No. of Shares	No. of Shares	%
<b>Directors and Executive Officers:</b>					
Narumon Chainaknan	8,178,180	0.52	0	8,178,180	0.39
Pradit Theekakul	8,320,000	0.53	0	8,320,000	0.40
Kaset Rochanil	700,000	0.04	0	700,000	0.03
Visanu Prasarttong-Osoth	300,000	0.02	0	300,000	0.01
Vichit Yathip	300,000	0.02	0	300,000	0.01
James Patrick Rooney	300,000	0.02	0	300,000	0.01
Saravoot Thonglek	29,000	0.00 <sup>(1)</sup>	0	29,000	0.00 <sup>(1)</sup>
Viroj Satitharapagorn	38,000	0.00 <sup>(1)</sup>	0	38,000	0.00 <sup>(1)</sup>
Christophe Clarenc	36,900	0.00 <sup>(1)</sup>	0	36,900	0.00 <sup>(1)</sup>
Prote Setsuwan	28,000	0.00 <sup>(1)</sup>	0	28,000	0.00 <sup>(1)</sup>
Nandhika Varavarn	40,000	0.00 <sup>(1)</sup>	0	40,000	0.00 <sup>(1)</sup>
Peter Wiesner	33,600	0.00 <sup>(1)</sup>	0	33,600	0.00 <sup>(1)</sup>
Ping Na Thalang	33,900	0.00 <sup>(1)</sup>	0	33,900	0.00 <sup>(1)</sup>
Kasem Arkanesuwan	40,500	0.00 <sup>(1)</sup>	0	40,500	0.00 <sup>(1)</sup>
Anawat Leelawatwatana	21,000	0.00 <sup>(1)</sup>	0	21,000	0.00 <sup>(1)</sup>
Komkrich Sriyabhandha	46,100	0.00 <sup>(1)</sup>	0	46,100	0.00 <sup>(1)</sup>
<b>Prasarttong-Osoth Family<sup>(2)</sup>:</b>					
Prasert Prasarttong-Osoth	383,021,100	24.24	0	383,021,100	18.24
Vanli Prasarttong-Osoth	36,250,000	2.29	0	36,250,000	1.73
Puttipong Prasarttong-Osoth	319,700,000	20.23	0	319,700,000	15.22
Ariya Prasarttong-Osoth	155,040,000	9.81	0	155,040,000	7.38
Poramaporn Prasarttong-Osoth <sup>(3)</sup>	473,709,920	29.98	(60,000,000)	413,709,920	19.70
Somruthai Prasarttong-Osoth	77,542,900	4.91	0	77,542,900	3.69
<b>Other:</b>					
Sahakol Estate Co., Ltd.	63,934,400	4.05	0	63,934,400	3.04
Other <sup>(4)</sup>	52,402,600	3.31	0	54,402,600	2.50
<b>Public Shareholders<sup>(5)</sup></b>	<b>—</b>	<b>—</b>	<b>580,000,000</b>	<b>580,000,000</b>	<b>27.62</b>
<b>Total</b>	<b>1,580,000,000</b>	<b>100%</b>	<b>520,000,000</b>	<b>2,100,000,000</b>	<b>100%</b>

(1) Shareholdings account for less than 0.01%.

(2) The Prasarttong-Osoth family has pledged approximately 21.6% of the outstanding shares of the Company prior to the Combined Offering to a financial institution.

(3) On the first day the Shares of the Company are traded on the SET, the Selling Shareholder will offer and sell not more than 60,000,000 Vendor Shares, or 2.9% of the total issued and paid-up Shares of the Company, to institutional investors in Thailand through Bualuang Securities Public Company Limited in a private placement through a big lot board of the SET. The offering price of such Vendor Shares shall be the same as the public offering price. The Vendor Shares will not be subject to any lock-up restrictions.

The Selling Shareholder is concurrently offering another 105,000,000 Shares, or 5% of the total issued and paid-up Shares of the Company, to Bangkok Bank Public Company Limited, an institutional investor, through the big lot board of the SET on the first day on which the Company's Shares are traded on the SET. Such transaction is subject to certain terms and conditions. The Thai Lead Underwriters will not procure subscribers for such shares to be sold to Bangkok Bank Public Company Limited. Bangkok Bank Public Company Limited has no contractual right to nominate any of its representatives to be a director or an executive of the Company. The 105,000,000 Shares to be purchased by Bangkok Bank Public Company Limited will not be subject to any lock-up restrictions. In addition, Bangkok Bank Public Company Limited will not participate in the bookbuilding process. In the event that all the Vendor Shares and the additional 105,000,000 Shares are sold, the Selling Shareholder will hold 308,709,920 shares, or 14.7% of the total issued and paid-up Shares of the Company.

(4) None of the "other" individual shareholders hold more than 1.5% of the Shares outstanding, nor will any such individual shareholder be allocated in the Combined Offering more than 1.5% of the Shares outstanding immediately after completion of the Combined Offering.

(5) None of the public shareholders will be a director or an executive officer of the Company immediately after the Combined Offering, nor will any such individual public shareholder be allocated in the Combined Offering more than 5.0% of the Shares outstanding immediately after completion of the Combined Offering.

The Extraordinary General Meeting No.1/2013, held on February 26, 2013 approved the conversion of the Company to be a public company limited and increased the registered capital from THB1,250,000,000 to THB2,100,000,000 by issuing additional ordinary shares of 850,000,000 Shares with the par value of THB1 to be offered to the existing shareholders for 300,000,000 Shares and to the directors and employees for 30,000,000 Shares and to the public for not exceeding 520,000,000 Shares. Such meeting also approved that the ordinary shares of the Company shall be listed on the SET.

Subsequently, the Company offered the additional Shares to existing shareholders for the amount of 300,000,000 Shares with the par value of THB1 and at a selling price of THB1 per share and the Company received the shares payment from the existing shareholders in the amount of THB300,000,000. The Company also offered additional Shares to the directors and employees for the amount of 30,000,000 Shares with the par value of THB1 and at the selling price of THB10 per share and the Company received the shares payment from the directors and employees in the amount of THB300,000,000. Such share allocation depends on employment position, length of employment, and responsibilities of relevant directors and employees. Based on the estimated fair value of the offer, THB16.91 per share, which was calculated by an independent financial advisor, the Company recorded THB207.3 million for employee-related expensed for the year ended December 31, 2013. The Company's capital reserve for share base payment is THB207.3 million. In this regard, there are two directors and employees who were allocated more than 5% of shares from the total shares sold to the employees and directors, namely Mr. Prasert Prasarttong-Osoth and Mr. Puttipong Prasarttong-Osoth, who received the share allocation for 3,521,100 Shares and 1,700,000 Shares, respectively.

As of June 30, 2014, the Company's registered capital was THB2,100,000,000, dividing into 2,100,000,000 ordinary shares with the par value of THB1 and the paid-up capital of the Company was THB1,580,000,000, dividing into 1,580,000,000 ordinary shares with the par value of THB1.

Following the Offering (assuming the Offering Shares are fully subscribed), the paid-up capital of the Company will be THB2,100,000,000.

## DESCRIPTION OF SHARES

Set forth below is certain general information relating to our Shares including brief summaries of certain provisions of our Articles of Association, the PLCA and the SEC Act, all as currently in effect.

### General

We are governed by our Articles of Association, the SEC Act and the provisions of the PLCA. We were converted from a private limited company into a public company limited on February 27, 2013.

### Share Capital

As of June 30, 2014, our paid-up share capital prior to the Combined Offering was THB1,580,000,000, consisting of 1,580,000,000 Shares of THB1 par value each, while our registered share capital was THB2,100,000,000, consisting of 2,100,000,000 Shares of THB1 par value each. All Issued Shares are fully paid and in registered form, and are recorded in our share register book maintained by the TSD.

### Transfer of Shares

Under the PLCA, which applies to shares listed on the SET, a transfer of listed shares in scrip form is valid between the transferor and the transferee by an endorsement specifying the name of the transferee on the back of the share certificate representing the shares transferred, execution by the transferor and the transferee, and the delivery of the endorsed certificate to the transferee. For a transfer to be valid against the issuer company, a request for an entry of the transfer into a share register book must be received by the company (through the TSD as its registrar). To be valid against a third party the entry of the transfer must actually be made into the share register book.

See “Taxation—Thai Taxation” for a description of Thai stamp duty on transfers and “The Thai Securities Market” for a description of transfer procedures for trades on the SET.

### Limitation on Foreign Ownership of Shares

Under the PLCA, we are not allowed to set up share transfer restrictions, unless the purpose of the restriction is to preserve our lawful rights and benefits or to maintain the ratio of shareholding between Thai shareholders and non-Thai shareholders.

Under our Articles of Association, no more than 49.0% of the total issued Shares in the Company may be held by non-Thai shareholders.

The Foreign Business Act B.E. 2542 (1999), as amended, restricts foreigners from engaging in certain specified activities, including domestic air transportation. Domestic air transportation is considered a business related to Thai national security, and any foreigners engaging in domestic air transportation is required to obtain the permission of the MOC and the prior approval of the Cabinet.

The Air Navigation Act and the Notification of Department of Air Transportation Regarding Qualification and Criteria for Consideration of Permission of an Air Operator dated July 2, 2008 issued under the Announcement of the National Executive Council No. 58 requires that air service operators and applicants of aircraft registrations which are a limited company or public company limited to (i) have no bearer shares, (ii) have a board of directors which comprises a majority Thai nationals (iii) and have at least 51% of the total shares belong to persons in one or more of the following categories:

- natural persons being of Thai nationality;
- ministries, sub-ministries and departments of the Government;
- limited companies or public companies limited of which ministries, sub-ministries or departments of the Government hold not less than 51.0% of the total number of shares;
- limited companies or public companies limited of which natural persons being of Thai nationality hold not less than 51.0% of the total number of shares;
- other juristic persons to be prescribed in any ministerial regulations.



Our Articles of Association do not provide sanctions for the transfer of Shares in violation of the limitations contained in our Articles of Association, or a method for requiring the divestiture of such Shares. Nonetheless, if a non-Thai person acquires Shares which results in the aggregate percentage of Shares owned by non-Thai persons exceeding 49.0% of our issued Shares, there can be no assurance that such person will not lose the benefit of such investment (i.e. he will not be entitled to attend and vote at any shareholders' meeting and/or receive any dividends) either because our registrar may refuse to register the ownership of such Shares or because divestment may be required by applicable Thai law and regulations. It is not always possible for a non-Thai person acquiring Shares to know in advance whether the Shares being acquired will fall within legal limits and be eligible to be registered in such person's name.

## **Dividends**

Annual dividends are recommended by our board of directors, and are subject to shareholders' approval at the annual general meeting of the shareholders. The board of directors by resolution may decide to pay to the shareholders such interim dividends as appear to the directors to be justified by our profits and as permitted under our articles of association. After such interim dividends have been paid, such dividend payment shall be reported to the shareholders at the next shareholders meeting. Dividends (annual or interim) are distributed equally on each outstanding Share. Dividends may be distributed either in cash or, if approved by the shareholders in a general meeting, in the form of shares. See "Dividend Policy" for a description of our dividend policy.

Pursuant to the PLCA, we cannot make any distribution of dividends otherwise than out of our net profit. If we have an accumulated loss, we cannot pay any dividend even if we record a positive net profit for the year. In addition, in any year in which we have a net profit, we are required by the PLCA and by our Articles of Association to set aside as a reserve an amount not less than 5.0% of our annual net profit less any accumulated losses carried forward until the total reserve is not less than 10.0% of our registered capital.

Any claim made against us with respect to the payment of dividends will be valid only within 10 years from the relevant payment date.

## **General Meetings of the Shareholders**

Our board of directors is required to convene an annual general meeting of shareholders within four months from the last day of our fiscal year. Our board of directors may call an extraordinary general meeting whenever the board of directors deems it appropriate, and is required to call such a meeting upon the written request of the holders of 20.0% or more of our total issued Shares, or not less than 25 shareholders holding, in aggregate, not less than 10.0% of our total issued Shares. Notice of any general meeting must be given to all shareholders and the Registrar, Department of Business Development, MOC not less than seven days in advance. Publication of said notice must be made for three consecutive days in a local newspaper not less than three days prior to the meeting.

A quorum for any shareholders' meeting is constituted by the presence, either in person or by proxy, of not less than 25 shareholders or one half of the total number of shareholders, in either case holding in aggregate, not less than one-third of the total number of issued Shares. If a quorum is not present within one hour, a general meeting shall be dissolved in the case where the meeting was requested by shareholders and in every other case shall be adjourned to another date prior to which notice must be sent to shareholders not less than seven days in advance. A quorum is not required for the adjourned meeting to be properly constituted.

Our Articles of Association provide that at the annual general meetings of shareholders, shareholders shall:

- review the report of the board of directors regarding the operating results in the preceding year;
- consider and approve the Company's financial statements and the auditor's report for the past year;
- consider and approve profit allocation, dividend payment and set aside a reserve;
- consider and elect new directors in place of those who are retiring by rotation;
- fix the remuneration of directors;
- appoint and fix the remuneration of our auditor; and
- consider any other business.

## **Voting Rights**

A shareholder is entitled to one vote per Share. A resolution can be adopted at a general meeting of shareholders by a simple majority of the votes of the shareholders who attend the meeting and casting their votes, except, among others, in the following matters, which require at least three fourths of all shareholders present and entitled to vote:

- the sale or transfer of all or a substantial part of our business to other persons;
- the purchase by us or acceptance of transfer of the businesses of other companies to us;
- the making, amendment or termination of contracts relating to the leasing out of all or a substantial part of our business, the assignment of any other persons to manage our business or the consolidation of the business with other persons with an objective towards profit and loss sharing;
- the amendment of our Memorandum of Association or Articles of Association;
- the increase or reduction of registered capital, issuance of bonds, amalgamation with another company; and
- the amalgamation or the dissolution of the Company.

The removal of a director before his/her term requires a resolution of a general meeting of shareholders of not less than three fourths of all shareholders present and entitled to vote, holding Shares in aggregate of not less than one half of the total number of Shares held by shareholders present and entitled to vote.

In addition, to fix the remuneration of directors requires a resolution of a general meeting of shareholders of not less than two thirds of all votes present.

## **Issuance of Additional Shares**

The PLCA provides that all or some of any new shares issued may, by a resolution of shareholders adopted at a general meeting, be offered to existing shareholders in proportion to their respective shareholding or offered to the public or other persons. Such resolution must be registered with the Registrar, Department of Business Development, MOC. Every increase of the registered and paid-up share capital must be registered with the MOC and no share certificate can be issued without such prior registration. As of the date hereof, we have not adopted any resolution of shareholders providing for pre-emptive rights to the existing shareholders.

## **Financial Statements**

The PLCA provides that our board of directors must prepare a statement of financial position and income statement annually, at the end of each fiscal year. The statement of financial position and income statement must be certified by the auditor and approved by the shareholders at the annual general meeting of shareholders. A copy of the statement of financial position, income statement, auditor's report and the annual report of the board of directors, together with the notice of the annual general meeting of shareholders, will be sent to all shareholders at their respective addresses as listed in the share register book.

In addition to the PLCA requirements set out above, as a SET-listed company and in compliance with the regulations of the Thai SEC, we will be required to prepare and submit to the SET and the Thai SEC annual audited non-consolidated and consolidated financial statements within three months, as the case may be, from the end of each accounting year and quarterly reviewed non-consolidated and consolidated financial statements within 45 days from the end of each quarter.

## **Liquidation Rights**

The PLCA provides that in the event of liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the number of shares held.

## Acquisition by Us of Our Own Shares

Pursuant to the PLCA and our Articles of Association, we may not own our own Shares, or take them in pledge, except that:

- we may repurchase our Shares from dissenting shareholders who vote against a shareholders' resolution at a shareholders' meeting approving an amendment to our Articles of Association in respect of voting rights and the right to receive dividends which such shareholders view to be unfair to them; or
- we may repurchase our Shares for financial management purposes when we have accumulated profits and excess liquidity, provided that the share repurchase will not cause us financial difficulty.

In order for us to repurchase Shares, we must obtain approval from our shareholders. However, if the share repurchase is not more than 10.0% of the paid-up capital, our board of directors is authorized to approve such share repurchase without shareholder approval.

Shares purchased and held by our Company may not be counted towards forming a quorum for meeting of our shareholders, and do not carry any voting rights or the right to receive any dividend. Under Thai law, we are required to sell these Shares within the period prescribed by the share repurchase scheme but not exceeding three years from the completion of the share repurchase. If we fail to dispose of the Shares within this prescribed period, we are required to reduce our paid-up capital by writing off the unsold Shares.

## THE THAI SECURITIES MARKET

### History

The first organized stock exchange in Thailand was formed as a limited partnership in 1962 which later became a limited liability company and changed its name to the Bangkok Stock Exchange Co., Ltd in 1963. Approximately 35 securities were listed on the Bangkok Stock Exchange but trading remained low by comparison with present volumes. Following a Government initiative in 1969, plans were drawn up for an official stock exchange, and in May 1974 the Securities Exchange of Thailand Act B.E. 2517 (1974) (the “SET Act”) was enacted, leading to the replacement of the Bangkok Stock Exchange with the Securities Exchange of Thailand. In January 1991, the Securities Exchange of Thailand was renamed the Stock Exchange of Thailand. The SET Act provided the basis for regulation of the primary and secondary securities markets in quoted securities in Thailand and placed responsibility for control of the SET with the Ministry of Finance.

Dealings at the SET commenced on April 30, 1975, with a total of 16 quoted securities. The SET Index was also established on this date. The SET Index was established to show the market price movement of the traded securities. The SET Index includes all listed shares. It was set at 100 on the SET’s opening day. The SET Index uses the most recent transacted price for a security when no transaction in that security occurs on a particular day and is adjusted for new listings, de-listings and capitalization changes.

The SET is the principal stock exchange in Thailand. Public limited companies, state enterprises, juristic persons established under special purpose legislation or investment projects having the appropriate qualifications may file applications with the SET to have their securities listed.

In February 1992, the National Legislative Assembly passed the Securities and Exchange Act B.E. 2535 (1992), or the Thai SEC Act, which replaced the SET Act and came into force in May 1992. The Thai SEC Act had provided for the establishment of the Securities and Exchange Commission, or the Thai SEC, and empowered it to introduce policies for the development and supervision of the securities markets and related activities in Thailand. The PLCA, which came into force in June 1992, repealing the Public Limited Companies Act B.E. 2521 (1978), provides that only companies incorporated (or which have converted their incorporation status) under the PLCA are permitted to issue shares or other equity-linked securities to the public. A public offering of newly issued securities is permitted only where the issuer of such securities has received approval from the Thai SEC to offer such securities and a registration statement in the prescribed form together with a draft prospectus submitted to the Thai SEC by the issuer of the securities have become effective.

While primary responsibility for the regulation of new securities issues has shifted to the Thai SEC, the SET continues to operate the stock exchange and is responsible for listing application approvals once the Thai SEC registration, prospectus and related requirements have been met for domestic offers.

In June 1992, the SET expanded its Securities Depository Centre, or SDC, by allowing, in addition to brokers, local custodians, sub-brokers and any juristic person who is allowed to be an eligible depositor as stipulated by the SET to become members of the settlement system. At the same time, the SET introduced regulations to facilitate the establishment of the scripless trading system. In the past several years, due in part to the economic situation in Thailand and Southeast Asia as well as the depreciation in the value of the Baht, the SET has experienced significant volatility. Between January 3, 1996 and December 27, 2002, the SET Index fell from 1,323.4 to 356.5, a decline of 73.1%. See “Risk Factors—Risks Relating to Our Shares—There are risks associated with the trading and delivery of our Shares on the Stock Exchange of Thailand”; and “Risk Factors—Risks Relating to Our Shares—The Thai securities market is relatively small and may cause the market price of our Shares to be more volatile” for a discussion of the risks relating to the trading and prices of our Shares on the SET.

### The Stock Exchange of Thailand

The SET is the principal stock exchange in Thailand and is organized as a non-profit entity, composed of members which are securities companies. The SET is responsible, inter alia, for processing all listing applications, for ensuring that disclosure requirements for listed companies are met and for monitoring all trading activities in respect of listed securities. TSD now acts as securities depository, dividend paying agent, transfer agent, and registrar for the great majority of all listed Thai companies, and TCH acts as clearing house. As of June 30, 2014, the SET had 498 listed companies, a market capitalization of THB13,358.1 billion, and a year-to-date daily average turnover of THB46,073.4 million per day.

In the past, there were four separate boards on the SET on which trading took Non-Voting Repository Receipt (NVDR) place on computerized systems: the main board for regular trading of shares, preference shares, warrants, investment units and investment units of Thai Trust Funds; the odd-lot board for dealings in odd lots; the big lot board for dealings in large lots of securities and the foreign board for trading in foreign registered shares which are available to be registered in the name of non-Thai nationals. The SET established the “foreign board” on the exchange in September 1987 for dealings only in securities registered in the name of non-Thai persons.

Effective from September 3, 2012, the new SET trading system has been put in place, whereby the former trading system has been repealed, with the purpose to enhance the efficiency in trading securities, support the development of transactions in capital market, as well as to elevate the competitiveness of the SET. A number of modifications have been introduced in the new SET trading systems, including the structure of products available in the trading systems, the calculation of open price and close price of relevant securities, and the range between highest offered price and lowest offered price in case of IPO securities. Among other things, in this new trading system, four trading boards are no longer applicable, while trading depends on types of each securities and is conducted through Automated Order Matching method or Trade Report method. Automated Order Matching is for the trading of securities, both Thai and foreign registered securities, in board lots and odd lots. The Trade Report (previously known as Put-Through) is for the trading of securities in large lots, foreign registered securities in specified amount and value, off-hour trading and buy-in whereby the brokerage firms negotiates and agrees on the price and then send the result through the trading system of the SET.

Shares are traded in one board lot (100 shares) or multiples of board lots except that, in the case of shares for which the closing price on each trading day has been in excess of THB500.0 for six consecutive months, the SET may consider changing the board lot to 50 shares. Trading hours are divided into two sessions. In the first session, trading commences between 9.55 a.m. and 10.00 a.m. and ceases at 12.30 p.m., and in the second session trading commences at any time from 2.25 p.m. to 2.30 p.m. and ceases between 4.35 p.m. and 4.40 p.m. Trading days are Monday through Friday, except for Thai public holidays and holidays as prescribed by the SET in each year.

The SET requires that bid and offer quotations for shares to be within prescribed spreads, depending on the market price per share and in accordance with a table of values. Subject to certain exceptions, the SET also limits upward and downward price movements for shares during a trading session to 30.0% of the previous trading day’s closing price. In case of the first trading day of shares in the IPO, the highest offered priced is limited to no more than three times of IPO price and the lowest offered price cannot be less than THB0.01.

From January 1, 2010 to December 31, 2011, brokers are permitted to charge brokerage or agent’s fees for share trades from their customers other than those who are non-member securities companies at the following rates of the trade value per day:

<b>Trade Value per Day</b>	<b>Rate</b>
Not exceeding THB5,000,000	Not less than 0.25% and not exceeding 1.0%
With exceeding THB5,000,000 but not exceed THB10,000,000	Not less than 0.22% and not exceeding 1.0%
With exceeding THB10,000,000 but not exceed THB20,000,000	Not less than 0.18% and not exceeding 1.0%
Exceed THB20,000,000	At the rate as agreed with the customers and not exceeding 1.0%

From January 1, 2010 to December 31, 2011, the following rates of the trade value per day shall be applied in the event that shares are traded through the Internet:

Trade Value per Day	Rate	
	Cash Balance Account or Credit Balance Account	Other Accounts
Not exceeding THB5,000,000	Not less than 0.15% and not exceeding 1.0%	Not less than 0.20% and not exceeding 1.0%
With exceeding THB5,000,000 but not exceed THB10,000,000	Not less than 0.13% and not exceeding 1.0%	Not less than 0.18% and not exceeding 1.0%
With exceeding THB10,000,000 but not exceed THB20,000,000	Not less than 0.11% and not exceeding 1.0%	Not less than 0.15% and not exceeding 1.0%
Exceed THB20,000,000	At the rate as agreed with the customers and not exceeding 1.0%	

From January 1, 2012 onwards brokers are permitted to charge brokerage or agent's fees at the rate as agreed with their customers.

Under the disclosure regulations of the SET, listed companies are required to report the following, among other things, to the Thai SEC and the SET for public disclosure:

- corporate resolution or other event which will have a material effect on the rights of a company's shareholders or that might materially affect the value of the shares or the benefit of the shareholders; in principle, such events are required to be reported on the day such an event occurs or on the next trading day at least one hour before the commencement of trading;
- audited annual financial statements for each accounting period, conforming to prescribed disclosure standards, which must be filed within three months of the end of the relevant accounting period;
- annual registration form (Form 56-1), which must be filed within three months of the end of the relevant accounting period;
- an annual report, which must be filed within 120 days of the end of the relevant accounting period; and
- quarterly unaudited financial statements reviewed by a licensed auditor, which must be filed within 45 days of the end of each quarter.

#### **Thailand Securities Depository Company Limited**

In November 1994, the SET established a private limited company, The Thailand Securities Depository Co., Ltd., or TSD, pursuant to the Thai SEC Act to undertake three main functions: registrar, securities depository centre, and the Provident Fund registrar. Since the commencement of its operations in January 1995, TSD operated a clearing and settlement system for scripless shares of Thai public companies until 2010 where it transferred clearing and settlement functions to The Thailand Clearing House Company Limited ("TCH"). The TSD is 99.9% owned by the SET and has a registered capital of THB200.0 million. Under the Thai SEC Act, TSD may operate without a license from the Thai SEC as long as the SET owns a minimum of 75.0% of the total shares of TSD. The following persons may become members of TSD: (1) securities companies; (2) commercial banks; (3) finance companies; (4) life or non-life insurance companies; (5) financial institutions established by specified legislation; and (6) other persons as prescribed by the SET.

#### **Short Selling**

The Thai SEC issued a new notification in August 2009 (effective from September 2009) allowing securities companies to conduct short selling activities, either for their own account or for the account of their customers. Before undertaking short selling for its own account, a securities company is required to procure its source for borrowing securities so that it is able to deliver the securities pursuant to the short selling transaction in the time period prescribed by clearing house, TCH or as agreed between the parties.

In case of short selling to the order of a customer, a securities company is required to ensure the availability of securities or the availability of a source of securities for the purpose of lending those securities to the customer, except where a customer has shown that it has already borrowed the securities and is able to deliver the securities for the settlement purpose pursuant to the short selling transaction within the time prescribed by the clearing house, TCH or as agreed between the parties. Under the SET notification issued in January 2001, as amended, a securities company which is a member of the SET may carry out short selling only with respect to securities specified by the SET. This is however not the case where a securities company is short selling securities for which it is allowed to be a market maker.

### **Securities Lending and Borrowing**

The Thai SEC issued notifications allowing a person wanting to conduct the business of securities lending and borrowing to apply for a license from the Minister of Finance through the Thai SEC.

In the borrowing or lending of securities, both the licensed securities borrower and securities lender are required, among other things to prescribe the procedures for accepting the customers, arrange for having risk management system and arrange for a securities lending agreement to be executed. Pursuant to Thai SEC regulations, the securities borrower may be required to provide security, to the lender thereof. The security may be given which includes, among other things, in the form of cash, treasury bills, Government bonds, bonds of the BOT, listed securities, units of daily redemption fund or other instruments specified by the Thai SEC.

### **Market Making**

Market makers are responsible for creating liquidity in securities listed on the SET. The SET, pursuant to its notification issued in July 2012, allows a member of the SET to be registered as a market maker for the securities that it is registered for. A non-SET member certified by a SET member can also be registered as a market maker for certain specified securities if it qualifies under the notification. The SET notification also clarifies the duties and function of the market maker.

### **MAI**

In June 1999, the SET established, with the Thai SEC's approval, the Market for Alternative Investment renamed as MAI, to facilitate access to capital markets by small and medium-sized enterprises, or SMEs. The MAI's principal objectives include providing alternative financing for, and encouraging venture capital investment in, SMEs, facilitating debt restructuring by enabling creditors to sell securities received in debt-equity conversions, and providing additional investment alternatives to public investors. We are not listed, and do not intend to list, on the MAI. As of June 30, 2014, the MAI had 98 listed companies, a market capitalization of THB236.8 billion and a year-to-date average turnover of THB2,530.3 million per day.

### **Independent Directors and Audit Committee Requirements**

In 2008, the Thai SEC issued regulations requiring all companies applying for a public offering with the Thai SEC to ensure at least one third of the Board is composed of independent directors, with the necessary qualifications required by the regulations, and in any case, the number of the independent directors shall not be less than three.

In January 1998, the SET issued regulations requiring all public companies whose shares are listed on the SET to set up an audit committee. In addition, in October 2003, the Thai SEC issued similar regulations for companies that applied for a public offering with the Thai SEC. The audit committee must include not less than three independent directors appointed by the shareholders or by the board of directors in accordance with the rules of the SET and the Thai SEC. The SET and the Thai SEC both require at least one member of the audit committee to have sufficient knowledge and experience to review the reliability of the financial statements.

The SET and the Thai SEC specifically require the audit committee to carry out the following duties:

- to review the company's financial reporting process to ensure that it is accurate and adequate;
- to review the company's internal control system and internal audit system to ensure that they are suitable and efficient, to determine an internal audit unit's independence, as well as to approve the appointment, transfer and dismissal of the chief of an internal audit unit or any other unit in charge of an internal audit;

- to review the company's compliance with the law on securities and exchange, the regulations of the SET, and the laws relating to the company's business;
- to consider, select and nominate an independent person to be the company's auditor, and to propose such person's remuneration, as well as to attend a non-management meeting with an auditor at least once a year;
- to review the connected transactions, or the transactions that may lead to conflicts of interest to ensure that they are in compliance with the laws and the regulations of the SET, and are reasonable and for the highest benefit of the company;
- to prepare, and to disclose in the company's annual report, an audit committee's report which must be signed by the Chairman of the audit committee and consist of at least the following information:
  - (a) an opinion on the accuracy, completeness and credibility of the company's financial report;
  - (b) an opinion on the adequacy of the company's internal control system;
  - (c) an opinion on the compliance with the law on securities and exchange, the regulations of the SET, or the laws relating to the company's business;
  - (d) an opinion on the suitability of an auditor;
  - (e) an opinion on the transactions that may lead to conflicts of interests;
  - (f) the number of the audit committee meetings, and the attendance at such meetings by each committee member;
  - (g) an opinion or overview of observations received by the audit committee from its performance of duties in accordance with the charter; and
  - (h) other transactions which, according to the audit committee's opinion, should be known to the shareholders and general investors, subject to the scope of duties and responsibilities assigned by the Company's board of directors.
- to perform any other act as assigned by the company's board of directors, with the approval of the audit committee.

### **Thai SEC Reporting and Tender Offer Requirements**

Under the Thai SEC Act, the Thai SEC and the Capital Market Supervisory Board notifications issued thereunder, an acquisition or disposition of shares or convertible securities of a listed company (either on his own or acting in concert with others) such that the holder now holds any multiple of 5.0% of the total number of voting rights of such company must be reported to the Thai SEC. Notwithstanding the above, a disposition of convertible securities in a listed company is not required to be reported to the Thai SEC.

A mandatory tender offer must be made when a person (either on his own or acting in concert with others) acquires shares in a listed company resulting in such person holding shares which are equal to or in excess of the following threshold amounts:

- 25.0% of the total number of voting rights of such company;
- 50.0% of the total number of voting rights of such company; or
- 75.0% of the total number of voting rights of such company.

In the case where a listed company buys back its own shares resulting in such person's shareholding becoming equal to or in excess of the foregoing thresholds, a mandatory tender offer is also required to be made if a person acquires any additional shares in the company at any time thereafter when his shareholding is in excess of the trigger point and continues to remain so following such acquisition.



In addition, a mandatory bid is required to be made if a person (either on his own or acting in concert with others) acquires significant controlling power in a juristic person that is an existing shareholder of a listed company (“chain principle”), regardless of whether such controlling power is direct or indirect through shareholding or control in any juristic persons down through the juristic person that is the existing shareholder of the listed company.

However, a mandatory bid is exempted in any of the following circumstances:

- (a) where shares are acquired by inheritance or from the exercise of rights to purchase shares or of conversion rights attaching to convertible securities acquired by inheritance;
- (b) where the acquisition of shares takes place following a stock dividend or the exercise of preemptive rights to purchase new shares in proportion to the number of existing shares already held (“rights offering”);
- (c) where shares are acquired in the course of a separate tender offer for all of the securities of the company or from the exercise of rights to purchase shares or conversion rights attaching to convertible securities acquired in the course of a separate tender offer for all of the securities of the company, in accordance with the relevant Capital Market Supervisory Board notifications;
- (d) the acquisition of shares by the following persons who, according to relevant regulations, do not normally exercise voting rights at a shareholders’ meeting of a listed company: the Thai Trust Fund (which is a passive open-ended mutual fund established and managed by Thai Trust Fund Management Company Limited, wholly owned subsidiary of the SET);
- (e) where the acquirer reduces his shareholding or controlling power, in a manner prescribed by the notifications of the Capital Market Supervisory Board;
- (f) where the Thai SEC has granted approval for a partial tender offer; and
- (g) where a waiver is obtained from the Thai SEC or from the Thai Takeover Panel in one of the following circumstances:
  - (i) a waiver of the mandatory tender offer may be obtained from the Thai SEC in the following cases:
    - the acquisition of shares triggering the mandatory bid obligation causes no change in the control of the company;
    - the acquisition was made with a purpose of assisting or rehabilitating the company;
    - the acquisition of new shares and the shareholders’ meeting approves the issue of such shares to such person without need to make the tender offer for all securities of the company (whitewash), in accordance with criteria prescribed by the Thai SEC;
    - the acquisition in a circumstance where the Takeover Panel has established a precedent; and
    - in any other circumstances in which the Thai SEC deems necessary and otherwise appropriate;
  - (ii) a waiver of the mandatory tender offer may be obtained from the Takeover Panel in the following cases:
    - the acquisition of significant controlling power over a juristic person which is a shareholder of a listed company (“chain principle”) without an intention to take over such listed company; and
    - in any other circumstances where the Thai SEC deems a waiver should be considered by the Takeover Panel.

## **Foreign Ownership**

The Thai Government has generally allowed foreign investment, but on a controlled basis in certain sectors of the economy. Investment in Thai companies or in certain Thai securities by “non-Thai persons” (as defined in relevant laws or in a company’s articles of association) may be limited by the Foreign Business Act B.E. 2542 (1999), by a Board of Investment Promotion Certificate issued under the Investment Promotion Act B.E. 2520 (1977), as amended, or by restrictions contained in a company’s articles of association. The articles of association of many Thai companies, including us, contain such restrictions. See “Description of Shares—Limitation on Foreign Ownership of Shares”. The TSD, as our registrar, may refuse to register transfers of Shares to a non-Thai person, or divestment may otherwise be required, if as a result of such transfer the percentage of issued and outstanding Shares registered in the name of non-Thai persons would exceed the then applicable limitation on foreign ownership of the Shares. Ownership of the Shares by non-Thai persons as such is not otherwise restricted by Thai law.

Where a foreign person acquires shares that would exceed the applicable limit, the investor is exposed to the risk of losing the benefit of such investment because ownership may not be registered in such foreign person’s name. See “Risk Factors—Risks Relating to the Shares—The Company is subject to foreign ownership restrictions” for details.

It is not always possible for a foreign purchaser of Thai securities (that are subject to such limits) to know in advance whether shares purchased by him will fall within the limits and be eligible to be registered in his name, or whether the company or the TSD, as share registrar, will have to decline to effect registration of the transfer. It is a criminal offense in Thailand for a Thai national to hold shares as a nominee for a foreign person if it is done to avoid any applicable maximum limit on foreign ownership imposed by Thai law.

## **Settlement**

### ***General***

All settlement and clearance of transactions in relation to equity securities effected on the SET must be handled by the TCH on the third business day following the day of the contract date. The TCH offsets sales and purchases of each member and only the net balance of securities and cash delivered or received by the member through the TCH is credited.

### ***Shares in Certificated Form***

As between sellers and their brokers, sellers must deliver the relevant share certificates duly endorsed to their brokers by no later than midday on the next business day following the date of the contract subject to the internal regulation of the brokers. The respective brokers for the seller and buyer receive the payment or, as the case may be, the securities certificates on or before the third business day after the contract date. On or before the fourth business day after the contract date, the broker for the seller must deliver the duly endorsed securities certificates to or for the order of the buyer. Delivery is made in the form of certificate(s) or certificate receipt(s). The latter is an acknowledgment by the registrar for the shares in question that the shares are in the course of registration and must be exchanged for share certificates before the new owner can have them registered in his name.

### ***Shares in Scripless Form***

In July 1992, the SET introduced regulations to facilitate the establishment of a scripless trading system. Under this scripless system, a member broker, sub-broker or local custodian may deposit certificates in respect of securities with the TSD. Any person becoming a TSD participant is required to open at least one account with the TSD for the deposit, withdrawal or transfer of securities. After the TSD has accepted a deposit of securities, it will hold such securities on behalf of its participants or its participants’ clients. In addition, each TSD participant is obliged to maintain a list of owners of the securities deposited with it for establishing ownership rights to the securities and any other shareholder rights. Sales and purchases of securities are settled by off-setting the relevant securities deposit accounts via computers and at the end of each trading day the TSD delivers a statement showing the balance of securities held for each participant.

### ***Transfer of Shares***

Transfers of listed shares, whether effected on or off the SET are governed by the PLCA, and the Thai SEC Act. Under the PLCA, and the Thai SEC Act, a transfer of listed shares in certificated form is valid as

between the transferor and the transferee by an endorsement specifying the name of the transferee on the back of a share certificate representing the shares transferred, execution by the transferor and the transferee, and the delivery of the endorsed certificate to the purchaser or his broker. To be valid as against the company, a request for an entry of the transfer into a share register must be received by the company; and to be valid against a third party, the entry of the transfer must actually be made into the share register.

Under the Thai SEC Act, transfers of scripless shares are made by way of appropriate instruction to the relevant brokers, sub-brokers or custodians with whom the transferor and the transferee involved maintain securities accounts in accordance with individual arrangements with such brokers, sub-brokers or custodians. Upon receipt of such instructions, the relevant brokers, sub-brokers or custodians will, in accordance with such arrangements, effect the relevant changes in the list of owners of the securities they are required to maintain for rights and entitlement purposes.

### ***Share Transfer Registration***

A public listed company (or TSD if acting as its registrar) must record in the share register the transfer of its shares within 14 days of receipt of a written request for an entry of the transfer. If the transferee requires a new share certificate, the company (or TSD if acting as its registrar) must issue a new share certificate to the transferee within one month from the date that the transferee delivers to it the request, duly signed by the transferee (with at least one witness signing in attestation to the signature), and the previous share certificate or other relevant evidence must be properly returned by the transferee. In such cases, the company must record the transfer in the share register within seven days of receipt of a written request for an entry of transfer.

### ***Listing of Newly Issued Shares***

Although a company whose shares are listed on the SET is required to maintain a listing on the SET for all its issued shares of that class, it must make a separate application for the listing of new shares of that class when they are issued. The SEC is entitled to consider a listing application for up to seven days from the date of submission of the completed listing application. Unless and until listing approval is given and listing has become effective, the shares may not be dealt in on the SET but purchasers and sellers may be matched through brokers in off-exchange transactions.

### ***Internet Trading***

In January 2000, the SET allowed the trading of securities through the Internet. A member broker wishing to offer Internet trading services is required to apply for permission from the SET and the broker's computer and security systems must meet the regulations of the SET.

## TAXATION

The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the ownership of our Shares. Prospective purchasers of our Shares should consult their own tax advisors concerning the tax consequences of their particular situations. This description is based on laws, regulations and interpretations as now in effect and available as of the date of this Offering Memorandum. The laws, regulations and interpretations, however, may change at any time, and any change could be retroactive to the date of issuance of the Shares. These laws and regulations are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below.

### **Thai Taxation**

This summary contains a description of the principal Thai income tax consequences of the purchase, ownership and disposition of ordinary shares by an individual or corporate investor who is not resident in Thailand for tax purposes (referred to herein as “non-resident individual holders” and “non-resident corporate holders”, respectively, and together as “non-resident holders”). It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase ordinary shares. The summary is based upon the tax laws of Thailand in effect on the date of this Offering Memorandum.

**PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR OWN PROFESSIONAL ADVISORS CONCERNING THE ACQUISITION, OWNERSHIP AND DISPOSITION OF ORDINARY SHARES, INCLUDING THE CONSEQUENCES UNDER THAI LAW, THE LAWS OF THE JURISDICTION OF WHICH THEY ARE RESIDENT AND ANY TAX TREATY BETWEEN THAILAND AND THEIR COUNTRY OF RESIDENCE FOR TAX PURPOSES.**

In general, the registered owner of ordinary shares will be treated as the owner of such ordinary shares for Thai tax purposes. In the case of ordinary shares that settle through the TSD’s scripless system, the holder whose name appears on the list of owners with respect to the ordinary shares maintained by each TSD-member broker, sub-broker, or custodian will be treated as the owner for Thai tax purposes. See “The Thai Securities Market—Settlement”.

### **Taxation of Dividends**

Dividends in respect of ordinary shares are generally subject to Thai withholding tax at a rate of 10%, whether paid to non-resident corporate investors or to non-resident individual investors.

### ***Taxation of Capital Gains***

Gains realized by a non-resident corporate holder from the sale or other disposition of ordinary shares outside Thailand in connection with which payment is made neither from nor within Thailand and neither the purchaser nor the seller reside or do business in Thailand, are not subject to Thai tax. A non-resident corporate holder will be subject to a withholding tax of 15.0% on gains realized on any sale or other disposition of ordinary shares in Thailand (including a sale through the SET) unless such holder is entitled to an exemption under an applicable tax treaty.

Gains realized by a non-resident individual holder from the sale or other disposition of ordinary shares outside Thailand in connection with which payment is made neither from nor within Thailand and neither the purchaser nor the seller resides or does business in Thailand, are not subject to Thai tax. Gains realized by a non-resident individual holder on a sale of ordinary shares through the SET are exempt from Thai income tax. Unless exempt under an applicable tax treaty, gains realized by a non-resident individual holder from a sale or other disposition of ordinary shares made otherwise than through the SET and in which payment is made from or within Thailand is subject to Thai income tax at a rate of 15.0%. Any such tax withheld is creditable against the Thai personal income tax.

In the foregoing cases, where withholding tax applies, the purchaser of such ordinary shares (or in the case of a sale through the SET, the broker executing such sale on behalf of the purchaser) is required under Thai law to withhold the applicable amount of Thai withholding tax from the sales price and make payment thereof to the relevant Thai tax authority.

### ***Personal Income Tax***

Non-resident individual holders are required under certain circumstances to file a Thai personal income tax return and may be subject to Thai personal income tax at marginal rates between 5.0% and 35.0% on income earned in Thailand, including any cash dividends and other distributions paid by us and any gains on sale or other dispositions of the ordinary shares realized during any calendar year. Tax withheld by us in respect of such dividends and other distributions, and by purchasers in respect of any such gains, may be credited against any Thai personal income tax payable at year end by such non-resident individual holders, who may be entitled to a refund with respect to such taxes withheld.

### ***Tax Treaties***

Each non-resident holder should inquire for himself or herself whether he or she is entitled to the benefit of a tax treaty between Thailand and his or her resident country. Where an applicable tax treaty so provides, any otherwise taxable gain on the sale or other disposition of ordinary shares may be exempt from or subject to reduced Thai withholding tax. Thailand currently has tax treaties for the avoidance of double taxation within the following countries: Armenia, Australia, Austria, Bahrain, Bangladesh, Belgium, Republic of Bulgaria, Canada, Chile, China, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hong Kong, Hungary, India, Indonesia, Israel, Italy, Japan, Republic of Korea, Kuwait, Laos, Luxembourg, Malaysia, Republic of Mauritius, Myanmar, Nepal, The Netherlands, New Zealand, Norway, Oman, Pakistan, the Philippines, Poland, Romania, Russia, Seychelles, Singapore, Slovenia, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taipei, Republic of Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uzbekistan and Vietnam.

### ***Stamp Duty***

Generally, a stamp duty of THB1 per every THB1,000 (or a fraction thereof) of the greater of the paid-up value of shares and the selling price of the shares is payable within 15 days from the date of execution of a share transfer instrument, or within 30 days from the date the share transfer instrument is brought into Thailand if executed outside Thailand. No stamp duty is payable on a transfer of listed securities where TSD, as a person appointed by the SET, is acting as a registrar of such securities.

## THAI FOREIGN EXCHANGE REGULATIONS

Thai foreign exchange controls are administered by the BOT on behalf of the Ministry of Finance, pursuant to the Exchange Control Act B.E. 2485 (1942), as amended. The BOT has granted commercial banks and certain other entities the authority to conduct foreign exchange transactions as authorized agents of the BOT. The BOT instituted measures in 1998 to restrict certain foreign exchange related transactions by domestic financial institutions with non-residents of Thailand and to safeguard against instability and speculation in the domestic currency market. However, the easing of exchange controls may be granted from time to time as the BOT considers appropriate to the financial circumstance. These measures, which were amended on February 29, 2008, among other things, (i) limit the value of foreign exchange related transactions for underlying trade or investment activities in Thailand not exceeding the actual value of the underlying trade or investment activity and, for transactions without any underlying trade or investment activity in Thailand, not exceeding THB300 million or THB10 million, depending on the type of transaction, per non-resident and its related parties as a group; and (ii) regulate direct loans granted to non-residents.

The inward remittance of money into Thailand for investment in securities does not require registration with the exchange control authorities. On February 4, 2008, the BOT issued significant relevant Notifications of the Competent Officer on Rules and Practices Regarding Currency Exchange No. 15 and the Notification of the Competent Officer on Rules and Practices Regarding Currency Exchange No. 20 on October 5, 2010 (collectively, the "Notifications") which amended the criteria for depositing foreign currency into a foreign currency account. The Notifications required that any person (excluding non-residents, short-term foreign residents, foreign embassy staff, persons with diplomatic immunity and staff of certain international organizations) bringing foreign currency into Thailand must, within 360 days, either (i) sell such foreign currency to an authorized agent or (ii) deposit it into a foreign currency account opened with a commercial bank in Thailand for which a specified form must be submitted to such authorized agent if the amount sold or deposited is at least US\$50,000 (or its equivalent based on the prevailing market rate).

The Notifications also provide that a person depositing foreign currency must prove one of the following to an authorized agent:

- (a) the deposit originated abroad, in which case the depositor may deposit an unlimited amount of foreign currency as requested into the foreign currency account, except where the Competent Officer sets the amount;
- (b) the deposit is purchased, exchanged or borrowed from an authorized agent by a Thai resident including if the deposit originated abroad in which the depositor wishes to deposit together with the deposit purchased, exchanged or borrowed from an authorized agent:
  - (i) if the depositor can prove that he will be subject to an obligation to pay those foreign currency funds outside Thailand or to an authorized agency, the depositor may deposit the foreign currency amounts in the foreign currency account. However, the amount deposited must not exceed the payment obligation. In this regard, such payment obligation of the depositor shall include the obligation of its affiliated business entity; or
  - (ii) if the depositor cannot prove it has a payment obligation, the deposit must be placed in a separate account, and the daily balance of foreign currency in all accounts held by that depositor must not exceed US\$500,000.0 (or its equivalent based on the prevailing market rate); or
- (c) the depositor (except for certain persons, including government organizations and Thai state-owned enterprises and government officers who work outside Thailand) is a person who does not have a foreign exchange license, the depositor may deposit not more than US\$10,000.0 (or its equivalent based on the prevailing market rate) in cash per day into the foreign currency account.

The outward remittance from Thailand of dividends or the proceeds of sale (including capital gain) from the transfer of shares after payment of the applicable Thai taxes, if any, may be made without the requirement to file a specified form to the relevant authorized agent if the amount is less than US\$50,000.0 or the equivalent amount using the prevailing market rate in relevant currency per remittance. If the amount is at least

US\$50,000.0 (or its equivalent based on the prevailing market rate) in the relevant currency, a specified form must be submitted to the authorized agent together with documents or evidence as to the particular transaction (such as evidence of the disposal of shares).

Export of share certificates or other securities certificates from Thailand does not require prior approval from an exchange control officer appointed by the BOT. The exporter may either dispatch the certificates by mail or carry them when travelling abroad.

On February 29, 2008, the BOT issued Notification of the Competent Officer on Rules and Practices Regarding Currency Exchange No. 17, which establishes the criteria for the withdrawal and deposit of the Baht into (i) non-resident Baht accounts for securities, for example, for the purpose of investing in equity instruments, debt instruments and units (“NRBS”) once Thai Baht funds are deposited into an NRBS, the non-resident may not change the purpose of the deposit by transferring the Thai Baht funds into a different type of account, unless BOT approval is obtained, and (ii) non-resident Baht accounts for other purposes, including an investment in at least 10.0% or more of the total share capital of companies in Thailand. Once Baht funds are deposited into an NRBS, the non-resident may not change the purpose of the deposit by transferring the Baht funds into a different type of account, unless BOT approval is obtained.

Further to the Notification of the Competent Officer on Rules and Practices Regarding Currency Exchange No. 17 above, the BOT has also issued the Rules and Practices on the Measures to Prevent Thai Baht Speculation dated February 29, 2008. The measures establish rules and practices for domestic financial institutions to undertake transactions involving Baht with non-residents in order to reduce volatility of the Baht resulting from speculative activities or from non-residents’ financial transactions without underlying trade or investment in Thailand. One of the measures relates to non-resident Baht accounts and non-resident Baht accounts for securities. Where a non-resident wishes to open an NRBS, such account is to be a current or savings account only, and the financial institution is required to monitor the outstanding balances of all NRBSs at the end of each day to ensure that such accounts do not exceed the limit of THB300.0 million per non-resident. Such limitation includes balances of all NRBSs opened by each non-resident with all financial institutions in Thailand, except for those approved by the BOT on a case-by-case basis.

## PLAN OF DISTRIBUTION

We, the Selling Shareholder and the International Managers have entered into a purchase agreement dated October 17, 2014 (the “International Purchase Agreement”) pursuant to which we have agreed to sell, and the International Managers have agreed to purchase or to procure purchasers for, subject to certain conditions, the number of Offering Shares in the International Offering indicated in the following table.

<b>International Manager</b>	<b>Number of Offering Shares</b>
Citigroup Global Markets Limited .....	66,999,998
Credit Suisse (Singapore) Limited .....	1
DBS Bank Ltd. ....	1
<b>Total</b> .....	<b>67,000,000</b>

The International Managers have agreed to purchase all of the Offering Shares sold under the International Purchase Agreement if any of these Offering Shares are not purchased. The International Managers are offering the Offering Shares when, as and if issued to and accepted by them, subject to the validity of the Offering Shares and other conditions contained in the International Purchase Agreement, such as the receipt by the International Managers of legal opinions. The International Managers reserve the right to withdraw, cancel or modify such offers and to reject orders in whole or in part.

We and the Selling Shareholder have agreed to indemnify the International Managers against certain liabilities including liabilities under the SEC Act, and to contribute to payments the International Manager may be required to make in respect of those liabilities.

### **Underwriting Commission**

The International Managers have agreed to purchase and/or procure the purchase of the Offering Shares under the International Purchase Agreement at a purchase price equal to the Offer Price of the Shares set forth on the cover page of this Offering Memorandum. We will pay or allow the each of the International Managers an underwriting commission of 1.75% of the Offer Price for each of the Offering Shares that International Manager purchases or procures purchasers for under the International Purchase Agreement.

### **General**

Purchasers of Offering Shares sold by the International Managers may be required to pay stamp taxes and/or other charges in accordance with the laws and practice of the country of purchase.

Investors in the International Offer will be required to pay to the International Managers, in addition to the Offer Price, a brokerage fee equal to 1.0% of the purchase price of the Offering Shares at the time of settlement.

### **Domestic Offer**

We have also entered into an underwriting agreement (the “Thai Underwriting Agreement”) with the Thai Lead Underwriters for the sale of the shares in Thailand. Subject to the terms and conditions in the Thai Underwriting Agreement, and concurrently with the sale of 67,000,000 Shares to the International Managers pursuant to the International Purchase Agreement, we have agreed to appoint the Thai Lead Underwriters to procure subscribers for, and the Thai Lead Underwriters have agreed to procure subscribers for, or failing which to subscribe for, 453,000,000 Shares from us. The closing of the International Offer is conditional upon the closing of the Domestic Offer.

### **Selling Shareholder’s Shares**

On the first day the Shares of the Company are traded on the SET, the Selling Shareholder will offer and sell not more than 60,000,000 Vendor Shares, or 2.9% of the total issued and paid-up Shares of the Company, to institutional investors in Thailand through Bualuang Securities Public Company Limited in a private placement through a big lot board of the SET. The offering price of such Vendor Shares shall be the same as the public offering price. The Vendor Shares will not be subject to any lock-up restrictions.



The Selling Shareholder, is concurrently offering 105,000,000 Shares to Bangkok Bank Public Company Limited through the big lot board of the SET on the first day on which the Company's Shares are traded on the SET. Such transaction is subject to certain terms and conditions. Bangkok Bank Public Company Limited has no contractual right to nominate any of its representatives to be a director or an executive of the Company. In addition, Bangkok Bank Public Company Limited will not participate in the bookbuilding process. The 105,000,000 Shares to be purchased by Bangkok Bank Public Company Limited will not be subject to any lock-up restrictions. The Thai Lead Underwriters will not procure subscribers for such Shares to be sold to Bangkok Bank Public Company Limited. Bangkok Bank Public Company Limited is the major shareholder of 99.75 percent in Bualuang Securities Public Company Limited which is the financial advisor and underwriter of the Company. In addition, the Company and its subsidiaries have entered into various loan agreements with Bangkok Bank Public Company Limited, including those described in "Description of Material Agreements—Finance Agreements—Loans from BBL" elsewhere in this Offering Memorandum.

### **Offering Shares Are Not Being Registered under the U.S. Securities Act**

The International Managers, directly or through their investees, propose to offer the Offering Shares for resale in transactions not requiring registration under the U.S. Securities Act or applicable state securities laws, in sales pursuant to Regulation S under the U.S. Securities Act or pursuant to another available exemption from the registration requirements of the U.S. Securities Act. Specifically, none of the International Managers will offer or sell the Offering Shares except outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act or pursuant to another available exemption from the registration requirements of the U.S. Securities Act.

In addition, until the expiration of 40 days after the later of the commencement of the International Offer and the end of the subscription period, an offer or sale of the Offering Shares within the United States by any broker-dealer (whether or not it is participating in the International Offer) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to another exemption under the U.S. Securities Act.

Offering Shares sold pursuant to Regulation S may not be offered or resold within the United States (as defined in Regulation S) except under an exemption from the registration requirements of the U.S. Securities Act or under a registration statement declared effective under the U.S. Securities Act.

Each purchaser of the Offering Shares will be deemed to have made the representations, agreements and acknowledgments as described under the "Transfer Restrictions" section of this Offering Memorandum.

### **Lock-up**

Each of the Company, the Selling Shareholder (other than with respect to 210,000,000 Shares, which shall include the Vendor Shares and the additional 105,000,000 Shares to be purchased by Bangkok Bank Public Company Limited, an institutional investor), the Company's directors and executive officers listed in the table under "Principal and Selling Shareholders", the Prasarttong-Osoth Family members listed in the table under "Principal and Selling Shareholders" and Sahakol Estate Co., Ltd have agreed with the International Managers and the Thai Lead Underwriters (the "Lock-Up Agreement") that, for a period of 180 days following the closing date of the Primary Offering, they will not, without the prior written consent of the International Managers and the Thai Lead Underwriters (which consent shall not be unreasonably withheld):

(i) issue, offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of any Shares or any securities convertible into or exercisable or exchangeable for or repayable with Shares or that carry rights to subscribe for or purchase Shares (collectively, "Lock-Up Shares");

(ii) enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the Lock-Up Shares whether any transaction described in (i) or (ii) is to be settled by delivery of Shares or other securities, in cash or otherwise;

(iii) deposit any Shares or any securities convertible into or exchangeable for or that carry rights to subscribe for or purchase Shares in any depositary receipt facilities;

- (iv) request or demand that we file a registration statement related to the Offering Shares; or
- (v) publicly disclose any intention to do any of the above.

### **Delivery of Offering Shares**

Payment for the Offering Shares is expected to be made on or about October 28, 2014. We are required to register the increase in our paid-in registered capital with the Ministry of Commerce before we are permitted to issue and deliver the Shares. There is uncertainty under Thai law as to the status of purchasers of Offering Shares in the period between payment for such Offering Shares and registration of the increase in paid-in registered capital. It is possible that, during this period, purchasers of Shares will not be shareholders and instead will be our unsecured creditors. In addition, the International Managers and the Thai Lead Underwriters or their respective affiliates may make arrangements with particular purchasers of the Offering Shares to provide certain undertakings with respect to the delivery of the Offering Shares purchased by them.

### **Other Relationships**

Some of the International Managers and the Thai Lead Underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the International Managers and the Thai Lead Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of us or our affiliates. The International Managers and the Thai Lead Underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Selling Restrictions**

#### ***General***

None of the Company, the Selling Shareholder, the International Managers and the Thai Lead Underwriters have taken any action, or will take any action, in any jurisdiction other than Thailand that would permit a public offering of our Shares, or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Combined Offering in any jurisdiction other than Thailand where action for that purpose is required.

Accordingly, each purchaser of the Offering Shares may not offer or sell, directly or indirectly, any Offering Shares and may not distribute or publish this Offering Memorandum or any other offering material or advertisements in connection with the Offering Shares in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

#### ***European Economic Community***

Each of the International Managers have represented and agreed that the Offering Shares have not been and will not be offered, sold or publicly promoted or advertised by it in any Member State of the European Economic Area (“EEA”) which has implemented the Prospectus Directive (each, a “Relevant Member State”) other than in compliance with the Prospectus Directive or any other laws applicable in the EEA governing the issue, offering and sale of securities.

No action has been taken, or will be taken, in any Relevant Member State to permit an offer to the public of any of the Offering Shares in that Relevant Member State. Accordingly, the Offering Shares are not being (and will not be) offered and will not be allocated to any person in the EEA other than:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR43,000,000 and (3) an annual net turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the International Managers for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Offering Shares shall result in a requirement for the publication by the Company or the International Managers of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any Offering Shares in any Relevant Member State means the communication to persons in any form and by any means, presenting sufficient information on the terms of the offer and the securities to be offered, so as to enable an investor to decide to purchase or subscribe to these securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### ***Hong Kong***

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to the offer. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

This Offering Memorandum has not been approved by the Securities and Futures Commission in Hong Kong and, accordingly, (i) the Offering Shares may not be offered or sold in Hong Kong by means of this Offering Memorandum or any other document other than to “professional investors” as defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and any rules made thereunder, or in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance of Hong Kong (Cap. 32) or which do not constitute an offer to the public within the meaning of the Companies Ordinance, and (ii) no person shall issue or possess for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Offering Shares which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Offering Shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as set out above).

### ***Japan***

The Offering Shares have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the “FIEA”). Each of the International Managers has represented and agreed that it will not offer or sell any Offering Shares, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for reoffering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Malaysia***

No approval from the Malaysian Securities Commission has been applied for or will be obtained for the offering for subscription or purchase, the invitation to subscribe for or purchase or the sale of the Offering Shares in Malaysia. This document has not been and will not be registered as a prospectus or deposited as an information memorandum with the Malaysian Securities Commission under the Malaysian Capital Markets and Services Act 2007. Accordingly, no offering for subscription or purchase and no invitation to subscribe for or purchase of the Offering Shares may be made in Malaysia. This document or any document or other materials in connection therewith may not be distributed or made available in Malaysia directly or indirectly for the purpose of any offering for subscription or purchase, invitation to subscribe for or purchase of or sale of, the Offering Shares in Malaysia.

In the event, for any reason whatsoever, this document is received in Malaysia, (i) it will not have any effect as an offer or invitation to purchase or subscribe for any securities; (ii) it does not make available, and will not be construed as making available, any securities for purchase or subscription; and (iii) it must be promptly returned to the Company.

People's Republic of China (excluding Hong Kong SAR, Macau SAR and Taiwan) (the "PRC")

The Offering Shares have not been offered or sold and will not be offered or sold in the PRC as part of the initial distribution of the Offering Shares.

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The Company does not represent that this document may be lawfully distributed, or that any Offering Shares may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Company which would permit a public offering of any Offering Shares or distribution of this document in the PRC. Accordingly, the Offering Shares are not being offered or sold within the PRC by means of this document or any other document. Neither this document nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

### *Saudi Arabia*

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "Saudi Investor") who acquires Offering Shares pursuant to the Offering should note that the offer of Offering Shares is a limited offer under Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated October 4, 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated August 18, 2008 (the "KSA Regulations"). Each International Manager has represented, warranted and agreed that the offer of the Offering Shares will not be directed at more than 60 Saudi Investors in total (excluding "Sophisticated Investors" (as defined in Article 10 of the KSA Regulations)) and the minimum amount payable per Saudi Investor will be not less than Saudi Riyal (SR) 1 million or an equivalent amount. The offer of Offering Shares shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the following restrictions on secondary market activity under Article 17 of the KSA Regulations:

(a) A Saudi Investor (the "transferor") who has acquired Offering Shares pursuant to a limited offer may not offer or sell Offering Shares to any person (referred to as a "transferee") unless the offer or sale is made through an authorized person appropriately licensed by the Saudi Arabian Capital Market Authority and the transferee is a Sophisticated Investor (as defined in Article 10 of the KSA Regulations) or the price to be paid by the transferee for such Offering Shares equals or exceeds SR1 million, or the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

(b) If the provisions of paragraph (a) cannot be fulfilled because the price of the Offering Shares being offered or sold to the transferee has declined since the date of the original limited offer, the transferor may offer or sell the Offering Shares to the transferee if their purchase price during the period of the original limited offer was equal to or exceeded SR1 million.

(c) If the provisions of (a) and (b) cannot be fulfilled, the transferor may offer or sell Offering Shares if he/ she sells his entire holding of Offering Shares to one transferee.

The provisions of paragraphs (a), (b) and (c) shall apply to all subsequent transferees of the Offering Shares.

This document may not be distributed in Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority.

The Capital Market Authority does not make any representation as to the accuracy or completeness of this document, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this document. Prospective purchasers of the securities offered hereby should conduct their own due diligence on the accuracy of the information relating to the securities. If you do not understand the contents of this document you should consult an authorized financial adviser.

## *Singapore*

The International Managers acknowledge that the Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore, and the Offering Shares will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the “Securities and Futures Act”). Accordingly, each of the International Managers represents and agrees that it has not offered or sold any Offering Shares or caused the Offering Shares to be made the subject of an invitation for subscription or purchase and will not offer or sell any Offering Shares or cause the Offering Shares to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, the Offering Memorandum or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any Securities, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1 A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased Offering Shares, namely a person who is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Offering Shares under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1 A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act.

## *Thailand*

Each International Manager has agreed that, as a part of the distribution of the Offering Shares offered hereby, and subject to certain exceptions, it will not offer or sell Offering Shares, directly or indirectly, to any person within the Kingdom of Thailand. The Thai Lead Underwriters have agreed pursuant to an intersyndicate agreement that, as part of the distribution of the Offering Shares offered as part of the Domestic Offer and subject to certain exceptions, it will not offer or sell Offering Shares, directly or indirectly, to any person outside the Kingdom of Thailand. Pursuant to the intersyndicate agreement, sales may be made between the International Managers and the Thai Lead Underwriters of such number of Offering Shares as may be mutually agreed. The price of any Offering Shares so sold shall be the Offer Price set forth on the cover page of this Offering Memorandum less the per share amount of the commission.

## *United Kingdom*

Each of the International Managers has represented, warranted and undertaken that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“FSMA”) in connection with the issue or sale of any Offering Shares in circumstances in which section 21 (1) of FSMA does not apply to BSSR; and

(ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Offering Shares in, from or otherwise involving the United Kingdom.

***United States***

The Offering Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Offering Shares are being offered and sold outside of the United States in reliance on Regulation S under the Securities Act.

## TRANSFER RESTRICTIONS

Because the following restrictions will apply to the International Offer, purchasers are advised to consult their own legal counsel prior to making any offer, resale, pledge or transfer of the Securities. Each purchaser of the Offering Shares outside the United States pursuant to Regulation S under the U.S. Securities Act (other than investors in Thailand), by accepting delivery of this Offering Memorandum and the Offering Shares, will be deemed to have represented, agreed and acknowledged that:

- It is authorized to consummate the purchase of the Offering Shares in compliance with all applicable laws and regulations.
- It acknowledges (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer acknowledges) that the Offering Shares have not been and will not be registered under the U.S. Securities Act.
- It certifies that either (i) it is, or at the time the Offering Shares are purchased will be, the beneficial owner of the Offering Shares and it is located outside the United States (within the meaning of Regulation S); or (ii) it is a broker-dealer acting on behalf of its customer and its customer has confirmed to it that (A) such customer is, or at the time the Offering Shares are purchased pursuant to Regulation S will be, the beneficial owner of the Offering Shares and (B) such customer is located outside the United States (within the meaning of Regulation S).
- It agrees (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer agrees) that it (or such customer) will not offer, sell, pledge or otherwise transfer the Offering Shares other than in accordance with any applicable laws of the states or territories of the United States and any other jurisdiction, including Thailand.
- It is eligible under all applicable laws, rules, regulations, guidelines and approvals to acquire the Offering Shares, and will comply with such laws, rules, regulations, guidelines and approvals in any sale, pledge or transfer of the Offering Shares.
- It acknowledges that the Company, the Selling Shareholder, the International Managers, the Thai Lead Underwriters and their respective representatives, agents, affiliates and nominees will rely upon the truth and accuracy of the foregoing representations, agreements and acknowledgments and agrees that, if any of such representations, agreements and acknowledgments deemed to have been made by virtue of its purchase of the Offering Shares are no longer accurate, it will promptly notify the Company, and if it is acquiring any Offering Shares as a fiduciary or agent for one or more accounts, it has sole investment discretion with respect to each such account and that it has full power to make the foregoing representations, agreements and acknowledgments on behalf of each such account.
- It is relying on this Offering Memorandum and not on any other information or representation concerning the Company, the Selling Shareholder or the Offering Shares and none of the Company, the Selling Shareholder nor any other person responsible for this Offering Memorandum or any part of it, nor the International Managers or the Thai Lead Underwriters, will have any liability for any such other information or representation.

Any resale, pledge or other transfer, or attempted resale, pledge or other transfer, made other than in compliance with the above stated restrictions, will not be recognized by the Company.

## **LEGAL MATTERS**

Certain matters in connection with the offering will be passed upon for us by White & Case Pte. Ltd. with respect to matters of U.S. federal securities laws and English law. Certain matters in connection with the offering will be passed upon for us by Charin & Associates Ltd. with respect to matters of Thai law.

Certain legal matters in connection with the offering will be passed upon for the International Managers by Shearman & Sterling LLP with respect to matters of U.S. federal securities laws and English law and by Weerawong, Chinnavat & Peangpanor Ltd., with respect to matters of Thai law.

## **INDEPENDENT ACCOUNTANTS**

The 2012 Audited Financial Statements and 2013 Audited Financial Statements included in this Offering Memorandum have been prepared and presented in accordance with the TFRS and, have been audited by EY Thailand, a member firm of Ernst & Young Global, who expressed an unqualified opinion on the 2012 Audited Financial Statements and 2013 Audited Financial Statements. The 2011 and 2012 unaudited comparative financial statements presented in the 2013 Audited Financial Statements have been restated for comparison purposes to conform with the changes made in the 2013 Audited Financial Statements. These changes have not been reflected in the original 2012 Audited Financial Statements included in this Offering Memorandum 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 presented in the 2013 Audited Financial Statements have not been audited by EY Thailand. The Unaudited Interim Financial Statements as of and for the six months ended June 30, 2014 have been reviewed by EY Thailand, who do not express an audit opinion on the Unaudited Interim Financial Statements. See “Presentation of Financial and Statistical Data”.



## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN TFRS AND IFRS

*The following is a general summary of certain principal differences between TFRS and IFRS that we believe are applicable to us.*

*TFRS differs in certain material respects from IFRS. A brief description of certain significant accounting differences between TFRS and IFRS as applicable to our Company for the financial years ended December 31, 2011, 2012 and 2013 and the six months ended June 30, 2013 and 2014 is set out below. The organizations that promulgate TFRS and IFRS have issued new pronouncements that may impact subsequent periods and have significant ongoing projects that could affect the differences between TFRS and IFRS described below and the impact of these differences relative to the Financial Statements. Accordingly, this summary is not intended to provide a comprehensive listing of all existing or future differences between TFRS and IFRS related to us or the industry in which we operate. No attempt has been made to quantify the differences. Had we undertaken to identify the differences specifically affecting the Financial Statements presented in this Offering Memorandum, other potentially significant differences may have come to our attention that are not provided in the following summary.*

*Accordingly, we can provide no assurance that this summary of certain significant differences between TFRS and IFRS provides a complete description of all differences that may have an impact on the Financial Statements. IFRS is generally more restrictive and comprehensive than TFRS regarding the recognition and measurement of transactions, account classifications and disclosure requirements. No attempt has been made in this summary to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in the Financial Statements or the notes thereto.*

*Thai Financial Reporting Standards (“TFRS”) and accounting interpretations were renumbered, effective June 26, 2009, following the endorsement in the Government Gazette and the announcement by the FAP in order to conform to the numbers used in the IFRS. Unless otherwise stated, references to TFRS below are based on the renumbered TFRS.*

*In making an investment decision, investors must rely upon their own examination of the Company’s financial statements, the terms of the offering and the financial information. Potential investors should consult their own professional advisers for an understanding of the differences between TFRS and IFRS and how these differences might affect the financial information in this Offering Memorandum.*

### **Presentation of Financial Statements**

Under TFRS, TAS 1 “Presentation of Financial Statements” provides guidance on the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The format of the financial statements under TFRS follows the format prescribed by the Department of Business Development under the Ministry of Commerce.

Prior to the financial year beginning on January 1, 2009, guidance on the presentation of financial statements under IFRS was covered by IAS 1 “Presentation of Financial Statements” which was similar to those required under TFRS. From January 1, 2009, IAS 1 was revised, resulting in a number of significant differences between TFRS and IFRS. For example, IAS 1 (revised) requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in the statement of changes in equity. Non-owner changes will be presented in the statement of comprehensive income. An entity has a choice of presenting income and expenses in one statement (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income). In addition, IAS 1 (revised) requires presentation of a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements. This effectively means that the entity is required to present three years of statement of financial positions in these instances.

TAS 1 has recently been revised based on IAS 1 (revised) and became effective on January 1, 2011. However, the TAS 1 (revised) provides a one-time policy choice for an entity to present two years of financial positions when TAS 1 (revised) was adopted on January 1, 2011. On the adoption of TAS 1 (revised), the Company has elected to present income and expenses in one statement of comprehensive income.

## **Employee Benefits**

Prior to the financial year beginning on January 1, 2011, there was no effective TFRS in relation to accounting for employee benefits. Our primary obligations in respect of employee benefits are contributions on behalf of employees to our provident funds and the payment of statutory severance benefits on retirement and terminating employment involuntarily under Thai Labor Law. In the Financial Statements, we charge contributions to the provident funds and statutory severance and retirement payments when incurred. No provision was recognized for such benefits.

Under IFRS, IAS 19 “Employee Benefits” requires an entity to recognize employee benefits as expenses in the period which the entity receives service from the employee, rather than when the benefits are paid or payable. In addition, obligations for post-employment benefits which are defined benefit plans are recognized net of the fair value of any plan assets on the balance sheet, using the Projected Unit Credit Method, as the present value of the estimated future cash outflows based on employee wages, turnover rate, retirement ages, mortality, length of service and others, and using the interest rates of high quality corporate bond rates or government bond rates (in countries where there is no deep market for corporate bond) that are denominated in the currency in which the benefits will be paid, which have terms to maturity approximately the term of the related obligations. Actuarial gains or losses arising from changes in actuarial assumptions may be recognized using corridor approach or any systematic method that results in faster recognition of actuarial gains and losses. The cost associated with providing these benefits are charged to profit or loss so as to spread the cost over the period of employment during which the entitlement to benefit is earned.

TAS 19 “Employee Benefits”, which is based on IAS 19, became effective on January 1, 2011. On the adoption of TAS 19, the Company has elected to adjust the transitional adjustment to the opening retained earnings as at January 1, 2011 as permitted by TAS 19. The Company has also elected to recognize actuarial gains or losses immediately in profit or loss in the period in which they arise.

## **Foreign Currency Translation**

Under TFRS, TAS 21 “The Effects of Changes in Foreign Exchange Rates” was based on the previous version of IAS 21 “The Effects of Changes in Foreign Exchange Rates” and has no concept of functional currency. Assets, liabilities and operating results of each entity are recorded in each respective local currency and the Financial Statements are presented in Baht.

Under IFRS, IAS 21 requires each entity to determine its functional currency and measure its results and financial position in that currency. However, the entity may choose a presentation currency to present its financial statements.

TAS 21 has recently been revised based on IAS 21 and has become effective on January 1, 2013. The Company’s financial statements are presented in Baht, which is the Company’s functional currency.

## **Operating Segments**

Under TFRS, TAS 14 “Reporting Financial Information by Segment” was based on IAS 14 (1993) “Reporting Financial Information by Segment”. Disclosure was required in relation to primary and secondary segments information based on either business segments or geographical segments, depending on an entity’s risks and returns governing the primary segment. The secondary segment format requires less disclosure. The Company does not disclose segment information because the Company has only one significant segment which is the provision of air transportation services.

Under IFRS, prior to the financial year beginning on January 1, 2009, IAS 14 (revised 2005) “Segment Reporting” prescribed similar but more extensive disclosure than required under TAS 14. From the financial year beginning on January 1, 2009, IAS 14 (revised 2005) was superseded by IFRS 8 Operating Segments (“IFRS 8”). IFRS 8 requires segment information to be reported based on the entity’s operating segment. Operating segments are components of an enterprise in which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the same basis as is used internally for evaluating segment performance and deciding how to allocate resources to segments.

IFRS 8 “Operating Segments”, which is based on IFRS 8, has recently been issued and has become effective on January 1, 2013. The Company adopted this standard on January 1, 2014.

## **Income Taxes**

Under IAS 12 “Income Taxes”, deferred taxes are recognized for the estimated future tax effects of temporary differences. Temporary differences, which are differences between the carrying amount of an asset or liability in the balance sheet and its tax base, comprise taxable temporary differences and deductible temporary differences. Deferred tax liabilities are the amounts of income tax payable in future periods in respect of taxable temporary differences. Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences and the carryforward of unused tax losses when it is probable that the asset can be utilized.

TAS 12 “Income Taxes”, which is based on IAS 12, has recently been issued and has become effective on January 1, 2013. The Company adopted this standard on January 1, 2014.

## **Financial Instruments — Recognition and Measurement**

While there is no one single standard capturing accounting for all types of financial instruments, there are a number of TFRS standards which provide guidance on accounting for financial instruments, such as TAS 105 “Accounting for Investment in Debt and Equity Securities” and TAS 101 “Doubtful Accounts and Bad Debts”.

Under IFRS, IAS 39 “Financial Instruments: Recognition and Measurement” has extensive guidance on the recognition and measurement of financial instruments, including the categorization of financial assets and liabilities, accounting for derivatives and hedging activities and impairment. The International Accounting Standards Board has also issued IFRS 9 “Financial Instruments” which will eventually supersede IAS 39. IFRS 9 is effective for the annual period beginning on or after January 1, 2015 but early adoption is permitted.

Significant differences between TFRS and IAS 39 as applicable to the Company for the year ended December 31, 2011, 2012 and 2013 are as follows:

### **Categorization of Financial Assets and Liabilities**

Categorization of financial assets and liabilities under TFRS follows the general guidance in the Framework and in each respective standard. In contrast, IAS 39 requires financial assets to be categorized into (i) financial asset at fair value through profit or loss, (ii) held to maturity investments, (iii) loan and receivables and (iv) available for sale financial assets. The categorization depends on the purpose for which the financial assets were acquired. Financial liabilities are either categorized into financial liability at fair value through profit or loss or financial liability carried at amortized cost. All financial assets and liabilities are initially recognized at fair value net of transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Subsequent accounting depends on their respective categories.

### **Derivative Financial Instruments**

Under IFRS, derivatives financial instruments are required to be marked to market at fair value and recognized on the balance sheet. Changes to fair value are recognized through profit and loss. If hedge accounting is elected and appropriate based upon the specific criteria of IAS 39, the impact of recording the derivative instrument is offset to the extent the hedging relationship is effective. If a hedge is designated as a fair value hedge, changes in the derivative’s fair value are recorded in profit and loss and the hedged item is marked to market for changes in fair value associated with the hedged risk. If designated as a cash flow hedge, the effective portion of the hedge is recorded in equity as a component of other comprehensive income, and released from other comprehensive income into earnings as the hedged item affects earnings. All ineffectiveness in the hedging relationship, as well as derivative instruments not qualifying for hedge accounting, is reflected in the statement of income immediately. The Company was not a party to derivative agreements for the year ended December 31, 2011, 2012 and 2013.

### **Financial Guarantees**

Under IAS 39, financial guarantee contracts are accounted for as financial liabilities and should initially be recognized at fair value by the issuer. Subsequent to the initial recognition, financial guarantee contracts are measured and recognized at the higher of the amount determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, and the amount initially recognized at fair value less, when appropriate, cumulative amortization of the initial amount recognized in accordance with IAS 18 “Revenue”.

## **Financial Instruments — Presentation and Disclosure**

TFRS addresses financial instruments presentation through TAS 32 “Financial Instruments: Presentation and Disclosure” which is based on the previous version of IAS 32 “Financial Instruments: Presentation”. The current version of IAS 32 revised the definitions of financial liabilities, and equity instrument and provided additional guidance on the classification between financial liability and equity instrument. It also provides additional guidance on classification of contracts settled in an entity’s own equity instruments, puttable instruments and treasury shares.

Disclosure requirements under TAS 32 are not as extensive as those required by IFRS 7 “Financial Instruments: Disclosure”. IFRS 7 requires extensive qualitative and quantitative disclosure about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk and how the entity manages those risks.



## The S|A|P Group

Strategic Airport Planning

*Asia-Pacific:*

55 Soi Langsuan, Suite 1902  
Ploenchit Road  
Bangkok, Thailand 10330  
+66 (86) 060-4626 (office)  
+1 978 246-6031 (fax)

*Americas:*

1342 Jones Street  
Suite 6  
San Francisco, California 94109 USA  
+1 415 577-2127 (office)  
+1 978 246-6031 (fax)

*Please use San Francisco address for correspondence.*

[inquiry@thesapgroup.com](mailto:inquiry@thesapgroup.com)

## Summary of Results

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### Report of the Aviation Consultant Bangkok Airways Public Company Limited

prepared for

**Credit Suisse  
Singapore**

**Bangkok Airways Public Company Limited  
Bangkok**

prepared by

**The S-A-P Group  
San Francisco**

**26 May 2014**



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## ABBREVIATIONS AND DEFINITIONS

ACI	Airports Council International
AOT	Airports of Thailand Public Company Limited
ASEAN	Association of Southeast Asian Nations
ASK	Available seat kilometer(s) (equals one passenger seat flown one kilometer)
CAGR	compound annual growth rate
CASK	cost per available seat kilometer
DCA	Thai Department of Civil Aviation
FSC	full-service carrier
FY	Fiscal Year
GDP	Gross Domestic Product
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
IMF	International Monetary Fund
km	kilometer(s)
LCC	low-cost carrier
n.a.	not available or not applicable
RASK	revenue per available seat kilometer
RPK	revenue passenger kilometer(s) (one revenue passenger flown one kilometer)
S-A-P	The S-A-P Group LLC
Southeast Asia	Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam
UNWTO	United Nations World Tourism Organization





## IMPORTANT NOTES

The S-A-P Group LLC was asked by Bangkok Airways Public Company Limited to prepare this Report of the Aviation Consultant on Bangkok Airways and air travel in Southeast Asia. This independent expert report was prepared to be included in documentation (including, but not limited to any prospectus or offering circular) to support the Initial Public Offering of Bangkok Airways/majority shareholder, to occur in 2014.

The S-A-P Group (S-A-P) is an aviation consulting firm that specializes in the preparation of aviation activity forecasts and strategic business plans. Over the past 19 years, staff of The S-A-P Group have prepared forecasts of aviation activity in Australia (Sydney, Perth, Adelaide, Darwin, Sunshine Coast/Maroochydore), Bhutan (4 airports), Indonesia (Jakarta and Bintan), Malaysia, New Zealand (Auckland and Wellington), South Korea (Seoul), Thailand (Bangkok, Phuket, Chiang Mai, Chiang Rai, and Had Yai) and the United States (numerous).

This report includes forecasts and other forward-looking estimates. These forward-looking statements are necessarily based on various assumptions and estimates that are inherently subject to various risks and uncertainties relating to possible invalidity of the underlying assumptions and estimates and possible changes or development of social, economic, business, industry, market, legal, government, and regulatory circumstances and conditions and actions taken or omitted to be taken by others.

Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic and competitive market conditions and future government and business decisions, all of which are difficult or impossible to predict accurately. This report contains information supplied by and analysis based on public and private sources. To the extent such sources have been cited herein, we hereby confirm that The S-A-P Group is allowed to reference such sources. While we believe that the information is correct, we cannot guarantee its validity. Some amounts in this report are rounded. Financial and operating data for some air carrier groups may include cargo and other activities.

We are not obligated to update this report after today's date. However, if we become aware of material changes affecting the items documented in this report, either (a) between the date of the report and the issue of the prospectus, or (b) after the issue of the prospectus and before the issue of the securities, then we agree to notify Bangkok Airways.

THE S-A-P GROUP LLC

Date of report: 26 May 2014

Bill A. Matz  
President



## REPORT OF THE AVIATION CONSULTANT

### Bangkok Airways Public Company Limited

26 May 2014

## 1 AVIATION INDUSTRY OVERVIEW

### 1.1 Background

#### 1.1.1 Aviation in the Asia-Pacific Region

According to IATA (the International Air Transport Association), the Asia-Pacific region became the airline industry's largest market in 2009. Strong growth in air traffic has continued in the region since that time. It is estimated that currently over a quarter of the world's travelers journeyed to, from, or within the Asia-Pacific region on commercial flights. The Asia-Pacific region's growth rates are forecast to remain robust over the next 20 years. If the number of people in Asia flew at the same rates per annum as their counterparts in the United States, the global aviation industry would triple in size.

The strong historical and projected future growth rates for the Asia-Pacific aviation industry are the result of several factors, including:

- Strong economic growth in most countries, leading to increased demand for domestic and international passenger services and for inbound transport of goods.
- Strong economic growth across the region and other parts of the world, leading to strong inbound international passenger services and demand for outbound cargo services.
- Market liberalization efforts, which have allowed for the introduction of new entrant low-cost carriers (LCCs) and increased competition, leading to reduced airfares and the introduction of new services and markets.

#### 1.1.2 Aviation in the South East Asia Region

Aviation growth has been particularly strong growth in the South East Asia region due to several factors, including:

- Strong growth in LCC development with the launch of three new LCC airlines in 2012 in the region and an LCC share of over 50% of total aviation capacity in the region<sup>1</sup>
- Rapid economic development and a growing middle class increasingly able to afford air travel
- Strong tourism growth trends

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<sup>1</sup> According to data published by the Center for Aviation, 2013.



### 1.1.3 Aviation in Thailand

Aviation activity in Thailand has grown significantly over the past few decades, in part due to the same market liberalization and economic growth factors affecting Asia and Southeast Asia. Some of the general trends in Asia have been even more pronounced in Thailand, in particular the trend toward LCC carrier service. Open skies agreements have also increased the availability of travel options to and from Thailand. These factors have resulted in average annual growth in passenger movements of 8.5% from 2005 to 2013, despite several interruptions in growth during that time due to political turmoil, natural disasters, and economic crises.

Aviation demand to, from, and within Thailand is driven by inbound tourism, as well as business-related travel and outbound tourism. Thailand's tourism infrastructure is particularly well-developed and attractive to tourists from around the world. Attractions in Thailand include beach resorts, cultural landmarks, and medical tourism.

More than half of the aviation activity at the primary airports in Thailand is carried by the four largest Thailand-based airlines: Bangkok Airways, Thai AirAsia, Nok Air, and Thai Airways International.

Bangkok Airways began scheduled services in 1986 after several years operating air taxi services (since 1968). Bangkok Airways is Thailand's first privately-owned domestic airline. The airline is 92% owned by the Prasarttong-Osoth family. In a unique capital investment for an airline, Bangkok Airways in 1989 built its own airport on the island resort of Koh Samui, Thailand. The airline later developed airports in Sukhothai and Trat. From its base at Suvarnabhumi International Airport, the carrier operates 25 aircraft, including eight ATR 72-500s, ten Airbus A-319s and seven Airbus A-320s.

Thai AirAsia is an associate company of the AirAsia group of airlines, which includes Indonesia AirAsia, AirAsia Philippines, AirAsia Japan, and AirAsia X. AirAsia was founded in 2001 in Malaysia with a focus on low cost service. Thai AirAsia launched domestic operations in Thailand on February 2004 and serves domestic and regional destinations from its base of operations at Don Mueang International Airport. The carrier serves destinations in Thailand and other countries using a fleet of 37 Airbus A-320 aircraft<sup>2</sup> in a single-class configuration of 180 seats. Thai AirAsia is 55% owned by Asia Aviation PCL and 45% owned by AirAsia Berhad.

Affiliate Thai AirAsia X, which intends to serve destinations between four and nine hours flying distance from Bangkok, commenced charter operations in April 2014 and is planning to start commercial operations in June 2014 using 377-seat A-330 aircraft.

Nok Air is a Thailand-based LCC that serves domestic and international routes. The carrier is partially owned by Thai Airways International. Since its inception, Nok Air has operated largely independently from its parent company. Nok Air operates a fleet of 16 aircraft comprised of 14 Boeing B-737-800 and two ATR 72-500 aircraft. The carrier's primary base of operations is Don Mueang International Airport.<sup>3</sup>

NokScoot is a joint-venture, Bangkok-based LCC being established by Nok Air and Singapore-based Scoot. NokScoot plans to operate medium-haul services from Don Mueang International Airport to China, Japan, and South Korea using two~three Boeing 777-200ERs starting in the second half of 2014.

Thai Airways International is the national carrier of the Kingdom of Thailand and largest airline in the country. It operates full service domestic, regional and international flights in a hub and spoke system from its base in Bangkok to destinations around the world and within Thailand. Thai Airways International was founded in 1960 as a joint venture between Thailand's domestic carrier, Thai Airways Company and Scandinavian Airlines System. The Thai government took full ownership of the carrier in 1977 and listed shares on the Thai Stock Exchange in 1991. Thai Airways also operates Thai Smile, a subsidiary carrier that serves domestic and international routes using Airbus A-320 aircraft configured for 174 passengers. Thai Smile plans to operate 20 aircraft by the end of 2015<sup>4</sup>.

<sup>2</sup> As of 31 March 2014. Source: AirAsia Berhad, May 2014.

<sup>3</sup> Source: Nok Airlines PCL, 31 December 2013.

<sup>4</sup> Thai Smile Airways Company Limited, May 2014.



### 1.1.4 Bangkok Airways

Bangkok Airways has positioned itself as a “boutique airline,” serving niche routes and providing unique services to its customers such as airport lounges open to all customers, and operating airports developed to increase passenger access to unique cultural and leisure destinations.

The carrier’s brand identity and selection of routes promotes exotic destinations in Southeast Asia. With this strategy, the carrier typically avoids highly-competitive routes where possible, preferring instead to operate routes not previously served. Bangkok Airways is the only carrier operating on many of the routes it serves, thereby helping to minimize fare wars and other price competition. In addition, the carrier promotes the full-service offering, including the availability of services and amenities not offered on other full-service carriers. The availability of complimentary hot meals, even on short flight segments, and the carrier’s branded airport lounges for economy class passengers are two examples of its product differentiation strategy.

## 2 AVIATION ACTIVITY IN THAILAND

### 2.1 Historical Air Passenger Movements

As shown in Table 1, below, air passenger activity at commercial airports in Thailand grew at a compound annual growth rate of 8.5% from 2005 to 2013. During the period, the number of domestic passengers grew at a CAGR of 9.2% while the number of international passengers grew at a CAGR of 7.9%.

Growth has been strong during several of the years in this period, but has varied significantly due to natural disasters and political disruptions in the country. Despite the disruptions, Thailand still experienced high growth rates over the past several years, including growth in total passengers of 18.8% from 2010 to 2011, 10.6% from 2011 to 2012, and 17.4% from 2012 to 2013.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	CAGR 2005~2013
<b>Domestic passengers</b>										
DCA airports	4,426,568	4,823,692	5,376,415	4,296,139	5,092,804	5,653,579	6,531,360	7,842,511	10,325,193	11.2%
AOT airports	17,102,635	19,772,586	20,727,678	20,021,472	21,109,118	21,549,308	27,765,695	28,437,557	33,063,538	8.6%
Subtotal	21,529,203	24,596,278	26,104,093	24,317,611	26,201,922	27,202,887	34,297,055	36,280,068	43,388,731	9.2%
International passengers (a)	29,999,039	34,256,445	35,433,805	33,683,888	32,828,075	36,690,283	41,605,432	47,694,714	55,227,292	7.9%
<b>Total</b>	51,528,242	58,852,723	61,537,898	58,001,499	59,029,997	63,893,170	75,902,487	83,974,782	98,616,023	8.5%
<b>Growth</b>										
Domestic passengers		14.2%	6.1%	-6.8%	7.7%	3.8%	26.1%	5.8%	19.6%	
International passengers (a)		14.2%	3.4%	-4.9%	-2.5%	11.8%	13.4%	14.6%	15.8%	
Total growth		14.2%	4.6%	-5.7%	1.8%	8.2%	18.8%	10.6%	17.4%	

Sources: AOT and DCA, May 2014. Some DCA airports estimated for 2013.  
(a) AOT airports.



As shown in Table 2, below, the largest share of passenger traffic at AOT airports in Thailand was carried by Thai Airways International in 2012, the most current year for which this AOT data is available. Bangkok Airways carried the third largest share of passenger traffic in 2012. Traffic carried by Bangkok Airways increased at a CAGR of 6.2% from 2006 to 2012.

Table 2

**HISTORICAL AIR PASSENGER MOVEMENTS, BY AIRLINE**  
**AOT Airports in Thailand**  
**2006~2012**

Airline	Year							CAAGR
	2006	2007	2008	2009	2010	2011	2012	2006~2012
Thai Airways International	22,463,733	23,308,495	22,342,145	22,517,047	21,637,221	21,644,398	18,582,337	-3.1%
Thai Air Asia	4,251,827	4,762,073	5,773,827	6,728,445	7,418,362	8,725,383	7,542,037	10.0%
Bangkok Airways	2,499,257	2,515,311	2,466,657	2,875,734	3,141,726	3,753,765	3,585,029	6.2%
Nok Air	2,537,281	3,354,441	2,624,959	1,819,988	2,975,343	4,239,135	2,388,489	-1.0%
Orient Thai Airlines	2,741,923	2,084,766	1,184,326	753,151	1,406,138	2,130,001	1,817,879	-6.6%
Cathay Pacific Airways	1,442,158	1,337,343	1,314,490	1,401,463	1,392,701	1,515,482	1,718,672	
Emirates	926,827	996,814	918,992	1,001,111	1,220,538	1,363,056	1,434,284	7.5%
Korean Air	742,850	762,028	734,030	654,932	769,554	912,649	1,027,212	5.6%
Tiger Airways	492,265	476,539	146,270	187,508	255,673	703,433	903,405	10.6%
Singapore Airlines	1,315,323	1,206,930	1,104,283	814,221	671,320	674,627	858,638	-6.9%
China Airlines	1,267,394	1,164,394	1,136,886	1,001,783	783,804	801,523	801,719	-7.3%
AirAsia	580,111	583,362	297,512	329,197	413,618	918,696	730,616	3.9%
Eva Air	701,845	669,745	669,338	614,978	534,491	601,393	561,335	-3.7%
Silk Air	338,238	281,080	374,077	339,250	335,661	370,996	387,701	2.3%
Indonesia Air Asia	-	14,293	59,882	96,543	92,464	182,845	82,167	-
All others	11,727,999	12,643,869	12,557,686	12,801,842	15,190,977	20,833,745	33,710,751	19.2%
<b>Total</b>	<b>54,029,031</b>	<b>56,161,483</b>	<b>53,705,360</b>	<b>53,937,193</b>	<b>58,239,591</b>	<b>69,371,127</b>	<b>76,132,271</b>	<b>5.9%</b>

Source: AOT, May 2014.



Table 3, below, documents the airline market shares for passengers (domestic and international) at AOT airports<sup>5</sup> from 2006 to 2012 for full-service carriers (FSC) and low-cost carriers (LCC).

From 2006 to 2012, the share of passengers served by Bangkok Airways at AOT airports increased from 4.6% to 4.7% of total passengers. Bangkok Airways increased its share of passenger traffic at AOT airports from the fifth largest share in 2006 to the third largest share in 2012.

**Table 3**  
**HISTORICAL AIR PASSENGER MOVEMENTS, BY AIRLINE MARKET SHARE**  
**AOT Airports in Thailand**  
**2006~2012**

Airline	Type	Year						
		2006	2007	2008	2009	2010	2011	2012
Thai Airways International	FSC	41.6%	41.5%	41.6%	41.7%	37.2%	31.2%	24.4%
Thai Air Asia	LCC	7.9%	8.5%	10.8%	12.5%	12.7%	12.6%	9.9%
Bangkok Airways	FSC	4.6%	4.5%	4.6%	5.3%	5.4%	5.4%	4.7%
Nok Air	LCC	4.7%	6.0%	4.9%	3.4%	5.1%	6.1%	3.1%
Orient Thai Airlines	FSC	5.1%	3.7%	2.2%	1.4%	2.4%	3.1%	2.4%
Cathay Pacific Airways	FSC	2.7%	2.4%	2.4%	2.6%	2.4%	2.2%	2.3%
Emirates	FSC	1.7%	1.8%	1.7%	1.9%	2.1%	2.0%	1.9%
Korean Air	FSC	1.4%	1.4%	1.4%	1.2%	1.3%	1.3%	1.3%
Tiger Airways	LCC	0.9%	0.8%	0.3%	0.3%	0.4%	1.0%	1.2%
Singapore Airlines	FSC	2.4%	2.1%	2.1%	1.5%	1.2%	1.0%	1.1%
China Airlines	FSC	2.3%	2.1%	2.1%	1.9%	1.3%	1.2%	1.1%
AirAsia	LCC	1.1%	1.0%	0.6%	0.6%	0.7%	1.3%	1.0%
Eva Air	FSC	1.3%	1.2%	1.2%	1.1%	0.9%	0.9%	0.7%
Silk Air	FSC	0.6%	0.5%	0.7%	0.6%	0.6%	0.5%	0.5%
Indonesia Air Asia	LCC	0.0%	0.0%	0.1%	0.2%	0.2%	0.3%	0.1%
Other	n.a.	21.7%	22.5%	23.4%	23.7%	26.1%	30.0%	44.3%
Total FSC (excluding other)		63.7%	61.1%	60.0%	59.3%	54.8%	48.7%	40.4%
Total LCC (excluding other)		14.6%	16.4%	16.6%	17.0%	19.2%	21.3%	15.3%
Other		<u>21.7%</u>	<u>22.5%</u>	<u>23.4%</u>	<u>23.7%</u>	<u>26.1%</u>	<u>30.0%</u>	<u>44.3%</u>
Total		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: AOT, May 2014.

<sup>5</sup> Source: AOT, May 2014. Airline-specific data from AOT is only available for years up to 2012. AOT operates Suvarnabhumi and Don Mueang international airports in Bangkok and the international airports in Chiang Mai, Chiang Rai, Phuket, and Hatyai. Data by airline for other commercial airports is not available. AOT airport data represents approximately 90% of total traffic in Thailand and nearly all of the country's international traffic.



### **3 FORECASTS OF AVIATION ACTIVITY**

Historical and forecast passenger growth rates for select air markets are provided in the sections that follow. The forecasts are based on industry publications that rely on econometric analysis of socioeconomic growth factors, global surveys of origins and destinations and infrastructure development, and other factors and analysis.

As with most aviation activity forecasts, significant levels of judgment are employed and actual results may be significantly different than the forecasts.

#### **3.1 Historical and Forecast Global Air Travel Growth Rates**

As shown in Table 4, which follows, global passenger air travel, as measured in revenue passenger kilometers (RPKs), grew at a compound annual growth rate of 4.8% from 1985 to 2012.

According to both The Boeing Company and Airbus Industries, the largest aircraft manufacturers, passenger air travel in the Asia-Pacific region—as measured in RPKs—grew at one of the highest rates in the world compared to other regions during this period and is expected to experience continued strong growth rates in the coming years.

Air travel within the Asia-Pacific region—as measured in RPKs—is projected by Boeing to grow at a CAGR of 6.5% from 2012 to 2032, driven by strong economic and population growth projections as well as progressive trade agreements and low cost carrier growth. Air travel within the Southeast Asia sub-region—as measured in RPKs—is projected by Boeing to grow at a CAGR of 7.5% during this 20-year period.

Historical and forecast growth rates for passenger activity within select world regions for 1985 to 2032 are shown in Table 4, below.



Table 4

**HISTORICAL AND FORECAST ANNUAL PASSENGER GROWTH RATES**  
**Activity (in RPKs) Within Select Regions of the World**  
1985 to 2032

	CAGR						
	Historical					Forecast	
	1985~1990	1990~1995	1995~2000	2000~2005	2005~2010	1985~2012	2012~2032
Global	6.8%	3.3%	5.6%	3.6%	3.9%	4.8%	5.0%
<b>Within regions</b>							
within China	16.7%	25.4%	4.7%	18.2%	15.4%	15.4%	6.9%
within Europe	8.7%	3.5%	7.5%	5.0%	2.6%	5.4%	3.6%
within Middle East	1.9%	1.3%	6.1%	11.8%	9.8%	5.7%	5.7%
within North America	4.6%	2.6%	5.1%	2.5%	-1.0%	2.7%	2.3%
within Northeast Asia	9.2%	6.1%	3.1%	-2.3%	0.9%	4.2%	2.5%
within Oceania	7.1%	10.2%	2.9%	5.8%	3.7%	6.2%	4.5%
within South America	2.8%	3.2%	5.1%	4.7%	12.6%	5.8%	7.4%
within South Asia	2.1%	5.6%	1.0%	9.5%	14.5%	6.7%	9.6%
within Southeast Asia	11.1%	12.5%	-0.1%	12.2%	6.2%	8.3%	7.5%

Source: The Boeing Company, Current Market Outlook reports, 2001 through 2013.

Northeast Asia: Japan, North Korea and South Korea.

South Asia: India, Pakistan, and Afghanistan.

Southeast Asia: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam.

Oceania: Australia, New Zealand, Melanesia, Micronesia and Polynesia.





### 3.2 Historical and Forecast Air Travel Growth Rates in Southeast Asia

Southeast Asia is one of the world's most dynamic regions for air travel. Passenger air travel within Southeast Asia—as measured in RPKs—grew at a CAGR of 8.3% from 1985 to 2012. Although growth rates in the Southeast Asia region slowed somewhat during the recent global economic downturn, passenger travel by air within the region is projected to grow at a CAGR of 7.5% from 2012 to 2032. By comparison, passenger travel within the Asia-Pacific region is forecast to grow at a CAGR of 6.5% during the same period and passenger travel globally is forecast to grow at a CAGR of 5.0%, according to Boeing.

Historical and forecast growth rates for passenger activity within the Southeast Asia region and between the Southeast Asia region and select world regions are shown in Table 5, below.

Table 5  
**HISTORICAL AND FORECAST ANNUAL PASSENGER GROWTH RATES**  
Activity (in RPKs) Within and Between Southeast Asia and Select Regions of the World  
1985 to 2032

	CAGR						
	Historical					Forecast	
	1985~1990	1990~1995	1995~2000	2000~2005	2005~2010	1985~2012	2012~2032
Within Southeast Asia	11.1%	12.5%	-0.1%	12.2%	6.2%	8.3%	7.5%
<u>Between Southeast Asia and:</u>							
China	12.4%	9.7%	5.0%	10.4%	2.6%	8.5%	7.5%
Oceania	14.7%	6.4%	6.9%	3.4%	2.3%	6.6%	5.1%
Middle East	-6.2%	13.4%	3.1%	4.2%	13.8%	5.5%	6.6%
North America	13.8%	11.1%	4.4%	-18.2%	-2.6%	1.0%	6.5%
Northeast Asia	15.2%	6.4%	1.8%	9.0%	1.3%	7.1%	4.9%
Europe	11.8%	7.3%	7.8%	0.5%	-0.2%	5.0%	5.0%
South Asia	0.5%	6.9%	6.2%	13.3%	6.9%	6.6%	8.4%

Source: The Boeing Company, Current Market Outlook reports, 2001 through 2013.

Northeast Asia: Japan, North Korea and South Korea.

South Asia: India, Pakistan, and Afghanistan.

Southeast Asia: Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Taiwan, Thailand, and Vietnam.

Oceania: Australia, New Zealand, Melanesia, Micronesia and Polynesia.



Forecast growth rates for passenger activity within and between world regions are shown in Table 6, below.

Table 6

**FORECAST ANNUAL PASSENGER GROWTH RATES**  
**Activity (in RPKs) Within and Between Regions of the World**  
2012 to 2032

Region	Forecast CAGR (2012-2032)					
	Latin			North		
	Africa	America	Middle East	Europe	America	Asia-Pacific
Asia-Pacific	7.1%	5.7%	7.3%	5.5%	4.5%	6.5%
North America	5.8%	5.0%	6.4%	3.5%	2.3%	
Europe	4.8%	4.7%	5.0%	3.6%		
Middle East	7.5%	-	5.7%			
Latin America	8.7%	6.9%				
Africa	6.3%					
Total global/regional	5.7%	8.6%	6.3%	4.2%	2.7%	6.3%

Source: The Boeing Company, Current Market Outlook 2013.

### 3.3 Forecast Aviation Capacity

Aircraft manufacturers such as Boeing and Airbus forecast continued growth in demand for new aircraft and continue to make investments to meet this demand. Airbus forecasts 29,226 new aircraft will be needed from 2013 to 2032. Boeing forecasts demand for 35,280 new aircraft for the same period.

The primary difference between the two forecasts is different opinions about average aircraft size. Both manufacturers forecast a high growth in demand for aircraft in Asia Pacific. Boeing forecasts that airlines in Asia Pacific will need 12,820 new aircraft over the next 20 years, resulting in a near tripling of the number of aircraft in the total Asia-Pacific fleet.

Aircraft supply and demand in the airline industry can be balanced with fleet adjustments by airlines and production shifts by manufacturers. Therefore, although supply and demand may not balance in the short term, in the medium to long term, aircraft capacity is managed through aircraft retirements, sales, returns to lessors, and other fleet management actions, and aircraft and production shifts by manufacturers as long-term orders change.



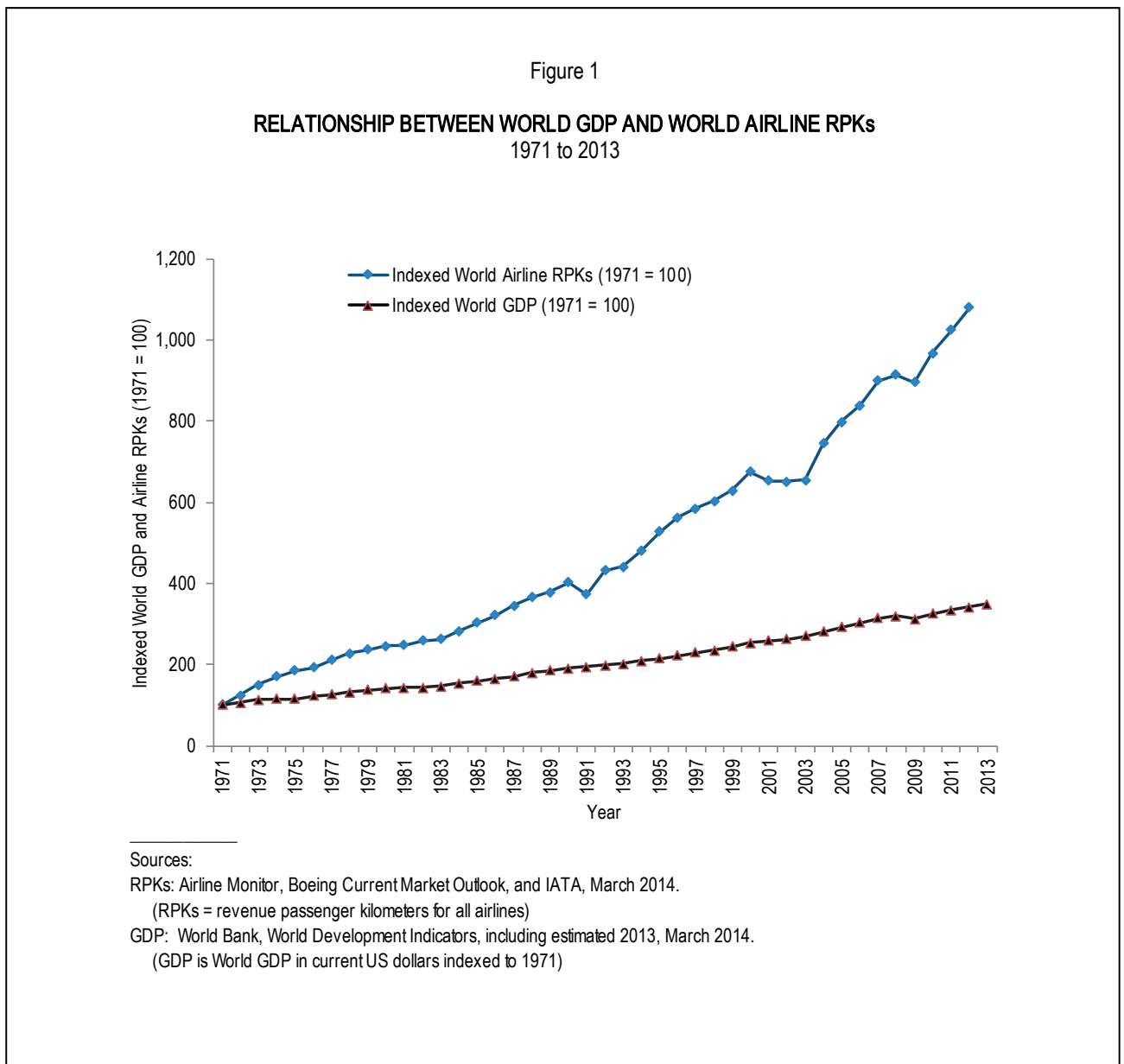
## 4 GROWTH FACTORS AND RELATIONSHIPS TO AIR TRAVEL

### 4.1 Gross Domestic Product

#### 4.1.1 World GDP and Air Travel Activity

Historically, air travel activity has shown a strong relationship to overall economic activity, as measured by gross domestic product (GDP). Over the last four decades, world airline activity has grown at average rates per annum approximately double those of world GDP.

Figure 1, below, illustrates the historical relationship between GDP levels and airline activity. From 1971 to 2013, world GDP grew at a CAGR of 3.0%, while world airline RPKs grew at a CAGR of 6.0%.





#### 4.1.2 Per Capita GDP and Air Travel Activity

Per capita income growth results from growth in gross domestic product (GDP) levels and employment. Increased disposable income results from growth in the middle class in countries that are experiencing increased per capita and household income levels.

In most areas of the world, per capita levels of GDP correlate with per capita air travel levels. Countries with high per capita levels of GDP tend to have high levels of air travel, while countries with low GDP per capita levels tend to have lower than average levels of air travel. Countries surrounded by water or with limited competing substitutes for transport tend to have higher-than-average travel levels than other countries do.

Figure 2, which follows, highlights this relationship for sixteen countries in the Asia-Pacific region. The propensity to travel in Thailand relative to the country's per capita income levels is high relative to other countries at similar levels of GDP per capita. This is attributable, in part, to the country's strong inbound tourism levels. The data indicate that as GDP per capita grows, as is expected to occur, travel demand should grow and continue to be high relative to other countries with similar levels of GDP per capita. (Note: the air travel revenue passenger kilometer (RPK) amounts include travel by both local residents and foreign visitors.)

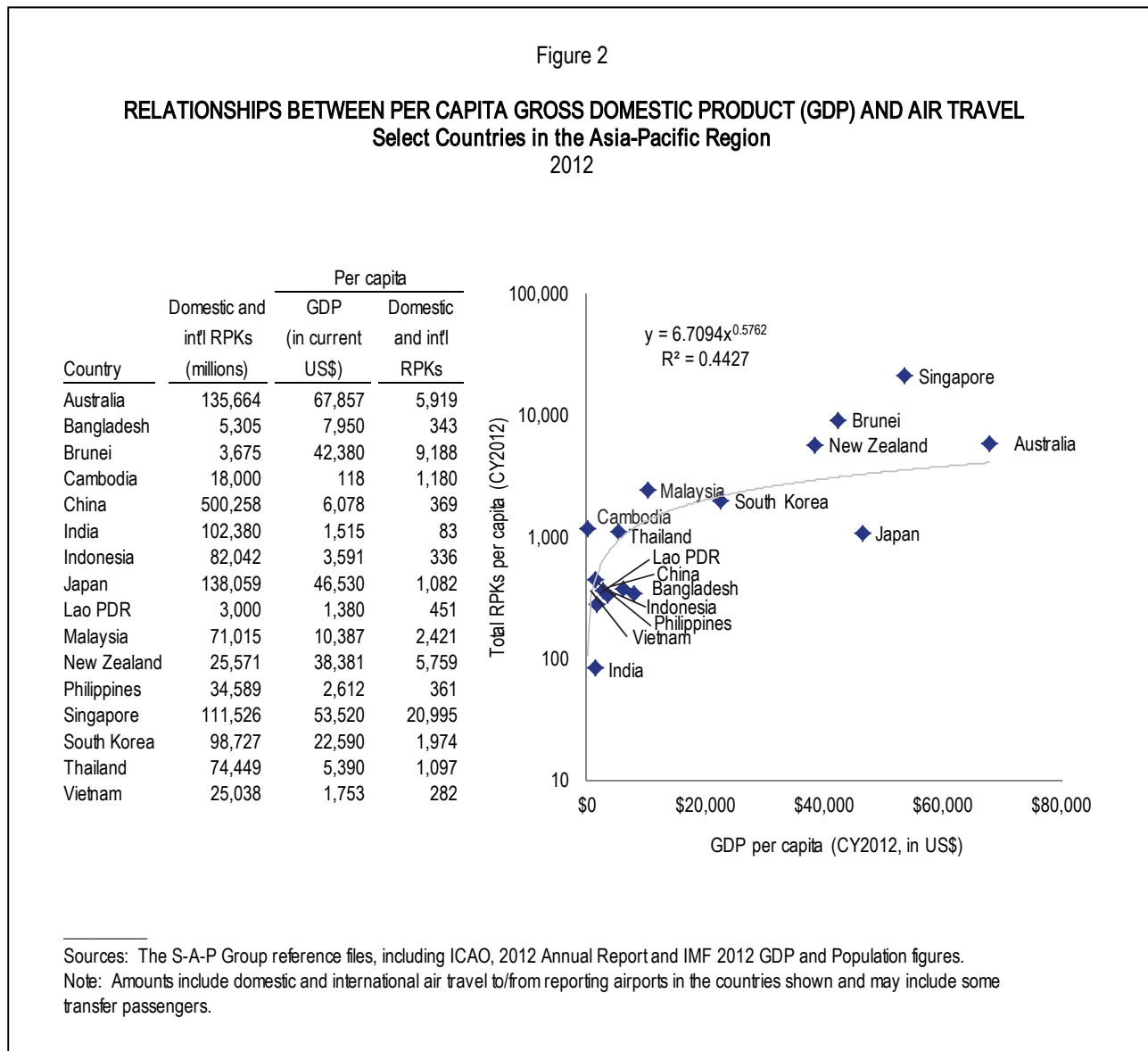
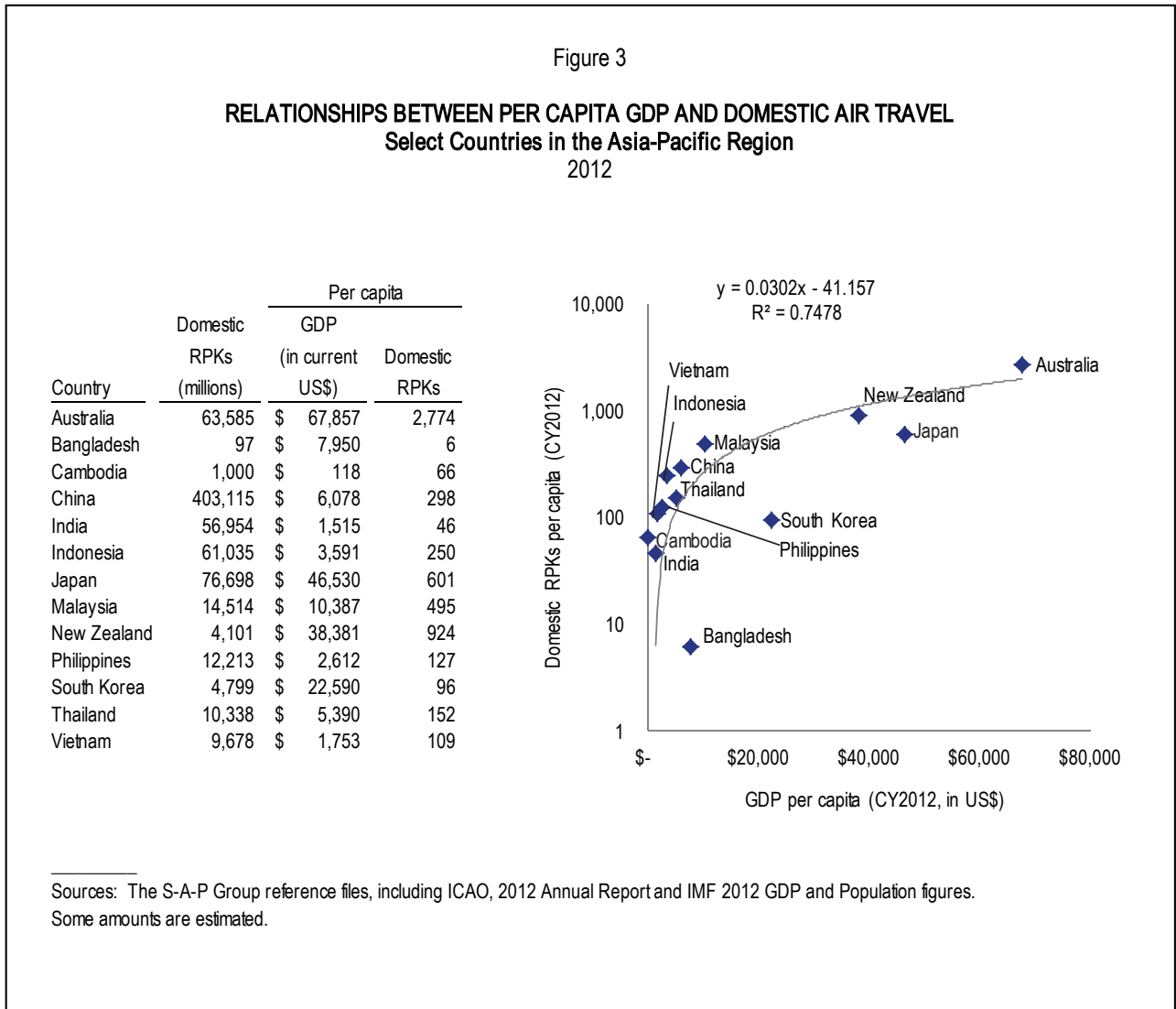




Figure 3, below, illustrates the per capita relationships between GDP and domestic air travel for thirteen countries in the Asia-Pacific region. Countries such as South Korea and Japan, which have competitive ground-based transportation systems, have lower-than-typical domestic air travel levels per capita.





#### 4.1.3 GDP Growth in Select Countries in Asia

As shown in Table 7, below, which document key economic indicators for select countries in the Asia-Pacific region, several countries in the region had high rates of growth from 2000 to 2012 for GDP (in current US Dollars). The International Monetary Fund (IMF) projects that total current GDP for the Asian countries shown below will experience strong growth through 2018.

According to the IMF, GDP increased from 2000 to 2012 at a CAGR of 9.5% in Thailand<sup>6</sup>.

Table 7  
**KEY ECONOMIC INDICATORS**  
**Select Countries in Asia**  
2000~2018

Country	GDP (current US\$ millions)						Historical	Projected
	Historical amounts				Estimated		CAGR	CAGR
	2000	2005	2010	2012	2013E	2018E	CY2000~ CY2012	CY2013~ CY2018
Indonesia	\$ 165,021	\$ 285,773	\$ 709,342	\$ 877,801	\$ 870,275	\$ 1,156,329	14.9%	5.8%
Thailand	\$ 122,725	\$ 176,352	\$ 318,908	\$ 365,966	\$ 387,156	\$ 464,320	9.5%	3.7%
Malaysia	\$ 93,789	\$ 143,540	\$ 247,539	\$ 304,726	\$ 312,433	\$ 490,961	10.3%	9.5%
Singapore	\$ 94,308	\$ 125,429	\$ 233,292	\$ 284,299	\$ 295,744	\$ 361,232	9.6%	4.1%
Philippines	\$ 81,023	\$ 103,074	\$ 199,591	\$ 250,182	\$ 272,018	\$ 466,469	9.9%	11.4%
Vietnam	\$ 31,176	\$ 57,648	\$ 112,771	\$ 155,565	\$ 170,565	\$ 249,184	14.3%	7.9%
Myanmar	\$ 10,277	\$ 13,833	\$ 49,628	\$ 55,759	\$ 56,408	\$ 87,131	15.1%	9.1%
Cambodia	\$ 589	\$ 1,090	\$ 1,667	\$ 1,795	\$ 1,920	\$ 2,751	9.7%	7.5%
Brunei	\$ 6,001	\$ 9,531	\$ 12,371	\$ 16,952	\$ 16,214	\$ 18,274	9.0%	2.4%
Lao PDR	\$ 1,640	\$ 2,726	\$ 6,855	\$ 9,169	\$ 10,002	\$ 16,749	15.4%	10.9%
East Timor	\$ 428	\$ 1,801	\$ 4,216	\$ 6,312	\$ 6,147	\$ 6,009	25.1%	-0.5%
Subtotal	\$ 606,977	\$ 920,797	\$ 1,896,180	\$ 2,328,526	\$ 2,398,882	\$ 3,319,409	11.9%	6.7%
China	\$ 1,198,477	\$ 2,256,919	\$ 5,930,393	\$ 8,229,381	\$ 9,181,377	\$ 11,878,659	17.4%	5.3%
India	\$ 476,636	\$ 834,218	\$ 1,708,541	\$ 1,858,748	\$ 1,870,651	\$ 2,369,907	12.0%	4.8%
Australia	\$ 399,473	\$ 733,042	\$ 1,249,253	\$ 1,555,287	\$ 1,505,277	\$ 1,537,920	12.0%	0.4%

Source: IMF World Economic Outlook Database, April 2014.

Some amounts are estimated.

Note: Gross Domestic Product, current prices (U.S. dollars). Values are based upon GDP in national currency and the exchange rate projections provided by country economists for the group of other emerging market and developing countries. Exchange rates for advanced economies are established in the WEO assumptions for each WEO exercise.

<sup>6</sup> In current US\$.



As shown in Table 8, Thailand's GDP per capita (in current US Dollars) is projected to grow 1.7% per annum from 2013 to 2018.

Table 8  
**KEY ECONOMIC INDICATORS**  
**Select Countries in Asia**  
2000-2018

Country	GDP per Capita (current US\$)						Historical	Projected
	Historical amounts			Estimated			CAGR	CAGR
	2000	2005	2010	2012	2013E	2018E	CY2000~ CY2012	CY2013~ CY2018
Indonesia	\$ 800	\$ 1,291	\$ 2,985	\$ 3,591	\$ 3,510	\$ 4,345	13.3%	4.4%
Thailand	\$ 2,448	\$ 3,184	\$ 5,212	\$ 5,748	\$ 5,962	\$ 6,477	7.4%	1.7%
Malaysia	\$ 3,992	\$ 5,421	\$ 8,762	\$ 10,494	\$ 10,548	\$ 15,235	8.4%	7.6%
Singapore	\$ 22,791	\$ 28,500	\$ 45,002	\$ 52,982	\$ 54,778	\$ 63,452	7.3%	3.0%
Philippines	\$ 1,055	\$ 1,209	\$ 2,123	\$ 2,560	\$ 2,790	\$ 4,334	7.7%	9.2%
Vietnam	\$ 402	\$ 694	\$ 1,278	\$ 1,721	\$ 1,902	\$ 2,637	12.9%	6.8%
Myanmar	\$ 166	\$ 222	\$ 777	\$ 865	\$ 827	\$ 1,250	14.7%	8.6%
Cambodia	\$ 46	\$ 79	\$ 111	\$ 118	\$ 125	\$ 170	8.1%	6.4%
Brunei	\$ 18,465	\$ 25,759	\$ 29,882	\$ 39,060	\$ 39,936	\$ 41,626	6.4%	0.8%
Lao PDR	\$ 308	\$ 474	\$ 1,105	\$ 1,438	\$ 1,477	\$ 2,251	13.7%	8.8%
East Timor	\$ 523	\$ 1,904	\$ 3,951	\$ 5,641	\$ 5,179	\$ 4,367	21.9%	-3.4%
China	\$ 946	\$ 1,726	\$ 4,423	\$ 6,079	\$ 6,747	\$ 8,516	16.8%	4.8%
India	\$ 465	\$ 752	\$ 1,435	\$ 1,520	\$ 1,505	\$ 1,786	10.4%	3.5%
Australia	\$ 20,727	\$ 35,682	\$ 56,316	\$ 68,566	\$ 64,863	\$ 62,370	10.5%	-0.8%

Source: IMF World Economic Outlook Database, April 2014.  
Some amounts are estimated.



## 4.2 Effects of Economic Growth on Air Travel in Asia

Rising wages and broadening distribution of wealth in rapidly developing countries in Asia will likely result in an increasing share of the population with the ability to travel by air.

### 4.2.1 Thailand

Thailand experienced good growth in GDP from 2010 to 2012. As Thailand and its neighbors have continued growing—notwithstanding economic and other crises—and as other Asian countries have recovered and are expecting future growth, Thai- and foreign-based carriers have the opportunity to benefit from the air travel demand spurred by regional economic growth.

Currently, only a small share of the Thai population travels by air. S-A-P anticipates that as the economy develops and the middle class grows and becomes a larger share of the population, air travel demand will increase. S-A-P also anticipates that as the middle class grows in Thailand's secondary cities, demand for service from these cities to new domestic and international destinations will increase. This service can be supported by the increased use of turboprop aircraft and regional jets.

Continued strong growth of GDP and per capita income, declining poverty rates and increasing disposable income are anticipated by S-A-P to generate strong demand for airline services in Asia and Thailand.

### 4.2.2 China

According to the IMF, China's GDP (in national currency units) grew at a CAGR of 16.7% from 2000 to 2012. Although growth slowed somewhat during the recent economic downturn, growth was still high relative to most other countries in the world, and China's real GDP is estimated to grow 7.5%<sup>8</sup> during 2014. The Civil Aviation Administration of China reported an expectation for the number of airline passengers in China to more than double between 2010 and 2020 as economic growth in the country stimulates air travel demand.

Aviation activity to, from, and within China rose from 2.3 million passengers in 1978 to 564.3 million in 2010. Total domestic airline passenger traffic in China is now the world's second largest, following that of the United States. As the country's growth continues, China serves as a large and growing regional neighbor with opportunities for trade, cooperation, travel, and tourism with Thailand. China is currently the largest country of origin for tourism to Thailand.

### 4.2.3 India

India is the second most populous country in the world and is separated from Thailand by the country of Myanmar and the Bay of Bengal. Ties between the two countries have been strong with airlines providing service between several markets in each country. Bilateral trade between Thailand and India has grown from US\$4.7 billion in 2007 to US\$8.3 billion in 2012. A proposed free trade agreement between the countries is expected to assist in bilateral trade between the countries reaching US\$16 billion in the next three years according to Thai Government officials.<sup>9</sup>

With a growing middle class that increasingly able to afford air travel, India is expected to experience high growth in airline traffic in the future.

<sup>8</sup> IMF, World Economic Outlook (WEO), April 2014.

<sup>9</sup> As quoted by Chanchai Charanvatnakit, Consul General, Royal Thai Consulate-General the India Times, March 2013.





### 4.3 Population Growth and Urbanization

Population growth rates have particularly large impacts on the large populous countries in Asia as even small percentage growth rates result in large increases in total population numbers. Population growth in large countries such as China that are also experiencing strong economic growth will result in increased demand for air travel.

Urbanization rates can serve as an indicator of propensity to travel by air because urban dwellers have higher-than-average income levels and are located in closer proximity to airports than are non-urban dwellers. The development of existing and new urban centers is expected to create new destinations for regional travel in Asia.

Population and urbanization shares (the share of a country's population living in urban areas) for countries in the Asia-Pacific region are expected to grow from 2010 to 2020, as shown in Table 9, below.

Table 9

**POPULATION INDICATORS**  
**Select Countries in Asia and the Pacific**  
Multiple Years

Country	Population		Urbanization (share of total population living in urban areas)		Cities of 1 million persons or greater	
	Estimated	CAGR	Actual	Forecast	Number of cities (a)	Share of urban population in cities of 1 million or greater
	2013	2013~2018	2010	2020	Actual 2010	Actual 2010
Indonesia	247,954,000	1.4%	44.3%	48.1%	7	20.2%
Philippines	97,484,000	2.0%	48.9%	52.6%	2	28.7%
Vietnam	89,691,000	1.0%	30.4%	37.0%	2	33.6%
Thailand	68,229,000	0.4%	34.0%	38.9%	2	42.9%
Myanmar	64,932,000	2.0%	33.7%	40.7%	3	31.2%
Malaysia	29,620,000	1.7%	72.2%	78.5%	3	17.9%
Cambodia	15,407,000	1.0%	21.1%	23.8%	1	47.8%
Laos	6,772,000	1.9%	33.2%	44.2%	--	--
Singapore	5,399,000	1.1%	100.0%	100.0%	1	100.0%
East Timor	1,187,000	3.0%	100.0%	100.0%	--	--
Brunei	406,000	1.6%	100.0%	100.0%	--	--
Countries shown above	627,081,000	1.4%	42.0%	(b)	21	27.5%
China	1,360,763,000	0.5%	47.0%	55.0%	94	43.2%
India	1,243,337,000	1.3%	30.0%	33.9%	43	40.0%
Japan	127,341,000	-0.3%	90.5%	95.3%	8	55.1%
South Korea	50,220,000	0.4%	82.9%	85.4%	8	56.3%
Australia	23,207,000	1.2%	88.9%	93.8%	5	69.1%
New Zealand	4,479,000	0.8%	86.2%	86.8%	1	36.4%
World Total	7,035,173,000	1.1%	50.4%	54.4%	449	38.9%

Sources: IMF World Economic Outlook Database, April 2014 and UN World Urbanization Prospects: 2011 revision.  
(a) Cities or agglomerations with populations of greater than 1 million persons.  
(b) Average urbanization share not available because the IMF does not publish 2020 population forecasts.



## 4.4 Trade and Tourism

### 4.4.1 Global Trade and Air Travel

Increased intra-regional business and reduced trade barriers between countries generate cross-border travel demand. High levels of trade and other commercial activities lead to increased demand for travel, including travel by air for business and tourism. Countries with competitive aviation industries and strong pricing competition generate increased levels of aviation activity per capita. Most countries in Asia have been moving toward increased business relationships, reduced trade barriers, increased trade and tourism, and increased air travel levels.

### 4.4.2 Tourism and Air Travel in Southeast Asia

International travel and tourism rates for countries in Southeast Asia have, as shown in Table 10, below, increased at strong rates from 2011 to 2012. For 2012, Thailand reported the second highest total number of arrivals, the fourth highest growth rate, and the largest total increase in tourism arrivals for the Southeast Asia countries listed. As tourists from China and other Asia countries continue to travel within the region, air travel in the region can be expected to continue to experience strong growth.

Table 10

**INTERNATIONAL TOURIST ARRIVALS**  
**Arrivals at Southeast Asia Countries**  
2011~2012

	Arrivals		Growth
	2011	2012	2011~2012
Malaysia	24,714,000	25,033,000	1.3%
Thailand	19,098,000	22,354,000	17.0%
Singapore	10,390,000	11,067,459	6.5%
Indonesia	7,650,000	8,044,000	5.2%
Vietnam	6,014,000	6,848,000	13.9%
Philippines	3,917,000	4,273,000	9.1%
Cambodia	2,882,000	3,584,000	24.4%
Burma/Myanmar	391,000	593,000	51.7%
Brunei	242,000	209,000	-13.6%
Laos	1,786	2,226	24.6%

Source: World Tourism Organization (UNWTO), Tourism Highlights, 2013 edition.

Note: some amounts estimated.

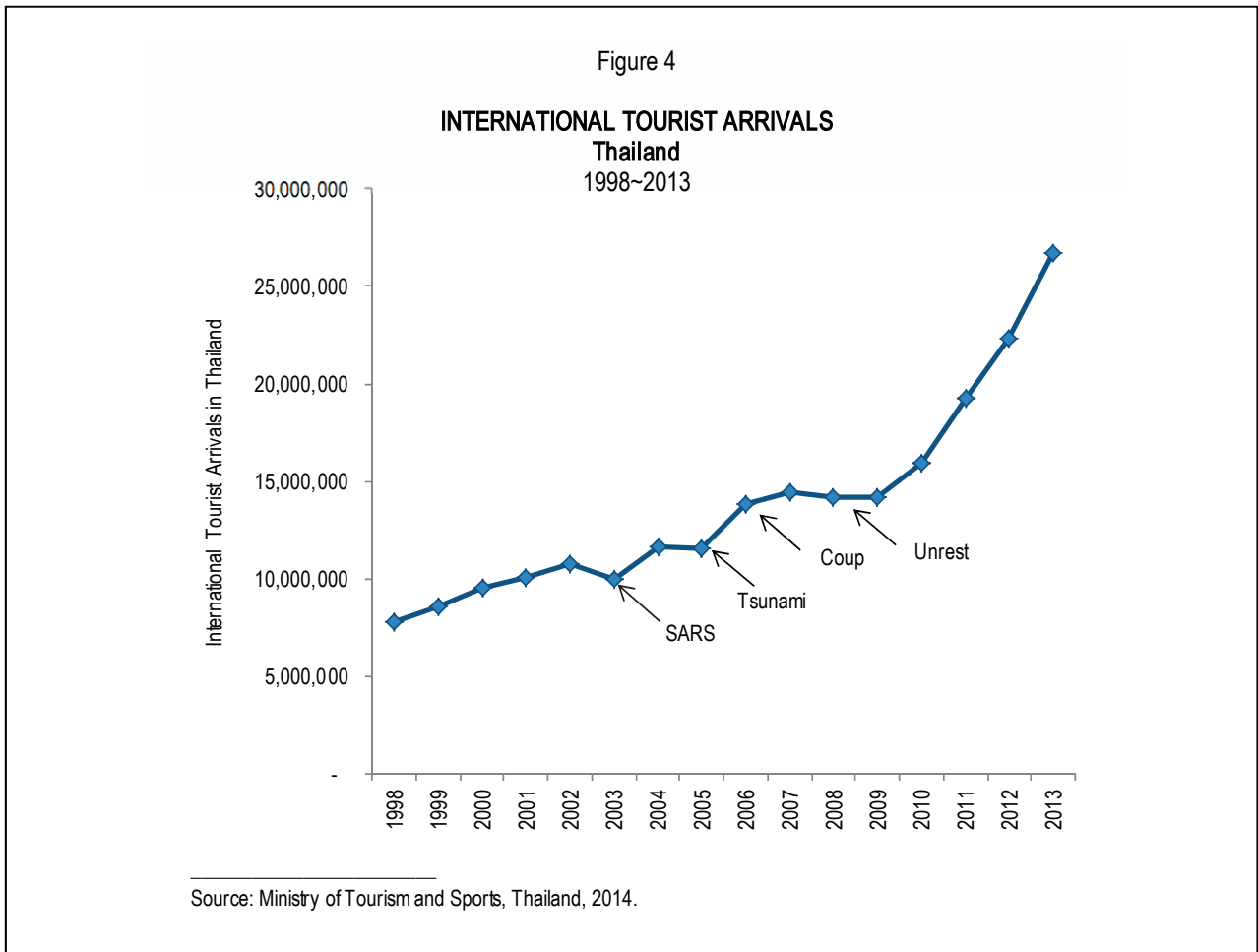


#### 4.4.3 *Historical Foreign Visitor Arrivals in Thailand*

As shown in Figure 4, below, tourist arrivals in Thailand have grown over the past decade despite significant disruptions due to various causes:

- In late 2002, the first case of SARS (Severe Acute Respiratory Syndrome) appeared in Asia and spread rapidly to other areas during 2003. Tourism in Thailand and throughout Asia declined significantly due to public fears about the disease and official travel restrictions designed to identify and reduce the spread of infected travelers.
- The tsunami resulting from the 2004 Indian Ocean earthquake killed an estimated 230,000 people in the region. Thailand was one of the four most affected countries and tourism declined significantly after the tsunami. Although much of the tourism infrastructure was not extensively damaged, the psychological effects on potential tourism resulted in declines in tourism even to beach areas that were not impacted from the tsunami.
- In September 2006, the Royal Thai Army staged a coup d'état against the government of Prime Minister Thaksin Shinawatra.
- In 2008, ongoing political change and unrest in Thailand resulted in an escalation of protests and violence, including protests that closed Suvarnabhumi and Don Mueang international airports during late 2008, causing disruptions to immediate tourist activity and ongoing tourism during 2008 and 2009.
- In May 2014 the Royal Thai Army staged another coup d'état against the caretaker government following several months of protests, the dissolution of the house of representatives in December 2013, and the removal of the prime minister and other senior ministers by the Constitutional Court in May 2014.

Between 2009 (the year of the most recent major disruption in Thailand), and 2013, international tourist arrivals grew at a CAGR of 17.2%. Tourism is estimated to account for more than 6% of Thailand's GDP, the largest proportion of any nation in Asia. As shown in Figure 4, below, over 26 million foreign visitors entered the country in 2013.



#### 4.4.4 Mode of Transport for International Arrivals at Thailand

As shown in Table 11, below, air service was the most frequently employed mode for entry to Thailand in 2012, the most current year for which data is available.

**Table 11**  
**MODE OF TRANSPORT**  
**International Arrivals at Thailand**  
**2012**

	<u>Tourist Arrivals</u>	<u>Share</u>
Air	17,803,421	79.6%
Land	3,987,931	17.8%
Sea	562,551	2.5%
<b>Total</b>	<b>22,353,903</b>	<b>100.0%</b>

Source: Thailand Bureau of Statistics, 2013 Statistical Yearbook.



4.4.5 Visitor Arrivals in Thailand by Country of Residence

Table 12, below, provides a summary of the foreign visitor arrivals, by country of residence, in Thailand during 2012 and 2013. In 2013, the largest share of visitors to Thailand came from China. From 2012 to 2013, the number of Chinese visitors to Thailand grew 66.4%.

Table 12  
**INTERNATIONAL TOURIST ARRIVALS**  
**Thailand**  
2012~2013

Nationality	2012		2013		Change
	Number	Share	Number	Share	2012-2013
Malaysia	2,554,397	11.4%	3,041,097	11.5%	19.1%
Laos	975,999	4.4%	976,639	3.7%	0.1%
Singapore	831,215	3.7%	955,468	3.6%	14.9%
Vietnam	618,670	2.8%	725,057	2.7%	17.2%
Indonesia	447,820	2.0%	594,251	2.2%	32.7%
Cambodia	423,642	1.9%	481,595	1.8%	13.7%
Philippines	289,566	1.3%	321,571	1.2%	11.1%
Myanmar	129,385	0.6%	172,383	0.6%	33.2%
Brunei	10,459	0.0%	14,205	0.1%	35.8%
Subtotal: ASEAN	6,281,153	28.1%	7,282,266	27.4%	15.9%
China	2,786,860	12.5%	4,637,335	17.5%	66.4%
Japan	1,373,716	6.1%	1,536,425	5.8%	11.8%
Korea	1,163,619	5.2%	1,295,342	4.9%	11.3%
Hong Kong	473,666	2.1%	588,335	2.2%	24.2%
Taiwan	394,225	1.8%	502,176	1.9%	27.4%
Others	51,975	0.2%	69,496	0.3%	33.7%
Subtotal: Other Asia	6,244,061	27.9%	8,629,109	32.5%	38.2%
Europe	5,650,619	25.3%	6,305,945	23.8%	11.6%
South Asia	1,286,861	5.8%	1,347,585	5.1%	4.7%
The Americas	1,083,433	4.8%	1,166,633	4.4%	7.7%
Oceania	1,046,755	4.7%	1,021,936	3.8%	-2.4%
Middle East	605,477	2.7%	630,243	2.4%	4.1%
Africa	155,544	0.7%	163,008	0.6%	4.8%
Subtotal: Other	9,828,689	44.0%	10,635,350	40.1%	8.2%
Total	22,353,903	100.0%	26,546,725	100.0%	18.8%

Source: Ministry of Tourism and Sports, Thailand 2014.



#### 4.4.6 Medical Tourism in Thailand

Thailand has become a top destination for medical tourism with an international reputation for quality affordable medical care. Although statistics vary by source, medical tourism arrivals in Thailand have grown at strong rates. From 2007 to 2012, the number of medical tourism visitors to Thailand grew by a CAGR of 13%, while medical tourism spending in the country grew at a CAGR of 26.1%.

Table 13, below, documents the number of visitors to Thailand that traveled for purposes of medical tourism. Also shown are the amounts spent on medical tourism in the country for 2007~2012.

Table 13

**MEDICAL TOURISM ARRIVALS AND INCOME**  
**Thailand**  
2007~2012

Year	Medical Tourists	
	Visitors (millions)	Amount spent (Baht, billions)
2007	1.4	41.0
2008	1.4	50.9
2009	1.4	63.3
2010	2.0	78.7
2011	2.2	97.8
2012	2.5	130.8

Source: Department of Health Service Support Thailand, 2014.

According to Thailand's Department of Health Service Support, the top regions of origin for medical tourism visitors to Thailand are:

- Japan
- USA
- UK
- Middle East
- Australia

Medical tourism visitors are attracted to Thailand due to several factors, including the following:

- Cost savings
- Accredited medical facilities
- Qualified medical professionals
- Minimal waiting lists for services
- Good customer service



The cost savings associated with medical tourism in Thailand can be seen with the example of a heart bypass operation, which can cost approximately US\$130,000 in the United States. The same procedure can be performed in Thailand for approximately US\$11,000, according to Tourism Authority Thailand. Knee replacements in the US cost approximately US\$40,000 compared with costs of approximately US\$10,000 in Thailand.

Thailand was the first country in Asia to achieve JCI accreditation in 2002 and 23 hospitals are now accredited. In 2012, the Thailand Board of Investment announced plans to help promote Thailand as the medical hub of Asia. Other initiatives have been launched to leverage Thailand's growing reputation as a medical tourism destination. In 2013, Qatar Airways cited surging traffic related to medical tourism in Bangkok as a reason for adding additional flights to Bangkok.

Thailand draws more medical tourists than any other country in ASEAN. However, Thailand draws fewer medical tourists from within ASEAN than do Singapore and Malaysia. The ASEAN Economic Community (AEC) is expected to bring changes to this as foreign investment restrictions in hospitals are reduced and investment in the successful medical tourism industry in Thailand is expected to increase. Health care is one of the four AEC priority service sectors for which the foreign ownership cap for investors of ASEAN nationality will be raised to 70%. Hospitals in Thailand have reported only 15% foreign equity participation on average.

As current trends continue and additional focus is placed on medical tourism in Thailand, this sector is expected to be a growing driver of air traffic growth in Thailand.

#### **4.5 Airline Service and Fares**

##### *4.5.1 Medium-Haul and Long-Haul Opportunities*

The introduction of larger aircraft as well as smaller aircraft that can fly further is projected by S-A-P to help to increase opportunities for international service to and from Thailand and other parts of the world.

##### *4.5.2 Airfares and Low Cost Carriers*

Over the last decade, price competition has increased as LCCs have grown in market share and airlines struggling with financial challenges and competition have improved efficiency and lowered travel costs. S-A-P anticipates that downward pressure on fares will continue, resulting in increasing demand.

#### **4.6 Other Aviation Growth Factors**

##### *4.6.1 Geographical Characteristics*

Countries with widely distributed population centers or with large surrounding bodies of water or mountains tend to have higher-than-average aviation activity levels. The combination of Asia's large geographic size, the separation of many parts of Asia by bodies of water, and the general lack of competitive sea or land transport alternatives provide an ideal market for air travel.

Unlike in the US and Europe, where extensive road and rail networks provide a competitive substitute for air transport, modal competition is less common in Southeast Asia. The introduction of widely available low air fares in the Asia-Pacific region has greatly reduced the cost barrier to air travel and created a competitive transport substitute for ground travel for many people.



#### 4.6.2 *Liberalization of Air Travel*

S-A-P anticipates that Asia-Pacific nations, especially those in Southeast and North Asia, will continue to remove regulatory restrictions on air services, leading to increased competition and lower airfares and cargo pricing. As open skies agreements are implemented, the typical result is that competition increases, capacity increases, fares decline, and air traffic increases.

#### 4.6.3 *Transportation Infrastructure*

S-A-P anticipates that governments and the private sector will continue to make the necessary investments in airport capacity, air traffic control systems, and aircraft to foster tourism and other economic development. Airport capacity and airline capacity changes mutually support growth in one another. The rapid growth of air passenger demand in Asia has encouraged some governments and airport operators to develop new airport capacity to accommodate the increased demand.

Countries with limited forms of competitive ground transport options, such as road or rail, often have above average levels of aviation activity per capita. Just as cellular phone networks in developing countries that utilize the airways for communication can be less resource-intensive to develop than landline infrastructure can be, air carrier networks can similarly enable airlines to bypass roadway and railway infrastructure requirements to facilitate long distance travel more quickly and efficiently than land-based options can.

As a result of investments in terminal and airfield capacity and increased aviation activity demand, airports in the Asia-Pacific region have experienced strong growth rates over the past decade. According to Airports Council International, Suvarnabhumi International Airport was, in terms of passenger movements in 2013, the 17th busiest airport in the world and the seventh busiest airport in Asia.<sup>10</sup>

Within Thailand, airport infrastructure is not expected to be a constraint in Bangkok due to the remaining capacity still available at the new Suvarnabhumi International Airport as well as the excess capacity at Bangkok's first international airport, Don Mueang, which served 16.5 million passengers in 2013, while at its peak in 2005~2006, it served over 30 million.

Samui International Airport faces potential growth constraints due to restrictions to operations of small jet aircraft and turboprop aircraft. Currently the airport is only served by ATR-700 turboprops and A319 and 737-400 jet aircraft due to operational constraints related to the size of the airport. All of these aircraft are in the 100-seat size range. Samui International Airport also faces airspace constraints due to surrounding residential areas near the airport. Discussions have occurred about building a second airport to increase airport capacity on the island to serve growing tourism demand. However, given the relatively small size of the island and residential and other existing constraints on other parts of the island, there are obstacles to building a second airport on the island.

#### 4.6.4 *Oil and Aircraft Fuel Supply and Demand*

Fuel price changes affect aviation traffic as airline cost structures are sensitive to changes in aircraft fuel. Political turmoil, terrorism, war and other events affecting major suppliers of oil have led to large fluctuations in fuel prices since 1980, ranging from 60% increases to 47% decreases in inflation-adjusted costs per barrel year over year.<sup>11</sup>

The resulting airline cost structure changes have resulted in changes in airline service, fares, and traffic. Fares typically increase after fuel prices increase. However, because the full effects of fuel price increases typically cannot be passed on to customers, airline profits typically decrease.

<sup>10</sup> ACI, March 2014.

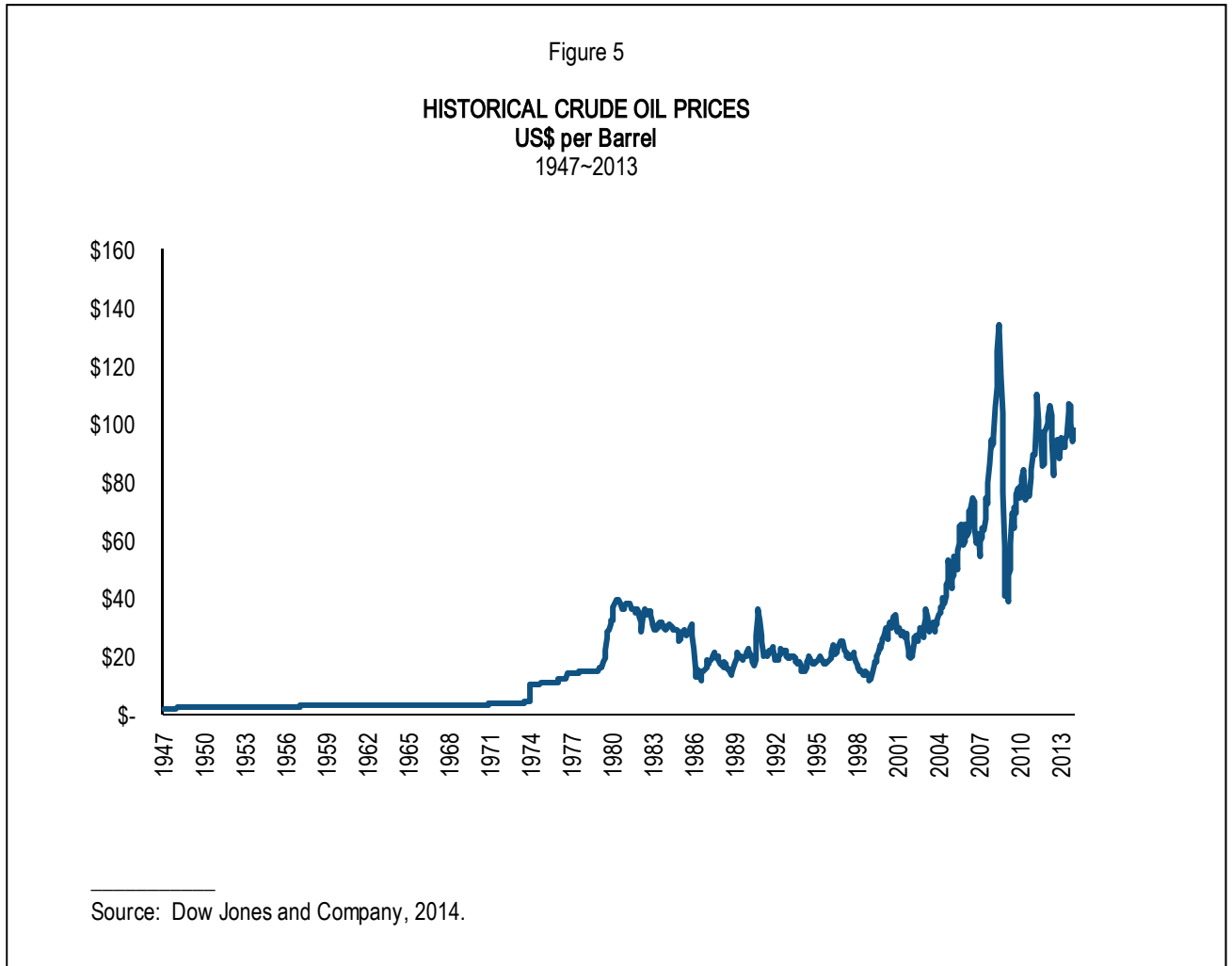
<sup>11</sup> Based on historical data provided by IOGA and WTRG Economics, [http://inflationdata.com/inflation/inflation\\_Rate/Historical\\_Oil\\_Prices\\_Table.asp](http://inflationdata.com/inflation/inflation_Rate/Historical_Oil_Prices_Table.asp).





Fuel price changes have been a particularly significant issue since 2011 as turmoil in the Middle East has resulted in sharp increases in fuel prices. Fuel prices decreased during the global financial crisis, but have increased again recently as economic growth has improved and political turmoil has occurred in the Middle East.

Figure 5, below, illustrates how crude oil prices have increased from 1947 to 2013.





## 5 COMPETITIVE LANDSCAPE

Potential business constraints to the future growth of Bangkok Airways include the competitive strength of large, well-established Asian carriers, as well as continued strong competition from LCCs and other airlines.

### 5.1 Key Financial and Operating Performance for Select Carriers

Table 14, which follows, provides key performance data for major full-service and low-cost carriers in the Asia-Pacific region.

Table 14

#### KEY FINANCIAL AND OPERATING PERFORMANCE Select Full-Service and Low-Cost Carriers in Asia-Pacific FY ending in 2013 and 2014

	US\$ millions		%	US cents			Passenger Operations				US\$ millions		FY ending
	Operating revenue	Operating profit	Operating margin	RASK (a)	CASK (b)	RASK-CASK spread	RPKs (millions)	ASKs (millions)	Passenger load factor	Passengers (millions)	Aircraft in Fleet	Operating Revenues per Aircraft	
<b>Low-Cost Carriers</b>													
1 Jetstar/Jetstar Asia	\$ 3,079	\$ 129	4.2%	7.04	6.74	0.30	34,570	43,730	79.1%	20.4	86	\$ 35.8	Jun-13
2 AirAsia	\$ 1,605	\$ 316	19.7%	5.18	4.16	1.02	25,333	31,582	80.2%	21.9	72	\$ 22.3	Dec-13
3 SpiceJet	\$ 949	\$ (20)	-2.1%	5.81	5.93	(0.12)	12,171	16,338	74.5%	12.7	55	\$ 17.3	Mar-13
4 Cebu Pacific Air	\$ 936	\$ 55	5.9%	5.78	5.44	0.34	12,927	16,207	79.8%	14.4	48	\$ 19.5	Dec-13
5 Thai AirAsia	\$ 722	\$ 70	9.7%	5.88	5.31	0.57	10,829	12,951	83.0%	10.5	35	\$ 20.6	Dec-13
6 AirAsia X	\$ 714	\$ 11	1.6%	3.83	3.80	0.03	15,857	19,309	82.1%	3.2	19	\$ 37.6	Dec-13
7 Tiger Airways	\$ 587	\$ (42)	-7.1%	3.72	3.98	(0.26)	12,239	15,779	77.6%	7.1	49	\$ 12.0	Mar-14
8 Indonesia AirAsia	\$ 510	\$ (11)	-2.2%	4.54	4.64	(0.10)	9,293	12,136	76.0%	7.9	30	\$ 17.0	Dec-13
<b>Average (carriers shown)</b>			<b>3.7%</b>	<b>5.22</b>	<b>5.00</b>	<b>0.22</b>			<b>79.0%</b>			<b>\$ 22.8</b>	
<b>Full-Service Carriers</b>													
1 China Southern Airlines Group	\$ 15,810	\$ 242	1.5%	8.46	8.44	0.02	148,416	186,800	79.5%	91.8	561	\$ 28.2	Dec-13
2 ANA Group	\$ 15,780	\$ 650	4.1%	15.40	12.85	2.55	68,475	102,498	66.8%	49.0	226	\$ 69.8	Mar-14
3 Air China	\$ 15,751	\$ 661	4.2%	8.97	8.66	0.30	141,968	175,677	80.8%	77.7	316	\$ 49.8	Dec-13
4 Qantas Group (excl. Jetstar)	\$ 14,889	\$ 191	1.3%	10.64	10.51	0.14	110,905	139,909	79.3%	48.3	312	\$ 47.7	Jun-13
5 China Eastern Airlines	\$ 14,157	\$ 283	2.0%	9.31	9.43	(0.12)	120,461	152,075	79.2%	79.1	478	\$ 29.6	Dec-13
6 Japan Airlines Group	\$ 12,905	\$ 1,644	12.7%	15.49	13.52	1.97	59,136	83,319	70.3%	38.9	222	\$ 58.1	Mar-14
7 Cathay Pacific Group	\$ 12,882	\$ 482	3.7%	10.13	9.81	0.32	104,571	127,215	82.2%	29.9	192	\$ 67.1	Dec-13
8 Singapore Airlines Group	\$ 12,188	\$ 207	1.7%	9.49	9.33	0.16	100,580	128,430	74.3%	22.0	103	\$ 118.3	Mar-14
9 Korean Air	\$ 11,572	\$ (18)	-0.2%	12.99	13.01	(0.02)	68,360	89,111	72.9%	24.3	147	\$ 78.7	Dec-13
10 Thai Airways International	\$ 6,509	\$ (44)	-0.7%	7.60	7.65	(0.05)	63,479	85,655	74.1%	21.5	100	\$ 65.1	Dec-13
<b>Average (carriers shown)</b>			<b>3.0%</b>	<b>10.85</b>	<b>10.32</b>	<b>0.53</b>			<b>75.9%</b>			<b>\$ 61.3</b>	
Bangkok Airways	\$ 637	\$ 77	12.1%	15.69	13.79	1.89	2,759	4,063	67.9%	4.2	25	\$ 25.5	Dec-13

Source: Annual reports and other industry sources for the carriers shown.

(a) RASK is calculated as Operating revenue divided by ASK.

(b) CASK is calculated as Operating expenses (incl. D&A, cost of operating leases and excl. fuel hedging effects, foreign exchange effects and net financial charges) divided by ASK.



## 5.2 Development of Low Cost Carriers

Historically, much of the focus of the global airline industry has been on creating opportunities to increase revenues. The success of LCCs around the world, however, has led many traditional passenger carriers to increase their focus on increasing operating efficiencies, start their own LCC subsidiaries, and compete against the many new LCCs that have initiated operations.

Although the introduction of significant levels of LCC activity occurred later in Asia than in the US and Europe, LCC activity in Asia has grown rapidly over the past decade and continues to grow rapidly. Southeast Asia has seen the launch of a high share of Asia-based LCC operators, the result of relaxed aviation policies in the region. The introduction of widely available low fares in the Asia-Pacific region has greatly reduced the cost barrier to air travel and created a competitive transport substitute for many people.

### 5.2.1 Effects of LCC on the Asian Aviation Industry

The introduction and growth of LCCs have had several effects on the Asian aviation industry:

- LCC competition has encouraged established carriers to operate more efficiently, thereby driving down average fares and stimulating demand across the entire market. Established carriers may choose to launch strong competitive responses to LCCs, including significant decreases in fares, increases in seat capacity and flight frequency, and the start of new point-to-point flights, among others. Several Asian network carriers have introduced, or are planning to introduce their own LCCs.
- Some airport operators in the region are providing aeronautical charge discounts for new routes and for efficient use of airport facilities, such as quick aircraft turnarounds.
- The rapid growth in air travel that LCCs generate is encouraging some governments and airport operators to liberalize bilateral aviation agreements and to develop new airport capacity to accommodate the increased demand.

## 5.3 Full Service and Niche Airline Development

While the growth in LCC development has been substantial, particularly in Asia, many airlines continue to focus on full service operations and niche markets that cater to time sensitive travelers, business travelers, and niche market travelers. These markets have traditionally operated at higher yields than the LCC and leisure-focused segments of the market.

Bangkok Airways caters to customers traveling to niche markets and who pay for premium product and service offerings provided by the airline. Bangkok Airways niche routes typically are unique routes that enable the company to earn higher yields than those earned on routes served by multiple airlines with multiple frequencies. As shown in the preceding table, Bangkok Airways reported an operating margin of 12.1% for FY2013. This margin is significantly higher than the average margin reported by the top ten full-service carriers and the top eight LCCs shown in Table 14.

Bangkok Airways also focuses on higher yield operations by promoting itself as a “boutique airline” that not only travels to unique destinations but also offers unique services, such as complimentary meal service on flights and airport lounge access open to all passengers traveling with the airline. The airline also promotes its young fleet as a unique asset that adds value to the brand.

Bangkok Airways has developed proprietary airports that it operates. This unique strategy for an airline has enabled the company to enter new niche routes and earn airport revenues in addition to the airline revenue from operating the routes. This also further establishes its brand as a unique “boutique” airline.



#### 5.4 Airline Infrastructure

Many airlines in Asia have plans for significant changes to their aircraft fleets. As new, higher-efficiency aircraft are integrated into an airline's operations, long-term operating costs typically are reduced and, depending on the financial structure of the implementation, lower overall costs per passenger can result, leading to decreased average fares and associated increases in demand.

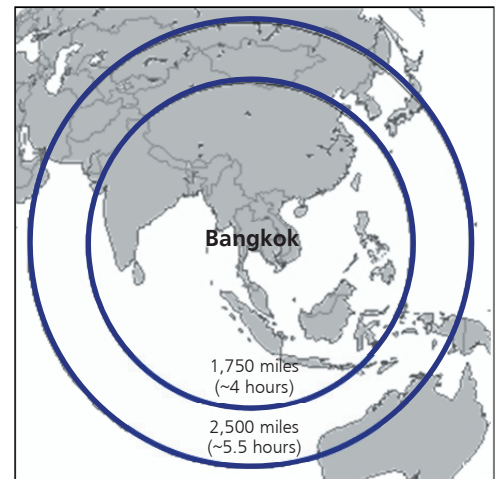
Fleet modernization programs can provide airlines with reduced fuel and other operating costs, including lower aircraft maintenance expenses. Operating a limited number of aircraft types can lead to reduced aircraft training and spare part costs.

The size of new aircraft on some large routes in Asia has grown significantly as traffic has increased and new large aircraft have been introduced into fleets, particularly the Airbus A-380. Other markets have seen added service by narrowbody and turboprop aircraft where the absence of airport constraints allows for increased service frequencies with smaller aircraft. Turboprop aircraft are used on several routes in Thailand and Asia in general where operating constraints require their use or market demand characteristics match the size and operating advantages of these aircraft.

#### 5.5 Asian Aviation Industry Growth Prospects

We believe that Southeast Asia's domestic and international markets will enjoy strong long-term growth rates for several reasons:

- Proximity to major populations. Approximately 50% of the world's population lives within a 2,500 nautical mile radius from Bangkok, indicating the potential size of the regional aviation market. However, as a result of low GDP per capita throughout most of the region and other factors, a large proportion of the population has, historically, been unable to afford air transportation. As mentioned previously, we expect the affordability of air travel to grow with increases in GDP per capita, which should result in higher population penetration.
- Location on major trade routes. Southeast Asia is well positioned between Europe and the Pacific region, as well as between North Asia and South Asia.
- Proximity to China. With its strong economic growth and increasingly relaxed restrictions on travel to foreign destinations, travelers from the world's most populous country will create significant demand for leisure and business travel to Southeast Asian countries.
- Proximity to Australia. Australia has one of the most mature economies in the region, with a high GDP per capita, high levels of disposable income, higher propensity to travel per capita, and strong tourism connections with Thailand and other regions in Asia.
- Location between South Asia and China. The region's role as a destination for visitors from China (the world's most populous country) and South Asia, which includes India (the world's second most populous country), Pakistan (sixth), and Bangladesh (seventh) will grow in prominence as the people of these countries increase the frequency of their travel.
- Transport substitution. As income levels increase and air transport costs decrease, we expect air transport will substitute for land and sea-based transport modes such as rail, buses, and ferries. As shown in a previous figure, Thailand has a low per capita income compared to other countries in South East Asia, but a relatively higher propensity to travel than other countries with similar income levels. Therefore, we expect that as incomes increase in Thailand, residents will be able to make use of low-cost air carriers for their travels. As a result, we anticipate that air travel will increase at strong rates.





- Liberalization of aviation agreements. Southeast Asian countries have become more liberal with their aviation agreements, both within ASEAN and with other countries.
- Tourist infrastructure. The region's well-developed tourist infrastructure will continue to attract leisure travelers.
- Urbanization. The share of the population in Southeast Asian countries living in cities is generally expected to continue to increase.

## 5.6 Potential Constraints to Asia Aviation Industry Growth

The opportunities for industry-wide aviation activity growth could be offset by:

- Increased fuel prices and/or unfavorable currency exchange levels could constrain aviation demand if air and other travel costs increase and travelers' disposable income levels decrease.
- Regional conflicts or scares. Civil unrest, terrorist events, or other events could constrain future activity levels.
- Travel restrictions. Government restrictions on travel, by limiting the number of entry/exit visas issued or by imposing high visa costs, could limit future aviation growth.
- Insufficient airport or airspace capacity. Socioeconomic or other constraints could result in delays or changes in plans by governments regarding planned infrastructure expansion.
- Environmental factors. Natural and man-made environmental events, such as haze, volcanic ash, and natural disasters, could impact future activity levels.
- Infrastructure constraints at regional airports. Potential constraints to airline travel growth could arise due to limited growth of infrastructure at regional airports outside of Thailand.

## 5.7 Air Cargo Industry Growth Prospects

### 5.7.1 Global Air Cargo Prospects

Global air cargo growth has been historically strong over the past several decades, growing at an average annual rate of 6.7% from 1981 to 2004. However, growth slowed significantly during the recent global financial crisis, decreasing 3.2% in 2008 and a further 9.6% in 2009. The market rebounded strongly in 2010, growing 18.5% compared to 2009 levels. In 2011, growth slowed again, declining 1%, but this was relative to the very strong year in 2010. According to IATA, air cargo volumes decreased 1.5% during 2012 and grew 1.4% during 2013.

Despite the high volatility in growth rates over the past several years, most industry experts expect strong average annual growth in air cargo volumes over the next two decades. The recent slowdowns are attributed to an abnormally long and sharp global recession, combined with rising fuel rates for airlines, natural disasters, and political unrest in the Middle East. Recently, air cargo capacity (supply) has grown, while demand has stalled, putting pressure on air cargo yields and the profitability in the global air cargo industry. Lower yields could eventually lead to increased volumes as lower prices have the potential to stimulate higher demand.

The supply of air cargo capacity is a function of the available capacity of dedicated air cargo aircraft as well as the capacity available in commercial passenger aircraft belly space. With half of global cargo travelling in passenger aircraft belly space, managing supply to demand for dedicated cargo carriers can be challenging. As passenger airlines recover from the recession and begin to add capacity, capacity is automatically added to the air cargo industry total capacity, despite slowing in the cargo-specific sector.



Economic factors continue to put pressure on demand for air cargo. The European debt crisis has resulted in slow economic growth in Europe and has contributed to uncertainty in other areas of the world. Economic growth in China has been relatively moderate recently. In the US, the economic recovery continues, but has been sluggish compared to previous recoveries from recession, contributing to the declines and slow recovery in the air cargo industry.

Air freight growth is more volatile than ocean freight growth because economic downturns result in tight budgets and reductions in demand for faster, more expensive delivery options. As global economic growth continues to recover, air cargo growth is expected to be strong in the future, although with potential continued volatility.

Air cargo growth has a strong historical correlation with economic output, as measured in GDP. As economic growth improves around the world, air cargo growth is expected to again increase and experience strong long-term growth rates. Most economists expect the major global economic markets to continue steps toward recovery and stronger growth over the long term, although near-term growth may continue to be slow and volatile. Quantitative easing in the US and Japan, efforts at debt restructuring in Europe, and other measures are expected to help the recoveries in those regions regain and maintain momentum, but will take time to have their full effect. In the near term there could be continued slow or negative growth, with expectations for recovery and strengthening in the long term. The Boeing Company forecasts average annual air global cargo growth to be 5.2% from 2012 to 2031.

#### *5.7.2 Asian Air Cargo Prospects*

Asia has experienced some of the highest growth rates over the past two decades compared to other regions of the world, due to the rapid development of the region during this time period. Asia has also been susceptible to growth trend changes due to the high growth in demand and supply.

According to the International Air Transport Association (IATA), 40% of global air cargo volumes are shipped to/from Asia. IATA reports that Asia air cargo traffic decreased 1.0% in 2013, while capacity was grew 0.8%. However, IATA reports that Asia-Pacific cargo volumes grew 6.9% in the first quarter of 2014 compared to the first quarter of 2013.



According to the Boeing Company, Asia will—over the long term—continue to be at the forefront of the air cargo industry. Routes associated with Asia will continue to experience the world’s highest growth rates over the next 20 years. According to Boeing forecasts, intra-Asia markets are expected to expand 6.9% per annum from 2012 to 2031, as shown in Table 15, which follows.

Table 15  
**FORECAST AIR CARGO GROWTH**  
Revenue Tonne Kilometers  
2012~2031

	<u>per annum growth</u>
Domestic China	8.0%
Intra Asia	6.9%
North America-Asia	5.8%
Europe-South Asia	5.8%
Europe-Asia	5.7%
Europe-Middle East	5.7%
North America-Latin America	5.6%
Europe-Latin America	5.3%
Europe-Africa	4.8%
North America-Europe	3.5%
Intra Europe	2.4%
North America	2.3%

Source: Boeing Company, 2012.

### 5.7.3 Thailand Air Cargo Prospects

Air cargo prospects in Thailand are driven by several factors, including:

- Its membership in ASEAN
- Trade agreements with other countries outside ASEAN
- Relatively low labor costs and a labor force increasing in education and skills
- Proximity to China and other large and growing economies.
- Established airline industry



## **6 KOH SAMUI, THAILAND**

Koh Samui, Thailand has served as a key driver of the Bangkok Airways business for many years. Prior to 1989—when Bangkok Airways developed and subsequently opened the island’s commercial airport—backpackers and other travellers relied on fishing vessels and ferries to reach the island, with access points on the Thai mainland in the Surat Thani province.

With a combined area of 229 square kilometers and almost one million tourists arriving each year, Koh Samui is the third largest island in Thailand after Phuket and Koh Chang. As of December 2011, the island had 17,204 rooms in 448 hotels, with several hotels opening in 2012 and after. The island now features hotels operated under most global hotel brands, including Conrad, Le Meridien, Banyan Tree, Intercontinental, and Starwood and is considered a global tourist destination. Approximately 50,000 locals live on the island, most of whom work in the tourism industry.

Bangkok Airways’ development of Samui International Airport, and the carrier’s subsequent promotion of the island as a tourist destination, has helped to generate demand for its Koh Samui flights. This promotion has led to the expansion of hotel capacity, which subsequently has generated increased demand for air services, the majority of which are operated by Bangkok Airways. The carrier now operates flights on eight routes that serve Samui International Airport, including services on 5 domestic routes and international flights to/from Kuala Lumpur, Singapore, and Hong Kong.

The Bangkok to Samui route is served by the carrier with 16 flights<sup>12</sup>.

## **7 REGULATORY ENVIRONMENT**

### **7.1 Domestic Airline Regulation Structure in Thailand**

Aviation in Thailand is regulated by the Department of Civil Aviation. The Department is in charge of “promoting, developing and regulating civil aviation affairs of Thailand to meet international standards and form extensive civil aviation network and services that will satisfy market demand, promote tourism as well as national economic growth and make Thailand a hub of aviation in South-East Asia”. Air service operations are approved and regulated by the department for domestic airlines operating in Thailand and international airlines serving Thailand.

The responsibilities of the Department include the following:

1. To implement the Air Navigation Act, Act on Certain Offences against Air Navigation and other civil aviation laws relating to licensing of pilot, aircraft mechanic and air traffic controller, aircraft registration, licensing of aerodrome and temporary landing area, authorization for setting up airlines, to monitor and inspect civil aviation activities to comply with the required standard and regulations, to prevent the sabotage of aircraft and airport as well as aircraft hijacking and to investigate aircraft accident.
2. To promote and develop national civil aviation infrastructure in order to build up nationwide air transport network and boost national aviation industry.
3. To systematize the civil aviation in accordance with regulations and universal standard to fully safeguard the rights of consumers and operators.
4. To set up and run affiliated airports to provide the public with quality services and to ensure safety of aircrafts, passengers and other activities pertaining to transport of goods, luggage and postal items by air.
5. To cooperate with domestic and international organizations or agencies concerning civil aviation, to deal with international conventions and agreements such as bilateral and

<sup>12</sup> Based on carrier’s flight schedule for 1~8 June 2014. 15 daily flights for the Samui to Bangkok route.





multilateral negotiations and signing of agreements on air traffic rights and aircraft standards and to act as a search and rescue centre for aircraft and vessel in distress.

The administration of most domestic airports is the responsibility of the Director of the Airports of the Department of Civil Aviation. Samui, Sukhothai, and Trat airports are administered by Bangkok Airways Company Limited. Suvarnabhumi, Don Mueang, Chiang Mai, Mae Fah Luang-Chiang Rai, Hat Yai and Phuket international airports are operated by AOT. U-Tapao Pattaya International Airport is the responsibility of the Royal Thai Navy.

## **7.2 Samui International Airport**

Samui International Airport was developed by Bangkok Airways and opened in 1989. Developed at an estimated cost of THB 800 million, the airport was officially opened on 25 April 1989 with a 1,800 meter runway. The airport served domestic flights, primarily to and from Bangkok.

In 1997, the airport was upgraded to allow for international flights, with the development of customs and immigration facilities, as well as new passenger terminals, which allowed for the operation of new routes to the airport, including services to international destinations.

For many years, Bangkok Airlines was the only airline that served the airport. The airport's runway could accommodate only small aircraft, such as the ATR turboprops, and few other carriers in the region operated these aircraft. The runway length provided the carrier with a strategic advantage, as little competition existed to the airport, enabling the carrier to charge airfares that exceeded the fares typically charged on other domestic services in the country.

In 2004, the airport began a THB 500 million expansion program that provided for six new terminals—four domestic and two international. In addition, the program provided for extension of the runway, to 2,100 meters. The development program was completed in 2007, providing airport capacity for 16,000 passengers a day. The program increased annual passenger capacity from 1.3 million to 6 million. In 2013, the airport handled 2.0 million passengers and 21,891 aircraft operations<sup>13</sup>.

The growth in the airport has coincided and facilitated the growth in popularity of Samui as a tourist destination with visitors now arriving at Samui from all over the world. What began as a relatively unknown backpackers destination has developed into a very popular destination for Europeans, Asians, and others.

With the 2,100 meter runway, Bangkok Airways was able to increase the size of the aircraft it operated to the airport. The carrier currently operates a mix of A319s and ATR-72s at the airport. In addition, the runway allowed for the introduction of a second scheduled passenger carrier at the airport. Thai Airways International currently operates twice-daily services to Suvarnabhumi Airport using B737-400 aircraft.

Samui International Airport has won several awards for its design and architecture, including an environmental impact assessment award for the use of locally produced palm leaves and a natural, open-air cooling system for the terminal buildings.

The airport also features an extensive commercial precinct. Samui Park Avenue lies between the departures and arrivals terminals in an area of 6,400m<sup>2</sup> and features a 20-unit shopping mall. The complex features shops, spas, and restaurants. Many hotels are also present at the complex.

## **7.3 International Regulations**

International flight into, from or over Thailand territory are subject to the current Thailand regulations relating to civil aviation. These regulations correspond in all essentials to the standards and Recommended Practices contained in Annex 9 to the Convention on International Civil Aviation. To fly over or take-off or

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<sup>13</sup> Source: DCA, May 2014.



land in the territory of Thailand, foreign aircraft/airline is required to obtain prior permission. Application for such permission shall be made to the Director of Air Transport Control Division as address in designated Authorities. No aircraft entering or leaving the Kingdom shall land before or depart except at or from a Customs Airport.

Scheduled international air services may be operated by a foreign airline into or in transit across Thailand in pursuance the International Air Services Transit Agreement, provided that the states in which the airline is registered is a contracting party to this agreement, or to an agreement between Thailand and the States in which the airline is registered.

#### **7.4 Liberalization of the Aviation Industry**

Studies have shown that the liberalization of air services can lead to new and better air services, thereby increasing trade in airlines services, gains in consumer welfare and economic growth. Liberal aviation agreements allow for increased competition on routes and lower airfares, thereby stimulating additional activity.

Traffic growth subsequent to liberalization of air services agreements between countries typically averaged between 12% and 35%, significantly greater than during years preceding liberalization. In a number of situations, growth exceeded 50%, and in some cases reached almost 100% of the pre-liberalization rates. The creation of the Single European Aviation Market in 1993 led to an average annual growth rate in traffic between 1995 and 2004 that was almost double the rate of growth in the years 1990 to 1994.

Countries across the Asia-Pacific region and in particular, Southeast Asia, are liberalizing broadly the international bilateral agreements that can, in their extreme, regulate items such as the precise number and type of carriers that can operate, the number of total seats that can be provided, and the levels of airfares that can be charged.

The December 2008 lifting of restrictions on the Kuala Lumpur-Singapore route offers a good example of the impact that the easing of aviation market restrictions can have. Capacity (as measured by weekly flight frequencies, according to OAG) on this route for the month of September 2009 increased 72.5% as compared to September 2008 levels.

#### **7.5 ASEAN Member States and Open Skies**

The trend of deregulation and liberalization in Asia is expected to continue, particularly amongst countries that are part of ASEAN.

ASEAN was established in 1967 with initially five member countries: Indonesia, Malaysia, Philippines, Singapore and Thailand. Its membership increased over time with Brunei joining in 1984, followed by Vietnam in 1995, Laos and Myanmar in 1997 and Cambodia in 1999. ASEAN was formed to promote regional peace, prosperity and stability.

ASEAN countries have taken significant steps toward current and future liberalization of the airline industry in the region.

##### *7.5.1 Within ASEAN*

Subsequent to an aviation liberalization roadmap adopted by ASEAN member states in 2004, in November 2010, the member states reaffirmed their collective commitment to building an ASEAN Single Aviation Market by 2015. The potential for ASEAN "open skies" in 2015 may lead to significant opportunities for growth by carriers.

The November 2010 ASEAN Multilateral Agreement on the Full Liberalisation of Passenger Air Services (MAFLPAS) and its two Protocols provides for further expansion of the scope of the ASEAN Multilateral Agreement on Air Services (MAAS) to include other ASEAN cities. The agreement and its protocols provides



for designated airlines of a Member State to provide air services from any city with international airport in its territory to any city with international airport in the territory of the other Member States and vice-versa with full third, fourth, and fifth freedom traffic rights.

Aviation traffic freedoms are defined as follows:

- First Freedom: the right to fly over a foreign country without landing there. Also known as the Technical Freedom, it is nearly universal, although some countries maintain restrictions and fees and designated routes may apply.
- Second Freedom: the right to stop in another country solely for the purpose of refueling or carrying out maintenance in a foreign country on the way to another country. Because of longer range of modern airliners, second freedom rights are comparatively rarely exercised by passenger carriers today, but they are widely used by air cargo carriers, and are more or less universal between countries
- Third Freedom: the right to fly and carry passengers from one's own country to another. This is known as the "first commercial freedom" and is the first right that requires more in-depth negotiation.
- Fourth Freedom: the right to fly from another country to one's own. Third and fourth freedom rights are almost always granted simultaneously in bilateral agreements between countries.
- Fifth Freedom: the right to fly between two foreign countries during flights while the flight originates or ends in one's own country. Known as "beyond rights", it covers for example, a Thai airline flying from Bangkok to Sydney Australia, then on to Auckland New Zealand.
- Sixth Freedom: the right to fly from a foreign country to another one while stopping in one's own country for non-technical reasons. Airlines in Asia use sixth-freedom rights extensively to fly passengers between Europe and Australasia (also known as the Kangaroo Route).
- Seventh Freedom: the right to fly between two foreign countries while not offering flights to one's own country.
- Eighth Freedom: the right to fly between two or more airports in a foreign country while continuing service to one's own country, for example, a Thai airline flying from Beijing to Shanghai to Bangkok.
- Ninth Freedom: the right to fly inside a foreign country without continuing service to one's own country, for example, a Thai airline flying from Beijing to Shanghai.

#### 7.5.2 *Outside of ASEAN*

Chinese government aviation officials have signed an agreement with ASEAN to build a more liberal air service framework between China and the ASEAN countries. Other developments contributing to the eventual achievement of open skies are potential similar agreements forthcoming between ASEAN and India as well as ASEAN and Korea.

China, Japan, and South Korea have indicated an interest in developing a unified aviation market comprising the ten ASEAN members plus China, Japan, India and South Korea, which could lead to the creation of an East Asian-plus-India Common Market. In addition, South Korea, China, and Japan have been working on a "North Asia Triangle" Open Skies agreement.



## 7.6 Open Skies Agreements with Thailand

Open skies agreements in effect in Thailand include agreements with the following countries:

- Bahrain
- Brunei
- Cambodia (ASEAN Agreement 2010)
- China (through ASEAN agreement with China)
- Indonesia (ASEAN Agreement 2010)
- Kuwait
  
- Laos (ASEAN Agreement 2010)
- Malaysia (ASEAN Agreement 2010)
- Myanmar (ASEAN Agreement 2010)
- Pakistan (MOU with limited open skies for cargo)
- Philippines (ASEAN Agreement 2010)
- Singapore
  
- South Korea
- Sri Lanka
- Switzerland
- United States of America
- Vietnam

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Bangkok Airways Public Company Limited  
and its subsidiaries  
Review report and interim consolidated financial statements  
For the three-month and six-month periods ended 30 June 2014

## **Independent Auditor's Report on Review of Interim Financial Information**

To the Shareholders of Bangkok Airways Public Company Limited

I have reviewed the accompanying consolidated statement of financial position of Bangkok Airways Public Company Limited and its subsidiaries as at 30 June 2014, and the related consolidated statements of comprehensive income for the three-month and six-month periods ended 30 June 2014, the consolidated statements of changes in shareholders' equity and cash flows for the six-month period then ended, as well as the condensed notes to the consolidated financial statements. I have also reviewed the separate financial information of Bangkok Airways Public Company Limited for the same period. Management is responsible for the preparation and presentation of this interim financial information in accordance with Thai Accounting Standard 34 *Interim Financial Reporting*. My responsibility is to express a conclusion on this interim financial information based on my review.

### **Scope of Review**

I conducted my review in accordance with Thai Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Thai Standards on Auditing and consequently does not enable me to obtain assurance that I would become aware of all significant matters that might be identified in an audit. Accordingly, I do not express an audit opinion.

### **Conclusion**

Based on my review, nothing has come to my attention that causes me to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with Thai Accounting Standard 34 *Interim Financial Reporting*.

**Emphasis of matter**

I draw attention to Note 2 to the financial statements regarding the restatement of the consolidated statements of comprehensive income for the three-month and six-month periods ended 30 June 2013, the consolidated statements of changes in shareholders' equity and cash flows for the six-month period ended together with the separate financial statements presented as comparative information, due to in 2013 the Company had changed the accounting policy as a result of the adoption of Thai Accounting Standard Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and the adjustment relating to share-based payment. My conclusion is not qualified in respect of this matter.

Rungnapa Lertsuwankul

Certified Public Accountant (Thailand) No. 3516

EY Office Limited

Bangkok: 14 August 2014



**Bangkok Airways Public Company Limited and its subsidiaries**

**Statement of financial position**

**As at 30 June 2014**

(Unit: Thousand Baht)

	Note	Consolidated financial statements		Separate financial statements	
		30 June	31 December	30 June	31 December
		2014	2013	2014	2013
		(Unaudited but reviewed)	(Audited)	(Unaudited but reviewed)	(Audited)
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	1,419,616	2,552,859	1,104,983	2,234,506
Current investments	6	31,243	511,040	-	881,250
Trade and other receivables	3, 4	1,139,353	1,679,159	789,290	1,258,290
Prepaid expenses		275,737	334,249	260,266	321,115
Inventories	7	242,107	228,418	171,838	152,263
Other current assets		236,994	408,820	146,179	336,110
<b>Total current assets</b>		<b>3,345,050</b>	<b>5,714,545</b>	<b>2,472,556</b>	<b>5,183,534</b>
<b>Non-current assets</b>					
Restricted bank deposits	8	187,113	189,095	165,508	168,133
Investments in associates	9	1,983,131	1,925,730	2,405,571	2,405,571
Investments in subsidiaries	10	-	-	2,184,233	2,184,233
Other long-term investments	12	20,208,591	14,321,923	16,805,591	11,913,172
Long-term loans to related parties	4	34,490	56,223	97,774	98,989
Investment properties	11	309,643	312,317	309,643	312,317
Property, plant and equipment	13	6,385,623	6,338,847	5,653,012	5,669,441
Intangible assets	14	775,306	717,086	209,690	128,294
Leasehold rights		50,294	58,651	50,294	58,651
Deferred tax assets		23,269	23,513	-	-
Other non-current assets	4	875,701	735,121	837,638	672,739
<b>Total non-current assets</b>		<b>30,833,161</b>	<b>24,678,506</b>	<b>28,718,954</b>	<b>23,611,540</b>
<b>Total assets</b>		<b>34,178,211</b>	<b>30,393,051</b>	<b>31,191,510</b>	<b>28,795,074</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**

**Statement of financial position (continued)**

**As at 30 June 2014**

(Unit: Thousand Baht)

	Note	Consolidated financial statements		Separate financial statements	
		30 June	31 December	30 June	31 December
		2014	2013	2014	2013
		(Unaudited but reviewed)	(Audited)	(Unaudited but reviewed)	(Audited)
<b>Liabilities and shareholders' equity</b>					
<b>Current liabilities</b>					
Bank overdrafts and short-term loans from banks	15	11,495	671,365	-	650,000
Trade and other payables	4, 16	2,168,260	2,356,994	2,103,869	2,217,096
Current portion of long-term loans	17	786,113	986,138	509,213	628,838
Income tax payable		48,816	34,512	-	-
Current portion of liabilities arising from finance lease of aircrafts	18	473,505	423,827	473,505	423,827
Current portion of finance lease liabilities	19	28,500	26,541	25,129	22,694
Short-term loans from related party	4	-	-	30,735	-
Current portion of long-term loans from related party	20	-	-	-	-
Unearned income		1,661,402	2,035,941	1,660,492	2,032,627
Other current liabilities	4	790,506	1,058,762	508,454	1,152,377
<b>Total current liabilities</b>		<b>5,968,597</b>	<b>7,594,080</b>	<b>5,311,397</b>	<b>7,127,459</b>
<b>Non-current liabilities</b>					
Long-term loans - net of current portion	17	705,140	1,121,004	620,940	951,404
Liabilities arising from finance lease of aircrafts - net of current portion	18	130,744	408,659	130,744	408,659
Finance lease liabilities - net of current portion	19	40,412	33,253	36,609	28,699
Long-term loans from related party - net of current portion	20	11,230,688	11,207,489	11,230,688	11,207,489
Provision for long-term employee benefits		304,574	286,485	252,153	236,694
Deferred tax liabilities		3,627,881	2,486,066	3,143,431	2,200,466
Other non-current liabilities		64,304	64,303	-	5,000
<b>Total non-current liabilities</b>		<b>16,103,743</b>	<b>15,607,259</b>	<b>15,414,565</b>	<b>15,038,411</b>
<b>Total liabilities</b>		<b>22,072,340</b>	<b>23,201,339</b>	<b>20,725,962</b>	<b>22,165,870</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**

**Statement of financial position (continued)**

**As at 30 June 2014**

(Unit: Thousand Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	30 June	31 December	30 June	31 December
	<u>Note</u> 2014	2013	2014	2013
	(Unaudited but reviewed)	(Audited)	(Unaudited but reviewed)	(Audited)
<b>Shareholders' equity</b>				
Share capital				
Registered				
2,100,000,000 ordinary shares of Baht 1 each	2,100,000	2,100,000	2,100,000	2,100,000
Issued and fully paid up				
1,580,000,000 ordinary shares of Baht 1 each	1,580,000	1,580,000	1,580,000	1,580,000
Premium on ordinary shares	270,000	270,000	270,000	270,000
Capital reserve for share-based payment transactions	21	207,300	207,300	207,300
Retained earnings				
Appropriated - statutory reserve	210,000	210,000	210,000	210,000
Unappropriated	(3,960,107)	(4,148,032)	(3,421,725)	(3,344,134)
Other components of shareholders' equity	13,670,287	8,960,953	11,619,973	7,706,038
Equity attributable to owners of the Company	11,977,480	7,080,221	10,465,548	6,629,204
Non-controlling interests of the subsidiaries	128,391	111,491	-	-
<b>Total shareholders' equity</b>	<b>12,105,871</b>	<b>7,191,712</b>	<b>10,465,548</b>	<b>6,629,204</b>
<b>Total liabilities and shareholders' equity</b>	<b>34,178,211</b>	<b>30,393,051</b>	<b>31,191,510</b>	<b>28,795,074</b>
	-	-	-	-

The accompanying notes are an integral part of the financial statements.

Directors

(Unaudited but reviewed)

## Bangkok Airways Public Company Limited and its subsidiaries

## Statement of comprehensive income

For the three-month period ended 30 June 2014

(Unit: Thousand Baht)

	Note	Consolidated financial statements		Separate financial statements	
		2014	2013 (Restated)	2014	2013 (Restated)
<b>Profit or loss:</b>					
<b>Revenues</b>					
Passenger	4	3,719,510	3,457,876	3,719,771	3,457,955
Sales and service income	4	612,962	629,418	-	-
Freight	4	77,110	51,970	77,110	51,970
Passenger service charge		115,366	111,990	115,366	111,990
Dividend income	4, 9.2	243,756	219,276	282,544	266,318
Gain on sales of investments		3,370	1,571	-	-
Other income	4	153,834	152,342	183,061	179,408
<b>Total revenues</b>		<b>4,925,908</b>	<b>4,624,443</b>	<b>4,377,852</b>	<b>4,067,641</b>
<b>Expenses</b>					
Cost of sales and services	4	4,303,585	3,379,945	3,900,309	3,005,166
Selling expenses	4	358,628	343,682	354,612	339,612
Administrative expenses	4	313,296	371,727	216,985	279,199
Other expenses	4	2,267	14,550	-	-
<b>Total expenses</b>		<b>4,977,776</b>	<b>4,109,904</b>	<b>4,471,906</b>	<b>3,623,977</b>
<b>Profit (loss) before share of profit from investments in associates, finance cost and income tax expenses</b>					
		(51,868)	514,539	(94,054)	443,664
Share of profit from investments in associates	9.2	103,332	96,648	-	-
<b>Profit (loss) before finance cost and income tax expenses</b>		<b>51,464</b>	<b>611,187</b>	<b>(94,054)</b>	<b>443,664</b>
Finance cost		(407,024)	(436,546)	(397,102)	(421,671)
<b>Profit (loss) before income tax expenses</b>		<b>(355,560)</b>	<b>174,641</b>	<b>(491,156)</b>	<b>21,993</b>
Income tax expenses	22	34,224	(22,567)	55,716	(15,757)
<b>Profit (loss) for the period</b>		<b>(321,336)</b>	<b>152,074</b>	<b>(435,440)</b>	<b>6,236</b>
<b>Other comprehensive income:</b>					
Gain (loss) on changes in value of available-for-sale investments		4,065,987	(910,513)	3,379,237	(783,013)
Income tax effect	22	(813,198)	182,101	(675,848)	156,602
<b>Other comprehensive income for the period</b>		<b>3,252,789</b>	<b>(728,412)</b>	<b>2,703,389</b>	<b>(626,411)</b>
<b>Total comprehensive income for the period</b>		<b>2,931,453</b>	<b>(576,338)</b>	<b>2,267,949</b>	<b>(620,175)</b>

The accompanying notes are an integral part of the financial statements.

(Unaudited but reviewed)

**Bangkok Airways Public Company Limited and its subsidiaries**

**Statement of comprehensive income (continued)**

**For the three-month period ended 30 June 2014**

(Unit: Thousand Baht)

	Note	Consolidated financial statements		Separate financial statements	
		2014	2013 (Restated)	2014	2013 (Restated)
<b>Profit attributable to:</b>					
Equity holders of the Company		(325,888)	143,290	(435,440)	6,236
Non-controlling interests of the subsidiaries		4,552	8,784		
		<u>(321,336)</u>	<u>152,074</u>		
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Company		2,926,901	(585,122)	2,267,949	(620,175)
Non-controlling interests of the subsidiaries		4,552	8,784		
		<u>2,931,453</u>	<u>(576,338)</u>		
<b>Earnings per share</b>					
	23				
Basic earnings per share					
Profit (loss) attributable to equity holders of the Company (Baht)		<u>(0.206)</u>	<u>0.091</u>	<u>(0.276)</u>	<u>0.004</u>
Weighted average number of ordinary shares (Thousand shares)					
of Baht 1 each		<u>1,580,000</u>	<u>1,580,000</u>	<u>1,580,000</u>	<u>1,580,000</u>

The accompanying notes are an integral part of the financial statements.

## Bangkok Airways Public Company Limited and its subsidiaries

## Statement of comprehensive income

For the six-month period ended 30 June 2014

(Unit: Thousand Baht)

	Note	Consolidated financial statements		Separate financial statements	
		2014	2013 (Restated)	2014	2013 (Restated)
<b>Profit or loss:</b>					
<b>Revenues</b>					
Passenger	4	8,677,606	8,112,195	8,677,924	8,112,303
Sales and service income	4	1,337,391	1,285,987	-	-
Freight	4	152,594	104,049	152,594	104,049
Passenger service charge		269,138	251,802	269,138	251,802
Dividend income	4, 9.2	243,786	219,304	352,607	332,818
Gain on sales of investments		3,374	41,937	7,000	36,591
Gain on sales of investments in subsidiaries		-	3,027	-	-
Reversal of allowance for diminution in value of investments in subsidiaries		-	-	-	9,478
Other income	4	296,364	238,353	361,380	302,149
<b>Total revenues</b>		<b>10,980,253</b>	<b>10,256,654</b>	<b>9,820,643</b>	<b>9,149,190</b>
<b>Expenses</b>					
Cost of sales and services	4	8,746,468	7,005,454	7,940,830	6,281,027
Selling expenses	4	714,415	700,417	707,034	692,524
Administrative expenses	4	669,840	815,282	470,487	626,612
Loss on sales of investments in subsidiaries		-	-	-	2,494
Other expenses	4	6,389	35,859	12,289	26,638
<b>Total expenses</b>		<b>10,137,112</b>	<b>8,557,012</b>	<b>9,130,640</b>	<b>7,629,295</b>
<b>Profit before share of profit from investments in associates, finance cost and income tax expenses</b>					
		843,141	1,699,642	690,003	1,519,895
Share of profit from investments in associates	9.2	208,214	192,055	-	-
<b>Profit before finance cost and income tax expenses</b>		<b>1,051,355</b>	<b>1,891,697</b>	<b>690,003</b>	<b>1,519,895</b>
Finance cost		(825,205)	(880,482)	(803,313)	(850,877)
<b>Profit before income tax expenses</b>		<b>226,150</b>	<b>1,011,215</b>	<b>(113,310)</b>	<b>669,018</b>
Income tax expenses	22	(21,325)	(129,271)	35,719	(88,518)
<b>Profit for the period</b>		<b>204,825</b>	<b>881,944</b>	<b>(77,591)</b>	<b>580,500</b>
<b>Other comprehensive income:</b>					
Exchange differences on translation of financial statements in foreign currency		-	(227)	-	-
Gain on changes in value of available-for-sale investments		5,886,668	5,244,014	4,892,419	4,504,514
Income tax effect	22	(1,177,334)	(1,048,805)	(978,484)	(900,903)
<b>Other comprehensive income for the period</b>		<b>4,709,334</b>	<b>4,194,982</b>	<b>3,913,935</b>	<b>3,603,611</b>
<b>Total comprehensive income for the period</b>		<b>4,914,159</b>	<b>5,076,926</b>	<b>3,836,344</b>	<b>4,184,111</b>

The accompanying notes are an integral part of the financial statements.

(Unaudited but reviewed)

**Bangkok Airways Public Company Limited and its subsidiaries**

**Statement of comprehensive income (continued)**

**For the six-month period ended 30 June 2014**

(Unit: Thousand Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>		
	<u>Note</u>	<u>2014</u>	<u>2013</u> (Restated)	<u>2014</u>	<u>2013</u> (Restated)
<b>Profit attributable to:</b>					
Equity holders of the Company		187,925	841,043	(77,591)	580,500
Non-controlling interests of the subsidiaries		16,900	40,901		
		<u>204,825</u>	<u>881,944</u>		
<b>Total comprehensive income attributable to:</b>					
Equity holders of the Company		4,897,259	5,036,034	3,836,344	4,184,111
Non-controlling interests of the subsidiaries		16,900	40,892		
		<u>4,914,159</u>	<u>5,076,926</u>		
<b>Earnings per share</b>					
	23				
Basic earnings per share					
Profit (loss) attributable to equity holders of the Company (Baht)		<u>0.119</u>	<u>0.584</u>	<u>(0.049)</u>	<u>0.403</u>
Weighted average number of ordinary shares (Thousand shares)					
of Baht 1 each		<u>1,580,000</u>	<u>1,441,248</u>	<u>1,580,000</u>	<u>1,441,248</u>

The accompanying notes are an integral part of the financial statements.

(Unaudited but reviewed)

**Bangkok Airways Public Company Limited and its subsidiaries**  
**Statement of changes in shareholders' equity**  
**For the six-month period ended 30 June 2014**

(Unit: Thousand Baht)

Consolidated financial statements													
Equity attributable to owners of the Company													
Note	Issued and fully paid-up share capital	Premium on ordinary shares	Capital reserve for share-based payment transactions	Retained earnings		Unappropriated	Exchange differences on translation of financial statements in foreign currency	Surplus on changes in value of available-for-sale investments	Discount on changes in shareholding in subsidiaries	Total other components of shareholders' equity	Total equity attributable to owners of the Company	Equity attributable to non-controlling interests of the subsidiaries	Total shareholders' equity
				Appropriated	Unappropriated								
	1,212,500	-	-	-	121,250	(2,565,343)	(2,029)	8,755,421	-	8,753,392	7,521,799	197,706	7,719,505
	367,500	270,000	-	-	-	-	-	-	-	-	637,500	-	637,500
21	-	-	207,300	-	-	-	-	-	-	-	207,300	-	207,300
25	-	-	-	-	-	(1,649,954)	-	-	-	-	(1,649,954)	-	(1,649,954)
	-	-	-	-	-	(2,247)	2,247	-	-	2,247	-	(164)	(164)
	-	-	-	-	-	841,043	(218)	4,195,209	-	4,194,991	5,036,034	40,892	5,076,926
	-	-	-	-	88,750	(88,750)	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(154,884)	(154,884)	-	-	(154,884)
	-	-	-	-	-	-	-	-	-	-	-	(138,599)	(138,599)
	1,580,000	270,000	207,300	210,000	210,000	(3,465,251)	-	12,950,630	(154,884)	12,795,746	11,597,795	99,835	11,697,630
	1,580,000	270,000	207,300	210,000	210,000	(4,148,032)	-	9,115,637	(154,884)	8,960,953	7,080,221	111,491	7,191,712
	-	-	-	-	-	187,925	-	4,709,334	-	4,709,334	4,897,259	16,900	4,914,159
	1,580,000	270,000	207,300	210,000	210,000	(3,960,107)	-	13,825,171	(154,884)	13,670,287	11,977,480	128,391	12,105,871
	-	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-

The accompanying notes are an integral part of the financial statements



(Unaudited but reviewed)

**Bangkok Airways Public Company Limited and its subsidiaries**  
**Statement of changes in shareholders' equity (continued)**  
**For the six-month period ended 30 June 2014**

(Unit: Thousand Baht)

		<b>Separate financial statements</b>										
		Note	Issued and paid-up share capital	Premium on ordinary shares	Capital reserve for share-based payment transactions	Retained earnings		Unappropriated earnings	Total other components of shareholders' equity	Other components of equity		Total shareholders' equity
Appropriated	Unappropriated					Surplus	Other					
<b>Balance as at 31 December 2012</b>			1,212,500	-	-	121,250	(1,791,043)	7,667,422	7,667,422	-	-	7,210,129
	Increase share capital		367,500	270,000	-	-	-	-	-	-	-	637,500
	Share-based payment transactions	21	-	-	207,300	-	-	-	-	-	-	207,300
	Dividend paid	25	-	-	-	-	(1,649,954)	-	-	-	-	(1,649,954)
	Total comprehensive income for the period (restated)		-	-	-	-	580,500	3,603,611	3,603,611	-	-	4,184,111
	Transfer to legal reserves		-	-	-	88,750	(88,750)	-	-	-	-	-
	<b>Balance as at 30 June 2013</b>		<u>1,580,000</u>	<u>270,000</u>	<u>207,300</u>	<u>210,000</u>	<u>(2,949,247)</u>	<u>11,271,033</u>	<u>11,271,033</u>	<u>11,271,033</u>	<u>11,271,033</u>	<u>10,589,086</u>
<b>Balance as at 31 December 2013</b>			1,580,000	270,000	207,300	210,000	(3,344,134)	7,706,038	7,706,038	7,706,038	7,706,038	6,629,204
	Total comprehensive income for the period		-	-	-	-	(77,591)	3,913,935	3,913,935	3,913,935	3,913,935	3,836,344
	<b>Balance as at 30 June 2014</b>		<u>1,580,000</u>	<u>270,000</u>	<u>207,300</u>	<u>210,000</u>	<u>(3,421,725)</u>	<u>11,619,973</u>	<u>11,619,973</u>	<u>11,619,973</u>	<u>11,619,973</u>	<u>10,465,548</u>
			-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-

The accompanying notes are an integral part of the financial statements

**Bangkok Airways Public Company Limited and its subsidiaries****Cash flow statement****For the six-month period ended 30 June 2014**

(Unit: Thousand Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	<u>2014</u>	<u>2013</u> (Restated)	<u>2014</u>	<u>2013</u> (Restated)
<b>Cash flows from operating activities</b>				
Profit (loss) before tax	226,150	1,011,215	(113,310)	669,018
Adjustments to reconcile profit before tax to net cash provided by (paid from) operating activities:				
Depreciation and amortisation	305,889	277,481	213,736	196,259
Allowance for doubtful accounts (reversal)	(23,558)	22,697	(23,558)	22,697
Written off doubtful debts	14,045	488	14,045	488
Reduction of inventory to net realisable value	676	229	676	99
Gain on sales of property, plant and equipment	(514)	(4,553)	(516)	(4,571)
Gain on sales of leasehold rights	(3,610)	-	(3,610)	-
Gain on sales of long-term investments	-	(36,591)	-	(36,591)
Gain on sales of short-term investments	(3,374)	(5,346)	(7,000)	-
Loss from revaluation of short-term investments	263	14,312	-	-
Written off fixed assets	11,812	19,418	11,812	19,418
Share of profit from investments in associates	(208,214)	(192,055)	-	-
Provision for long-term employee benefits	27,597	18,176	20,174	11,547
Gain on changes in provision for long-term employee benefits	(4,479)	-	-	-
(Gain) loss on sales of investment in subsidiaries	-	(3,028)	-	2,494
Reversal impairment in investments in subsidiaries	-	-	-	(9,478)
Unrealised loss on exchange	35,361	53,188	36,423	53,293
Share-based payment transactions	-	207,300	-	207,300
Dividend income	(243,786)	(219,304)	(352,607)	(332,818)
Interest income	(10,245)	(10,909)	(6,872)	(7,902)
Interest expenses	825,205	880,482	803,313	850,877
Profit from operating activities before changes in operating assets and liabilities	949,218	2,033,200	592,706	1,642,130
Operating assets (increase) decrease				
Trade and other receivables	547,451	137,841	474,201	151,562
Loans to director	-	92,564	-	96,658
Short-term loans to related parties	19,855	45,496	-	49,850
Inventories	(14,365)	22,107	(20,251)	20,831
Other current assets	205,699	(126,497)	249,323	(88,394)
Other assets	(146,102)	(29,971)	(171,176)	(23,023)
Operating liabilities increase (decrease)				
Trade and other payables	(151,885)	11,107	(75,446)	14,509
Other current liabilities	(634,091)	(400,448)	(1,013,566)	(449,629)
Liabilities under finance lease payable	(297,820)	(127,746)	(295,477)	(126,015)
Provision for long-term employee benefits	(5,029)	(11,932)	(4,715)	(11,206)
Other non-current liabilities	1	3,168	(5,000)	(92)
Cash flows from operating activities	472,932	1,648,889	(269,401)	1,277,181
Cash paid for interest expenses	(826,938)	(836,274)	(798,836)	(808,249)
Cash paid for income tax expenses	(25,166)	(112,324)	(4,432)	(130,001)
<b>Net cash flows from (used in) operating activities</b>	<b>(379,172)</b>	<b>700,291</b>	<b>(1,072,669)</b>	<b>338,931</b>

The accompanying notes are an integral part of the financial statements.

(Unaudited but reviewed)

**Bangkok Airways Public Company Limited and its subsidiaries****Cash flow statement (continued)****For the six-month period ended 30 June 2014**

(Unit: Thousand Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	<u>2014</u>	<u>2013</u> (Restated)	<u>2014</u>	<u>2013</u> (Restated)
<b>Cash flows from investing activities</b>				
(Increase) decrease in restricted bank deposits	1,983	(7,148)	2,624	(6,519)
Decrease in current investments	470,000	-	470,000	-
Acquisition of short-term investments	-	(107,778)	-	-
Acquisition of long-term investments	-	(43,909)	-	(43,909)
Acquisition of property, plant and equipment	(289,661)	(170,117)	(160,591)	(135,052)
Acquisition of intangible assets	(89,688)	(71,136)	(89,688)	(70,634)
Interest income	12,623	204,181	7,924	201,204
Dividend income from investment in associates	150,813	144,875	150,813	144,875
Dividend income from long-term investments	243,786	219,304	201,794	187,943
Proceeds from sales of property, plant and equipment	517	21,125	517	21,125
Proceeds from sales of leasehold rights	10,907	-	10,907	-
Cash received from sales of short-term investments	10,408	103,176	418,250	-
Cash received from sales of long-term investments	-	45,135	-	45,135
Cash paid for investment in subsidiaries	-	(293,484)	-	(293,484)
Cash received from sales of investment in subsidiaries	-	6,985	-	6,985
Increase in cash and cash equivalents from sales of subsidiaries	-	(57)	-	-
<b>Net cash flows from investing activities</b>	<b>521,688</b>	<b>51,152</b>	<b>1,012,550</b>	<b>57,669</b>
<b>Cash flows from financing activities</b>				
Decrease in bank overdrafts and short-term loans				
from financial institutions	(659,870)	(1,670,000)	(650,000)	(1,670,000)
Cash received from short-term loans	-	-	30,685	27,540
Repayment of long-term loans	(615,889)	(660,680)	(450,089)	(526,080)
Proceeds from increase in share capital	-	637,500	-	637,500
Dividend paid	-	(1,649,954)	-	(1,649,954)
<b>Net cash flows used in financing activities</b>	<b>(1,275,759)</b>	<b>(3,343,134)</b>	<b>(1,069,404)</b>	<b>(3,180,994)</b>
<b>Decrease in translation adjustments</b>	<b>-</b>	<b>(219)</b>	<b>-</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(1,133,243)</b>	<b>(2,591,910)</b>	<b>(1,129,523)</b>	<b>(2,784,394)</b>
Cash and cash equivalents at beginning of the period	2,552,859	3,665,652	2,234,506	3,533,452
<b>Cash and cash equivalents at end of the period (Note 5)</b>	<b>1,419,616</b>	<b>1,073,742</b>	<b>1,104,983</b>	<b>749,058</b>
	-	-	-	-
<b>Supplemental cash flows information:</b>				
Non-cash items				
Increase in receivable from sales of short-term investments	2,500	2,318	-	-
Increase (decrease) in payable from purchase of assets	14,496	(49,190)	12,496	(33,197)
Purchase vehicles under finance lease	25,121	9,138	24,006	6,392
Gain on changes in value of available-for-sale investments	4,709,334	4,195,209	3,913,935	3,603,611

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**

**Notes to consolidated interim financial statements**

**For the three-month and six-month periods ended 30 June 2014**

**1. General information**

**1.1 Corporate information**

Bangkok Airways Company Limited (“the Company”) is a limited company incorporated and domiciled in Thailand with three major shareholders hold more than 20 percent each. The Company is principally engaged in the provision of air transportation and airport services. On 27 February 2013, the Company registered as a Public Company Limited with the Ministry of Commerce and changed its name from “Bangkok Airways Company Limited” to “Bangkok Airways Public Company Limited” and its registered address is 99 Mu 14, Vibhavadirangsit Road, Chom Phon, Chatuchak, Bangkok.

**1.2 Basis for the preparation of interim financial statements**

These interim financial statements are prepared in accordance with Thai Accounting Standards No. 34 (revised 2012) “Interim Financial Reporting”, with the Company choosing to present condensed interim financial statements. However, the Company has presented the statements of financial position, comprehensive income, changes in shareholders’ equity, and cash flows in the same format as that used for the annual financial statements.

The interim financial statements are intended to provide information additional to that included in the latest annual financial statements. Accordingly, they focus on new activities, events and circumstances so as not to duplicate information previously reported. These interim financial statements should therefore be read in conjunction with the latest annual financial statements.

The interim financial statements in Thai language are the official statutory financial statements of the Company. The interim financial statements in English language have been translated from the Thai language financial statements.

**1.3 Basis of consolidation**

The basis of consolidation is the same as that for the consolidated financial statements for the year ended 31 December 2013, with there being no structural changes relating to the subsidiaries during the period.

#### **1.4 New accounting standards**

##### **(a) Accounting standards that became effective in the current accounting year**

The Company disclosed the accounting standards, financial reporting standard, accounting standard interpretations and financial reporting standard interpretations that are effective for fiscal years beginning on or after 1 January 2014, in the notes to financial statements for the year ended 31 December 2013.

The Company's management has assessed the effects of the above accounting standards, financial reporting standard, accounting standard interpretations and financial reporting standard interpretations, and believes that they are not relevant to the business of the Company or do not have a significant impact.

##### **(b) Accounting standard that will become effective in the future**

The Company has disclosed the financial reporting standard that will be effective in the future in the notes to financial statements for the year ended 31 December 2013.

The Company's management has assessed the effect of this financial reporting standard and believes that it is not relevant to the business of the Company.

#### **1.5 Significant accounting policies**

The interim financial statements are prepared using the same accounting policies and methods of computation as were used for the financial statements for the year ended 31 December 2013, except for the change in the accounting policy for Customer Loyalty Programmes due to the adoption of TFRIC 13.

##### *Customer Loyalty Programmes*

The Company operates a loyalty programme which allows customers to accumulate points when they flown through the Company. The points can then be redeemed for gifts specified by the Company.

Part of the value of fare and route are allocated to the points accumulated, based on their fair value. The fair value of the points accumulated is deferred and recognised as revenue when the points are redeemed and the Company fulfills their obligations to supply awards.

However, the adoption of this TFRIC had no material effect to profit for the prior period.

## 2. Prior period adjustments

In 2013 the management of the Company changed its accounting policy by early adopting Thai Accounting Standard Interpretations 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, whereby it includes variable lease expenses in the calculation of the effective interest rate, so that the financial statements provide more relevant information.

However, the Company had to collect data on the number of passengers and number of flights in the past, and also estimates of variable lease expenses in the future, and since the variable lease expense estimation process was not completed until the fourth quarter of year 2013, the interim financial statements for the second quarter of year 2013 did not reflect the impact of the change.

In early 2013 the Company granted share options to directors and employees of the Company, as discussed in Note 21 to financial statements. In compliance with Thai Financial Reporting Standards 2 *Share-based Payment*, the Company is therefore required 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. However, since the process of assessing the fair value of the common shares was not completed until the fourth quarter of year 2013, the interim financial statements for the second quarter of year 2013 did not reflect the impact of the difference.

During the year 2013, the Office of the Securities and Exchange Commission (the Office of the SEC) issued a letter to the Company, 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 Office of the SEC by the Company. The Company adjusted an accounting item in fourth quarter of year 2013, the interim financial statements for the second quarter of year 2013 did not reflect the impact of the difference.

The Company restated the statement of comprehensive income for the three-month and six-month periods ended 30 June 2013, presented as comparative information, to reflect the above effect.

(Unaudited but reviewed)

(Unit: Thousand Baht)

Consolidated financial statement  
and Separate financial statement

	For the three-month period ended 30 June 2013	For the six-month period ended 30 June 2013
<b>Statements of comprehensive income</b>		
<b>Profit or loss:</b>		
Increase in cost of sales and service	36,013	128,588
Increase in selling expense	-	19,177
Increase in administrative expense	-	95,547
Increase in finance cost	93,727	145,181
Decrease in profit attributable to equity holders of the Company	(129,740)	(388,493)
Decrease in basic earnings per share (Baht)	(0.08)	(0.27)

**3. Trade and other receivables**

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
<u>Trade receivables - related parties</u>				
Aged on the basis of due dates				
Not yet due	5,650	7,931	33,042	46,447
Past due				
Up to 3 months	6,590	5,301	46,973	5,292
3 - 6 months	1,190	4,531	14,846	4,531
6 - 12 months	43	37,388	-	37,388
Over 12 months	20	12,378	20	12,378
Total	13,493	67,529	94,881	106,036
Less: Allowance for doubtful debts	-	(18,018)	-	(18,018)
Total trade receivables - related parties, net	13,493	49,511	94,881	88,018

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Consolidated financial		Separate financial	
	statements		statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
<u>Trade receivables - unrelated parties</u>				
Aged on the basis of due dates				
Not yet due	920,497	1,037,947	614,249	671,545
Past due				
Up to 3 months	145,010	451,386	50,230	357,784
3 - 6 months	45,860	22,228	18,030	20,710
6 - 12 months	9,417	20,313	9,417	20,313
Over 12 months	101,861	87,082	101,839	86,996
Total	1,222,645	1,618,956	793,765	1,157,348
Less: Allowance for doubtful debts	(106,780)	(112,149)	(106,780)	(112,149)
Total trade receivables - unrelated parties, net	1,115,865	1,506,807	686,985	1,045,199
Total trade receivables - net	1,129,358	1,556,318	781,866	1,133,217
<u>Other receivables</u>				
Advances - related parties	-	2,130	-	2,130
Other receivables - related parties	70	36,269	-	38,533
Total other receivables - related parties - net	70	38,399	-	40,663
Other receivables - Unrelated parties	18,995	93,512	16,494	93,480
Less: Allowance for doubtful debts	(9,070)	(9,070)	(9,070)	(9,070)
Total other receivables - unrelated parties - net	9,925	84,442	7,424	84,410
Total other receivables	9,995	122,841	7,424	125,073
Trade and other receivables - net	1,139,353	1,679,159	789,290	1,258,290

#### 4. Related party transactions

During the periods, the Company and its subsidiaries had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.



(Unaudited but reviewed)

(Unit: Million Baht)

	Consolidated financial statements		Separate financial statements		Transfer Pricing Policy
	For the three-month periods ended				
	30 June				
	2014	2013	2014	2013	
<u>Transactions with subsidiaries</u>					
(Eliminated from the consolidated financial statements)					
Permission fee	-	-	36	33	Contract price
Concession lounge service income	-	-	3	1	Contract price
Rental income	-	-	1	1	Contract price
Catering service expenses	-	-	99	76	Contract price
Ground service expenses	-	-	110	87	Contract price
<u>Transactions with associates</u>					
Interest income	-	3	-	3	MLR
Ground service income	1	1	-	-	Contract price
Collection fee income	1	1	-	-	Contract price
Dividend income	-	-	81	78	As declared
Interest expenses	322	332	322	332	Contract price
Shipping service expenses	5	4	5	4	Actual charge
Employee expenses	-	1	-	-	Contract price
<u>Transactions with related companies</u>					
Permission fee	1	-	1	-	Contract price
Catering service income	1	-	-	-	Contract price
Duty fee income	-	13	-	13	Cost plus margin
Ground service income	-	1	-	-	Contract price
Rental income	7	2	7	2	Contract price
Passenger income	11	18	11	18	Contract price
Consulting income	1	1	1	1	Contract price
Sponsor income	1	1	1	1	
Dividend income	243	218	202	188	As declared
Catering service expenses	1	-	1	-	Contract price
Ground service expenses	56	44	47	44	Contract price
Management expenses	50	18	50	18	Contract price
Security expenses	18	8	18	8	Contract price
Rental expenses	3	1	1	1	Contract price
Employee expenses	14	7	13	6	Contract price
Aeronautical radio expenses	118	87	114	83	Market price
<u>Transactions with management and directors</u>					
Interest income	-	-	-	-	MLR

(Unaudited but reviewed)

(Unit: Million Baht)

	Consolidated		Separate		Transfer Pricing Policy
	financial statements		financial		
	statements		statements		
	For the six-month periods ended				
	30 June				
	2014	2013	2014	2013	
<u>Transactions with subsidiaries</u>					
(Eliminated from the consolidated financial statements)					
Permission fee	-	-	73	72	Contract price
Concession lounge service income	-	-	8	2	Contract price
Rental income	-	-	2	2	Contract price
Catering service expenses	-	-	211	163	Contract price
Ground service expenses	-	-	222	176	Contract price
<u>Transactions with associates</u>					
Interest income	1	5	1	5	MLR
Ground service income	2	1	-	-	Contract price
Collection fee income	1	1	-	-	Contract price
Dividend income	-	-	151	145	As declared
Interest expenses	643	659	643	659	Contract price
Shipping service expenses	8	7	8	7	Actual charge
Employee expenses	-	2	-	-	Contract price
<u>Transactions with related companies</u>					
Permission fee	1	-	1	-	Contract price
Catering service income	1	-	-	-	Contract price
Duty fee income	-	25	-	25	Cost plus margin
Ground service income	1	1	-	-	Contract price
Rental income	8	3	8	3	Contract price
Passenger income	29	38	29	38	Contract price
Consulting income	1	2	1	2	Contract price
Compensation income	5	-	5	-	Agree upon
Sponsor income	1	1	1	1	Contract price
Dividend income	243	218	202	188	As declared
Catering service expense	1	-	1	-	Contract price
Ground service expenses	117	75	100	75	Contract price
Management expenses	88	40	88	40	Contract price
Security expenses	26	18	26	18	Contract price
Stock management expenses	-	1	-	1	Contract price
Rental expenses	4	1	2	1	Contract price
Employee expenses	16	11	14	10	Contract price
Aeronautical radio expenses	281	166	275	161	Market price

(Unaudited but reviewed)

(Unit: Million Baht)

	Consolidated		Separate		Transfer Pricing Policy
	financial statements		financial		
			statements		
	For the six-month periods ended				
	30 June				
	2014	2013	2014	2013	
<u>Transactions with management and directors</u>					
Interest income	-	1	-	1	MLR

The relationships between the Company and the related companies are summarised below.

List of related companies	Relationship
Bangkok Air Catering Co.,Ltd.	Subsidiary
Bangkok Airways Ground Service Co.,Ltd.	Subsidiary
Worldwide Flight Services Bangkok Air Ground Handling Co.,Ltd.	Subsidiary
Bangkok Airways Holding Co.,Ltd.	Subsidiary
BAC Gourmet House Co.,Ltd.	Subsidiary (held by a subsidiary)
Bangkok Air Catering Phuket Co.,Ltd.	Subsidiary (held by a subsidiary)
SA Services Co.,Ltd.	Subsidiary (held by a subsidiary)
BFS Cargo DMK Co.,Ltd.	Subsidiary (held by a subsidiary)
WFS-PG Cargo Co.,Ltd.	Associate
Samui Airport Property Fund (Leasehold)	Associate
S.E.A. Aviation Co.,Ltd.	Associate
Bangkok Dusit Medical Services Plc.	Common shareholders and/or directors
South East Air Co.,Ltd.	Common shareholders and/or directors
Thai Cargo Airline Co.,Ltd.	Common shareholders and/or directors
Bangkok Media & Broadcasting Co.,Ltd.	Common shareholders and/or directors
Bangkok Helicopter Services Co.,Ltd.	Common shareholders and/or directors
Thai Petroleum Service Corp.,Ltd.	Common shareholders and/or directors
Bangkok Golden Life Co.,Ltd.	Common shareholders and/or directors
Bangpakong Golf Club Co.,Ltd.	Common shareholders and/or directors
Prasartthong Osoth Co.,Ltd.	Common shareholders and/or directors
Paradise Shopping Co.,Ltd.	Common shareholders and/or directors
Bangkok Hospital Chiangmai Co.,Ltd.	Common shareholders and/or directors
Bangkok Hospital Sanamchan Co.,Ltd.	Common shareholders and/or directors
Bangkok Flight Training Center Co.,Ltd.	Common shareholders and/or directors
Samui Park Avenue Co.,Ltd.	Common shareholders and/or directors

List of related companies	Relationship
Samitivej Plc.	Common shareholders and/or directors
Samui Accom Co.,Ltd.	Common shareholders and/or directors
Sukhothai Property Co.,Ltd.	Common shareholders and/or directors
The Sahakol Estate Co.,Ltd.	Common shareholders and/or directors
Amsito Thai Petroleum Service Co.,Ltd.	Common shareholders and/or directors
The Krungthep Thanakom Co.,Ltd.	Common shareholders and/or directors
Bangkok Health Insurance Plc.	Common shareholders and/or directors
Bangkok Premier Life Insurance Broker Co., Ltd.	Common shareholders and/or directors
Bangkok United Mechanical Co.,Ltd.	Common shareholders and/or directors
Siam Medical Co., Ltd.	Common shareholders and/or directors
Kiattana Transport Plc.	Common shareholders and/or directors
Khan Co.,Ltd.	Common shareholders and/or directors
Sing Sian Yer Pao Co.,Ltd.	Common shareholders and/or directors
Sodexo Support Services (Thailand) Ltd.	Common shareholders and/or directors
Sodexo Healthcare Support Services (Thailand) Ltd.	Common shareholders and/or directors
Trat Golden Co.,Ltd.	Common shareholders and/or directors
Three Sixtyfive Plc.	Common shareholders and/or directors
THN Network Co.,Ltd.	Common shareholders and/or directors
Thai Kodama Co.,Ltd.	Common shareholders and/or directors
Thonburi Medical Centre Plc.	Common shareholders and/or directors
Dhammachart Na Thai Co.,Ltd.	Common shareholders and/or directors
Nippon Pack (Thailand) Plc.	Common shareholders and/or directors
National Healthcare Systems Co.,Ltd.	Common shareholders and/or directors
Bangkok Travel Club Co.,Ltd.	Common shareholders and/or directors
Bangkok Total Communication Co.,Ltd.	Common shareholders and/or directors
Bangkok River Rest Co.,Ltd.	Common shareholders and/or directors
BDMS Training Co.,Ltd.	Common shareholders and/or directors
BDMS Accounting Co.,Ltd.	Common shareholders and/or directors
Bangkok Airtour (1988) Co.,Ltd.	Common shareholders and/or directors
Prasit Patana Plc.	Common shareholders and/or directors
Parute (2008) Co.,Ltd.	Common shareholders and/or directors
Paolo Medic Co.,Ltd.	Common shareholders and/or directors
Paolo Samut Prakarn Co.,Ltd.	Common shareholders and/or directors
Diamond Building Products Plc.	Common shareholders and/or directors
Pattaya Country Club Co.,Ltd.	Common shareholders and/or directors
Paradigm Asia Limited	Common shareholders and/or directors
BIRA Property Co.,Ltd.	Common shareholders and/or directors

List of related companies	Relationship
Myraid Materials Co.,Ltd.	Common shareholders and/or directors
Mae Aroon Co.,Ltd.	Common shareholders and/or directors
Modern Manu Co.,Ltd.	Common shareholders and/or directors
Royal Bangkok Healthcare Co.,Ltd.	Common shareholders and/or directors
Phyathai 1 Hospital Co.,Ltd.	Common shareholders and/or directors
Phyathai 2 Hospital Co.,Ltd.	Common shareholders and/or directors
Phyathai 3 Hospital Co.,Ltd.	Common shareholders and/or directors
Sriracha Nakorn General Hospital Plc.	Common shareholders and/or directors
The Royal Ceramic Industry Plc.	Common shareholders and/or directors
Legal Connect Consultant Co.,Ltd.	Common shareholders and/or directors
Vanachai Group Plc.	Common shareholders and/or directors
Aeronautical Radio of Thailand Ltd.	Common shareholders and/or directors
Visunee Landing Co.,Ltd.	Common shareholders and/or directors
Thai Medical Center Plc.	Common shareholders and/or directors
Samui Convenient Store Co.,Ltd.	Common shareholders and/or directors
Samui Airport Shop Co.,Ltd.	Common shareholders and/or directors
Samui Palm Beach Royal Wing Co.,Ltd.	Common shareholders and/or directors
Samui Palm Beach Resort Co.,Ltd.	Common shareholders and/or directors
The Medic Pharma Co., Ltd.	Common shareholders and/or directors
Golden Lime Plc.	Common shareholders and/or directors
Finansia Syrus Securities Plc.	Common shareholders and/or directors
Asiaworks Television Ltd.	Common shareholders and/or directors
A.N.B. Laboratories Co.,Ltd.	Common shareholders and/or directors
Advance Information Technology Plc.	Common shareholders and/or directors
PV Consulting Co., Ltd.	Deemed related party
Food and Store Co., Ltd.	Deemed related party
Bangkok Airways (Cambodia) Co.,Ltd.	Deemed related party
More Than Free Co.,Ltd.	Deemed related party
Prananporn Co.,Ltd.	Deemed related party
Cool Latte Co.,Ltd.	Deemed related party
Orange Digital Media Co.,Ltd.	Deemed related party
A.P. Sheriff Co.,Ltd.	Deemed related party
Bangkok Aviation Services Co.,Ltd.	Deemed related party
Bangkok Security Services Co.,Ltd.	Deemed related party
BAGS Ground Services Co.,Ltd.	Deemed related party

(Unaudited but reviewed)

As at 30 June 2014 and 31 December 2013, the balances of the accounts between the Company and those related parties are as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
<b><u>Trade and other receivables - related parties (Note 3)</u></b>				
Subsidiaries	-	-	83,042	42,206
Associated companies	558	852	-	-
Related companies (related by shareholders and/or directors)	13,005	87,058	11,839	86,475
Total trade and other receivables - related parties	13,563	87,910	94,881	128,681
<b><u>Deposits - related parties</u></b>				
Associated companies	47,500	47,500	47,500	47,500
Related companies (related by shareholders and/or directors)	962	72	962	72
Total deposits - related parties	48,462	47,572	48,462	47,572
<b><u>Trade and other payables - related parties (Note 16)</u></b>				
Subsidiaries	-	-	192,179	161,231
Associated companies	97,265	115,479	89,393	106,070
Related companies (related by shareholders and/or directors)	70,052	121,426	66,704	121,209
Total and other payables - related parties	167,317	236,905	348,276	388,510
<b><u>Other current liabilities - related parties</u></b>				
Subsidiaries	-	-	-	418,250
Total other current liabilities - related parties	-	-	-	418,250

**Loans to related parties and loans from related parties**

As at 30 June 2014 and 31 December 2013, the balance of loans and interest receivables between the Company and those related parties and the movement are as follows:

	(Unit: Thousand Baht)			
	Consolidated financial statements			
	Balance as at 31 December 2013	Increase during the period	Decrease during the period	Balance as at 30 June 2014
Loans to and interest receivables				
Director	20,309	76	(20,385)	-
Associated companies	35,705	-	(1,215)	34,490
Related companies (related by directors)	209	1	(210)	-
Total	56,223	77	(21,810)	34,490

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Separate financial statements			
	Balance as at 31 December 2013	Increase during the period	Decrease during the period	Balance as at 30 June 2014
Loans to and interest receivables				
Subsidiaries	63,284	-	-	63,284
Associated companies	35,705	-	(1,215)	34,490
Related companies (related by directors)	171	-	(171)	-
	99,160	-	(1,386)	97,774
Less: Allowance for doubtful accounts	(171)	-	171	-
Total	98,989	-	(1,215)	97,774

As at 30 June 2014 and 31 December 2013, the balance of loans and accrued interest between the Company and those related parties and the movement are as follows:

(Unit: Thousand Baht)

	Separate financial statements			
	Balance as at 31 December 2013	Increase during the period	Decrease during the period	Balance as at 30 June 2014
Loans from and accrued interest				
Subsidiaries	-	30,735	-	30,735
Total	-	30,735	-	30,735

#### Directors and management's benefits

During the three-month and six-month periods ended 30 June 2014 and 2013, the Company and its subsidiaries had employee benefit expenses payable to their directors and management as below.

(Unit: Million Baht)

	Consolidated financial statements		Separate financial statements	
	For the three-month periods ended 30 June	For the three-month periods ended 30 June	For the three-month periods ended 30 June	For the three-month periods ended 30 June
	2014	2013	2014	2013
Short-term employee benefits	47	29	37	22
Post-employment benefits	1	1	-	-
Total	48	30	37	22

(Unaudited but reviewed)

(Unit: Million Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	For the six-month periods ended 30 June		For the six-month periods ended 30 June	
	<u>2014</u>	<u>2013</u> (Restated)	<u>2014</u>	<u>2013</u> (Restated)
Short-term employee benefits	89	74	71	60
Post-employment benefits	2	2	1	1
Share-based payment (Note 21)	-	66	-	66
Total	<u>91</u>	<u>142</u>	<u>72</u>	<u>127</u>

Guarantee obligations with related parties

The Company has outstanding guarantee obligations with its related parties, as described in Note 26.4 to the financial statements.

**5. Cash and cash equivalents**

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	30 June	31 December	30 June	31 December
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Cash	147,209	51,455	141,044	49,734
Bank deposits	1,191,519	2,381,404	963,939	2,184,772
Bills of exchange	80,888	120,000	-	-
Total	<u>1,419,616</u>	<u>2,552,859</u>	<u>1,104,983</u>	<u>2,234,506</u>

As at 30 June 2014, savings deposits, fixed deposits and bills of exchange carried interest at rates between 0.1 and 2.75 percent per annum (31 December 2013: between 0.10 and 3.15 percent per annum) and Baht 86 million of cash is cash on hand of aboard stations.



**6. Current investments**

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	30 June	31 December	30 June	31 December
	2014	2013	2014	2013
Bills of exchange - at call	-	470,000	-	470,000
Trading securities	31,243	41,040	-	411,250
<b>Total</b>	<b>31,243</b>	<b>511,040</b>	<b>-</b>	<b>881,250</b>

On 26 December 2013, a Board of Directors Meeting passed a resolution to sell 3.5 million common shares of Bangkok Dusit Medical Services Plc. to Bangkok Airways Holding Company Limited, a subsidiary at a market price on 26 December 2013 of Baht 119.50 per share (market price as at 31 December 2013 was Baht 117.50 per share), or for a total of Baht 418.25 million. The company received payment from the subsidiary on 27 December 2013 and transferred the common shares on 31 January 2014.

**7. Allowance for diminution in value of inventory**

Movements in the allowance for diminution in value of inventory account during the six-month period ended 30 June 2014 are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements	Separate financial statements
<b>Balance as at 1 January 2014</b>	40,970	40,840
Reversal provision for obsolete inventory during the period	676	676
<b>Balance as at 30 June 2014</b>	<b>41,646</b>	<b>41,516</b>

**8. Restricted bank deposits**

Current account amounting to Baht 163 million (31 December 2013: Baht 166 million) represent temporary suspended as discussed in Note 27.4 to financial statements.

## 9. Investments in associates

### 9.1 Details of associates:

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Consolidated financial statements					
			Shareholding percentage		Cost		Carrying amounts based on equity method	
			30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
			(%)	(%)				
WFS - PG Cargo Co., Ltd.	Cargo	Thailand	49.00	49.00	147,000	147,000	486,561	383,706
Samui Airport Property Fund (Leasehold)	Property Fund	Thailand	25.00	25.00	2,255,571	2,255,571	1,493,751	1,539,202
S.E.A. Aviation Co., Ltd.	Transportation and cargo	Thailand	10.00	10.00	3,000	3,000	2,819	2,822
<b>Total</b>					<b>2,405,571</b>	<b>2,405,571</b>	<b>1,983,131</b>	<b>1,925,730</b>

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Separate financial statements			
			Shareholding percentage		Cost	
			30 June 2014	31 December 2013	30 June 2014	31 December 2013
			(%)	(%)		
WFS - PG Cargo Company Limited	Cargo	Thailand	49.00	49.00	147,000	147,000
Samui Airport Property Fund (Leasehold)	Property Fund	Thailand	25.00	25.00	2,255,571	2,255,571
S.E.A. Aviation Co., Ltd.	Transportation and cargo	Thailand	10.00	10.00	3,000	3,000
<b>Total</b>					<b>2,405,571</b>	<b>2,405,571</b>

(Unaudited but reviewed)

## 9.2 Share of profit/loss and dividend received

During the periods, the Company has recognised its share of profit/loss from investments in associate companies in the consolidated financial statements and dividend income in the separate financial statements as follows:

(Unit: Thousand Baht)

Company's name	Consolidated financial statements				Separate financial statements			
	Share of profit (loss) from investments in associates				Dividend received			
	For the three-month		For the six-month		For the three-month		For the six-month	
	periods ended 30 June		periods ended 30 June		periods ended 30 June		periods ended 30 June	
	2014	2013	2014	2013	2014	2013	2014	2013
WFS - PG Cargo Co., Ltd.	56,696	50,476	102,855	90,181	-	-	-	-
Samui Airport Property								
Fund (Leasehold)	46,629	46,214	105,361	101,906	80,750	78,375	150,813	144,875
S.E.A. Aviation Co., Ltd.	7	(42)	(2)	(32)	-	-	-	-
<b>Total</b>	<b>103,332</b>	<b>96,648</b>	<b>208,214</b>	<b>192,055</b>	<b>80,750</b>	<b>78,375</b>	<b>150,813</b>	<b>144,875</b>

## 9.3 Fair value of investments in listed associates

In respect of investments in associated companies that are listed companies on the Stock Exchange of Thailand, their fair values are as follows:

(Unit: Million Baht)

Company's name	Fair value as at	
	30 June	31 December
	2014	2013
Samui Airport Property Fund (Leasehold)	4,014	3,753
<b>Total</b>	<b>4,014</b>	<b>3,753</b>

## 9.4 Summarised financial information of associates

(Unit: Million Baht)

Company's name	Paid-up capital as at		Total assets as at		Total liabilities as at	
	30 June	31 December	30 June	31 December	30 June	31 December
	2014	2013	2014	2013	2014	2013
WFS - PG Cargo Co., Ltd.	300	300	1,423	1,259	409	455
Samui Airport Property						
Fund (Leasehold)	9,208	9,208	10,519	10,552	62	62
S.E.A Aviation Co.,Ltd.	30	30	29	29	-	-

(Unaudited but reviewed)

(Unit: Million Baht)

Company's name	Total revenues				Profit			
	For the three-month period ended		For the six-month period ended		For the three-month period ended		For the six-month period ended	
	30 June		30 June		30 June		30 June	
	2014	2013	2014	2013	2014	2013	2014	2013
WFS - PG Cargo Co., Ltd.	389	357	760	683	116	103	210	184
Samui Airport Property Fund (Leasehold)	288	289	625	615	278	279	605	596
S.E.A Aviation Co.,Ltd.	-	-	-	-	-	-	-	-

The financial statements of S.E.A. Aviation Company Limited for the six-month period ended 30 June 2014 and 2013 were not reviewed by its auditor.

## 10. Investments in subsidiaries

Details of investments in subsidiaries as presented in separate financial statements are as follows:

(Unit: Thousand Baht)

Company's name	Paid-up capital		Shareholding percentage		Cost	
	30 June	31 December	30 June	31 December	30 June	31 December
	2014	2013	2014	2013	2014	2013
Bangkok Airways Holding Co.,Ltd.	1,001,000	1,001,000	99.99	99.99	1,000,999	1,000,999
Bangkok Airways Ground Services Co.,Ltd.	250	250	99.99	99.99	250	250
Worldwide Flight Services Bangkok Air Ground Handling Co.,Ltd.	670,000	670,000	90.00	90.00	603,515	603,515
Bangkok Air Catering Co.,Ltd.	500,000	500,000	90.00	90.00	579,469	579,469
Investments in subsidiary companies					2,184,233	2,184,233

The Company's investments in subsidiaries amounting to Baht 593.6 million have been used as collateral for credit facilities of the subsidiaries.

**11. Investment properties**

The net book value of investment properties as at 30 June 2014 and 31 December 2013 is presented below.

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	30 June	31 December	30 June	31 December
	2014	2013	2014	2013
Cost	343,055	343,055	343,055	343,055
Less: Accumulated depreciation	(33,412)	(30,738)	(33,412)	(30,738)
Net book value	<u>309,643</u>	<u>312,317</u>	<u>309,643</u>	<u>312,317</u>
Depreciation included in the statement of comprehensive income for the period/year	<u>2,674</u>	<u>5,391</u>	<u>2,674</u>	<u>5,391</u>

The Company has pledged investment properties which net book value amounting to approximately Baht 157 million (31 December 2013: Baht 161 million) as collateral against credit facilities received from commercial bank.

**12. Others long-term investments**

	(Unit: Thousand Baht)			
	Consolidated financial		Separate financial	
	statements		statements	
	30 June	31 December	30 June	31 December
	2014	2013	2014	2013
Available-for-sales securities				
Market capital	2,869,966	2,869,966	2,223,465	2,223,465
Add: Unrealised gain from revaluation	17,281,466	11,394,798	14,524,967	9,632,548
Available-for-sales securities - net	<u>20,151,432</u>	<u>14,264,764</u>	<u>16,748,432</u>	<u>11,856,013</u>
Debt securities held to maturity	50,000	50,000	50,000	50,000
Other investments	<u>7,159</u>	<u>7,159</u>	<u>7,159</u>	<u>7,159</u>
Total	<u>20,208,591</u>	<u>14,321,923</u>	<u>16,805,591</u>	<u>11,913,172</u>

Certain available-for-sales securities with market value as at 30 June 2014 amounting to Baht 16,740 million (31 December 2013: Baht 12,260 million) have been used as collateral for short-term loans from banks and long-term loans.

**13. Property, plant and equipment**

Movements of the property, plant and equipment account during the six-month period ended 30 June 2014 are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements	Separate financial statements
<b>Net book value as at 1 January 2014</b>	6,338,847	5,669,441
Acquisitions during the period - at cost	329,278	197,093
Disposal during the period - net book value at disposal date	(3)	(1)
Written-off - net book value	(11,812)	(11,812)
Depreciation for the period	(270,687)	(201,709)
<b>Net book value as at 30 June 2014</b>	<u>6,385,623</u>	<u>5,653,012</u>

As at 30 June 2014, certain property and equipments have been fully depreciated but are still in use. The gross carrying amount (before deducting accumulated depreciation) of those assets amounted to approximately Baht 1,475 million (31 December 2013: Baht 2,656 million) Separate financial statements: Baht 1,245 million (31 December 2013: Baht 2,433 million).

The Samui Airport including its facilities are used as collateral for compliance with the term and condition in the lease and services from facilities agreements with a Property Fund as discussed in Note 20 to financial statements.

Major portion of the Company's land together with the construction thereon are used as collateral for major portion of long-term loans as discussed in Note 17 to financial statements.

As at 30 June 2014, 4 aircraft of the Company are under conditional sales agreements. The Company treats these conditional sales agreements as finance leases and treats the seller per the agreements as the lessor of the aircraft. The lessor of the aircraft has subleased them from the owners.

The Aircraft Lease Agreements specify the right of the lessor to buy the aircraft from the owner. However, if the lessors do not comply with the Aircraft Lease Agreement, the owner has the right to take back the aircraft, and in that event the Company would not be able to utilise or take ownership of the aircraft, even if the Company has made the agreed payments to the lessor. Under the Aircraft Lease Agreement, the Company will take ownership of the aircraft when it has paid the final installment to the lessor and the owner of the aircraft has transferred ownership to the lessor.

**14. Intangible assets**

Two subsidiary companies have signed contracts with Airports of Thailand Public Company Limited (AOT) (which has sole right to operate Suvarnabhumi Airport), in order to engage in various projects at the Airport for 20 years from the day it opened officially (from 28 September 2006 to 27 September 2026). The subsidiaries have to pay annual benefits to AOT, in amounts not less than the minimum compensation rates set for each year, throughout the period of the concession.

<u>Company</u>	<u>Project</u>	<u>Period</u>
Bangkok Air Catering Company Limited	Catering	20 years
Worldwide Flight Services Bangkok Air Ground Handling Company Limited	Ground service equipments and maintenance facilities	20 years

The rights in buildings and other components of each project are transferred to Ministry of Finance.

The net book value of intangible assets as at 30 June 2014 and 31 December 2013 are presented below.

	(Unit: Thousand Baht)					
	Consolidated financial statements			Separate financial statements		
	Concessions	Computer software	Total	Concessions	Computer software	Total
As at 30 June 2014						
Cost	920,732	331,404	1,252,136	-	313,212	313,212
Less: Accumulated amortisation	(357,065)	(119,765)	(476,830)	-	(103,522)	(103,522)
Net book value	<u>563,667</u>	<u>211,639</u>	<u>775,306</u>	<u>-</u>	<u>209,690</u>	<u>209,690</u>
As at 31 December 2013						
Cost	920,732	241,717	1,162,449	-	223,524	223,524
Less: Accumulated amortisation	(334,247)	(111,116)	(445,363)	-	(95,230)	(95,230)
Net book value	<u>586,485</u>	<u>130,601</u>	<u>717,086</u>	<u>-</u>	<u>128,294</u>	<u>128,294</u>

**15. Bank overdrafts and short-term loans from banks**

Bank overdrafts and short-term loans from banks are secured by available for sales securities investments of the Company and its subsidiary, director and the director's securities.

(Unaudited but reviewed)

## 16. Trade and other payables

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Trade payables - related parties	156,341	191,689	344,490	352,287
Trade payables - unrelated parties	1,287,211	1,384,140	1,251,679	1,333,652
Other payables - related parties	10,976	45,216	3,786	36,223
Other payables - unrelated parties	667,175	703,888	487,057	490,573
Other payables for purchase of software and equipment	46,557	32,061	16,857	4,361
<b>Total trade and other payables</b>	<b>2,168,260</b>	<b>2,356,994</b>	<b>2,103,869</b>	<b>2,217,096</b>

## 17. Long-term loans

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Long-term loans	1,491,253	2,107,142	1,130,153	1,580,242
Less: Current portion	(786,113)	(986,138)	(509,213)	(628,838)
<b>Long-term loans, net of current portion</b>	<b>705,140</b>	<b>1,121,004</b>	<b>620,940</b>	<b>951,404</b>

Movements of long-term loans during the six-month period ended 30 June 2014 is summarised below.

(Unit: Thousand Baht)

	Consolidated	Separate
	financial	financial
	statements	statements
Balance as at 1 January 2014	2,107,142	1,580,242
Less: Repayment loans	(615,889)	(450,089)
<b>Balance as at 30 June 2014</b>	<b>1,491,253</b>	<b>1,130,153</b>

Long-term loans are secured by part of the Company and its subsidiary's land and construction, common shares of subsidiary, certain available for sales securities of the Company and its subsidiary, director and the director's securities.

The loan agreements contain covenants as specified in the agreements that, among other things, require the Company and its subsidiaries to maintain certain debt to equity and debt service coverage ratios according to the agreements.



(Unaudited but reviewed)

As at 30 June 2014, the long-term credit facilities of the Company and its subsidiaries which have not yet been drawn down amounted to Baht 131 million (Company only: Baht 131 million).

**18. Liabilities arising from finance lease of aircrafts**

Liabilities arising from finance lease of aircrafts (effective rate from 6.68 percent to 7.07 percent) are due as follow:

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	30 June 2014		
	Liabilities arising from finance lease	Deferred interest expenses	Total
Within one year	502,081	(28,576)	473,505
After one year but within five years	134,290	(3,546)	130,744
Total	636,371	(32,122)	604,249

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	31 December 2013		
	Liabilities arising from finance lease	Deferred interest expenses	Total
Within one year	471,139	(47,312)	423,827
After one year but within five years	422,197	(13,538)	408,659
Total	893,336	(60,850)	832,486

**19. Liabilities under finance lease agreements**

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Liabilities under finance lease agreements	73,662	64,068	65,922	55,015
Less: Deferred interest expenses	(4,750)	(4,274)	(4,184)	(3,622)
Total	68,912	59,794	61,738	51,393
Less : Portion due within one year	(28,500)	(26,541)	(25,129)	(22,694)
Liabilities under finance lease agreements - net of current portion	40,412	33,253	36,609	28,699

The Company and its subsidiaries have entered into the finance lease agreements with leasing companies for rental of motor vehicles and equipment for use in its operation, whereby it is committed to pay rental on a monthly basis. The terms of the agreements are generally between 3 and 5 years.

Future minimum lease payments required under the finance lease agreements were as follows:

(Unit: Thousand Baht)

	Consolidated financial statements		
	30 June 2014		
	Less than 1 year	1-5 years	Total
Future minimum lease payments	31,233	42,429	73,662
Deferred interest expenses	(2,733)	(2,017)	(4,750)
Present value of future minimum lease payments	28,500	40,412	68,912

(Unit: Thousand Baht)

	Consolidated financial statements		
	31 December 2013		
	Less than 1 year	1-5 years	Total
Future minimum lease payments	28,980	35,088	64,068
Deferred interest expenses	(2,439)	(1,835)	(4,274)
Present value of future minimum lease payments	(26,541)	33,253	59,794

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Separate financial statements		
	30 June 2014		
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	27,540	38,382	65,922
Deferred interest expenses	(2,411)	(1,773)	(4,184)
Present value of future minimum lease payments	<u>25,129</u>	<u>36,609</u>	<u>61,738</u>

(Unit: Thousand Baht)

	Separate financial statements		
	31 December 2013		
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	24,761	30,254	55,015
Deferred interest expenses	(2,067)	(1,555)	(3,622)
Present value of future minimum lease payments	<u>22,694</u>	<u>28,699</u>	<u>51,393</u>

**20. Long-term loan - related party**

(Unit: Thousand Baht)

<b>Balance as at 1 January 2014</b>	11,207,489
Increase from compound interest	643,182
Less: Payment during period	<u>(619,983)</u>
<b>Balance as at 30 June 2014</b>	11,230,688
Less: portion due within one year	<u>-</u>
<b>Long-term loans - related party - net of current portion</b>	<u><u>11,230,688</u></u>

On 24 November 2006, the Company entered into an agreement to lease Samui Airport, together with its facilities, to Samui Airport Property Fund (Leasehold) (Fund) for a period of 30 years (from 24 November 2006 to 23 November 2036) for Baht 9,300 million. The Company pledged the assets leased to the Fund, with a collateral values of Baht 20,900 million, to guarantee performance in accordance with the lease agreement. Under the term of the agreement, the Company (Bangkok Airways Co., Ltd. and/or its affiliates, and/or its subsidiaries) must hold not less than 25% of the number of units issued and offered for sale by the Fund for the period of 20 years (from 24 November 2006 to 23 November 2026).

On the same date, the Company entered into an agreement to sublease the Samui Airport from the Fund for a period of 3 years, renewable for 9 times of 3 years each, and another agreement under which the Company is to receive utilities system service at the Samui Airport from the Fund for a period of 30 years (from 24 November 2006 to 23 November 2036). Payments on these agreements are as follows:

Sublease	-	Baht 26,125,000 per month
Utilities system service		
- Fixed	-	Baht 21,375,000 per month
- Additional	-	Vary based on number of departing passengers and number of flight arrivals

The Company has to arrange for a bank guarantee to be issued by a commercial bank in Thailand and/or deposit cash as security in the bank account of the Fund and/or pledge of listed securities and/or other securities, such that their aggregate value is equal to 12 months of the sub-lease fee specified in Sub-Lease Agreement plus the fixed service fee specified in Utilities System Service Agreement. If listed securities and/or other securities are pledged, collateral value is not to be less than 120 percent of the pledged collateralized amount throughout the pledge period.

The Company has pledged common shares of Bangkok Dusit Medical Services Public Company Limited amounting to 85 million shares of Baht 0.1 each (31 December 2013: 8.5 million shares of Baht 1 each) with a fair value of Baht 1,411 million (31 December 2013: Baht 999 million) as at 30 June 2014, as collateral.

During the year 2013, the Company changed the way it recorded these long-term loans, to include fixed rental expenses, fixed service expenses and variable service expenses in computing the effective interest rate. This change in calculation method caused the book value of long-term loans to increase, since cumulative estimated future liabilities over the term of the contract are recorded in the financial statements. This effect to this is that in some years the long-term loans balance is increased due to compounding of interest.

## **21. Capital reserve for share-based payment transactions**

On 26 February 2013, the Company allotted 30,000,000 common shares to employees and directors of the Company. The details are as follows:

No. of shares reserved for exercise: 30,000,000 shares

Offering date: 26 February 2013

Exercise price:	Equal to or higher than net book value of the Company as at 31 December 2012 (approximately or equal to Baht 10)
Allotment method:	The Company allotted the common shares to directors, management and employees eligible as of 31 January 2013, with the allocations dependent on position, length of service and responsibilities.
Lock up period:	No shares may be sold for six months after the Company's shares start trading in the Stock Exchange of Thailand, while up to 50% of shares may be sold during the seventh to the twelfth month after the shares start trading, and there are no limitations on the sale of shares once a period of twelve months has passed since the shares started trading.

On 24 April 2014, The Annual Shareholder Meeting approved the cancellation of the lock up period.

## 22. Income tax

Interim corporate income tax was calculated on profit before income tax for the period, using the estimated effective tax rate for the year.

Income tax expenses for the three-month and six-month periods ended 30 June 2014 and 2013 are made up as follows:

	(Unit: Thousand Baht)			
	Consolidated financial statements		Separate financial statements	
	For the three-month periods ended 30 June		For the three-month periods ended 30 June	
	2014	2013	2014	2013
<b>Current income tax:</b>				
Interim corporate income tax charge	(59,989)	41,140	(81,023)	24,223
Adjustment in respect of current income tax of previous year	(200)	-	(200)	-

(Unaudited but reviewed)

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	For the three-month periods ended 30 June		For the three-month periods ended 30 June	
	2014	2013	2014	2013
<b>Deferred tax:</b>				
Relating to origination and reversal of temporary differences	25,965	(18,573)	25,507	(8,466)
<b>Income tax expense reported in the statements of comprehensive income</b>	<b>(34,224)</b>	<b>22,567</b>	<b>(55,716)</b>	<b>15,757</b>

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	For the six-month periods ended 30 June		For the six-month periods ended 30 June	
	2014	2013	2014	2013
<b>Current income tax:</b>				
Interim corporate income tax charge	56,800	119,604	-	83,887
Adjustment in respect of current income tax of previous year	(200)	-	(200)	-
<b>Deferred tax:</b>				
Relating to origination and reversal of temporary differences	(35,275)	9,667	(35,519)	4,631
<b>Income tax expense reported in the statements of comprehensive income</b>	<b>21,325</b>	<b>129,271</b>	<b>(35,719)</b>	<b>88,518</b>

(Unaudited but reviewed)

The amounts of income tax relating to each component of other comprehensive income for the three-month and six-month periods ended 30 June 2014 and 2013 are as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	For the three-month periods ended 30 June		For the three-month periods ended 30 June	
	2014	2013	2014	2013
Deferred tax relating to (gain) loss on changes in value of available-for-sale investments	<u>(813,198)</u>	<u>182,101</u>	<u>(675,848)</u>	<u>156,602</u>

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	For the six-month periods ended 30 June		For the six-month periods ended 30 June	
	2014	2013	2014	2013
Deferred tax relating to gain on changes in value of available-for-sale investments	<u>(1,177,334)</u>	<u>(1,048,805)</u>	<u>(978,484)</u>	<u>(900,903)</u>

### 23. Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the Company (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the period.

### 24. Segment information

The Company and its subsidiaries are organised into business units based on its products and services. During the current period, the Company and its subsidiaries have not changed the organisation of their reportable segments.

(Unaudited but reviewed)

(Unit: Million Baht)

	Airlines segment		Airports segment		Supporting Airlines			Other segments			Elimination of inter-segment revenues			Consolidation	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	(Restated)
	For the three-month periods ended 30 June														
Revenue from external customers	3,797	3,510	115	112	613	630	-	12	-	-	-	-	4,525	4,264	
Intersegment revenues	-	-	-	-	211	166	-	-	(211)	(166)	-	-	-	-	
Total revenues	3,797	3,510	115	112	824	796	-	12	(211)	(166)	-	-	4,525	4,264	
Segment operating profit (loss)	209	796	11	(5)	1	91	-	1	-	-	-	-	221	883	
Unallocated income and expenses:															
Gain from sales of current investments													3	2	
Gain from sales of investments in subsidiaries															
Other income													398	359	
Selling expenses													(359)	(344)	
Administrative expenses													(313)	(372)	
Other expenses													(2)	(15)	
Share of profit of associated companies													103	97	
Financial cost													(407)	(436)	
Income tax expenses													35	(22)	
Non-controlling interests of the subsidiaries													(5)	(9)	
Profit (loss) for the period													(326)	143	



(Unaudited but reviewed)

	(Unit: Million Baht)													
	Airlines segment		Airports segment		Supporting Airlines Business segments				Other segments		Elimination of inter-segment revenues		Consolidation	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	For the six-month periods ended 30 June													
Revenue from external customers	8,831	8,216	269	252	1,337	1,286	-	35	-	-	-	-	10,437	9,789
Intersegment revenues	-	-	-	-	435	342	-	-	(435)	(342)	-	-	-	-
Total revenues	8,831	8,216	269	252	1,772	1,628	-	35	(435)	(342)	-	-	10,437	9,789
Segment operating profit	1,514	2,523	77	33	99	222	-	5	-	-	-	-	1,690	2,783
Unallocated income and expenses:														
Gain from sales of current investments													3	42
Gain from sales of investments in subsidiaries													-	3
Other income													540	422
Selling expenses													(714)	(700)
Administrative expenses													(670)	(815)
Other expenses													(6)	(36)
Share of profit of associated companies													208	192
Financial cost													(825)	(880)
Income tax expenses													(21)	(129)
Non-controlling interests of the subsidiaries													(17)	(41)
Profit for the period													188	841

**25. Dividends**

	Approved by	Total dividends (Thousand Baht)	Dividend per share (Baht)
Interim dividends for 2012 income	Extraordinary Annual Meeting of the shareholders on 26 February 2013	850,000	7.01
Final dividends for 2012 income	Annual General Meeting of the shareholders on 25 April 2013	350,000	0.22
Interim dividends for 2013 income	Board of Directors' meeting on 25 April 2013	449,954	0.28
		1,649,954	7.51

**26. Commitments and contingent liabilities****26.1 Operating lease commitments**

The Company has entered into several aircraft lease agreements with foreign companies, office premises and utilities.

As at 30 June 2014, future minimum lease payments required under aircraft lease agreements total USD 161 million (31 December 2013: USD 125 million).

Future minimum lease payments required under concessions and non-cancellable rental agreements of land and building and service agreements with local and aboard were as follows.

	(Unit: Million Baht)			
	Consolidated financial statements		Separate financial statements	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Payable:				
In up to 1 year	652	589	190	77
In over 1 and up to 5 years	1,938	1,770	212	58
In over 5 years	3,896	4,118	73	74

**26.2 Capital commitments**

26.2.1 As at 30 June 2014, the Company and its subsidiaries had capital commitments of Baht 77 million (31 December 2013: Baht 30 million) mainly in building improvement, and Baht 42 million (31 December 2013: Baht 129 million) relating to acquisition of software and office equipment for the Company's operations.

26.2.2 As at 30 June 2014, the Company had commitments as a result of its signature of a sale and purchase contract for 9 ATR aircrafts with Avions de Transport Regional G.I.E. Delivery of the aircraft is scheduled for between November 2014 and February 2017.

**26.3 Guarantees**

(a) As at 30 June 2014, the Company has guaranteed bank credit facilities of its subsidiaries companies amounting to Baht 1,910 million (31 December 2013: Baht 1,910 million) and associated companies amounting to Baht 165 million (31 December 2013: Baht 165 million).

(b) As at 30 June 2014, the Company has outstanding bank guarantees of approximately Baht 73.7 million, USD 0.5 million, INR 18.8 million, BDT 1.2 million, MYR 0.02 million, EUR 0.01 million and SGD 0.1 million issued by banks on behalf of the Company and related companies in the normal course of business (31 December 2013: Baht 73.0 million, USD 1.3 million, INR 29.8 million, BDT 1.2 million, MYR 1.0 million, EUR 0.01 million and SGD 0.1 million) and its subsidiaries have outstanding bank guarantees of approximately Baht 291 million (31 December 2013: Baht 282 million).

**26.4 Pledges****The Company and its subsidiaries**

26.4.1 As at 30 June 2014 and 31 December 2013, the Company and its subsidiaries have the following contingent liabilities in respect of loan guarantees.

(Unit: Million Baht)

Guarantor	Guarantee	30 June 2014	31 December 2013
Bangkok Air Catering Co.,Ltd.	BAC Gourmet House Co.,Ltd.	46	46

26.4.2 As at 30 June 2014 and 31 December 2013, the Company and its subsidiaries have the following contingent liabilities in respect of guarantees for bank overdraft facilities.

(Unaudited but reviewed)

(Unit: Million Baht)

Guarantor	Guarantee	30 June 2014	31 December 2013
Bangkok Air Catering Co., Ltd.	BAC Gourmet House Co., Ltd.	5	5

## 27. Litigation

### The Company

- 27.1 The Company was sued by 3 ex-employees claiming Baht 0.2 million in bonuses for 2007. The Company opposed the claim, citing that the employees resigned in May 2008, making them ineligible for the bonus for the previous year that was paid in 2008. On 12 May 2014, the Court dismissed the case brought by 1 ex-employee claiming Baht 61,000, and this case is finalised. The cases of 2 ex-employees, are being considered by the Supreme Court.
- 27.2 The Company was sued by a plaintiff who had acted as an agent in contacting and introducing sponsors for the “Bangkok Airways Samui Super Beach Volleyball 2005” and “Bangkok Airways Open 2005” events. The plaintiff claimed payment of commissions at the rate of 10 percent of the amounts received from sponsorship of these events in the years 2006 and 2007, amounting to Baht 0.6 million together with interest at a rate of 7.5 percent per annum, calculated from 3 September 2008. The Company disputed the claim, citing that the plaintiff was hired as an agent exclusively for the year 2005, making the plaintiff ineligible for the commissions for the years 2006 and 2007. The Supreme Court dismissed the plaintiff’s suit on 30 May 2014 and the case is finalised.
- 27.3. Koh Samui Municipality made the assessment of the House and Land tax for Samui Airport between the year 2007 to the year 2010 in the total amount of Baht 119 million and in the amount of Baht 38.8 million for each of the year 2011 to the year 2013. The Company disagreed with such tax assessment as the assessment of the House and Land tax by Koh Samui Municipality was not in line with laws and relevant facts. The Company, therefore, filed an appeal for reassessment of the House and Land tax pursuant to rights permitted by the laws. However, since the House and Land Tax Act B.E. 2475 (1932) provides that the payment of assessed the House and Land tax shall be made prior to submitting the case before the court, the Company is required to pay such House and Land tax as earlier assessed to Koh Samui Municipality.

The Company filed suit against Koh Samui Municipality with the Central Tax Court to demand Koh Samui Municipality to return the paid House and Land tax. In this regards, the Central Tax Court rendered the judgment in favor of the Company with respect to the House and Land tax assessment of the year 2007 to the year 2010 and that of the year 2011 and the year 2012 and ordered Koh Samui Municipality to repay the House and Land tax for the year 2007 to the year 2010 and for the year 2011 and the year 2012 to the Company with the interest rate of 7.5 percent per annum. Koh Samui Municipality subsequently filed the petition to suspend the execution of the judgment and filed an appeal against such judgment to the Central Tax Court. Such appeal is currently being considered by the Supreme Court. In addition, the Company filed an appeal against the assessment of House and Land tax for the year 2013, which is currently under the consideration of Koh Samui Municipality.

In August 2014, Koh Samui Municipality charged the Company property tax amounting to Baht 38.8 million for year 2014. The company paid all of the tax and filed an appeal against the assessment with Koh Samui Municipality. At present, the appeal is being considered by Koh Samui Municipality.

The Company hereby confirms that the relevant accounting record is made for accounting purposes only and shall neither prejudice, nor shall be construed as a waiver of the Company's legal rights to claim for the House and Land tax to be repaid by Koh Samui Municipality according to the court judgment, including any other cases in disputes and being in the court proceedings and the Company's appeal for House and Land tax reassessment.

- 27.4 The Company was sued by a plaintiff who acted as an agent for ticketing and air cargo services operated in Bangladesh. The plaintiff filed a civil lawsuit against the Company with the Civil Court, alleging that the Company was in breach of agreement as a result of the non-renewal of the agency appointment, resulting in damages amounting Bangladeshi Taka 807 million, or about Baht 308 million, and petitioned the court to issue an order of temporary protection prohibiting the Company from any transactions through the Company's accounts at the Banani Branch of HSBC Bank, as discussed in Note 8. The court of first instance accepted the lawsuit but dismissed the petition for a temporary protection order. The plaintiff therefore filed an appeal of the decision of the court of first instance with the Supreme Court and the Supreme Court decided that the temporary protection order should be granted by the court of first instance, and dissolved after 2 months from the date the order is received. The Company has engaged legal counsel to dispute the charges since the renewal of an agreement appointing an agent is the Company's right and the agreement appointing the agent

did not stipulate that the Company required the consent of the agent in the matter of renewal of the agreement. Subsequently, the Company and plaintiff have attempted to conclude a settlement agreement, whereby the Company would have to pay compensation amounting to USD 1.6 million, or Baht 52 million, to a plaintiff. The Company has already set aside full provision for the compensation in the accounts. At present, the Company and plaintiff are in the process of negotiating the settlement conditions.

- 27.5 In February 2014, the Company was sued by a former employee, claiming damages of Baht 91.4 million for tort and breach of an employment contract. Subsequently, in April 2014, the Company countersued the plaintiff, claiming damages of Baht 10.2 million for breach of a training and learning contract. At present, the case is being considered by the Central Labour Court.

**Subsidiaries**

- 27.6 During 2008, the subsidiary was sued for Baht 68.6 million by its construction contractor in a dispute between the parties over the subsidiary's opinion that the contractor had not complied with the terms and conditions of a construction contract. On 20 April 2010, the Court of First Instance ordered the subsidiary to pay compensation of Baht 25.4 million, together with interest at 7.5% per annum computed from 15 October 2007 until the compensation is fully settled. On 14 July 2010, the subsidiary sought a stay of execution from the Court of Appeal.

In March 2011, the subsidiary returned the retention, amounting to Baht 10.4 million, to the plaintiff, together with the corresponding interest, or a total of Baht 13.1 million. Moreover, on 17 March 2011, the subsidiary placed the remaining Baht 15 million and the corresponding interest charge, or a total of Baht 19.8 million, as a bond, in accordance with an order of the Court of Appeal. On 2 June 2011, the Court of Appeal ordered the subsidiary to pay for incremental costs amounting to Baht 13.6 million, together with interest at 7.5% per annum computed from 15 October 2007 until the compensation is fully settled. Later, on 30 September 2011, the subsidiary filed an appeal of the case with the Supreme Court. Currently, the case is pending in the Supreme Court and the outcome cannot yet be determined. However, the subsidiary believes that the provisions made in the accounts are adequate to cover any losses that may arise from this case.

**28. Foreign currency risk**

The significant balances of financial assets and liabilities denominated in foreign currencies are summarised below.

Foreign currency	Consolidated financial statements					
	Financial assets		Financial liabilities		Average exchange rate	
	as at		as at		as at	
	30	31	30	31	30	31
	June	December	June	December	June	December
2014	2013	2014	2013	2014	2013	
	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)	
AUD	-	2	-	-	30.57	29.18
BDT	1,053	869	7	7	0.42	0.42
CNY	5	5	2	2	5.23	5.41
EUR	4	3	6	16	44.27	45.02
GBP	-	1	-	-	55.26	53.92
HKD	9	12	6	7	4.19	4.23
INR	71	181	31	16	0.52	0.53
JPY	37	31	1	-	0.32	0.31
RUB	6	25	-	-	0.96	1.00
SGD	-	1	-	-	25.99	25.88
USD	24	24	70	58	32.46	32.81
TWD	6	6	-	-	1.09	1.09
KRW	312	324	-	-	0.03	0.03

Foreign currency	Separate financial statements					
	Financial assets		Financial liabilities		Average exchange rate	
	as at		as at		as at	
	30	31	30	31	30	31
	June	December	June	December	June	December
2014	2013	2014	2013	2014	2013	
	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)	
AUD	-	2	-	-	30.57	29.18
BDT	1,053	869	7	7	0.42	0.42
CNY	5	5	2	2	5.23	5.41
EUR	4	3	-	2	44.27	45.02
GBP	-	1	-	-	55.26	53.92
HKD	9	12	6	7	4.19	4.23
INR	71	181	31	16	0.54	0.53
JPY	37	31	1	-	0.32	0.31
RUB	6	25	-	-	0.96	1.00
SGD	-	1	-	-	25.99	25.88
USD	21	23	46	48	32.46	32.81
TWD	6	6	-	-	1.09	1.09
KRW	312	324	-	-	0.03	0.33

**29. Fuel Price Risk**

The Company's fuel price risk hedges covered 44.41 percent (31 December 2013: 58.3 percent) of its total fuel consumption. As at 30 June 2014, the Company had outstanding obligations from fuel price hedging until December, amounting to 255,000 barrels (31 December 2013: 375,000 barrels) of jet fuel, with the lowest forward price being USD 112 per barrel and the highest contract price being USD 123 per barrel (31 December 2013: lowest price was USD 112 per barrel and highest price was USD 125 per barrel).

The Company has obligations in respect of the fuel price difference if the fuel price is lower than contract price and conversely, the Company will be compensated for the price difference if the fuel price is higher than the contract price.

**30. Events after the reporting period**

In July 2014, The Company was sued by former employee, claiming Baht 30.3 million in severance pay. The case is being considering by the Central Labour Court.

**31. Approval of financial statements**

These interim consolidated financial statements were authorised for issue by the Company's authorised directors on 14 August 2014.



Bangkok Airways Public Company Limited  
and its subsidiaries  
Report and consolidated financial statements  
31 December 2013

## **Independent Auditor's Report**

To the Shareholders of Bangkok Airways Public Company Limited

I have audited the accompanying consolidated financial statements of Bangkok Airways Public Company Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2013, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and have also audited the separate financial statements of Bangkok Airways Public Company Limited for the same period.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bangkok Airways Public Company Limited and its subsidiaries and of Bangkok Airways Public Company Limited as at 31 December 2013, and their financial performance and cash flows for the year then ended, in accordance with Thai Financial Reporting Standards.

### **Emphasis of matter**

I draw attention to Note 4 to the financial statements regarding the change in accounting policy due to the adoption of Thai Accounting Standard 12 *Income Taxes*, the early adoption of Thai Accounting Standard Interpretation 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease* and Note 5 to the financial statements relating to property taxes and operating leases. The Company has therefore restated the consolidated and separate financial statements for the years ended 31 December 2012 and 2011, presented herein as comparative information, to reflect the adjustments resulting from the changes in accounting policy, property tax and operating leases. The Company has also presented consolidated and separate statements of financial position as at 1 January 2011 as comparative information. My opinion is not qualified in respect of this matter.

Rungnapa Lertsuwankul

Certified Public Accountant (Thailand) No. 3516

EY Office Limited

(Formerly known as "Ernst & Young Office Limited")

Bangkok: 28 March 2014

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as "Bangkok Airways Company Limited")**  
**Statement of financial position**  
**As at 31 December 2013**

(Unit: Baht)

	Consolidated financial statements				Separate financial statements				
	As at	As at	As at	As at	As at	As at	As at	As at	
	31 December	31 December	31 December	1 January	31 December	31 December	31 December	1 January	
Note	2013	2012	2011	2011	2013	2012	2011	2011	
		(Restated)	(Restated)			(Restated)	(Restated)		
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	9	2,552,859,149	3,665,652,257	1,359,046,249	711,735,178	2,234,505,879	3,533,451,609	1,176,557,049	498,798,773
Current investments	10	511,039,500	59,727,500	26,315,403	-	881,250,000	-	-	-
Trade and other receivables	8, 11	1,679,158,574	2,991,925,425	1,255,503,921	1,156,455,894	1,258,289,988	2,652,033,923	889,190,970	883,796,669
Prepaid expenses		334,249,252	256,850,733	274,150,622	272,972,198	321,114,686	246,345,461	262,873,733	271,712,745
Short-term loans to related parties	8	-	289,024,854	557,550,307	1,026,050,666	-	289,024,854	557,550,308	1,026,050,666
Inventories	12	228,417,873	230,640,768	187,017,465	137,254,622	152,262,876	162,600,249	125,902,825	111,952,723
Other current assets		408,820,481	350,036,036	295,298,398	262,060,000	336,109,680	244,075,413	185,434,938	131,784,560
<b>Total current assets</b>		<b>5,714,544,829</b>	<b>7,843,857,573</b>	<b>3,954,882,365</b>	<b>3,566,528,558</b>	<b>5,183,533,089</b>	<b>7,127,531,509</b>	<b>3,197,509,823</b>	<b>2,924,096,136</b>
<b>Non-current assets</b>									
Restricted bank deposits	13	189,095,323	170,097,063	19,842,378	-	168,132,779	149,763,586	-	-
Investments in associates	15	1,925,730,032	1,957,381,542	1,953,799,401	1,919,474,959	2,405,570,907	2,405,570,907	2,405,570,907	2,402,570,907
Investments in subsidiaries	14	-	-	-	-	2,184,233,179	1,460,749,252	1,992,857,043	2,002,856,973
Other long-term investments	17	14,321,922,508	13,836,404,669	9,918,659,481	5,298,043,209	11,913,172,508	11,906,904,669	8,537,409,481	4,507,543,209
Long-term loans to related parties	8	56,223,301	200,008,278	212,123,029	247,141,519	98,988,953	247,531,400	368,252,253	414,156,886
Investment properties	16	312,316,484	317,707,932	1,010,350,497	649,554,141	312,316,484	317,707,932	1,108,749,978	753,345,070
Property, plant and equipment	18	6,338,846,792	6,379,411,793	7,148,146,814	6,999,845,903	5,669,441,707	5,725,965,420	5,827,888,076	5,624,073,405
Intangible assets	19	717,085,657	699,584,649	696,854,124	743,565,798	128,294,363	64,563,666	14,152,294	12,401,856
Leasehold rights		58,651,375	60,963,478	63,275,209	474,209,043	58,651,375	60,963,478	63,275,209	474,209,043
Deferred tax assets	4.2, 32.1	23,512,760	52,408,139	104,521,816	227,310,984	-	-	-	-
Other non-current assets	8, 20	735,120,939	490,299,315	2,368,409,960	2,864,414,943	672,739,140	485,034,859	2,361,544,375	2,857,849,328
<b>Total non-current assets</b>		<b>24,678,505,171</b>	<b>24,164,266,858</b>	<b>23,495,982,709</b>	<b>19,423,560,499</b>	<b>23,611,541,395</b>	<b>22,824,755,169</b>	<b>22,679,699,616</b>	<b>19,049,006,677</b>
<b>Total assets</b>		<b>30,393,050,000</b>	<b>32,008,124,431</b>	<b>27,450,865,074</b>	<b>22,990,089,057</b>	<b>28,795,074,484</b>	<b>29,952,286,678</b>	<b>25,877,209,439</b>	<b>21,973,102,813</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as "Bangkok Airways Company Limited")**  
**Statement of financial position (continued)**  
**As at 31 December 2013**

(Unit: Baht)

	Consolidated financial statements				Separate financial statements				
	As at	As at	As at	As at	As at	As at	As at	As at	
	31 December	31 December	31 December	1 January	31 December	31 December	31 December	1 January	
Note	2013	2012	2011	2011	2013	2012	2011	2011	
		(Restated)	(Restated)			(Restated)	(Restated)		
<b>Liabilities and shareholders' equity</b>									
<b>Current liabilities</b>									
Bank overdrafts and short-term loans from banks	21	671,364,998	1,670,000,000	1,198,565,454	1,331,009,861	650,000,000	1,670,000,000	1,140,000,000	1,260,000,000
Trade and other payables	8, 22	2,356,994,015	1,829,019,116	1,752,316,935	1,554,439,711	2,217,095,999	1,708,622,759	1,590,677,739	1,477,185,810
Current portion of long-term loans	23	986,138,448	896,174,224	788,866,541	429,945,050	628,838,448	595,824,224	534,871,126	279,545,050
Income tax payable		34,512,345	126,672,985	6,838,711	2,792,401	-	105,907,253	-	-
Current portion of liabilities arising from finance lease									
of aircrafts	24	423,827,275	340,418,713	238,841,643	212,027,965	423,827,275	340,418,713	238,841,643	212,027,965
Current portion of finance lease liabilities	25	26,541,358	25,162,150	15,579,246	40,639,172	22,693,782	21,845,133	12,289,920	35,955,562
Short-term loans from related parties	8	-	-	-	-	-	27,756,370	9,887,567	14,976,448
Current portion of loans from related party		-	-	-	970,682	-	-	-	-
Unearned income		2,035,941,218	1,740,737,555	1,427,086,207	1,115,960,444	2,032,627,081	1,737,234,958	1,427,040,936	1,115,960,444
Other current liabilities	8, 10	1,058,759,545	869,119,465	920,768,819	769,281,419	1,152,376,699	640,584,273	673,552,824	447,084,631
<b>Total current liabilities</b>		<b>7,594,079,202</b>	<b>7,497,304,208</b>	<b>6,348,863,556</b>	<b>5,457,066,705</b>	<b>7,127,459,284</b>	<b>6,848,193,683</b>	<b>5,627,161,755</b>	<b>4,842,735,910</b>
<b>Non-current liabilities</b>									
Long-term loans - net of current portion	23	1,121,004,274	2,248,667,520	3,306,474,371	3,295,727,371	951,404,274	1,721,767,520	2,284,177,222	2,021,734,807
Liabilities arising from finance lease of aircrafts									
- net of current portion	24	408,658,422	782,068,090	1,151,541,124	1,323,314,157	408,658,422	782,068,090	1,151,541,124	1,323,314,157
Finance lease liabilities - net of current portion	25	33,253,210	38,918,530	22,254,049	10,363,327	28,698,998	33,773,463	16,907,322	7,278,861
Long-term loans from related party									
- net of current portion	26	11,207,489,404	11,097,391,370	10,910,635,606	10,600,746,546	11,207,489,404	11,097,391,370	10,910,635,606	10,600,746,546
Provision for long-term employee benefits	27	286,485,158	160,918,694	115,340,247	88,385,505	236,693,619	121,243,014	82,603,594	64,969,000
Deferred tax liabilities	4.2, 32.1	2,486,066,070	2,404,509,327	1,540,751,392	1,011,821,877	2,200,466,070	2,132,509,326	1,378,401,391	945,521,877
Other non-current liabilities		64,302,532	58,841,575	65,533,312	41,618,012	5,000,000	5,211,203	5,000,000	5,000,000
<b>Total non-current liabilities</b>		<b>15,607,259,070</b>	<b>16,791,315,106</b>	<b>17,112,530,101</b>	<b>16,371,976,795</b>	<b>15,038,410,787</b>	<b>15,893,963,986</b>	<b>15,829,266,259</b>	<b>14,968,565,248</b>
<b>Total liabilities</b>		<b>23,201,338,272</b>	<b>24,288,619,314</b>	<b>23,461,393,657</b>	<b>21,829,043,500</b>	<b>22,165,870,071</b>	<b>22,742,157,669</b>	<b>21,456,428,014</b>	<b>19,811,301,158</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as "Bangkok Airways Company Limited")**  
**Statement of financial position (continued)**  
**As at 31 December 2013**

(Unit: Baht)

Note	Consolidated financial statements				Separate financial statements			
	As at	As at	As at	As at	As at	As at	As at	As at
	31 December	31 December	31 December	1 January	31 December	31 December	31 December	1 January
	2013	2012	2011	2011	2013	2012	2011	2011
		(Restated)	(Restated)			(Restated)	(Restated)	
<b>Shareholders' equity</b>								
Share capital	28							
Registered								
2,100,000,000 ordinary shares of Baht 1 each								
(31 December 2012: 125,000,000 ordinary shares of Baht 10 each, 31 December 2011: 120,000,000 ordinary shares of Baht 10 each and 1 January 2011: 120,000,000 ordinary shares of Baht 10 each)								
	2,100,000,000	1,250,000,000	1,200,000,000	1,200,000,000	2,100,000,000	1,250,000,000	1,200,000,000	1,200,000,000
Issued and fully paid up								
1,580,000,000 ordinary shares of Baht 1 each								
(31 December 2012: 120,000,000 ordinary shares of Baht 10 each and 5,000,000 ordinary shares of Baht 2.50 each, 31 December 2011: 120,000,000 ordinary shares of Baht 10 each and 1 January 2011: 120,000,000 ordinary shares of Baht 10 each)								
	1,580,000,000	1,212,500,000	1,200,000,000	1,200,000,000	1,580,000,000	1,212,500,000	1,200,000,000	1,200,000,000
Premium on ordinary shares	270,000,000	-	-	-	270,000,000	-	-	-
Capital reserve for share-based payment transactions	29	207,300,000	-	-	207,300,000	-	-	-
Retained earnings								
Appropriated - statutory reserve	30	210,000,000	121,250,000	120,000,000	210,000,000	121,250,000	120,000,000	120,000,000
Unappropriated		(4,148,031,875)	(2,565,342,809)	(3,679,542,483)	(3,061,232,323)	(1,791,042,844)	(2,469,715,732)	(1,786,180,191)
Other components of shareholders' equity		8,960,952,858	8,753,392,150	6,216,922,150	2,779,135,050	7,706,038,639	5,570,497,157	2,627,981,846
Equity attributable to owners of the Company		7,080,220,983	7,521,799,341	3,857,379,667	1,037,902,727	6,629,204,413	4,420,781,425	2,161,801,655
Non-controlling interests of the subsidiaries		111,490,745	197,705,776	132,091,750	123,142,830	-	-	-
<b>Total shareholders' equity</b>		<b>7,191,711,728</b>	<b>7,719,505,117</b>	<b>3,989,471,417</b>	<b>1,161,045,557</b>	<b>6,629,204,413</b>	<b>4,420,781,425</b>	<b>2,161,801,655</b>
<b>Total liabilities and shareholders' equity</b>		<b>30,393,050,000</b>	<b>32,008,124,431</b>	<b>27,450,865,074</b>	<b>22,990,089,057</b>	<b>28,795,074,484</b>	<b>29,952,286,678</b>	<b>21,973,102,813</b>

The accompanying notes are an integral part of the financial statements.

Directors

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as "Bangkok Airways Company Limited")**  
**Statement of comprehensive income**  
**For the year ended 31 December 2013**

(Unit: Baht)

	Note	Consolidated financial statements			Separate financial statements		
		2013	2012 (Restated)	2011 (Restated)	2013	2012 (Restated)	2011 (Restated)
<b>Profit or loss:</b>							
<b>Revenues</b>							
Passenger	8	16,484,297,076	14,598,603,417	11,408,960,424	16,484,432,886	14,601,031,604	11,410,095,949
Sales and service income	8	2,656,106,362	2,361,500,477	2,130,931,527	-	-	-
Freight	8	250,428,539	265,253,991	190,161,737	250,428,539	265,274,157	190,162,931
Passenger service charge		485,531,646	446,969,971	368,792,262	485,531,646	446,969,971	368,792,262
Dividend income	8	219,645,865	135,330,146	91,551,335	728,606,221	470,932,604	303,165,215
Gain on sales of investments		41,562,336	818,882,851	325,311,108	36,590,986	812,769,049	320,652,508
Gain on transfer of investments in securities	10	-	-	-	341,250,000	-	-
Gain on sales of investments in subsidiaries	14	3,027,565	226,794,123	-	-	-	-
Reversal of allowance for diminution in value of investments in subsidiary	14	-	-	-	9,478,368	27,999,860	-
Other income	8	580,794,926	666,519,639	1,007,328,035	704,544,728	781,654,833	1,121,087,209
<b>Total revenues</b>		<b>20,721,394,315</b>	<b>19,519,854,615</b>	<b>15,523,036,428</b>	<b>19,040,863,374</b>	<b>17,406,632,078</b>	<b>13,713,956,074</b>
<b>Expenses</b>							
Cost of sales and services	8	15,034,053,800	13,164,502,009	10,796,172,249	13,515,020,802	11,735,325,651	9,437,902,300
Selling expenses	8	1,425,214,354	1,089,510,388	957,907,871	1,409,376,381	1,072,939,038	940,530,894
Administrative expenses	8	1,689,951,753	1,431,911,048	1,160,242,737	1,282,492,696	1,032,914,469	771,701,342
Loss on sales of investments in subsidiaries		-	-	-	2,493,696	55,969,942	-
Loss on sales from leasehold rights		-	-	369,272,360	-	-	369,272,360
Other expenses		70,598,252	34,358,089	61,396,871	54,009,347	38,392,690	65,321,422
<b>Total expenses</b>		<b>18,219,818,159</b>	<b>15,720,281,534</b>	<b>13,344,992,088</b>	<b>16,263,392,922</b>	<b>13,935,541,790</b>	<b>11,584,728,318</b>
<b>Profit before share of income from investments in associates, finance cost and income tax expenses</b>							
		2,501,576,156	3,799,573,081	2,178,044,340	2,777,470,452	3,471,090,288	2,129,227,756
Share of income from investments in associates	15.2	393,960,927	358,969,598	256,949,442	-	-	-
<b>Profit before finance cost and income tax expenses</b>		<b>2,895,537,083</b>	<b>4,158,542,679</b>	<b>2,434,993,782</b>	<b>2,777,470,452</b>	<b>3,471,090,288</b>	<b>2,129,227,756</b>
Finance cost		(1,765,611,818)	(1,867,756,823)	(1,846,268,009)	(1,709,494,108)	(1,783,307,135)	(1,746,230,138)
<b>Profit before income tax expenses</b>		<b>1,129,925,265</b>	<b>2,290,785,856</b>	<b>588,725,773</b>	<b>1,067,976,344</b>	<b>1,687,783,153</b>	<b>382,997,618</b>
Income tax expenses	32.2	(139,906,210)	(458,398,325)	(298,096,279)	(108,163,726)	(353,110,265)	(166,533,159)
<b>Profit for the year</b>		<b>990,019,055</b>	<b>1,832,387,531</b>	<b>290,629,494</b>	<b>959,812,618</b>	<b>1,334,672,888</b>	<b>216,464,459</b>
<b>Other comprehensive income:</b>							
Exchange differences on translation of financial statements in foreign currency							
		(227,143)	(149,918)	581,054	-	-	-
Gain on changes in value of available-for-sale investments		450,520,983	3,169,405,871	3,799,611,665	48,270,983	2,621,155,870	3,208,861,666
Income tax effect	4.2, 32.3	(90,104,197)	(633,881,176)	(362,396,353)	(9,654,197)	(524,231,174)	(266,346,355)
<b>Other comprehensive income for the year</b>		<b>360,189,643</b>	<b>2,535,374,777</b>	<b>3,437,796,366</b>	<b>38,616,786</b>	<b>2,096,924,696</b>	<b>2,942,515,311</b>
<b>Total comprehensive income for the year</b>		<b>1,350,208,698</b>	<b>4,367,762,308</b>	<b>3,728,425,860</b>	<b>998,429,404</b>	<b>3,431,597,584</b>	<b>3,158,979,770</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as "Bangkok Airways Company Limited")**  
**Statement of comprehensive income (continued)**  
**For the year ended 31 December 2013**

(Unit: Baht)

Note	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
		(Restated)	(Restated)		(Restated)	(Restated)
<b>Profit attributable to:</b>						
Equity holders of the Company	932,461,551	1,771,289,838	281,689,840	959,812,618	1,334,672,888	216,464,459
Non-controlling interests of the subsidiaries	57,557,504	61,097,693	8,939,654			
	<u>990,019,055</u>	<u>1,832,387,531</u>	<u>290,629,494</u>			
<b>Total comprehensive income attributable to:</b>						
Equity holders of the Company	1,292,660,222	4,306,669,674	3,719,476,940	998,429,404	3,431,597,584	3,158,979,770
Non-controlling interests of the subsidiaries	57,548,476	61,092,634	8,948,920			
	<u>1,350,208,698</u>	<u>4,367,762,308</u>	<u>3,728,425,860</u>			
<b>Earnings per share</b>	34					
Basic earnings per share						
Profit attributable to equity holders of the Company	<u>0.62</u>	<u>1.46</u>	<u>0.23</u>	<u>0.64</u>	<u>1.10</u>	<u>0.18</u>
Weighted average number of ordinary shares of Baht 1 each	<u>1,511,194,043</u>	<u>1,209,520,000</u>	<u>1,200,000,000</u>	<u>1,511,194,043</u>	<u>1,209,520,000</u>	<u>1,200,000,000</u>

The accompanying notes are an integral part of the financial statements.



Bangkok Airways Public Company Limited and its subsidiaries  
(Formerly known as "Bangkok Airways Company Limited")  
Statement of changes in shareholders' equity  
For the year ended 31 December 2013

Consolidated financial statements													(Unit: Baht)
Equity attributable to owners of the Company													
Note	Issued and paid-up share capital	Premium on ordinary shares	Capital reserve for share-based payment transactions	Retained earnings		Unappropriated	Excess of foreign currency statements in financial statements on translation of differences on exchange	Surplus on changes in value of available-for-sale investments	Discount on changes in shareholding in subsidiaries	Total other components of shareholders' equity	Total equity attributable to owners of the Company	Equity attributable to non-controlling interests of the subsidiaries	Total shareholders' equity
				Appropriated	Unappropriated								
	1,200,000,000	-	-	-	120,000,000	(1,135,685,994)	(3,546,634)	3,975,259,548	-	3,871,712,914	3,966,026,920	82,313,743	4,048,340,663
4.1	-	-	-	-	-	(1,954,354,809)	-	-	-	-	(1,954,354,809)	-	(1,954,354,809)
5	-	-	-	-	-	(148,851,933)	-	-	-	-	(148,851,933)	(6,074,930)	(154,926,863)
4.2	-	-	-	-	-	367,660,413	-	(1,192,577,894)	-	(1,192,577,894)	(824,917,451)	46,904,017	(778,013,434)
	1,200,000,000	-	-	-	120,000,000	(3,061,232,323)	(3,546,634)	2,782,681,654	-	2,778,135,050	1,037,902,727	123,442,830	1,161,045,557
37	-	-	-	-	-	(900,000,000)	-	-	-	-	(900,000,000)	-	(900,000,000)
	1,200,000,000	-	-	-	-	281,689,840	572,310	3,437,214,790	-	3,437,787,100	3,719,476,940	8,948,920	3,728,425,860
	1,200,000,000	-	-	-	120,000,000	(3,679,542,483)	(2,974,324)	6,219,896,474	-	6,216,922,150	3,857,379,667	132,091,750	3,989,471,417
	1,200,000,000	-	-	-	120,000,000	(1,136,417,578)	(2,974,324)	7,774,870,593	-	7,771,886,269	7,955,478,691	126,053,015	8,081,531,706
4.1	-	-	-	-	-	(2,442,960,377)	-	-	-	-	(2,442,960,377)	-	(2,442,960,377)
5	-	-	-	-	-	(208,704,688)	-	-	-	-	(208,704,688)	(9,372,060)	(218,076,749)
4.2	-	-	-	-	-	108,540,161	-	(1,554,974,119)	-	(1,554,974,119)	(1,446,433,958)	15,410,795	(1,431,023,163)
	1,200,000,000	-	-	-	120,000,000	(3,679,542,483)	(2,974,324)	6,219,896,474	-	6,216,922,150	3,857,379,667	132,091,750	3,989,471,417
28	12,500,000	-	-	-	-	-	-	-	-	-	12,500,000	-	12,500,000
37	-	-	-	-	-	(654,750,000)	-	-	-	-	(654,750,000)	-	(654,750,000)
14	-	-	-	-	-	(1,090,164)	1,090,164	-	-	1,090,164	-	(7,803,643)	(7,803,643)
	-	-	-	-	-	1,771,289,838	(144,389)	2,535,524,235	-	2,535,379,836	4,306,669,674	61,092,634	4,367,762,308
30	-	-	-	-	1,250,000	(1,250,000)	-	-	-	-	-	-	-
	1,212,500,000	-	-	-	121,250,000	(2,566,942,809)	(2,028,559)	8,755,429,709	-	8,753,392,150	7,621,789,344	197,705,776	12,325,035
	1,212,500,000	-	-	-	121,250,000	(2,566,942,809)	(2,028,559)	8,755,429,709	-	8,753,392,150	7,621,789,344	197,705,776	7,719,505,117

The accompanying notes are an integral part of the financial statements.

Bangkok Airways Public Company Limited and its subsidiaries  
(Formerly known as "Bangkok Airways Company Limited")  
Statement of changes in shareholders' equity (continued)  
For the year ended 31 December 2013

(Unit: Baht)

Consolidated financial statements

Equity attributable to owners of the Company

	Note	Other components of equity										Total equity attributable to owners of the Company	Equity attributable to non-controlling interests of the subsidiaries	Total shareholders' equity
		Retained earnings		Capital reserve for share-based payment transactions		Premium on ordinary shares		Issued and paid-up share capital		Other comprehensive income				
		Appropriated	Unappropriated	Share-based payment transactions	Capital reserve for share-based payment transactions	Premium on ordinary shares	Issued and paid-up share capital	Exchange differences on translation of financial statements in foreign currency	Surplus on changes in value of available-for-sale investments	Discount on changes in shareholding in subsidiaries	Total other components of shareholders' equity			
<b>Balance as at 31 December 2012 - as previously reported</b>		1,212,500,000	670,712,565	-	-	-	1,212,500,000	10,944,275,887	-	12,946,709,893	200,955,388	13,146,765,281		
Cumulative effect of changes in accounting policy for long-term loans	4.1	-	(2,816,770,122)	-	-	-	-	-	-	(2,816,770,122)	-	(2,816,770,122)		
Cumulative effect of changes in recording	5	-	(253,219,389)	-	-	-	-	-	-	(253,219,389)	(10,319,694)	(263,539,083)		
Cumulative effect of changes in accounting policy for income taxes	4.2	-	(166,065,863)	-	-	-	(2,188,855,179)	-	-	(2,354,921,041)	7,970,082	(2,346,950,959)		
<b>Balance as at 31 December 2012 - as restated</b>		1,212,500,000	(2,565,342,809)	-	-	-	8,755,420,709	-	-	7,521,799,341	197,705,776	7,719,505,117		
Increase share capital	28	367,500,000	-	270,000,000	-	-	-	-	-	637,500,000	-	637,500,000		
Share-based payment transactions	29	-	-	207,300,000	-	-	-	-	-	207,300,000	-	207,300,000		
Dividend paid	37	-	(2,424,154,000)	-	-	-	-	-	-	(2,424,154,000)	-	(2,424,154,000)		
Decrease from sales of investments in subsidiaries	14	-	(2,246,617)	-	-	-	2,246,617	-	-	-	(164,079)	(164,079)		
Total comprehensive income for the year		-	932,461,551	-	-	-	(2,18,058)	360,416,729	-	1,292,660,222	57,548,476	1,350,208,698		
Transferred to statutory reserve	30	-	(88,750,000)	-	-	-	-	-	-	-	-	-		
Discount on changes in shareholding in subsidiaries		-	-	-	-	-	-	(154,884,580)	-	(154,884,580)	-	(154,884,580)		
Dividend paid for non-controlling interest of the subsidiaries		-	-	-	-	-	-	-	-	-	(5,000,081)	(5,000,081)		
Decrease in non-controlling interest of the subsidiaries		-	-	-	-	-	-	-	-	-	(138,599,347)	(138,599,347)		
<b>Balance as at 31 December 2013</b>		1,560,000,000	(4,146,031,875)	207,300,000	-	270,000,000	9,115,637,438	(154,884,580)	8,860,952,658	7,080,220,968	111,460,746	7,191,711,728		

The accompanying notes are an integral part of the financial statements.

Bangkok Airways Public Company Limited and its subsidiaries  
(Formerly known as "Bangkok Airways Company Limited")  
Statement of changes in shareholders' equity (continued)  
For the year ended 31 December 2013

	Note	Separate financial statements										(Unit: Baht)
		Issued and paid-up share capital	Premium on ordinary shares	Capital reserve for share-based payment transactions	Retained earnings		Unappropriated	Other components of equity			Total shareholders' equity	
					Appropriated	Unappropriated		comprehensive income				
								on changes in value of available-for-sale investments	Surplus	Total other components of shareholders' equity		
<b>Balance as at 31 December 2010 - as previously reported</b>		1,200,000,000	-	-	120,000,000	99,179,543	3,754,259,780	3,754,259,780	3,754,259,780	5,173,438,323		
Cumulative effect of changes in accounting policy for long-term loans	4.1	-	-	-	-	(1,954,354,809)	-	-	-	(1,954,354,809)		
Cumulative effect of changes in recording Cumulative effect of changes in accounting policy for income taxes	5	-	-	-	-	(111,760,982)	-	-	-	(111,760,982)		
<b>Balance as at 31 December 2010 - as restated</b>		1,200,000,000	-	-	120,000,000	180,756,057	(1,126,277,934)	(1,126,277,934)	(1,126,277,934)	(945,521,877)		
Dividend paid	37	-	-	-	-	(900,000,000)	2,627,981,846	2,627,981,846	2,627,981,846	2,161,801,655		
Total comprehensive income for the year (restated)		-	-	-	-	216,464,459	2,942,515,311	2,942,515,311	2,942,515,311	3,158,979,770		
<b>Balance as at 31 December 2011 - as restated</b>		1,200,000,000	-	-	120,000,000	(2,469,715,732)	5,570,497,157	5,570,497,157	5,570,497,157	4,420,781,425		
<b>Balance as at 31 December 2011 - as previously reported</b>		1,200,000,000	-	-	120,000,000	107,482,729	6,963,121,446	6,963,121,446	6,963,121,446	8,390,604,175		
Cumulative effect of changes in accounting policy for long-term loans	4.1	-	-	-	-	(2,442,960,377)	-	-	-	(2,442,960,377)		
Cumulative effect of changes in recording Cumulative effect of changes in accounting policy for income taxes	5	-	-	-	-	(148,460,982)	-	-	-	(148,460,982)		
<b>Balance as at 31 December 2011 - as restated</b>		1,200,000,000	-	-	120,000,000	(2,469,715,732)	14,222,898	(1,392,624,289)	(1,392,624,289)	(1,378,401,391)		
Increase share capital	28	12,500,000	-	-	-	-	5,570,497,157	5,570,497,157	5,570,497,157	4,420,781,425		
Dividend paid	37	-	-	-	-	(654,750,000)	-	-	-	(654,750,000)		
Total comprehensive income for the year (restated)		-	-	-	-	1,334,672,888	2,096,924,696	2,096,924,696	2,096,924,696	3,431,597,584		
Transferred to statutory reserve	30	-	-	-	1,250,000	(1,250,000)	-	-	-	-		
<b>Balance as at 31 December 2012 - as restated</b>		1,212,500,000	-	-	121,250,000	(1,791,042,844)	7,667,421,853	7,667,421,853	7,667,421,853	7,210,129,009		

The accompanying notes are an integral part of the financial statements.

Bangkok Airways Public Company Limited and its subsidiaries  
(Formerly known as "Bangkok Airways Company Limited")  
Statement of changes in shareholders' equity (continued)  
For the year ended 31 December 2013

	Note	Separate financial statements										(Unit: Baht)		
		Issued and paid-up share capital	Premium on ordinary shares	Capital reserve for share-based payment transactions	Retained earnings		Other components of equity	comprehensive income					Total shareholders' equity	
					Appropriated	Unappropriated		Other	Surplus					Total other components of shareholders' equity
									on changes in value of available-for-sale investments	on changes in value of investments	Share-based payment			
<b>Balance as at 31 December 2012 - as previously reported</b>		1,212,500,000	-	-	121,250,000	1,428,592,123	9,584,277,316	9,584,277,316	9,584,277,316	12,346,619,439				
Cumulative effect of changes in accounting policy for long-term loans	4.1	-	-	-	-	(2,816,770,122)	-	-	-	(2,816,770,122)				
Cumulative effect of changes in recording Cumulative effect of changes in accounting policy for income taxes	5	-	-	-	-	(187,210,982)	-	-	-	(187,210,982)				
<b>Balance as at 31 December 2012 - as restated</b>		1,212,500,000	-	-	121,250,000	(215,653,863)	(1,916,855,463)	(1,916,855,463)	(1,916,855,463)	(2,132,509,326)				
Increase share capital	28	367,500,000	270,000,000	-	121,250,000	(1,791,042,844)	7,667,421,853	7,667,421,853	7,667,421,853	7,210,129,009	637,500,000			
Share-based payment transactions	29	-	-	207,300,000	-	-	-	-	-	207,300,000	207,300,000			
Dividend paid	37	-	-	-	-	(2,424,154,000)	-	-	-	(2,424,154,000)	(2,424,154,000)			
Total comprehensive income for the year		-	-	-	-	959,812,618	38,616,786	38,616,786	38,616,786	998,429,404	998,429,404			
Transferred to statutory reserve	30	-	-	-	88,750,000	(88,750,000)	-	-	-	-	-			
<b>Balance as at 31 December 2013</b>		1,580,000,000	270,000,000	207,300,000	210,000,000	(3,344,134,226)	7,706,038,639	7,706,038,639	7,706,038,639	6,629,204,413				

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**  
(Formerly known as "Bangkok Airways Company Limited")

**Cash flow statement**

For the year ended 31 December 2013

(Unit: Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012 (Restated)	2011 (Restated)	2013	2012 (Restated)	2011 (Restated)
<b>Cash flows from operating activities</b>						
Profit before tax	1,129,925,265	2,290,785,856	588,725,773	1,067,976,344	1,687,783,153	382,997,618
Adjustments to reconcile profit before tax to net cash provided by (paid from) operating activities:						
Depreciation and amortisation	572,891,620	592,603,638	623,917,945	406,028,058	408,011,424	421,477,639
Allowance for doubtful accounts	50,194,420	192,339,843	12,876,906	52,219,100	181,023,538	36,833,816
Provision for obsolete inventory	1,127,178	23,274,655	416,962	997,178	23,274,655	416,962
Gain on sales of property, plant and equipment	(2,395,508)	(212,738,873)	(807,052)	(5,597,521)	(218,436,463)	(2,399,172)
Loss on sales of investment properties	-	113,016,387	-	-	113,016,387	-
Gain on sales of long-term investments	(36,590,986)	(812,769,049)	(320,652,508)	(36,590,986)	(812,769,049)	(320,652,508)
Gain on sales of short-term investments	(4,971,350)	(6,113,802)	(4,658,600)	-	-	-
Loss from revaluation of short-term investments	19,178,000	4,010,000	4,879,414	7,000,000	-	-
Loss on sales of leasehold rights	-	-	369,272,360	-	-	369,272,360
Gain on transfer of investment in securities	-	-	-	(341,250,000)	-	-
Written-off fixed assets	72,183,950	-	-	72,183,950	-	-
Written-off intangible assets	-	-	96,813	-	-	-
Share of profit from investments in associates	(393,960,927)	(358,969,598)	(256,949,442)	-	-	-
Provision for long-term employee benefits	35,830,314	33,781,113	27,065,579	23,095,302	22,238,462	17,634,594
Loss on changes in provision for long-term employee benefits	110,926,321	16,400,958	-	112,819,912	16,400,958	-
(Gain) loss on sales of investments in subsidiaries	(3,027,565)	(226,794,123)	-	2,493,696	55,969,942	-
Impairment in investments in subsidiary (reversal)	-	-	-	(9,478,368)	(27,999,860)	9,999,930
Unrealised loss on exchange	126,495,946	47,343,244	158,482,297	126,163,178	47,473,232	157,788,612
Share-based payment transactions	207,300,000	-	-	207,300,000	-	-
Dividend income	(219,645,865)	(135,330,146)	(91,551,335)	(728,606,221)	(470,932,604)	(303,165,215)
Interest income	(24,734,651)	(69,254,739)	(63,541,926)	(17,712,489)	(69,569,359)	(66,456,754)
Interest expenses	1,765,611,818	1,867,756,823	1,846,268,009	1,709,494,108	1,783,307,135	1,746,230,138
Profit from operating activities before changes in operating assets and liabilities	3,406,337,980	3,359,342,187	2,893,841,195	2,648,535,241	2,738,791,551	2,449,978,020
Operating assets (increase) decrease						
Trade and other receivables	(32,454,070)	(748,272,611)	(80,150,695)	46,479,857	(601,190,110)	(10,394,332)
Loans to director	96,657,558	284,316,072	514,632,799	96,657,558	315,940,622	514,632,799
Loans to related parties	142,326,326	10,784,080	(34,378,710)	147,850,000	92,359,151	(41,876,696)
Inventories	1,095,717	(71,243,828)	(50,179,805)	9,340,195	(59,972,079)	(14,367,064)
Share deposits	-	1,898,500,000	-	-	1,898,500,000	-
Other current assets	(131,932,784)	(47,687,954)	44,026,737	(117,810,536)	(29,207,359)	41,768,504
Other assets	(112,251,723)	(42,444,753)	517,362,031	(102,759,861)	(33,714,704)	537,495,013
Operating liabilities increase (decrease)						
Trade and other payables	294,340,172	105,769,856	(59,129,017)	286,094,338	7,261,206	(131,904,454)
Other current liabilities	474,608,217	306,677,382	444,876,592	803,620,696	286,688,600	517,838,289
Liabilities under finance lease payable	(315,154,574)	(287,136,885)	(189,896,877)	(311,266,362)	(284,400,698)	(184,593,948)
Long-term employee benefits paid	(21,190,171)	(4,603,722)	(110,837)	(20,464,609)	-	-
Other non-current liabilities	5,460,957	3,274,213	19,620,755	(211,203)	211,203	-
Cash flows from operating activities	3,807,843,605	4,767,274,037	4,020,514,168	3,486,065,314	4,331,267,383	3,678,576,131
Cash paid for interest expenses	(1,641,017,135)	(1,669,292,143)	(1,525,181,282)	(1,593,297,468)	(1,582,223,725)	(1,432,228,483)
Cash paid for income tax expenses	(267,883,786)	(58,260,744)	(28,907,085)	(206,392,941)	(17,325,187)	(12,897,720)
<b>Net cash flows from operating activities</b>	<b>1,898,942,684</b>	<b>3,039,721,150</b>	<b>2,466,425,801</b>	<b>1,686,374,905</b>	<b>2,731,718,471</b>	<b>2,233,449,928</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as "Bangkok Airways Company Limited")**  
**Cash flow statement (continued)**  
**For the year ended 31 December 2013**

(Unit: Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
		(Restated)	(Restated)		(Restated)	(Restated)
<b>Cash flows from investing activities</b>						
(Increase) decrease in restricted bank deposits	(18,998,260)	(150,254,685)	19,842,378	(18,369,193)	(149,763,586)	-
Increase in current investments	(470,000,000)	-	-	(470,000,000)	-	-
Acquisition of investments in associates	-	-	(3,000,000)	-	-	(3,000,000)
Acquisition of short-term investments	(112,237,500)	(176,300,580)	(104,403,617)	-	-	-
Acquisition of long-term investments	(43,909,196)	(946,915,335)	(919,261,209)	(43,909,196)	(946,915,335)	(919,260,588)
Acquisition of property, plant and equipment	(528,950,186)	(437,095,811)	(686,772,898)	(404,290,971)	(273,463,378)	(593,291,561)
Acquisition of intangible assets	(123,065,074)	(6,906,027)	(3,720,051)	(122,562,168)	(6,734,590)	(3,608,347)
Acquisition of leasehold rights	-	-	(18,028,506)	-	-	(18,028,506)
Acquisition of investment properties	-	(1,384,163)	(362,105,491)	-	(1,384,163)	(362,105,491)
Interest income	217,159,338	26,181,854	58,979,989	210,622,402	50,345,112	80,278,946
Dividend income from investment in subsidiaries	-	-	-	114,999,919	-	-
Dividend income from investment in associates	425,612,437	355,387,458	225,625,000	425,612,437	355,387,458	225,625,000
Dividend income from long-term investments	219,645,865	135,330,146	91,551,335	187,993,865	115,545,146	77,540,215
Proceeds from sales of leasehold rights	-	-	44,131,887	-	-	44,131,887
Proceeds from sales of property, plant and equipment	248,641,160	16,923,113	4,444,852	248,541,160	16,514,396	4,438,693
Proceeds from sales of investment properties	672,820,122	-	-	672,820,122	-	-
Cash received from sales of short-term investments	116,718,850	144,992,285	77,867,400	-	-	-
Cash received from sales of long-term investments	45,503,326	1,011,345,067	418,908,490	45,503,326	1,011,345,067	418,908,490
Cash paid for investment in subsidiaries	(293,483,926)	-	-	(293,483,926)	-	-
Cash paid up for the shares of common stock of subsidiary	-	-	-	(430,000,000)	-	-
Cash received from sales of investment in subsidiaries	461,234,610	50,137,763	-	461,234,610	50,137,763	-
Increase in cash and cash equivalents from sales of subsidiaries	(57,116)	(43,561,050)	-	-	-	-
<b>Net cash flows from (used in) investing activities</b>	<b>816,634,450</b>	<b>(22,119,965)</b>	<b>(1,155,940,441)</b>	<b>584,712,387</b>	<b>221,013,890</b>	<b>(1,048,371,262)</b>
<b>Cash flows from financing activities</b>						
Increase (decrease) in bank overdrafts and short-term loans						
from financial institutions	(998,635,002)	492,115,880	(132,444,407)	(1,020,000,000)	530,000,000	(120,000,000)
Cash received from short-term loans	-	20,753,801	-	27,540,000	17,868,803	-
Repayment of short-term loans	-	-	-	(53,570,000)	-	(5,088,881)
Cash received from long-term loans	14,650,000	483,532,352	801,329,317	14,650,000	71,700,000	800,000,000
Repayment of long-term loans	(1,052,349,022)	(1,057,199,168)	(432,631,509)	(751,999,022)	(573,156,604)	(282,231,509)
Proceeds from increase in share capital	637,500,000	12,500,000	-	637,500,000	12,500,000	-
Dividend paid	(2,424,154,000)	(654,750,000)	(900,000,000)	(2,424,154,000)	(654,750,000)	(900,000,000)
Dividend paid for non-controlling interest of the subsidiaries	(5,000,081)	-	-	-	-	-
Decrease in non-controlling interest from sale of subsidiaries	(164,079)	(7,803,643)	-	-	-	-
<b>Net cash flows used in financing activities</b>	<b>(3,828,152,184)</b>	<b>(710,850,778)</b>	<b>(663,746,599)</b>	<b>(3,570,033,022)</b>	<b>(595,837,801)</b>	<b>(507,320,390)</b>
<b>Increase (decrease) in translation adjustments</b>	<b>(218,058)</b>	<b>(144,399)</b>	<b>572,310</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,112,793,108)</b>	<b>2,306,606,008</b>	<b>647,311,071</b>	<b>(1,298,945,730)</b>	<b>2,356,894,560</b>	<b>677,758,276</b>
Cash and cash equivalents at beginning of the year	3,665,652,257	1,359,046,249	711,735,178	3,533,451,609	1,176,557,049	498,798,773
<b>Cash and cash equivalents at end of the year (Note 9)</b>	<b>2,552,859,149</b>	<b>3,665,652,257</b>	<b>1,359,046,249</b>	<b>2,234,505,879</b>	<b>3,533,451,609</b>	<b>1,176,557,049</b>
	-	-	-	-	-	-
<b>Supplemental cash flows information:</b>						
Non-cash items						
Increase (decrease) in receivable from disposal of property, plants, and equipments	(226,373,174)	226,373,174	-	(226,373,174)	226,373,174	-
Increase (decrease) in receivable from disposal of investment properties	(672,820,122)	672,820,122	-	(672,820,122)	672,820,122	-
Increase (decrease) in payable from purchase of assets	(38,702,111)	57,647,986	10,074,088	(49,606,671)	48,925,759	4,279,903
Purchase vehicles under finance lease	20,867,357	45,926,088	31,768,318	17,039,440	42,926,088	25,597,412
Increase (decrease) in receivable from sales of investments in subsidiaries	(454,249,938)	454,249,938	-	(454,249,938)	454,249,938	-
Gain on changes in value of available-for-sale investments	360,416,729	2,535,524,235	3,437,214,790	38,616,786	2,096,924,696	2,942,515,311

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Public Company Limited and its subsidiaries**  
**(Formerly known as “Bangkok Airways Company Limited”)**  
**Notes to consolidated financial statements**  
**For the year ended 31 December 2013**

**1. General information**

Bangkok Airways Public Company Limited (“the Company”) is a public company incorporated and domiciled in Thailand with three major shareholders hold more than 20 percent each. The Company is principally engaged in the provision of air transportation and airport services. Its registered address is located at 99 Mu 14, Vibhavadirangsit Road, Chom Phon, Chatuchak, Bangkok.

On 27 February 2013, the Company registered as a Public Company Limited with the Ministry of Commerce.

**2. Basis of preparation**

2.1 The financial statements have been prepared in accordance with Thai Financial Reporting Standards enunciated under the Accounting Professions Act B.E. 2547 and their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 28 September 2011, issued under the Accounting Act B.E. 2543.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from the Thai language financial statements.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

The Company present the statement of comprehensive income for the year ended 31 December 2011 for comparative purpose.

**2.2 Basis of consolidation**

a) The consolidated financial statements include the financial statements of Bangkok Airways Public Company Limited (“the Company”) and the following subsidiary companies (“the subsidiaries”):

Company's name	Nature of business	Country of incorporation	Percentage of shareholding		
			<u>2013</u> Percent	<u>2012</u> Percent	<u>2011</u> Percent
<u>Held by the Company</u>					
Bangkok Airways (Cambodia) Co., Ltd.	Air transportation	Cambodia	-	96.00	96.00
Bangkok Airways Holding Co., Ltd	Holding	Thailand	99.99	99.99	99.99

Company's name	Nature of business	Country of incorporation	Percentage of shareholding		
			2013 Percent	2012 Percent	2011 Percent
Bangkok Airways Ground Services Co., Ltd.	Ground Services	Thailand	99.99	99.99	-
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	Ground Services	Thailand	90.00	88.13	88.13
Bangkok Air Catering Co., Ltd.	Catering	Thailand	90.00	59.80	59.80
Samui Palm Beach Resort Co., Ltd.	Hotel	Thailand	-	-	95.00
Sukothai Property Co., Ltd.	Hotel	Thailand	-	-	99.99
Samui Park Avenue Co., Ltd.	Space rental	Thailand	-	-	99.99
BAGs Ground Services Co., Ltd.	Ground Services	Thailand	-	-	99.99
Bangkok Flight Training Center Co., Ltd.	Training Air Crews	Thailand	-	-	69.99
Universal Catering & Services (Mauritius) Co., Ltd.	Catering	Mauritius	-	-	100.00
<u>Held by subsidiary companies</u>					
SA Services Co., Ltd. (99.99 percent held by Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.)	Ground Services	Thailand	89.99	88.12	88.12
BFS Cargo DMK Co., Ltd. (51.00 percent held by Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.)	Cargo	Thailand	45.90	44.95	-
BAC Gourmets House Co., Ltd. (99.99 percent held by Bangkok Air Catering Co., Ltd.)	Restaurant	Thailand	89.99	59.79	59.79
Bangkok Air Catering Phuket Co., Ltd. (70.00 percent held by Bangkok Air Catering Co., Ltd.)	Catering	Thailand	63.00	41.86	-
Samui Palm Beach Royal Wings Co., Ltd. (99.99 percent held by Samui Palm Beach Resort Co., Ltd.)	Hotel	Thailand	-	-	94.99

- b) Subsidiaries are fully consolidated, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.
- c) The financial statements of the subsidiaries are prepared using the same significant accounting policies as the Company.
- d) The assets and liabilities in the financial statements of overseas subsidiary companies are translated to Baht using the exchange rate prevailing on the end of reporting period, and revenues and expenses translated using monthly average exchange rates. The resulting differences are shown under the caption of "Exchange differences on translation of financial statements in foreign currency" in the statements of changes in shareholders' equity.



- e) Material balances and transactions between the Company and its subsidiary companies have been eliminated from the consolidated financial statements.
  - f) Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries that are not held by the Company and are presented separately in the consolidated profit or loss and within equity in the consolidated statement of financial position.
- 2.3 The separate financial statements, which present investments in subsidiaries and associates under the cost method, have been prepared solely for the benefit of the public.

### 3. **New accounting standards**

Below is a summary of accounting standards that became effective in the current accounting year and those that will become effective in the future.

#### **(a) Accounting standards that became effective in the current accounting year**

Accounting standards:

TAS 12	Income Taxes
TAS 20 (revised 2009)	Accounting for Government Grants and Disclosure of Government Assistance
TAS 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates

Financial Reporting Standard:

TFRS 8	Operating Segments
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Accounting Standard Interpretations:

TSIC 10	Government Assistance - No Specific Relation to Operating Activities
TSIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets
TSIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders

Accounting Treatment Guidance for Transfers of Financial Assets

These accounting standards, financial reporting standard, accounting standard interpretations and accounting treatment guidance do not have any significant impact on the financial statements, except for TAS 12 *Income taxes*, as discussed in Note 4.2

**(b) Accounting standards that will become effective in the future**

	<u>Effective date</u>
Accounting Standards:	
TAS 1 (revised 2012) Presentation of Financial Statements	1 January 2014
TAS 7 (revised 2012) Statement of Cash Flows	1 January 2014
TAS 12 (revised 2012) Income Taxes	1 January 2014
TAS 17 (revised 2012) Leases	1 January 2014
TAS 18 (revised 2012) Revenue	1 January 2014
TAS 19 (revised 2012) Employee Benefits	1 January 2014
TAS 21 (revised 2012) The Effects of Changes in Foreign Exchange Rates	1 January 2014
TAS 24 (revised 2012) Related Party Disclosures	1 January 2014
TAS 28 (revised 2012) Investments in Associates	1 January 2014
TAS 31 (revised 2012) Interests in Joint Ventures	1 January 2014
TAS 34 (revised 2012) Interim Financial Reporting	1 January 2014
TAS 36 (revised 2012) Impairment of Assets	1 January 2014
TAS 38 (revised 2012) Intangible Assets	1 January 2014
Financial Reporting Standards:	
TFRS 2 (revised 2012) Share-based Payment	1 January 2014
TFRS 3 (revised 2012) Business Combinations	1 January 2014
TFRS 4 Insurance Contracts	1 January 2016
TFRS 5 (revised 2012) Non-current Assets Held for Sale and Discontinued Operations	1 January 2014
TFRS 8 (revised 2012) Operating Segments	1 January 2014
Accounting Standard Interpretations:	
TSIC 15 Operating Leases - Incentives	1 January 2014
TSIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease	1 January 2014
TSIC 29 Service Concession Arrangements: Disclosures	1 January 2014
TSIC 32 Intangible Assets - Web Site Costs	1 January 2014
Financial Reporting Standard Interpretations:	
TFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 January 2014

		<u>Effective date</u>
TFRIC 4	Determining whether an Arrangement contains a Lease	1 January 2014
TFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2014
TFRIC 7	Applying the Restatement Approach under TAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>	1 January 2014
TFRIC 10	Interim Financial Reporting and Impairment	1 January 2014
TFRIC 12	Service Concession Arrangements	1 January 2014
TFRIC 13	Customer Loyalty Programmes	1 January 2014
TFRIC 17	Distributions of Non-cash Assets to Owners	1 January 2014
TFRIC 18	Transfers of Assets from Customers	1 January 2014

The Company's management believes that these accounting standards, financial reporting standard, accounting standard interpretations and financial reporting standards interpretations will not have any significant impact on the financial statements for the year when they are initially applied, except for TRFIC 12 Service Concession Arrangements.

TSIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease which the Company adopted during the year.

#### **TFRIC 12 Service Concession Arrangements**

This TFRIC gives guidance on the accounting by operators for recognising and measuring the obligations and related rights in public-to-private service concession arrangement. The operators shall recognise the consideration received or receivable at its fair value to be rights to a financial asset or to an intangible asset, depending on the conditions of service concession arrangement. The management of the subsidiary companies is evaluating the first-year impact to the financial statements of the financial reporting standards interpretations and has yet to reach a conclusion.

#### 4. Cumulative effect of changes in accounting policies

##### 4.1 Cumulative effect of change in accounting policy due to adoption before effective date

As at 31 December 2013, the Company changed its accounting policy by early adopting Thai Accounting Standard Interpretations 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*, whereby it includes variable lease expenses in the calculation of the effective interest rate, so that the financial statements provide more relevant information.

The cumulative effect of the changes in the accounting policy has been presented in the statements of changes in shareholders' equity.

The amounts of adjustments affecting the statements of financial position and the statements of comprehensive income are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements			
	As at 31 December 2013	As at 31 December 2012	As at 31 December 2011	As at 1 January 2011
<b>Statement of financial position</b>				
Decrease in current portion of long-term loans from related party	(204,914)	(195,780)	(187,054)	(178,717)
Increase in long-term loans from related party - net of current portion	3,327,563	3,012,550	2,630,014	2,133,072
Decrease in unappropriated retained earnings	(3,122,649)	(2,816,770)	(2,442,960)	(1,954,355)

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	For the years ended 31 December		
	2013	2012	2011
<b>Statement of comprehensive income</b>			
<b>Profit or loss:</b>			
Increase in finance cost	305,879	373,810	488,605
Decrease in profit attributable to equity holders of the Company	(305,879)	(373,810)	(488,605)
Decrease in basic earnings per share (Baht)	(0.202)	(0.309)	(0.407)

The Company treated the full amount of the above adjustment to finance cost as a non-deductible expense for tax computation purposes.

## 4.2 Cumulative effect of change in accounting policy due to the adoption of accounting standard

During the current year, the Company and its subsidiaries changed their accounting policy regarding income taxes. As a result of the adoption of this accounting standard, temporary differences between the carrying amount of an asset or liability in the statement of financial position and its tax base are identified and the tax effects recognised as deferred tax assets or liabilities, subject to certain recognition criteria. The Company and its subsidiaries have changed this accounting policy in the current period and restated the prior year's financial statements, as presented as comparative information, as through the Company and its subsidiaries had always recognised the tax effects as deferred tax assets or liabilities.

The cumulative effect of the changes in the accounting policy has been presented in the statements of changes in shareholders' equity.

The amounts of adjustments affecting the statements of financial position and the statements of comprehensive income are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements				Separate financial statements			
	As at 31	As at 31	As at 31	As at 1	As at 31	As at 31	As at 31	As at 1
	December	December	December	January	December	December	December	January
	2013	2012	2011	2011	2013	2012	2011	2011
<b>Statements of financial position</b>								
Increase in investments in associates	7,142	5,150	5,206	6,497	-	-	-	-
Increase in deferred tax assets	23,513	52,408	104,522	227,311	-	-	-	-
Increase in deferred tax liabilities	2,486,066	2,404,509	1,540,751	1,011,822	2,200,466	2,132,509	1,378,401	945,522
Decrease in other components of shareholders' equity	(2,278,959)	(2,188,855)	(1,554,974)	(1,192,578)	(1,926,509)	(1,916,855)	(1,392,624)	(1,126,278)
Increase in non-controlling interests of the subsidiaries	4,866	7,970	15,411	46,904	-	-	-	-
Increase (decrease) in unappropriated retained earnings	(181,318)	(166,066)	108,540	367,660	(273,957)	(215,654)	14,223	180,756

(Unit: Thousand Baht)

	Consolidated			Separate		
	financial statements			financial statements		
	For the years ended 31 December			For the years ended 31 December		
	2013	2012	2011	2013	2012	2011
<b>Statement of comprehensive income</b>						
<b>Profit or loss:</b>						
Increase (decrease) in share of income from						
investments in associates	1,992	(56)	(1,291)	-	-	-
Increase in income tax expenses	20,348	281,991	289,322	58,303	229,877	166,533
Decrease in profit attributable to non-controlling						
interest of the subsidiaries	(3,104)	(7,441)	(31,493)	-	-	-
Decrease in profit attributable to equity holders of						
the Company	(15,252)	(274,606)	(259,120)	(58,303)	(229,877)	(166,533)
Decrease in basic earnings per share (Baht)	(0.010)	(0.227)	(0.216)	(0.039)	(0.190)	(0.139)
<b>Other comprehensive income:</b>						
Decrease in gain on changes in value of available-						
for-sale investments	(90,104)	(633,881)	(362,396)	(9,654)	(524,231)	(266,346)

## 5. Prior year adjustments

During the year 2013, the Office of the Securities and Exchange Commission (the Office of the SEC) issued a letter to the Company, 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 Office of the SEC by the Company. Therefore, for such purpose, the Company had considered to retroactively restate the comparative financial statements herein to reflect such adjustment as per request from the Office of the SEC as specified in the Office of the SEC's letter. Moreover, the Company and its subsidiaries adjusted an accounting items in operating lease and a subsidiary's litigation.

The cumulative effect of the prior year adjustments has been presented in the statements of changes in shareholders' equity.

The amounts of adjustments affecting the statements of financial position and the statements of comprehensive income are summarised below.

(Unit: Thousand Baht)

	Consolidated financial statements				Separate financial statements			
	As at 31	As at 31	As at 31	As at 1	As at 31	As at 31	As at 31	As at 1
	December	December	December	January	December	December	December	January
	2013	2012	2011	2011	2013	2012	2011	2011
<b>Statement of financial position</b>								
Decrease in prepaid expenses	(223,224)	(187,211)	(148,461)	(111,761)	(223,224)	(187,211)	(148,461)	(111,761)
Decrease in investments in								-
associates	(24,231)	(22,698)	(20,045)	(17,001)	-	-	-	-
Increase in non-current liabilities	55,943	53,630	49,571	26,165	-	-	-	-
Decrease in non-controlling								
interests of the subsidiaries	(10,551)	(10,320)	(9,372)	(6,075)	-	-	-	-
Decrease in unappropriated								
retained earnings	(292,847)	(253,219)	(208,705)	(148,852)	(223,224)	(187,211)	(148,461)	(111,761)

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	For the years ended 31 December			For the years ended 31 December		
	2013	2012	2011	2013	2012	2011
	<b>Statement of comprehensive income</b>					
<b>Profit or loss:</b>						
Increase in cost of sales and services	36,664	39,877	37,992	36,013	38,750	36,700
Increase in administrative expenses	1,662	2,932	17,819	-	-	-
Increase in finance cost	-	-	4,295	-	-	-
Decrease in share of income from investments						
in associates	(1,533)	(2,653)	(3,044)	-	-	-
Decrease in non-controlling interests of the						
subsidiaries	(231)	(948)	(3,297)	-	-	-
Decrease in profit attributable to equity holders						
of the Company	(39,628)	(44,514)	(59,853)	(36,013)	(38,750)	(36,700)
Decrease in basic earnings per share (Baht)	(0.026)	(0.037)	(0.050)	(0.024)	(0.032)	(0.031)

## **6. Significant accounting policies**

### **6.1 Revenue recognition and expense**

#### *Passenger revenues*

Revenue from ticket sales is recognised as revenue when transportation is provided.

#### *Sales of goods*

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales are the invoiced value, excluding value added tax, of goods supplied after deducting discounts and allowances.

#### *Service rendered*

Revenue from passenger, freight and passenger service charge are recognised in profit or loss when the services are provided.

#### *Aircraft rental*

Revenue from aircraft rental is recognised in profit or loss based on rental period.

#### *Interest income*

Interest income is recognised on an accrual basis based on the effective interest rate.

#### *Dividends*

Dividends are recognised when the right to receive the dividends is established.

#### *Finance cost*

Interest expenses are recognised on an accrual basis and calculated using the effective interest rate.

### **6.2 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and at banks, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

### **6.3 Trade accounts receivable**

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experience and analysis of debt aging.



#### **6.4 Inventories**

Finished goods are valued at the lower of cost (first in - first out) and net realisable value.

Spare parts, supplies and air-tickets are valued at cost (moving average method) and constitute part of expenses wherever consumed.

#### **6.5 Investments**

- a) Investments in securities held for trading are stated at fair value. Changes in the fair value of these securities are recorded in profit or loss.
- b) Investments in available-for-sale securities are stated at fair value. Changes in the fair value of these securities are recorded in other comprehensive income, and will be recorded in profit or loss when the securities are sold.
- c) Investments in debt securities, both due within one year and expected to be held to maturity, are recorded at amortised cost. The premium/discount on debt securities is amortised/accreted by the effective rate method with the amortised/accreted amount presented as an adjustment to the interest income.
- d) Investments in non-marketable equity securities, which the Company classifies as other investments, are stated at cost net of allowance for impairment loss (if any).
- e) Investments in associates are accounted for in the consolidated financial statements using the equity method.
- f) Investments in subsidiaries and associates are accounted for in the separate financial statements using the cost method.

The fair value of marketable securities is based on the latest bid price of the last working day of the year. The fair value of unit trusts is determined from their net asset value.

The weighted average method is used for computation of the cost of investments.

On disposal of an investment, the difference between net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

#### **6.6 Investment properties**

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and allowance for loss on impairment (if any).

Depreciation of investment properties is calculated by reference to their costs on the straight-line basis over estimated useful lives of 20 years. Depreciation of the investment properties is included in determining income.

On disposal of investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period when the asset is derecognised.

## **6.7 Property, plant and equipment/Depreciation**

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation and allowance for loss on impairment of assets (if any).

Depreciation of plant and equipment is calculated by reference to their costs on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	-	3 and 20	years
Airport and improvements	-	20	years
Aircrafts	-	20	years
Aircrafts parts and ground equipment	-	3 and 14	years
Furniture, fixtures and equipment	-	3 and 10	years
Vehicles	-	5	years

Depreciation is included in determining income.

No depreciation is provided on land and construction in progress.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal of an asset is included in profit or loss when the asset is derecognised.

## **6.8 Intangible assets**

The intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (if any).

Intangible assets with finite lives are amortised on a systematic basis over the economic useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of such intangible assets are reviewed at least at each financial year end. The amortisation expense is charged to profit or loss.

A summary of the intangible assets with finite useful lives is as follows:

	<u>Useful lives</u>	
Concessions	20	years
Computer software	5	years

## **6.9 Related party transactions**

Related parties comprise enterprises and individuals that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies and individuals which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors, and officers with authority in the planning and direction of the Company's operations.

## **6.10 Long-term leases**

Leases of property, plant or equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the 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 is 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 lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

## **6.11 Foreign currencies**

The consolidated and separate financial statements are presented in Baht which is also the Company's functional currency. Items of each entity included in the consolidated financial statements are measured using the functional currency of that entity.

Transactions in foreign currencies are translated into Baht at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Baht at the exchange rate ruling at the end of reporting period.

Gains and losses on exchange are included in determining income.

## **6.12 Impairment of assets**

At the end of each reporting period, the Company and its subsidiaries performs 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 recognised 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.

An impairment loss is recognised in profit or loss.

## **6.13 Employee benefits**

### ***Short-term employee benefits***

Salaries, wages, bonuses and contributions to the social security fund are recognised as expenses when incurred.

### ***Post-employment benefits***

#### *Defined contribution plans*

The Company, its subsidiaries and their employees have jointly established a provident fund. The fund is monthly contributed by employees and by the Company and its subsidiaries. The fund's assets are held in a separate trust fund and the Company and its subsidiaries' contributions are recognised as expenses when incurred.

#### *Defined benefit plans*

The Company and its subsidiaries have obligations in respect of the severance payments it must make to employees upon retirement under labor law. The Company and its subsidiaries treat these severance payment obligations as a defined benefit plan.

The obligation under the defined benefit plan is determined by a professionally qualified independent actuary based on actuarial techniques, using the projected unit credit method.

Actuarial gains and losses arising from post-employment benefits are recognised immediately in profit or loss.

## **6.14 Provisions**

Provisions are recognised when the Company and its subsidiaries have a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

## **6.15 Income tax**

Income tax expense represents the sum of corporate income tax currently payable and deferred tax.

### **Current tax**

Current income tax is provided in the accounts at the amount expected to be paid to the taxation authorities, based on taxable profits determined in accordance with tax legislation.

### **Deferred tax**

Deferred income tax is provided 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.

The Company and its subsidiaries recognise deferred tax liabilities for all taxable temporary differences while it recognises deferred tax assets for all deductible temporary differences and 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 utilised.

At each reporting date, the Company and its subsidiaries 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 utilised.

The Company and its subsidiaries record deferred tax directly to shareholders' equity if the tax relates to items that are recorded directly to shareholders' equity.

## **6.16 Share-based payment**

The Company recognises share-based payment transactions when services from employees are rendered, based on the fair value of the share options on the grant date. The expenses are recorded over the vesting period, in accordance with the conditions regarding length of service rendered by employees stipulated in the share-based payment plan, together with a corresponding increase in "Capital reserve for share-based payment transactions" in shareholders' equity.

Estimating fair value for share-based payment transactions requires management to exercise judgement, and to apply assumptions.

## **7. Significant accounting judgements and estimates**

The preparation of financial statements in conformity with financial reporting standards at times requires management to make subjective judgements and estimates regarding matters that are inherently uncertain. These judgements and estimates affect reported amounts and disclosures; and actual results could differ from these estimates. Significant judgements and estimates are as follows:

### **Leases**

In determining whether a lease is to be classified as an operating lease or finance lease, the management is required to use judgement regarding whether significant risk and rewards of ownership of the leased asset has been transferred, taking into consideration terms and conditions of the arrangement.

### **Allowance for doubtful accounts**

In determining an allowance for doubtful accounts, the management needs to make judgement and estimates based upon, among other things, past collection history, aging profile of outstanding debts and the prevailing economic condition.

### **Impairment of equity investments**

The Company and its subsidiaries treat available-for-sale investments and other investments 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 judgement of the management.

### **Property plant and equipment/Depreciation**

In determining depreciation of plant and equipment, the management is required to make estimations of the useful lives and residual values of the plant and equipment and to review estimate useful lives and residual values when there are any changes.

In addition, the 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 judgements regarding forecast of future revenues and expenses relating to the assets subject to the review.

## Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the temporary differences and losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of estimate future taxable profits.

## Post-employment benefits under defined benefit plans

The obligation under the defined benefit plans is determined 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

The Company and its subsidiaries have contingent liabilities as a result of litigation. The Company's management has used judgement to assess of the results of the litigation. The Company and its subsidiaries recorded contingent liabilities as at the end of reporting period.

## 8. Related party transactions

During the years, the Company and its subsidiaries had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.

(Unit: Million Baht)

	Consolidated			Separate			Transfer Pricing Policy
	financial statements			financial statements			
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	
<u>Transactions with subsidiary companies</u>							
(eliminated from the consolidated financial statements)							
Passenger income	-	-	-	-	2	1	Authorized price
Permission fee	-	-	-	145	106	105	Contract price
Ground service income	-	-	-	-	1	-	Contract price
Concession lounge service income	-	-	-	17	-	-	Contract price
Interest income	-	-	-	-	6	6	MLR
Rental income	-	-	-	5	6	6	Contract price
Consulting income	-	-	-	-	8	12	Contract price
Dividend income	-	-	-	115	-	-	As declared
Catering service expenses	-	-	-	345	308	205	Contract price
Utilities expenses	-	-	-	-	1	-	Actual charge

(Unit: Million Baht)

	Consolidated			Separate			Transfer Pricing Policy
	financial statements			financial statements			
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	
Ground service expenses	-	-	-	372	360	296	Contract price
Employee expenses	-	-	-	-	12	12	Contract price
Interest expenses	-	-	-	-	1	-	Contract price
<u>Transactions with associated companies</u>							
Interest income	8	13	12	8	13	12	MLR
Ground service income	3	2	1	-	-	-	Market price
Collection fee income	1	2	2	-	-	-	Contract price
Dividend income	-	-	-	426	355	226	As declared
Interest expenses	1,332	1,314	1,283	1,332	1,314	1,283	Contract price
Shipping service expenses	18	18	13	18	18	13	Actual charge
Employee expenses	3	4	-	-	-	-	Contract price
<u>Transactions with related companies</u>							
Catering service income	2	1	7	-	-	-	Contract price
Duty fee income	31	-	-	31	-	-	Cost plus margin
Permission fee	-	30	-	-	30	-	Contract price
Ground service income	3	2	2	-	-	-	Contract price
Rental income	5	-	-	5	-	-	Contract price
Passenger income	84	65	58	84	65	58	Contract price
Charter flight	12	3	18	12	3	18	Contract price
Gain on sales of investments	-	227	-	-	-	-	Contract price
Consulting income	3	6	2	3	6	2	Contract price
Sponsor income	1	1	1	1	1	1	Agree upon
Dividend income	219	134	91	188	115	77	As declared
Ground service expenses	175	64	35	175	64	35	Contract price
Loss from sales of investments	-	-	-	-	28	-	Contract price
Medical expenses	3	2	2	3	2	2	Market price
Catering service income	1	1	-	1	1	-	Contract price
Management expenses	40	60	49	40	60	49	Contract price
Security expenses	18	30	30	18	30	30	Contract price
Stock management expenses	1	8	5	1	8	5	Contract price
Rental expenses	1	-	-	1	-	-	Contract price
Advertising expense	1	-	-	1	-	-	Contract price
Employee expenses	20	7	3	17	7	3	Market price
Aeronautical radio	403	326	305	393	326	305	Market price
Organizing expenses	-	4	1	-	4	1	Agree upon
<u>Transactions with management and directors</u>							
Interest income	1	47	46	1	47	46	MLR



The relationships between the Company and the related companies are presented below.

List of related companies	Relationship
Bangkok Air Catering Co.,Ltd.	Subsidiary
Bangkok Airways Ground Service Co.,Ltd.	Subsidiary
Worldwide Flight Services Bangkok Air Ground Handling Co.,Ltd.	Subsidiary
Bangkok Airways Holding Co.,Ltd.	Subsidiary
BAC Gourmet House Co.,Ltd.	Subsidiary (held by a subsidiary)
Bangkok Air Catering Phuket Co.,Ltd.	Subsidiary (held by a subsidiary)
SA Services Co.,Ltd.	Subsidiary (held by a subsidiary)
BFS Cargo DMK Co.,Ltd.	Subsidiary (held by a subsidiary)
WFS-PG Cargo Co.,Ltd.	Associate
Samui Airport Property Fund (Leasehold)	Associate
S.E.A. Aviation Co.,Ltd.	Associate
Bangkok Dusit Medical Services Plc.	Common shareholders and/or directors
South East Air Co.,Ltd.	Common shareholders and/or directors
Thai Cargo Airline Co.,Ltd.	Common shareholders and/or directors
Bangkok Media & Broadcasting Co.,Ltd.	Common shareholders and/or directors
Bangkok Helicopter Services Co.,Ltd.	Common shareholders and/or directors
Thai Petroleum Service Corp.,Ltd.	Common shareholders and/or directors
Bangkok Golden Life Co.,Ltd.	Common shareholders and/or directors
Bangpakong Golf Club Co.,Ltd.	Common shareholders and/or directors
Prasartthong Osoth Co.,Ltd.	Common shareholders and/or directors
Paradise Shopping Co.,Ltd.	Common shareholders and/or directors
Bangkok Hospital Chiangmai Co.,Ltd.	Common shareholders and/or directors
Bangkok Flight Training Center Co.,Ltd.	Common shareholders and/or directors
Samui Park Avenue Co.,Ltd.	Common shareholders and/or directors
Samitivej Plc.	Common shareholders and/or directors
Samui Accom Co.,Ltd.	Common shareholders and/or directors
Sukhothai Property Co.,Ltd.	Common shareholders and/or directors
The Sahakol Estate Co.,Ltd.	Common shareholders and/or directors
Amsito Thai Petroleum Service Co.,Ltd.	Common shareholders and/or directors
Bangkok Health Insurance Plc.	Common shareholders and/or directors
Bangkok Premier Life Insurance Broker Co., Ltd.	Common shareholders and/or directors
Bangkok United Mechanical Co.,Ltd.	Common shareholders and/or directors
Siam Medical Co., Ltd.	Common shareholders and/or directors
Kiattana Transport Plc.	Common shareholders and/or directors

List of related companies	Relationship
Khan Co.,Ltd.	Common shareholders and/or directors
Sing Sian Yer Pao Co.,Ltd.	Common shareholders and/or directors
Sodexo Support Services (Thailand) Ltd.	Common shareholders and/or directors
Sodexho Healthcare Support Services (Thailand) Ltd.	Common shareholders and/or directors
Trat Golden Co.,Ltd.	Common shareholders and/or directors
Three Sixtyfive Plc.	Common shareholders and/or directors
THN Network Co.,Ltd.	Common shareholders and/or directors
Thai Kodama Co.,Ltd.	Common shareholders and/or directors
Thonburi Medical Centre Plc.	Common shareholders and/or directors
Dhammachart Na Thai Co.,Ltd.	Common shareholders and/or directors
Nippon Pack (Thailand) Plc.	Common shareholders and/or directors
National Healthcare Systems Co.,Ltd.	Common shareholders and/or directors
Bangkok Travel Club Co.,Ltd.	Common shareholders and/or directors
Bangkok Total Communication Co.,Ltd.	Common shareholders and/or directors
Bangkok River Rest Co.,Ltd.	Common shareholders and/or directors
BDMS Training Co.,Ltd.	Common shareholders and/or directors
BDMS Accounting Co.,Ltd.	Common shareholders and/or directors
Bangkok Airtour (1988) Co.,Ltd.	Common shareholders and/or directors
Prasit Patana Plc.	Common shareholders and/or directors
Parute (2008) Co.,Ltd.	Common shareholders and/or directors
Paolo Medic Co.,Ltd.	Common shareholders and/or directors
Paolo Samut Prakarn Co.,Ltd.	Common shareholders and/or directors
Diamond Building Products Plc.	Common shareholders and/or directors
Pattaya Country Club Co.,Ltd.	Common shareholders and/or directors
Paradigm Asia Limited	Common shareholders and/or directors
BIRA Property Co.,Ltd.	Common shareholders and/or directors
Myraid Materials Co.,Ltd.	Common shareholders and/or directors
Mae Aroon Co.,Ltd.	Common shareholders and/or directors
Modern Manu Co.,Ltd.	Common shareholders and/or directors
Royal Bangkok Healthcare Co.,Ltd.	Common shareholders and/or directors
Phyathai 1 Hospital Co.,Ltd.	Common shareholders and/or directors
Phyathai 2 Hospital Co.,Ltd.	Common shareholders and/or directors
Phyathai 3 Hospital Co.,Ltd.	Common shareholders and/or directors
Sriracha Nakorn General Hospital Plc.	Common shareholders and/or directors
The Royal Ceramic Industry Plc.	Common shareholders and/or directors
Legal Connect Consultant Co.,Ltd.	Common shareholders and/or directors
Vanachai Group Plc.	Common shareholders and/or directors

List of related companies	Relationship
Aeronautical Radio of Thailand Ltd.	Common shareholders and/or directors
Visunee Landing Co.,Ltd.	Common shareholders and/or directors
Thai Medical Center Plc.	Common shareholders and/or directors
Samui Convenient Store Co.,Ltd.	Common shareholders and/or directors
Samui Airport Shop Co.,Ltd.	Common shareholders and/or directors
Samui Palm Beach Royal Wing Co.,Ltd.	Common shareholders and/or directors
Samui Palm Beach Resort Co.,Ltd.	Common shareholders and/or directors
The Medic Pharma Co., Ltd.	Common shareholders and/or directors
Golden Lime Plc.	Common shareholders and/or directors
Finansia Syrus Securities Plc.	Common shareholders and/or directors
Asiaworks Television Ltd.	Common shareholders and/or directors
A.N.B. Laboratories Co.,Ltd.	Common shareholders and/or directors
Advance Information Technology Plc.	Common shareholders and/or directors
PV Consulting Co., Ltd.	Deemed related party
Food and Store Co., Ltd.	Deemed related party
Bangkok Airways (Cambodia) Co.,Ltd.	Deemed related party
More Than Free Co.,Ltd.	Deemed related party
Pranaporn Co.,Ltd.	Deemed related party
Cool Latte Co.,Ltd.	Deemed related party
Orange Digital Media Co.,Ltd.	Deemed related party
A.P. Sheriff Co.,Ltd.	Deemed related party

The balances of the accounts between the Company and those related companies are as follows:

	(Unit: Thousand Baht)					
	Consolidated			Separate		
	financial statements			financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b><u>Trade and other receivables - related parties (Note 11)</u></b>						
Subsidiaries	-	-	-	42,206	29,695	47,802
Associated companies	852	635	378	-	-	-
Related companies (related by shareholders and/or directors)	<u>87,058</u>	<u>1,476,095</u>	<u>13,371</u>	<u>86,475</u>	<u>1,476,085</u>	<u>12,642</u>
Total trade and other receivables - related parties	<u>87,910</u>	<u>1,476,730</u>	<u>13,749</u>	<u>128,681</u>	<u>1,505,780</u>	<u>60,444</u>
<b><u>Deposits - related parties (Note 20)</u></b>						
Associated companies	47,500	47,500	47,500	47,500	47,500	47,500
Related companies (related by shareholders and/or directors)	<u>72</u>	<u>72</u>	<u>72</u>	<u>72</u>	<u>72</u>	<u>72</u>
Total deposits - related parties	<u>47,572</u>	<u>47,572</u>	<u>47,572</u>	<u>47,572</u>	<u>47,572</u>	<u>47,572</u>

(Unit: Thousand Baht)

	Consolidated			Separate		
	financial statements			financial statements		
	2013	2012	2011	2013	2012	2011
<b>Trade and other payables - related parties (Note 22)</b>						
Subsidiaries	-	-	-	161,231	160,055	140,981
Associated companies	115,479	109,588	105,775	106,070	101,354	92,415
Related companies (related by shareholders and/or directors)	121,426	59,289	61,836	121,209	57,254	61,641
Total and other payables - related parties	<u>236,905</u>	<u>168,877</u>	<u>167,611</u>	<u>388,510</u>	<u>318,663</u>	<u>295,037</u>
<b>Other current liabilities - related parties</b>						
Subsidiaries	-	-	-	418,250	-	-
Total other current liabilities - related parties	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,250</u>	<u>-</u>	<u>-</u>

### Loans to related parties and loan from related parties

The balance of loans between the Company and those related companies and the movement are as follows:

(Unit: Thousand Baht)

Loans to	Consolidated financial statements			
	Balance as at 31 December 2012	Increase during the year	Decrease during the year	Balance as at 31 December 2013
Director	310,570	60,642	(350,903)	20,309
Associated companies	178,463	6,986	(149,744)	35,705
Related companies (related by directors)	141,641	10,266	(151,698)	209
	<u>630,674</u>	<u>77,894</u>	<u>(652,345)</u>	<u>56,223</u>
Less: Allowance for doubtful	<u>(141,641)</u>	<u>(10,057)</u>	<u>151,698</u>	<u>-</u>
Total	<u>489,033</u>	<u>67,837</u>	<u>(500,647)</u>	<u>56,223</u>

(Unit: Thousand Baht)

Loans to	Consolidated financial statements			
	Balance as at 31 December 2011	Increase during the year	Decrease during the year	Balance as at 31 December 2012
Director	589,718	576,824	(855,972)	310,570
Associated companies	179,624	12,583	(13,744)	178,463
Related companies (related by directors)	151,968	171	(10,498)	141,641
	<u>921,310</u>	<u>589,578</u>	<u>(880,214)</u>	<u>630,674</u>
Less: Allowance for doubtful	<u>(151,637)</u>	<u>(171)</u>	<u>10,167</u>	<u>(141,641)</u>
Total	<u>769,673</u>	<u>589,407</u>	<u>(870,047)</u>	<u>489,033</u>

(Unit: Thousand Baht)

Loans to	Separate financial statements			
	Balance as at 31 December 2012	Increase during the year	Decrease during the year	Balance as at 31 December 2013
Director	289,025	60,444	(349,469)	-
Subsidiaries	69,068	-	(5,784)	63,284
Associated companies	178,463	6,986	(149,744)	35,705
Related companies (related by directors)	141,812	10,057	(151,698)	171
	678,368	77,487	(656,695)	99,160
Less: Allowance for doubtful	(141,812)	(10,057)	151,698	(171)
Total	536,556	67,430	(504,997)	98,989

(Unit: Thousand Baht)

Loans to	Separate financial statements			
	Balance as at 31 December 2011	Increase during the year	Decrease during the year	Balance as at 31 December 2012
Director	557,550	576,155	(844,680)	289,025
Subsidiaries	188,629	39,640	(159,201)	69,068
Associated companies	179,624	12,583	(13,744)	178,463
Related companies (related by directors)	146,588	171	(4,947)	141,812
	1,072,391	628,549	(1,022,572)	678,368
Less: Allowance for doubtful	(146,588)	(171)	4,947	(141,812)
Total	925,803	628,378	(1,017,625)	536,556

(Unit: Thousand Baht)

Loans from	Separate financial statements			
	Balance as at 31 December 2012	Increase during the year	Decrease during the year	Balance as at 31 December 2013
Subsidiaries	27,756	27,849	(55,605)	-
Total	27,756	27,849	(55,605)	-

(Unit: Thousand Baht)

Loans from	Separate financial statements			
	Balance as at 31 December 2011	Increase during the year	Decrease during the year	Balance as at 31 December 2012
Subsidiaries	9,888	17,868	-	27,756
Total	9,888	17,868	-	27,756

### Directors and management's benefits

During the year ended the Company and its subsidiaries had employee benefit expenses payable to their directors and management as below.

(Unit: Million Baht)

	Consolidated			Separate		
	financial statements			financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Short-term employee benefits	205	113	97	171	77	70
Post-employment benefits	15	19	6	14	12	4
Total	<u>220</u>	<u>132</u>	<u>103</u>	<u>185</u>	<u>89</u>	<u>74</u>

### Guarantee obligations with related parties

The Company has outstanding guarantee obligations with its related parties, as described in Note 38.4 to the financial statements.

## **9. Cash and cash equivalents**

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash	51,455	36,192	31,566	49,734	34,467	30,910
Bank deposits	2,381,404	3,629,460	1,227,480	2,184,772	3,498,985	1,045,647
Bills of exchange	120,000	-	100,000	-	-	100,000
Total	<u>2,552,859</u>	<u>3,665,652</u>	<u>1,359,046</u>	<u>2,234,506</u>	<u>3,533,452</u>	<u>1,176,557</u>

As at 31 December 2013, bank deposits in saving accounts, fixed deposits and bills of exchange carried interests between 0.10 and 3.15 percent per annum (2012: between 0.10 and 2.70 percent per annum).

## **10. Current investments**

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Bills of exchange - at call	470,000	-	-	470,000	-	-
Trading securities	41,040	59,728	26,315	411,250	-	-
Total	<u>511,040</u>	<u>59,728</u>	<u>26,315</u>	<u>881,250</u>	<u>-</u>	<u>-</u>

During the current year, the subsidiary sold trading securities with book values totaling Baht 112 million (2012: Baht 139 million) and recognised gains on the sales amounting to Baht 5 million in profit or loss (2012: Baht 6 million).

On 26 December 2013, a Board of Directors Meeting passed a resolution to sell 3.5 million common shares of Bangkok Dusit Medical Services Plc. to Bangkok Airways Holding Company Limited, a subsidiary at a market price on 26 December 2013 of Baht 119.50 per share (market price as at 31 December 2013 was Baht 117.50 per share), or for a total of Baht 418.25 million. The company received payment from the subsidiary on 27 December 2013 and transferred the common shares on 31 January 2014.

## 11. Trade and other receivables

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Trade receivables - related parties</u>						
Aged on the basis of due dates						
Not yet due	7,931	8,163	5,156	46,447	22,635	44,484
Past due						
Up to 3 months	5,301	7,522	785	5,292	19,742	1,185
3 - 6 months	4,531	404	16	4,531	404	416
6 - 12 months	37,388	2,000	1,246	37,388	2,000	6,446
Over 12 months	12,378	159,810	143,602	12,378	159,833	158,853
Total	67,529	177,899	150,805	106,036	204,614	211,384
Less: Allowance for doubtful debts	(18,018)	(176,264)	(144,833)	(18,018)	(176,264)	(160,860)
Total trade receivables - related parties, net	49,511	1,635	5,972	88,018	28,350	50,524
<u>Trade receivables - unrelated parties</u>						
Aged on the basis of due dates						
Not yet due	1,037,947	1,260,847	969,458	671,545	962,119	696,720
Past due						
Up to 3 months	451,386	180,547	138,121	357,784	117,648	36,777
3 - 6 months	22,228	39,350	24,681	20,710	36,950	18,790
6 - 12 months	20,313	19,102	50,775	20,313	12,166	48,019
Over 12 months	87,082	60,051	25,280	86,996	60,051	21,136
Total	1,618,956	1,559,897	1,208,315	1,157,348	1,188,934	821,442
Less: Allowance for doubtful debts	(112,149)	(82,066)	(70,191)	(112,149)	(80,041)	(68,675)
Total trade receivables - unrelated parties, net	1,506,807	1,477,831	1,138,124	1,045,199	1,108,893	752,767
Total trade receivable - net	1,556,318	1,479,466	1,144,096	1,133,217	1,137,243	803,291

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Other receivables</u>						
Advances - related party	2,130	2,125	2,125	2,130	2,125	2,125
Note receivable from sales of assets and investments in subsidiaries	-	1,467,818	-	-	1,467,818	-
Others receivable - related parties	36,269	5,152	5,652	38,533	7,487	7,795
Total other receivables - related parties - net	<u>38,399</u>	<u>1,475,095</u>	<u>7,777</u>	<u>40,663</u>	<u>1,477,430</u>	<u>9,920</u>
Others receivable - unrelated parties	93,512	37,364	103,631	93,480	37,361	75,980
Less: Allowance for doubtful debts	(9,070)	-	-	(9,070)	-	-
Total other receivables - unrelated parties - net	<u>84,442</u>	<u>37,364</u>	<u>103,631</u>	<u>84,410</u>	<u>37,361</u>	<u>75,980</u>
Total other receivables	<u>122,841</u>	<u>1,512,459</u>	<u>111,408</u>	<u>125,073</u>	<u>1,514,791</u>	<u>85,900</u>
Total trade and other receivables - net	<u>1,679,159</u>	<u>2,991,925</u>	<u>1,255,504</u>	<u>1,258,290</u>	<u>2,652,034</u>	<u>889,191</u>

**12. Inventories**

(Unit: Thousand Baht)

	Consolidated financial statements								
	Cost			Reduce cost to net realisable value			Inventories-net		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Spareparts	157,379	191,277	145,703	(40,840)	(39,843)	(16,568)	116,539	151,434	129,135
Duty free inventory	-	25,946	11,588	-	-	-	-	25,946	11,588
Foods and catering	48,006	39,645	35,692	-	-	-	48,006	39,645	35,692
Air Tickets	511	459	500	-	-	-	511	459	500
Others	63,492	13,157	10,102	(130)	-	-	63,362	13,157	10,102
Total	<u>269,388</u>	<u>270,484</u>	<u>203,585</u>	<u>(40,970)</u>	<u>(39,843)</u>	<u>(16,568)</u>	<u>228,418</u>	<u>230,641</u>	<u>187,017</u>



(Unit: Thousand Baht)

	Separate financial statements								
	Cost			Reduce cost to net realisable value			Inventories-net		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Spareparts	157,379	145,101	111,924	(40,840)	(39,843)	(16,568)	116,539	105,258	95,356
Duty free inventory	-	25,946	11,588	-	-	-	-	25,946	11,588
Foods and catering	21,875	17,780	9,056	-	-	-	21,875	17,780	9,056
Air Tickets	511	459	500	-	-	-	511	459	500
Others	13,338	13,157	9,403	-	-	-	13,338	13,157	9,403
<b>Total</b>	<b>193,103</b>	<b>202,443</b>	<b>142,471</b>	<b>(40,840)</b>	<b>(39,843)</b>	<b>(16,568)</b>	<b>152,263</b>	<b>162,600</b>	<b>125,903</b>

### 13. Restricted bank deposits

These represent current account which temporary suspense as discussed in Note 39.4.

### 14. Investments in subsidiaries

Details of investments in subsidiaries as presented in separate financial statements are as follows:

Company's name	Paid-up capital			Shareholding percentage			Cost		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
				(%)	(%)	(%)	(Thousand Baht)	(Thousand Baht)	(Thousand Baht)
Samui Palm Beach Resort Co.,Ltd.	-	-	200,000	-	-	95.00	-	-	190,000
Bangkok Airways (Cambodia) Co.,Ltd.	-	USD 1,000,000	USD 1,000,000	-	96.00	96.00	-	9,478	9,478
Bangkok Airways Holding Co.,Ltd.	1,001,000	571,000	571,000	99.99	99.99	99.99	1,000,999	570,999	570,999
Sukhothai Property Co., Ltd.	-	-	322,000	-	-	99.99	-	-	322,000
Samui Park Avenue Co., Ltd.	-	-	10,000	-	-	99.99	-	-	10,000
BAC Group Services Co., Ltd.	-	-	2,500	-	-	99.99	-	-	2,500
Bangkok Flight Training Center Co., Ltd.	-	-	37,500	-	-	69.99	-	-	26,250
Bangkok Airways Ground Services Co.,Ltd.	250	250	-	99.99	99.99	-	250	250	-
Worldwide Flight Services Bangkok Air Ground Handling Co.,Ltd.	670,000	670,000	670,000	90.00	88.13	88.13	603,515	590,500	590,500
Bangkok Air Catering Co.,Ltd.	500,000	500,000	500,000	90.00	59.80	59.80	579,469	299,000	299,000
Universal Catering & Services (Mauritius) Co.,Ltd.	-	-	USD 270,000	-	-	100.00	-	-	9,608
<b>Total</b>							<b>2,184,233</b>	<b>1,470,227</b>	<b>2,030,335</b>
Less: Allowance for loss on diminution in value of investments							-	(9,478)	(37,478)
<b>Investment in subsidiary companies - net</b>							<b>2,184,233</b>	<b>1,460,749</b>	<b>1,992,857</b>

The Company's investments in subsidiaries amounting to Baht 594 million (2012: Baht 594 million) have been used as collateral for credit facilities of the subsidiaries.

On 1 December 2012, the Company signed a purchase and sell agreement with The Sahakol Estate Co.,Ltd., a related party, to sell investments in 4 subsidiaries (Samui Palm Beach Resorts Co.,Ltd., Sukothai Property Co.,Ltd., Samui Park Avenue Co.,Ltd. and Bangkok Flight Training Center Co.,Ltd.) for a total of Baht 454 million, whereby the related company is to pay for the shares by issuing promissory notes with terms of one year (maturing within 27 December 2013) that are guaranteed by a local bank. The Company redeemed the promissory notes during the year 2013.

During the current year, the Company sold investment in Bangkok Airways (Cambodia) Company Limited to Cambodia Regional Services Cooperation Company Limited with USD 0.24 million. The Company received all cash on 28 March 2013.

On 29 March 2013, the Company increased its interest in the equity of Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd. by purchasing 1,252,900 shares of common stock from PV Consulting Co., Ltd. at a price of Baht 10.38 per share, totaling Baht 13 million or USD 442,936, and increased its interest in Bangkok Air Catering Co., Ltd. by purchasing 15,100,000 shares of common stock from Food & Store Co., Ltd. at a price of Baht of 18.61 per share, totaling Baht 281 million. As a result, its shareholdings in both of these subsidiaries increased to 90 percent.

On 27 December 2013, the Company fully paid up the 10,000,000 additional shares of Bangkok Airways Holding Company Limited at a price of Baht 43 per share, totaling Baht 430 million.

## 15. Investments in associates

### 15.1 Details of associates:

(Unit: Thousand Baht)

Consolidated financial statements											
Company's name	Nature of business	Country of incorporation	Shareholding percentage			Cost			Carrying amounts based on equity method		
			2013	2012	2011	2013	2012	2011	2013	2012	2011
			(%)	(%)	(%)				(Restated)	(Restated)	
WFS - PG Cargo Co., Ltd.	Cargo	Thailand	49.00	49.00	49.00	147,000	147,000	147,000	383,706	326,298	234,325
Samui Airport Property Fund (Leasehold)	Property Fund	Thailand	25.00	25.00	25.00	2,255,571	2,255,571	2,255,571	1,539,202	1,628,203	1,716,562
S.E.A. Aviation Co., Ltd.	Transportation and cargo	Thailand	10.00	10.00	10.00	3,000	3,000	3,000	2,822	2,880	2,912
Total						2,405,571	2,405,571	2,405,571	1,925,730	1,957,381	1,953,799

(Unit: Thousand Baht)

Separate financial statements														
Company's name	Nature of business	Country of incorporation	Shareholding percentage			Cost			Allowance for impairment of investments			Carrying amounts based on cost method - net		
			2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
			(%)	(%)	(%)									
WFS - PG Cargo														
Company Limited	Cargo	Thailand	49.00	49.00	49.00	147,000	147,000	147,000	-	-	-	147,000	147,000	147,000
Samui Airport														
Property														
Fund (Leasehold)	Property Fund	Thailand	25.00	25.00	25.00	2,255,571	2,255,571	2,255,571	-	-	-	2,255,571	2,255,571	2,255,571
S.E.A. Aviation Co., Ltd.														
Ltd.	Transportation and cargo	Thailand	10.00	10.00	10.00	3,000	3,000	3,000	-	-	-	3,000	3,000	3,000
Total						2,405,571	2,405,571	2,405,571	-	-	-	2,405,571	2,405,571	2,405,571

## 15.2 Share of profit/loss and dividend received

During the years, the Company has recognised its share of profit/loss from investments in associate companies in the consolidated financial statements and dividend income in the separate financial statements as follows:

Company's name	(Unit: Thousand Baht)					
	Consolidated			Separate		
	financial statements			financial statements		
	Share of profit/loss from investments in associates during the year			Dividend received during the year		
2013	2012	2011	2013	2012	2011	
WFS - PG Cargo Co., Ltd.	189,708	180,174	119,310	132,300	88,200	-
Samui Airport Property Fund (Leasehold)	204,311	178,828	137,678	293,313	267,188	225,625
S.E.A. Aviation Co., Ltd.	(59)	(32)	(39)	-	-	-
Total	393,960	358,970	256,949	425,613	355,388	225,625

## 15.3 Fair value investments in listed associates

In respect of investments in associated companies that are listed companies on the Stock Exchange of Thailand, their fair values are as follows:

Company's name	(Unit: Million Baht)		
	Fair value as at 31 December		
	2013	2012	2011
Samui Airport Property Fund (Leasehold)	3,753	3,990	2,304
Total	3,753	3,990	2,304

## 15.4 Summarised financial information of associates

Financial information of the associated companies were summaries below.

(Unit: Million Baht)

Company's name	Paid-up capital as at			Total assets as at			Total liabilities as at			Total revenues for the years			Profit for the years		
	31 December			31 December			31 December			ended 31 December			ended 31 December		
	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011	2013	2012	2011
				(Restated)	(Restated)		(Restated)	(Restated)					(Restated)	(Restated)	
WFS - PG Cargo Co.,Ltd.	300	300	300	1,259	1,424	1,435	455	737	936	1,421	1,371	1,187	387	368	243
Samui Airport Property Fund (Leasehold)	9,208	9,208	9,208	10,552	10,365	10,444	62	62	60	1,230	1,136	979	1,191	1,098	942
S.E.A Aviation Co., Ltd.	30	30	30	29	29	30	-	-	-	-	-	-	(1)	-	-

## 16. Investment properties

The net book value of investment properties is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	Land awaiting for sales	Office and shops for rent	Total	Land awaiting for sales	Office and shops for rent	Total
31 December 2013						
Cost	235,226	107,829	343,055	235,226	107,829	343,055
Less: Accumulated depreciation	-	(30,738)	(30,738)	-	(30,738)	(30,738)
Net book value	<u>235,226</u>	<u>77,091</u>	<u>312,317</u>	<u>235,226</u>	<u>77,091</u>	<u>312,317</u>
31 December 2012						
Cost	235,226	107,829	343,055	235,226	107,829	343,055
Less: Accumulated depreciation	-	(25,347)	(25,347)	-	(25,347)	(25,347)
Net book value	<u>235,226</u>	<u>82,482</u>	<u>317,708</u>	<u>235,226</u>	<u>82,482</u>	<u>317,708</u>
31 December 2011						
Cost	989,066	26,182	1,015,248	999,592	134,012	1,133,604
Less: Accumulated depreciation	-	(4,898)	(4,898)	-	(24,854)	(24,854)
Net book value	<u>989,066</u>	<u>21,284</u>	<u>1,010,350</u>	<u>999,592</u>	<u>109,158</u>	<u>1,108,750</u>

A reconciliation of the net book value of investment properties for the years were presented below.

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Net book value at beginning of year	317,708	1,010,350	649,554	317,708	1,108,750	753,345
Acquisition of assets	-	1,384	362,105	-	1,384	362,105
Increase from sales of investments in subsidiaries - net book value	-	93,464	-	-	-	-
Disposals - net book value	-	(785,836)	-	-	(785,836)	-
Depreciation charged	(5,391)	(1,654)	(1,309)	(5,391)	(6,590)	(6,700)
Net book value at end of year	<u>312,317</u>	<u>317,708</u>	<u>1,010,350</u>	<u>312,317</u>	<u>317,708</u>	<u>1,108,750</u>

The fair value of the investment properties as at 31 December 2013 and 2012 stated below:

(Unit: Thousand Baht)

	<u>2013</u>	<u>2012</u>
Land awaiting for sales	312,805	312,275
Office and shops for rent	30,329	29,439

The fair values of the above investment properties have been determined based on valuations performed by an accredited independent valuer determined based on market prices and, for some land, the valuation prices from The Treasury Department.

The Company have pledged investment properties amounting to approximately Baht 161 million (2012: Baht 234 million) as collateral against credit facilities received from financial institutions.

## 17. Others long-term investments

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Available-for-sales securities						
Market capital	2,869,966	2,834,601	2,136,914	2,223,465	2,265,101	1,567,414
Add: Unrealised gain from revaluation	11,394,798	10,944,277	7,774,871	9,632,548	9,584,277	6,963,121
Available-for-sales securities - net	14,264,764	13,778,878	9,911,785	11,856,013	11,849,378	8,530,535
Debt securities held to maturity	50,000	50,000	-	50,000	50,000	-
Other investments	7,159	7,527	6,874	7,159	7,527	6,874
<b>Total</b>	<b>14,321,923</b>	<b>13,836,405</b>	<b>9,918,659</b>	<b>11,913,172</b>	<b>11,906,905</b>	<b>8,537,409</b>

Certain available-for-sales securities of the Company and its subsidiaries with market value as at 31 December 2013 amounting to Baht 12,260 million (2012: Baht 11,843 million) have been used as collateral for short-term loans from financial institutions and long-term loans.

## 18. Property, plant and equipment

(Unit: Thousand Baht)

Cost	Consolidated financial statements							Total	
	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipment	Furniture, fixture and equipment	Vehicles		Construction in progress
1 January 2011	1,722,098	1,957,321	808,082	4,364,932	1,906,737	1,150,385	552,390	71,271	12,533,216
Purchase	388,495	6,425	-	-	104,187	38,970	24,492	162,826	725,395
Disposal	-	(5,402)	-	-	-	(7,755)	(19,938)	(121)	(33,216)
Transfer in (out) / adjust	(12)	56,326	545	-	-	16,175	877	(93,872)	(19,961)
31 December 2011	2,110,581	2,014,670	808,627	4,364,932	2,010,924	1,197,775	557,821	140,104	13,205,434
Purchase	60,817	16,955	-	-	151,088	74,229	38,994	149,378	491,461
Disposal	(7,209)	(25,030)	-	-	(6,763)	(22,163)	(24,578)	(2,010)	(87,753)
Transfer to investment properties	(10,526)	(107,829)	-	-	-	-	-	-	(118,355)
Decrease from sale of investments in subsidiaries	(334,506)	(403,770)	-	-	-	(140,063)	(3,722)	(17,914)	(899,975)
Transfer in (out) / adjust	-	88,766	14,690	-	-	31,460	91	(135,022)	(15)
31 December 2012	1,819,157	1,583,762	823,317	4,364,932	2,155,249	1,141,238	568,606	134,536	12,590,797
Purchase	1,354	9,856	-	-	285,638	64,219	21,161	181,317	563,545
Disposal	(16,378)	(60,893)	(5,693)	-	(849,128)	(459,013)	(67,648)	(19,577)	(1,478,330)
Transfer in (out)	-	65,687	6,873	-	4,004	11,592	13,330	(101,486)	-
31 December 2013	1,804,133	1,598,412	824,497	4,364,932	1,595,763	758,036	535,449	194,790	11,676,012

(Unit: Thousand Baht)

## Consolidated financial statements

	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipment	Furniture, fixture and equipment	Vehicles	Construction in progress	Total
<b>Accumulated depreciation</b>									
1 January 2011	-	567,205	424,843	1,752,006	1,430,359	916,776	442,181	-	5,533,370
Depreciation for the year	-	118,280	34,186	163,761	95,012	90,870	51,385	-	553,494
Depreciation - disposal	-	(3,853)	-	-	-	(7,241)	(18,483)	-	(29,577)
31 December 2011	-	681,632	459,029	1,915,767	1,525,371	1,000,405	475,083	-	6,057,287
Depreciation for the year	-	120,327	32,970	172,826	103,062	71,668	35,296	-	536,149
Depreciation - disposal	-	(5,248)	-	-	(6,758)	(21,407)	(23,784)	-	(57,197)
Transfer to investment properties	-	(24,891)	-	-	-	-	-	-	(24,891)
Decrease from sale of investments in subsidiaries	-	(167,706)	-	-	-	(128,694)	(3,563)	-	(299,963)
31 December 2012	-	604,114	491,999	2,088,593	1,621,675	921,972	483,032	-	6,211,385
Depreciation for the year	-	89,075	34,837	168,293	125,014	66,125	28,710	-	512,054
Depreciation - disposal	-	(51,704)	(2,604)	-	(812,553)	(451,943)	(67,470)	-	(1,386,274)
Transfer in (out)	-	-	-	-	218	(218)	-	-	-
31 December 2013	-	641,485	524,232	2,256,886	934,354	535,936	444,272	-	5,337,165



(Unit: Thousand Baht)

Consolidated financial statements

	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipment	Furniture, fixture and equipment	Vehicles	Construction in progress	Total
<b>Net book value</b>									
31 December 2011	2,110,581	1,333,038	349,598	2,449,165	485,553	197,370	82,738	140,104	7,148,147
31 December 2012	1,819,157	979,648	331,318	2,276,339	533,574	219,266	85,574	134,536	6,379,412
31 December 2013	1,804,133	956,927	300,265	2,108,046	661,409	222,100	91,177	194,790	6,338,847
<b>Depreciation for the years ended 31 December</b>									
2011 (Baht 428 million included in cost at sales and services, and the balance in selling and administrative expenses)									553,494
2012 (Baht 386 million included in cost at sales and services, and the balance in selling and administrative expenses)									536,149
2013 (Baht 443 million included in cost at sales and services, and the balance in selling and administrative expenses)									512,054

(Unit: Thousand Baht)

## Separate financial statements

	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipment	Furniture, fixture and equipment	Vehicles	Construction in progress	Total
<b>Cost</b>									
1 January 2011	1,377,066	1,373,808	808,082	4,364,932	1,324,737	752,661	338,034	57,704	10,397,024
Purchase	388,495	9	-	-	52,602	23,655	11,627	143,560	619,948
Disposal	-	(4,104)	-	-	-	(6,568)	(15,218)	-	(25,890)
Transfer in (out)/adjust	(12)	46,233	545	-	-	11,748	877	(79,345)	(19,954)
31 December 2011	1,765,549	1,415,946	808,627	4,364,932	1,377,339	781,496	335,320	121,919	10,971,128
Purchase	60,817	-	-	-	69,055	39,481	31,075	115,677	316,105
Disposal	(7,209)	(18,265)	-	-	(6,763)	(17,112)	(24,019)	(2,010)	(75,378)
Transfer in (out)	-	68,921	14,690	-	-	17,348	91	(101,050)	-
31 December 2012	1,819,157	1,466,602	823,317	4,364,932	1,439,631	821,213	342,467	134,536	11,211,855
Purchase	1,354	-	-	-	193,639	55,140	13,652	160,369	424,154
Disposal	(16,378)	(56,486)	(5,693)	-	(849,028)	(455,573)	(67,648)	(19,577)	(1,470,383)
Transfer in (out)	-	65,687	6,873	-	-	15,596	13,330	(101,486)	-
31 December 2013	1,804,133	1,475,803	824,497	4,364,932	784,242	436,376	301,801	173,842	10,165,626
<b>Accumulated depreciation</b>									
1 January 2011	-	413,011	424,843	1,752,006	1,214,552	670,521	298,018	-	4,772,951
Depreciation for the year	-	82,527	34,186	163,761	44,154	47,431	22,080	-	394,139
Depreciation - disposal	-	(3,594)	-	-	-	(6,492)	(13,764)	-	(23,850)
31 December 2011	-	491,944	459,029	1,915,767	1,258,706	711,460	306,334	-	5,143,240
Depreciation for the year	-	82,865	32,970	172,826	51,034	34,948	18,934	-	393,577
Depreciation - disposal	-	(4,035)	-	-	(6,758)	(16,910)	(23,224)	-	(50,927)
31 December 2012	-	570,774	491,999	2,088,593	1,302,982	729,498	302,044	-	5,485,890
Depreciation for the year	-	75,311	34,837	168,293	64,161	36,009	13,312	-	391,923
Depreciation - disposal	-	(50,209)	(2,604)	-	(812,488)	(448,856)	(67,471)	-	(1,381,628)
31 December 2013	-	598,876	524,232	2,256,886	554,655	316,651	247,885	-	4,496,185

(Unit: Thousand Baht)

Separate financial statements

	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipment	Furniture, fixture and equipment	Vehicles	Construction in progress	Total
<b>Net book value</b>									
31 December 2011	1,765,549	924,002	349,598	2,449,165	118,633	70,036	28,986	121,919	5,827,888
31 December 2012	1,819,157	895,828	331,318	2,276,339	136,649	91,715	40,423	134,536	5,725,965
31 December 2013	1,804,133	879,927	300,265	2,108,046	229,587	119,725	53,916	173,842	5,669,441
<b>Depreciation for the years ended 31 December</b>									
2011 (Baht 264 million included in cost at sales and services, and the balance in selling and administrative expenses)									394,139
2012 (Baht 271 million included in cost at sales and services, and the balance in selling and administrative expenses)									393,577
2013 (Baht 330 million included in cost at sales and services, and the balance in selling and administrative expenses)									391,923

As at 31 December 2013, the Company and its subsidiaries have aircrafts, vehicles and equipment under finance lease which net book value amounted to approximately Baht 2,175 million (2012 : Baht 2,346 million)

As at 31 December 2013, certain property and equipments have been fully depreciated but are still in use. The gross carrying amount (before deducting accumulated depreciation) of those assets amounted to approximately Baht 2,656 million (2012: Baht 2,617 million (separate financial statements: Baht 2,433 million 2012: Baht 2,289 million).

An airport including its facilities are used as collateral for compliance with the term and condition in the lease and services from facilities agreements with a Property Fund as discuss in Note 26.

Major portion of the Company's land together with the construction and project's assets of subsidiaries thereon are used as collateral for long-term loans as discuss in Note 23.

All aircrafts of the Company as at 31 December 2013 are purchased under conditional agreements. The ownership of the aircrafts will be transferred to the Company upon final payment.

#### **19. Intangible assets**

Two subsidiary companies have signed contracts with Airports of Thailand Public Company Limited (AOT) (which has sole right to operate Suvarnabhumi Airport), in order to engage in various projects at the Airport for 20 years from the day it opened officially (from 28 September 2006 to 27 September 2026). The subsidiaries have to pay annual benefits to AOT, in amounts not less than the minimum compensation rates set for each year, throughout the period of the concession.

<u>Company</u>	<u>Project</u>	<u>Period</u>
Bangkok Air Catering Co., Ltd.	Catering	20 years
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	Ground service equipments and maintenance facilities	20 years

The rights in buildings and other components of each project are transferred to Ministry of Finance.

The net book value of intangible assets is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	Concessions	Computer software	Total	Concessions	Computer software	Total
As at 31 December 2013:						
Cost	920,732	241,717	1,162,449	-	223,524	223,524
Less: Accumulated amortisation	(334,247)	(111,116)	(445,363)	-	(95,230)	(95,230)
Net book value	<u>586,485</u>	<u>130,601</u>	<u>717,086</u>	<u>-</u>	<u>128,294</u>	<u>128,294</u>
As at 31 December 2012:						
Cost	920,732	171,082	1,091,814	-	153,392	153,392
Less: Accumulated amortisation	(288,232)	(103,997)	(392,229)	-	(88,828)	(88,828)
Net book value	<u>632,500</u>	<u>67,085</u>	<u>699,585</u>	<u>-</u>	<u>64,564</u>	<u>64,564</u>
As at 31 December 2011:						
Cost	920,732	115,352	1,036,084	-	95,339	95,339
Less: Accumulated amortisation	(242,090)	(97,140)	(339,230)	-	(81,187)	(81,187)
Net book value	<u>678,642</u>	<u>18,212</u>	<u>696,854</u>	<u>-</u>	<u>14,152</u>	<u>14,152</u>

A reconciliation of the net book value of intangible assets for the years is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Net book value at beginning of year	699,585	696,854	743,566	64,564	14,152	12,402
Acquisition of computer software	70,635	56,115	6,941	70,132	55,944	6,831
Written off - net book value	-	-	(97)	-	-	-
Decrease from sale of investments in subsidiaries - net book value	-	(896)	-	-	-	-
Amortisation	(53,134)	(52,488)	(53,556)	(6,402)	(5,532)	(5,081)
Net book value at end of year	<u>717,086</u>	<u>699,585</u>	<u>696,854</u>	<u>128,294</u>	<u>64,564</u>	<u>14,152</u>

## 20. Other non-current assets

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Deposit	589,386	447,003	426,110	578,817	441,739	419,747
Share deposit	-	-	1,898,500	-	-	1,898,500
Withholding tax	143,040	40,601	40,602	91,227	40,601	40,602
Others	2,695	2,695	3,198	2,695	2,695	2,695
<b>Total</b>	<b>735,121</b>	<b>490,299</b>	<b>2,368,410</b>	<b>672,739</b>	<b>485,035</b>	<b>2,361,544</b>

## 21. Bank overdrafts and short-term loans from banks

(Unit: Thousand Baht)

	Interest rate (percent per annum)	Consolidated financial statements			Separate financial statements		
		2013	2012	2011	2013	2012	2011
Bank overdrafts	7.00 - 10.00	21,365	-	13,565	-	-	-
Short-term loans from financial institutions	3.25 - 7.90	650,000	1,670,000	1,185,000	650,000	1,670,000	1,140,000
<b>Total</b>		<b>671,365</b>	<b>1,670,000</b>	<b>1,198,565</b>	<b>650,000</b>	<b>1,670,000</b>	<b>1,140,000</b>

Bank overdrafts and short-term loans from banks are secured by available for sales securities investment of the Company and its subsidiary, director and the director's securities.

## 22. Trade and other payables

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Trade payables - related parties	191,689	134,668	159,463	352,287	289,683	265,463
Trade payables - unrelated parties	1,384,140	1,155,041	1,117,052	1,333,652	1,106,181	1,030,638
Other payables - related parties	45,216	34,209	8,148	36,223	28,980	29,574
Other payables - unrelated parties	703,888	434,338	454,515	490,573	229,811	259,961
Other payables for purchase of software and equipment	32,061	70,763	13,139	4,361	53,968	5,042
<b>Total trade and other payables</b>	<b>2,356,994</b>	<b>1,829,019</b>	<b>1,752,317</b>	<b>2,217,096</b>	<b>1,708,623</b>	<b>1,590,678</b>

## 23. Long-term loans

### Company

(Unit: Thousand Baht)

Loan	Credit Facility	Interest rate (percent per annum)	Period (year)	Agreement Date	Repayment	Separate financial statements		
						2013	2012	2011
1	100	Year 1 : MLR - 0.75 Year 2 onward : MLR	7	10 August 2005	Monthly	-	-	13,850
2	119	Year 1 : MLR - 0.50 Year 2 onward : MLR	7	23 March 2006	Monthly	-	5,811	26,811
3	78	Year 1 : MLR - 1.00 Year 2 : MLR - 0.50 Year 3 onward : MLR	7	20 December 2006	Monthly	-	19,229	39,629
4	300	6.75	5	31 March 2009	Monthly	-	144,095	204,168
5	420	Year 1-2 : MLR - 0.50 Year 3 onward : MLR	6	29 October 2009	Monthly	261,000	345,000	387,000
6	135	Year 1-2 : MLR - 0.50 Year 3 onward : MLR	6	29 October 2009	Monthly	44,290	76,790	101,290
7	1,100	Year 1 : MLR - 1.0 Year 2 : MLR - 0.50 Year 3 onward : MLR	7	20 August 2010	Monthly	677,600	860,000	1,042,400
8	250	MLR	5	9 November 2010	Monthly	127,500	178,000	225,500
9	500	5.50	7	9 May 2011	Yearly	231,582	398,187	500,000
10	300	5.50	7	24 June 2011	Monthly	192,000	235,200	278,400
11	53	6.00	7	24 January 2012	Monthly	37,620	45,540	-
12	100	6.00	7	24 January 2012	Monthly	8,650	7,830	-
13	65	6.00	5	24 January 2012	Monthly	-	1,910	-
Total						1,580,242	2,317,592	2,819,048
Less: Current portion						(628,838)	(595,824)	(534,871)
Long-term loans, net of current portion						951,404	1,721,768	2,284,177

## Subsidiaries

(Unit: Thousand Baht)

Company	Credit Facilities	Interest rate		Agreement Date	Repayment	2013	2012	2011
		(percent per annum)	Period (year)					
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	630	MLR - 1.50	12	15 March 2004	Quarterly	297,000	407,000	467,000
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	160	MLR	6	17 August 2006	Quarterly	-	-	46,825
Bangkok Air Catering Co., Ltd.	710	MLR - 1.00 to MLR	8	23 February 2006	Every 6 months	205,000	385,000	525,000
BAC Gourmets House Co., Ltd.	6	MLR	4	20 December 2010	Quarterly	2,100	3,950	5,600
BAC Gourmets House Co., Ltd.	40	MLR	4	24 April 2012	Quarterly	22,800	31,300	-
Samui Palm Beach Resort Co.,Ltd.	135	MLR - 2.0 to MLR + 2.5	11	12 October 2004	Monthly	-	-	87,107
Samui Palm Beach Royal Wings Co.,Ltd.	152	MLR - 2.0 to MLR + 2.5	11	3 August 2006	Monthly	-	-	144,760
Total						526,900	827,250	1,276,292
Less: Current portion						(357,300)	(300,350)	(253,995)
Long term loan, net of current portion						169,600	526,900	1,022,297

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Total	2,107,142	3,144,842	4,095,340	1,580,242	2,317,592	2,819,048
Less: Current portion	(986,138)	(896,174)	(788,866)	(628,838)	(595,824)	(534,871)
Long-term loans, net of current portion	1,121,004	2,248,668	3,306,474	951,404	1,721,768	2,284,177

Long-term loans are secured by part of the Company and its subsidiaries' land and construction, project's assets at Suvarnabhumi Airport of subsidiary, rights on the agreements of subsidiaries with Airport of Thailand Public Company Limited, common shares of subsidiary, certain available for sales securities of the Company and its subsidiary, director and the director's securities.

The loan agreements contain covenants as specified in the agreements that, among other things, require the Company and its subsidiaries to maintain certain debt to equity and debt service coverage ratios according to the agreements.

As at 31 December 2013, the long-term credit facilities of the Company and its subsidiaries which have not yet been drawn down amounted to Baht 131 million (Company only: Baht 131 million) (2012: the Company and its subsidiaries: Baht 146 million) (Company only: Baht 146 million)).



## 24. Liabilities arising from finance lease of aircrafts

Liabilities arising from finance lease of aircrafts (effective rate from 6.68 percent to 7.79 percent) are due as follow:

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	2013		
	Liabilities arising from finance lease	Deferred interest expenses	Total
Within one year	471,139	(47,312)	423,827
After one year but within five years	422,197	(13,538)	408,659
<b>Total</b>	<b>893,336</b>	<b>(60,850)</b>	<b>832,486</b>

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	2012		
	Liabilities arising from finance lease	Deferred interest expenses	Total
Within one year	410,318	(69,899)	340,419
After one year but within five years	838,907	(56,839)	782,068
<b>Total</b>	<b>1,249,225</b>	<b>(126,738)</b>	<b>1,122,487</b>

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	2011		
	Liabilities arising from finance lease	Deferred interest expenses	Total
Within one year	328,924	(90,082)	238,842
After one year but within five years	1,282,621	(131,080)	1,151,541
<b>Total</b>	<b>1,611,545</b>	<b>(221,162)</b>	<b>1,390,383</b>

## 25. Liabilities under finance lease agreements

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
Liabilities under finance lease agreements	64,068	69,268	40,643	55,015	60,046	31,265
Less: Deferred interest expenses	(4,274)	(5,187)	(2,810)	(3,622)	(4,428)	(2,068)
Total	59,794	64,081	37,833	51,393	55,618	29,197
Less : Portion due within one year	(26,541)	(25,162)	(15,579)	(22,694)	(21,845)	(12,290)
Liabilities under finance lease agreements - net of current portion	33,253	38,919	22,254	28,699	33,773	16,907

The Company and its subsidiaries have entered into the finance lease agreements with leasing companies for rental of motor vehicles and equipment for use in its operation, whereby it is committed to pay rental on a monthly basis. The terms of the agreements are generally between 3 and 5 years.

Future minimum lease payments required under the finance lease agreements were as follows:

(Unit: Thousand Baht)

	Consolidated financial statements		
	31 December 2013		
	Less than 1 year	1-5 years	Total
Future minimum lease payments	28,980	35,088	64,068
Deferred interest expenses	(2,439)	(1,835)	(4,274)
Present value of future minimum lease payments	26,541	33,253	59,794

(Unit: Thousand Baht)

	Consolidated financial statements		
	31 December 2012		
	Less than 1 year	1-5 years	Total
Future minimum lease payments	28,010	41,258	69,268
Deferred interest expenses	(2,848)	(2,539)	(5,187)
Present value of future minimum lease payments	25,162	38,919	64,081

(Unit: Thousand Baht)

Consolidated financial statements			
31 December 2011			
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	17,205	23,438	40,643
Deferred interest expenses	(1,626)	(1,184)	(2,810)
Present value of future minimum lease payments	<u>15,579</u>	<u>22,254</u>	<u>37,833</u>

(Unit: Thousand Baht)

Separate financial statements			
31 December 2013			
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	24,761	30,254	55,015
Deferred interest expenses	(2,067)	(1,555)	(3,622)
Present value of future minimum lease payments	<u>22,694</u>	<u>28,699</u>	<u>51,393</u>

(Unit: Thousand Baht)

Separate financial statements			
31 December 2012			
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	24,283	35,763	60,046
Deferred interest expenses	(2,438)	(1,990)	(4,428)
Present value of future minimum lease payments	<u>21,845</u>	<u>33,773</u>	<u>55,618</u>

(Unit: Thousand Baht)

Separate financial statements			
31 December 2011			
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	13,579	17,686	31,265
Deferred interest expenses	(1,289)	(779)	(2,068)
Present value of future minimum lease payments	<u>12,290</u>	<u>16,907</u>	<u>29,197</u>

## 26. Long-term loans - related party

	(Unit: Thousand Baht)
	Consolidated financial statements and Separate financial statements
Balance as at 1 January 2011 - as restated	10,600,747
Increase from compound interest	1,283,035
Less: Payment during period	(973,146)
Balance as at 31 December 2011 - as restated	10,910,636
Increase from compound interest	1,314,162
Less: Payment during period	(1,127,407)
Balance as at 31 December 2012 - as restated	11,097,391
Increase from compound interest	1,331,658
Less: Payment during period	(1,221,560)
Balance as at 31 December 2013	11,207,489
Less: portion due within one year	-
Long-term loans - related party - net of current portion	<u>11,207,489</u>

On 24 November 2006, the Company entered into an agreement to lease Samui Airport, together with its facilities, to Samui Airport Property Fund (Leasehold) (Fund) for a period of 30 years (from 24 November 2006 to 23 November 2036) for Baht 9,300 million. The Company pledged the assets leased to the Fund, with a collateral values of Baht 20,900 million, to guarantee performance in accordance with the lease agreement. Under the term of the agreement, the Company (Bangkok Airways Co., Ltd. and/or its affiliates, and/or its subsidiaries) must hold not less than 25% of the number of units issued and offered for sale by the Fund for the period of 20 years (from 24 November 2006 to 23 November 2026).

On the same date, the Company entered into an agreement to sublease the Samui Airport from the Fund for a period of 3 years, renewable for 9 times of 3 years each, and another agreement under which the Company is to receive utilities system service at the Samui Airport from the Fund for a period of 30 years (from 24 November 2006 to 23 November 2036). Payments on these agreements are as follows:

Sublease	- Baht 26,125,000 per month
Utilities system service	
- Fixed	- Baht 21,375,000 per month
- Additional	- Vary based on number of departing passengers and number of flight arrivals

The Company has to arrange for a bank guarantee to be issued by a commercial bank in Thailand and/or deposit cash as security in the bank account of the Fund and/or pledge of listed securities and/or other securities, such that their aggregate value is equal to 12 months of the sub-lease fee specified in Sub-Lease Agreement plus the fixed service fee specified in Utilities System Service Agreement. If listed securities and/or other securities are pledged, collateral value is not to be less than 120 percent of the pledged collateralized amount throughout the pledge period.

The Company has pledged common shares of Bangkok Dusit Medical Services Public Company Limited amounting to 8.5 million shares (2012: 8.5 million shares) with a fair value of Baht 999 million (2012: Baht 965 million) as at 31 December 2013, as collateral.

During the year 2013, the Company changed the way it recorded these long-term loans, to include fixed rental expenses, fixed service expenses and variable service expenses in computing the effective interest rate. This change in calculation method caused the book value of long-term loans to increase, since cumulative estimated future liabilities over the term of the contract are recorded in the financial statements. This effect to this is that in some years the long-term loans balance is increased due to compounding of interest.

## **27. Provision for long-term employee benefits**

Provision for long-term employee benefits, which is compensations on employees' retirement, was as follows:

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Defined benefit obligation at</b>						
<b>beginning of year</b>	160,919	115,340	88,386	121,243	82,604	64,969
Current service cost	30,001	29,406	23,702	18,761	19,128	15,194
Interest cost	5,829	4,375	3,363	4,334	3,110	2,441
Benefits paid during the year	(21,190)	(410)	(111)	(20,464)	-	-
Actuarial loss	110,926	16,401	-	112,820	16,401	-
Decrease from sale of investments						
in subsidiaries	-	(4,193)	-	-	-	-
<b>Provisions for long-term employee</b>						
<b>benefits at end of year</b>	<u>286,485</u>	<u>160,919</u>	<u>115,340</u>	<u>236,694</u>	<u>121,243</u>	<u>82,604</u>

Long-term employee benefit expenses included in the profit or loss was as follows:

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current service cost	30,001	29,406	23,702	18,761	19,128	15,194
Interest cost	5,829	4,375	3,363	4,334	3,110	2,441
Actuarial loss recognised during the year	110,926	16,401	-	112,820	16,401	-
Total expense recognised in profit or loss	<u>146,756</u>	<u>50,182</u>	<u>27,065</u>	<u>135,915</u>	<u>38,639</u>	<u>17,635</u>
Line items under which such expenses are included in profit or loss						
Cost of sales and service	96,658	28,666	17,692	93,674	19,848	10,756
Selling and administrative expenses	50,098	21,516	9,373	42,241	18,791	6,879

Principal actuarial assumptions at the valuation date were as follows:

(Unit: Percent per annum)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Discount rate	3.96 - 4.10	3.36 - 4.17	3.00 - 4.17	3.96	3.58	3.76
Future salary increase rate	4.00 - 6.00	4.00 - 5.00	4.00 - 5.00	6.00	5.00	5.00
Staff turnover rate						
(dependent on age)	0.00 - 31.00	0.00 - 46.00	0.00 - 46.00	5.00 - 9.00	8.00 - 10.00	5.00 - 10.00

Amounts of defined benefit obligation and experience adjustments on the obligation for the current and previous three periods are as follows:

(Unit: Thousand Baht)

	Defined benefit obligation		Experience adjustments on the obligation	
	Consolidated financial statements	Separate financial statements	Consolidated financial statements	Separate financial statements
Year 2013	286,485	236,694	39,633	41,857
Year 2012	160,919	121,243	7,813	7,813
Year 2011	115,340	82,604	-	-
Year 2010	88,386	64,969	-	-

## 28. Share capital

On 7 February 2013, the Board of Directors Meeting No.2/2013 passed a resolution to call up the residual payment of 75 percent of the 5 million registered share capital at Baht 7.50 per share, resulting in an increase in called-up capital to Baht 1,250 million. The Company registered the increase its called-up capital with the Ministry of Commerce on 27 February 2013.

On 26 February 2013, the Extraordinary Annual Meeting of the shareholders No.1/2556 passed resolutions approving the followings:

- 1) A change in the par value of the Company's share from Baht 10 to Baht 1 per share, resulting in an increase in number of the ordinary shares from 125 million ordinary shares to 1,250 million ordinary shares.
- 2) An increase of Baht 850 million in the registered capital, from Baht 1,250 million to Baht 2,100 million. The Company registered the capital increase with the Ministry of Commerce on 27 February 2013.
- 3) Consider to approve an increase in the Company's share capital.
  - 3.1 Up to 300 million shares with a par value of Baht 1 each to be reserved for the right offering to be made to the Company's existing shareholders at the proportion of shareholding (right offering). On 21 March 2013, the Company registered its paid-up share capital of Baht 1,550 million with the Ministry of Commerce.
  - 3.2 The allotment of common shares to directors and employees of the Company (ESOP) as discussed in Note 29. On 29 March 2013, the Company registered its paid-up share capital of Baht 1,580 million with the Ministry of Commerce. According to this, the Company has premium on ordinary shares totalling Baht 270 million.

3.3 Up to 520 million shares with a par value of Baht 1 each to be reserved for the Initial Public Offering.

Reconciliation of number of ordinary shares

(Unit: Shares)

	Consolidated financial statements and Separate financial statements		
	2013	2012	2011
<b>Registered ordinary shares</b>			
Number of ordinary shares at the beginning of the year	125,000,000	120,000,000	120,000,000
Increase registered ordinary shares	85,000,000	5,000,000	-
Decrease in par value from Baht 10 each to Baht 1 each	1,890,000,000	-	-
Number of ordinary shares at the end of the year	<u>2,100,000,000</u>	<u>125,000,000</u>	<u>120,000,000</u>
<b>Issued and paid-up ordinary shares</b>			
Number of ordinary shares at the beginning of the year	121,250,000	120,000,000	120,000,000
Increase paid-up ordinary shares - Baht 10 each	3,750,000	1,250,000	-
	125,000,000	121,250,000	120,000,000
Decrease in par value from Baht 10 each to Baht 1 each	1,125,000,000	-	-
Right offering	300,000,000	-	-
ESOP	30,000,000	-	-
Number of ordinary shares at the end of the year	<u>1,580,000,000</u>	<u>121,250,000</u>	<u>120,000,000</u>

**29. Capital reserve for share-based payment transactions**

On 26 February 2013, the Company allotted 30,000,000 common shares to employees and directors of the Company. The details are as follows:

No. of shares reserved for exercise: 30,000,000 shares

Offering date: 26 February 2013

Exercise price: Equal to or higher than net book value of the Company as at 31 December 2012 (approximately or equal to Baht 10)

Allotment method: The Company allotted the common shares to directors, management and employees eligible as of 31 January 2013, with the allocations dependent on position, length of service and responsibilities.



Lock up period: No shares may be sold for six months after the Company's shares start trading on the Stock Exchange of Thailand, while up to 50% of shares may be sold during the seventh to the twelfth month after the shares start trading, and there are no limitations on the sale of shares once a period of twelve months has passed since the shares started trading.

The estimated fair value of each share option granted is Baht 16.91, as calculated by a financial advisor qualified independent party using the Discounted Cash Flow with Weighted Average Cost of Capital Method, applying a discount rate of 12.32 percent.

During the year 2013, the Company recorded expenses amounting to Baht 207.3 million as personnel expenses. As at 31 December 2013, the Company has capital reserves for share-based payment of Baht 207.3 million.

### 30. Statutory reserve

Pursuant to Section 116 of the Public Limited Companies Act B.E. 2535, the Company is required to set aside to a statutory reserve at least 5 percent of its net profit after deducting accumulated deficit brought forward (if any), until the reserve reaches 10 percent of the registered capital. The statutory reserve is not available for dividend distribution. At present, the statutory reserve has fully been set aside.

### 31. Expenses by nature

Significant expenses by nature are as follows:

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Salary and wages and other employee benefits	4,046,376	3,282,090	2,730,784	2,852,041	2,204,772	1,780,275
Depreciation	517,445	537,803	554,803	397,314	400,167	400,839
Amortization expenses	55,446	54,802	69,114	8,714	7,844	20,638
Rental expenses from operating lease	1,748,522	1,549,563	1,388,404	1,645,855	1,452,153	1,300,177
Fuel expenses	4,158,783	3,852,728	3,049,204	4,158,783	3,852,728	3,049,204
Repair and maintenance	1,531,653	1,313,540	1,005,404	1,420,196	1,220,014	931,748
Ground service expenses	726,714	483,603	344,367	1,098,712	843,178	639,942
Raw materials and supply used	457,131	437,037	375,925	-	-	-

## 32. Income tax

### 32.1 Deferred tax assets / liabilities

The components of deferred tax assets and deferred tax liabilities are as follows:

(Unit: Thousand Baht)

	Consolidated financial statements				Separate financial statements			
	31 December 2013	31 December 2012 (Restated)	31 December 2011 (Restated)	1 January 2011	31 December 2013	31 December 2012 (Restated)	31 December 2011 (Restated)	1 January 2011
<b>Deferred tax assets</b>								
Allowance for diminution in value								
of inventory	8,194	7,969	3,314	4,845	8,168	7,969	3,314	4,845
Impairment of assets	1,215	-	-	-	-	-	-	-
Accumulate depreciation -								
building and equipment	480	403	337	-	-	-	-	-
Accrued expense	13,117	11,463	10,233	8,389	1,284	-	-	-
Unrealised loss on re-measuring								
trading securities	-	-	-	-	1,400	-	-	-
Provision for long-term employee								
benefits	28,209	15,755	9,797	4,868	18,250	7,820	3,962	2,056
Tax loss carry forward	-	32,607	305,603	714,642	-	-	217,486	498,532
<b>Total</b>	<b>51,215</b>	<b>68,197</b>	<b>329,284</b>	<b>732,744</b>	<b>29,102</b>	<b>15,789</b>	<b>224,762</b>	<b>505,433</b>
<b>Deferred tax liabilities</b>								
Unrealised gain on re-measuring								
available-for-sale securities	2,278,959	2,188,855	1,554,974	1,192,578	1,926,509	1,916,855	1,392,624	1,126,278
Unrealised gain on transfer of								
investments	-	-	-	-	68,250	-	-	-
Accrued income	400	-	-	-	400	-	-	-
Liabilities arising from finance								
lease of aircrafts	233,940	230,771	209,777	323,275	233,940	230,771	209,777	323,275
Finance lease liabilities	469	672	762	1,402	469	672	762	1,402
<b>Total</b>	<b>2,513,768</b>	<b>2,420,298</b>	<b>1,765,513</b>	<b>1,517,255</b>	<b>2,229,568</b>	<b>2,148,298</b>	<b>1,603,163</b>	<b>1,450,955</b>
<b>Deferred tax assets - net</b>	<b>23,513</b>	<b>52,408</b>	<b>104,522</b>	<b>227,311</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred tax liabilities - net</b>	<b>2,486,066</b>	<b>2,404,509</b>	<b>1,540,751</b>	<b>1,011,822</b>	<b>2,200,466</b>	<b>2,132,509</b>	<b>1,378,401</b>	<b>945,522</b>

### 32.2 Income tax expenses

Income tax expenses for the year are made up as follows:

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012 (Restated)	2011 (Restated)	2013	2012 (Restated)	2011 (Restated)
<b>Current income tax:</b>						
Current income tax charge	118,840	176,407	8,774	49,861	123,233	-
Adjustment in respect of current						
income tax of previous year	718	-	-	-	-	-
<b>Deferred tax:</b>						
Relating to origination and reversal						
of temporary differences	20,348	281,991	289,322	58,303	229,877	166,533
<b>Income tax expenses reported in</b>						
<b>  the statements of</b>						
<b>  comprehensive income</b>	<b>139,906</b>	<b>458,398</b>	<b>298,096</b>	<b>108,164</b>	<b>353,110</b>	<b>166,533</b>

Reconciliation between income tax expenses and the product of accounting profit multiplied by the applicable tax rates for year is as follows:

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	2013	2012	2011	2013	2012	2011
		(Restated)	(Restated)		(Restated)	(Restated)
Accounting profit before tax	<u>1,129,925</u>	<u>2,290,786</u>	<u>588,726</u>	<u>1,067,976</u>	<u>1,687,783</u>	<u>382,998</u>
Applicable tax rate	20%	23%	30%	20%	23%	30%
Accounting profit before tax multiplied by applicable tax rate	225,985	526,881	176,618	213,595	388,190	114,899
Adjustment in respect of current income tax of previous year	718	-	-	-	-	-
Effects of changes in the applicable tax rates	-	(3,153)	5,800	-	(924)	(39,172)
Effects of:						
BOI Privilege (Note 33)	(252,831)	(212,377)	(109,364)	(252,831)	(212,377)	(109,364)
Tax exempted revenue	(85,149)	(76,654)	(26,062)	(103,922)	(44,014)	(48,874)
Non-deductible expenses	279,620	252,392	265,897	279,678	250,870	263,837
Additional expense deduction allowed	(28,437)	(28,691)	(14,793)	(28,356)	(28,635)	(14,793)
Total	<u>(86,797)</u>	<u>(65,330)</u>	<u>115,678</u>	<u>(105,431)</u>	<u>(34,156)</u>	<u>90,806</u>
Income tax expenses reported in the statements of comprehensive income	<u>139,906</u>	<u>458,398</u>	<u>298,096</u>	<u>108,164</u>	<u>353,110</u>	<u>166,533</u>

### 32.3 Income tax relating to each component of other comprehensive income

The amounts of income tax relating to each component of other comprehensive income for the year are as follows:

(Unit: Thousand Baht)

	Consolidated			Separate		
	financial statements			financial statements		
	2013	2012	2011	2013	2012	2011
		(Restated)	(Restated)		(Restated)	(Restated)
Deferred tax relating to						
Increasing in gain on re-measuring available-for-sale investments	90,104	633,881	362,396	9,654	524,231	266,346
	<u>90,104</u>	<u>633,881</u>	<u>362,396</u>	<u>9,654</u>	<u>524,231</u>	<u>266,346</u>

In October 2011, the cabinet passed a resolution to reduce the corporate income tax rate from 30 percent to 23 percent in 2012, and then to 20 percent from 2013. In addition, in order to comply with the resolution of the cabinet, in December 2011, the decreases in tax rates for 2012 - 2014 were enacted through a royal decree. The Company and its subsidiaries have reflected the changes in the income tax rates in its deferred tax calculation, as presented above.

### 33. Promotional privileges

By virtue of the provisions of Investment Promotion Act, the Company was granted certain privileges by exemption from income tax for net income from promoted business for eight years as follows:

Promotion certificate No.	Description	Commencing date	Expiring date
Air transportation operations			
2072(2)/2548	6 aircrafts with capacity of 795 seats	1 July 2007	30 June 2015
2199(2)/2551	3 aircrafts with capacity of 430 seats	30 January 2009	29 January 2017
1204(2)/2555	2 aircrafts with capacity of 300 seats	11 March 2012	10 March 2020
2019(2)/2555	1 aircraft with capacity of 162 seats	30 November 2012	29 November 2020
1208(2)/2556	4 aircrafts with capacity of 600 seats	18 May 2013	17 May 2021
Commercial airport operations			
1352(2)/2550	Samui airport	1 May 2007	30 April 2015
Catering operations			
2110(3)/2549	Manufacturing food	-	-

As a promotion company, the Company must comply with certain conditions and restrictions provided for in the promotional certificates.

The Company's operating revenues for the years are below shown divided according to promoted and non-promoted operations.

(Unit: Million Baht)

	Promoted operations			Non-promoted operations			Total		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Sales									
Passenger	10,865	10,936	9,725	5,619	3,665	1,685	16,484	14,601	11,410
Others	839	838	700	1,718	1,968	1,604	2,557	2,806	2,304
Total sales	<u>11,704</u>	<u>11,774</u>	<u>10,425</u>	<u>7,337</u>	<u>5,633</u>	<u>3,289</u>	<u>19,041</u>	<u>17,407</u>	<u>13,714</u>

### 34. Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the Company (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the year, after adjusting the number of ordinary shares in proportion to the change in the par value of the shares from Baht 10 to Baht 1 per share as discussed in Note 28, because these change were occurred after the end of the reporting period but before the financial statements were authorised for issue. The number of ordinary shares of the prior year used for the calculation, as presented for comparative purposes, has been adjusted in proportion to the change in the par value of the shares as a result of the change in the par value of the shares had been occurred at the beginning of the earliest period reported.

The following table sets forth the computation of basic earnings per share:

	Profit for the years			Weighted average number of ordinary shares			Earnings per share		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
	(Thousand Baht)	(Thousand Baht) (Restated)	(Thousand Baht) (Restated)	(Thousand shares)	(Thousand shares)	(Thousand shares)	(Baht)	(Baht) (Restated)	(Baht) (Restated)
Consolidated									
financial statements	932,462	1,771,290	281,690	1,511,194	1,209,520	1,200,000	0.62	1.46	0.23
Separate									
financial statements	959,813	1,334,673	216,464	1,511,194	1,209,520	1,200,000	0.64	1.10	0.18

### 35. Segment information

Operating segment information is reported in a manner consistent with the internal reporting the chief operating decision maker has received and regularly reviewed to make decisions about resources to be allocated to the segment and assess its performance.

For management purposes, the Company and its subsidiaries are organised into business units based on their services, and there are the following three reportable segments:

- The airlines segment, which sells tickets and provides services to passengers.
- The airports segment, which provides location services for passengers and airlines.
- The supporting airlines business segment, which provides ground handling, cargo and catering services for airlines and customers.

The Company and its subsidiaries have aggregated operating segments of hotels, holding, duty free and training and presented as reportable segment of other segment. Since such operating segments do not meet the quantitative thresholds as set out in the financial reporting standard.

Chief operating decision maker monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the financial statements. However, the Company and its subsidiaries financing (including finance costs, finance income and income taxes) are managed on a Group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an agreed upon basis.

Inter-segment revenues are eliminated on consolidation.

The following tables present revenue, profit and total assets information regarding the Company and its subsidiaries' operating segments for the years, respectively.



Transfer prices between business segments are as set out in Note 8 to the financial statements.

Of total revenue from the airlines, airports and supporting airlines business segments of the Company and its subsidiaries, 69 percent was derived from domestic operations.

For the year 2013 and 2012, the Company and its subsidiaries have no major customer with revenue of 10 percent or more of an entity's revenues.

### 36. Provident fund

The Company and its employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. Both employees and the Company contribute to the fund monthly at the rate of 2 percent to 5 percent of basic salary. The fund, which is managed by MFC Assets Management Public Co., Ltd., will be paid to employees upon termination in accordance with the fund rules. During the year 2013, the Company contributed Baht 32 million (2012: Baht 25 million) to the fund.

Subsidiaries and its employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. Both employees and subsidiaries contribute to the fund monthly at the rate of 3 percent to 7 percent of basic salary. The fund, which is managed by Tisco Assets Management Public Co., Ltd., will be paid to employees upon termination in accordance with the fund rules. During the year 2013, Subsidiaries contributed Baht 16 million (2012: Baht 23 million) to the fund.

### 37. Dividends

	Approved by	Total dividends (Thousand Baht)	Dividend per share (Baht)
Interim dividends for 2012 income	Extraordinary Annual Meeting of the shareholders on 26 February 2013	850,000	7.01
Final dividends for 2012 income	Annual General Meeting of the shareholders on 25 April 2013	350,000	0.22
Interim dividends for 2013 income	Board of Directors' meeting on 25 April 2013	449,954	0.28
Interim dividends for 2013 income	Board of Directors' meeting on 22 August 2013	379,200	0.24
Interim dividends for 2013 income	Board of Directors' meeting on 28 November 2013	395,000	0.25
		2,424,154	8.00



	Approved by	Total dividends (Thousand Baht)	Dividend per share (Baht)
Interim dividends for 2012 income	Annual General Meeting of the shareholders on 22 November 2012	654,750	5.40
		<u>654,750</u>	<u>5.40</u>
Final dividends on 2010 income	Annual General Meeting of the shareholders on 27 April 2011	120,000	1.00
Interim dividends for 2011 income	Board of Directors' meeting on 23 June 2011	480,000	4.00
Interim dividends for 2011 income	Annual General Meeting of the shareholders on 25 August 2011	300,000	2.50
		<u>900,000</u>	<u>7.50</u>

### 38. Commitments and contingent liabilities

#### 38.1 Operating lease commitments

The Company has entered into several aircraft lease agreements with foreign companies, office premises and utilities.

As at 31 December 2013, future minimum lease payments required under aircraft lease agreements total USD 125 million (2012: USD 118 million).

Future minimum lease payments required under concessions and non-cancellable rental agreements of building with local and aboard were as follows.

	(Unit: Million Baht)					
	Consolidated financial statements			Separate financial statements		
	As at 31 December			As at 31 December		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Payable						
In up to 1 year	589	490	479	77	58	63
In over 1 year and up to 5 years	1,770	1,793	1,697	58	85	36
In over 5 years	4,118	4,563	5,127	74	78	20

### 38.2 Capital commitments

As at 31 December 2013, the Company and its subsidiaries had capital commitments of Baht 30 million (2012: Nil) mainly in runway improvement and building improvement, and Baht 129 million (2012: Nil) relating to acquisition of software and office equipment for the Company's operations.

### 38.3 Guarantees

- (a) As at 31 December 2013, the Company has guaranteed bank credit facilities of its subsidiaries companies amounting to Baht 1,910 million (2012: Baht 2,235 million) and associated companies amounting to Baht 165 million (2012: Baht 1,040 million).
- (b) As at 31 December 2013, the Company has outstanding bank guarantees of approximately Baht 73.0 million, USD 1.3 million, INR 29.8 million, BDT 1.2 million, MYR 1.0 million and SGD 0.1 million issued by banks on behalf of the Company in the normal course of business (2012: Baht 105.7 million, USD 2.5 million, INR 23.9 million, BDT 7.5 million, MYR 1.0 million and SGD 0.1 million) and its subsidiaries have outstanding bank guarantees of approximately Baht 282 million (2012: Baht 281 million).

### 38.4 Pledges

#### The Company and its subsidiaries

38.4.1 The Company and its subsidiaries have the following contingent liabilities in respect of loan guarantees.

(Unit: Million Baht)

Guarantor	Guarantee	As at 31 December		
		2013	2012	2011
Bangkok Air Catering Co.,Ltd.	BAC Gourmet House Co.,Ltd.	46	46	6
Samui Palm Beach Resort Co.,Ltd.	Samui Palm Beach Royal Wings Co.,Ltd.	-	-	132

38.4.2 The Company and its subsidiaries have the following contingent liabilities in respect of guarantees for bank overdraft facilities.

(Unit: Million Baht)

Guarantor	Guarantee	As at 31 December		
		2013	2012	2011
Bangkok Air Catering Co.,Ltd.	BAC Gourmet House Co.,Ltd.	5	5	1
Samui Palm Beach Resort Co.,Ltd.	Samui Palm Beach Royal Wings Co.,Ltd.	-	-	7

### 39. Litigation

#### The Company

- 39.1 The Company was sued by 3 ex-employees claiming Baht 0.2 million for bonus of 2007. The Company protested the claim citing the resignation took place in May 2008 making them ineligible for the previous year's bonus which made a payment during the year 2008. At present, the case is being considered by the Supreme Court.
- 39.2 The Company was sued by a plaintiff who acted as an agent in finding sponsorship of the Company's annual events; "Bangkok Airways Samui Super Beach Volleyball 2005" and "Bangkok Airways Open 2005", for a payment of commissions at the rate of 10 percent of the amounts received from sponsorship of these events in the years 2006 and 2007. The claimed amount is Baht 0.6 million together with interest at a rate of 7.5 percent per annum, calculated from 3 September 2008. The Company is disputing the claim citing that the plaintiff was hired as an agent exclusively for the year 2005, making the plaintiff ineligible for the commissions for the years 2006 and 2007. At present, the case is being considered by the Supreme Court.
- 39.3. Koh Samui Municipality made the assessment of the House and Land tax for Samui Airport between the year 2007 to the year 2010 in the total amount of Baht 119 million and in the amount of Baht 38.8 million for each of the year 2011 to the year 2013. The Company disagreed with such tax assessment as the assessment of the House and Land tax by Koh Samui Municipality was not in line with laws and relevant facts. The Company, therefore, filed an appeal for reassessment of the House and Land tax pursuant to rights permitted by the laws. However, since the House and Land Tax Act B.E. 2475 (1932) provides that the payment of assessed the House and Land tax shall be made prior to submitting the case before the court, the Company is required to pay such House and Land tax as earlier assessed to Koh Samui Municipality.

The Company filed suit against Koh Samui Municipality with the Central Tax Court to demand Koh Samui Municipality to return the paid House and Land tax. In this regards, the Central Tax Court rendered the judgment in favor of the Company with respect to the House and Land tax assessment of the year 2007 to the year 2010 and that of the year 2011 and the year 2012 and ordered Koh Samui Municipality to repay the House and Land tax for the year 2007 to the year 2010 and for the year 2011 and the year 2012 to the Company with the interest rate of 7.5 per year. Koh Samui Municipality subsequently filed the petition to suspend the execution of the judgment and filed an appeal against such judgment to the Central Tax Court. Such appeal is currently being considered by the Supreme Court. In addition, the Company filed an appeal against the assessment of House and Land tax for the year 2013, which is currently under the consideration of the committee considering the reassessment request.

The Company hereby confirms that the relevant accounting record is made for accounting purposes only and shall neither prejudice, nor shall be construed as a waiver of the Company's legal rights to claim for the House and Land tax to be repaid by Koh Samui Municipality according to the court judgment, including any other cases in disputes and being in the court proceedings and the Company's appeal for House and Land tax reassessment.

39.4 The Company was sued by a plaintiff who acted as an agent for ticketing and air cargo services operated in Bangladesh. The plaintiff filed a civil lawsuit against the Company with the Civil Court, alleging that the Company was in breach of agreement as a result of the non-renewal of the agency appointment, resulting in damages amounting Bangladeshi Taka 807 million, or about Baht 308 million, and petitioned the court to issue an order of temporary protection prohibiting the Company from any transactions through the Company's accounts at the Banani Branch of HSBC Bank, as discussed in Note 13. The court of first instance accepted the lawsuit but dismissed the petition for a temporary protection order. The plaintiff therefore filed an appeal of the decision of the court of first instance with the Supreme Court and the Supreme Court decided that the temporary protection order should be granted by the court of first instance, and dissolved after 2 months from the date the order is received. The Company has engaged legal counsel to dispute the charges since the renewal of an agreement appointing an agent is the Company's right and the agreement appointing the agent did not stipulate that the Company required the consent of the agent in the matter of renewal of the agreement. Subsequently, the Company and plaintiff have attempted to conclude a settlement agreement, whereby the Company would have to pay

compensation amounting to USD 1.6 million, or Baht 52 million, to a plaintiff. The company has already set aside full provision for the compensation in the accounts. At present, the Company and plaintiff are in the process of signing a settlement agreement.

39.5 In February 2014, the Company was sued by a former employee, claiming damages of Baht 91.4 million as a result of tort and the breach of an employment contract. At present, the case is being considered by the Labour Court.

### **Subsidiaries**

39.6 During 2008, the subsidiary was sued for Baht 68.6 million by its construction contractor in a dispute between the parties over the subsidiary's opinion that the contractor had not complied with the terms and conditions of a construction contract. On 20 April 2010, the Court of First Instance ordered the subsidiary to pay compensation of Baht 25.4 million, together with interest at 7.5% per annum computed from 15 October 2007 until the compensation is fully settled. On 14 July 2010, the subsidiary sought a stay of execution from the Court of Appeal.

In March 2011, the subsidiary returned the retention, amounting to Baht 10.4 million, to the plaintiff, together with the corresponding interest, or a total of Baht 13.1 million. Moreover, on 17 March 2011, the subsidiary placed the remaining Baht 15 million and the corresponding interest charge, or a total of Baht 19.8 million, as a bond, in accordance with an order of the Court of Appeal. On 2 June 2011, the Court of Appeal ordered the subsidiary to pay for incremental costs amounting to Baht 13.6 million. Later, on 30 September 2011, the subsidiary filed an appeal of the case with the Supreme Court. Currently, the case is pending in the Supreme Court and the outcome cannot yet be determined. However, the subsidiary believes that the provisions made in the accounts are adequate to cover any losses that may arise from this case.

## **40. Financial instruments**

### **40.1 Financial risk management**

The Company's financial instruments, as defined under Thai Accounting Standard No.107 "Financial Instruments: Disclosure and Presentations", principally comprise cash and cash equivalents, trade accounts receivable, loans, investments, and short-term and long-term loans. The financial risks associated with these financial instruments and how they are managed is described below.

### **Credit risk**

The Company is exposed to credit risk primarily with respect to trade accounts receivable, loans, other receivable and notes receivable. The Company manages the risk by adopting appropriate credit control policies and procedures and therefore does not expect to incur material financial losses. In addition, the Company does not have high concentrations of credit risk since it has a large customer base. The maximum exposure to credit risk is limited to the carrying amounts of receivables, loans, other receivables and notes receivable as stated in the statement of financial position.

### **Interest rate risk**

The Company's exposure to interest rate risk relates primarily to its cash at banks, bank overdrafts, debentures and long-term borrowings. However, since most of the Company's financial assets and liabilities bear floating interest rates or fixed interest rates which are close to the market rate, the interest rate risk is expected to be minimal.

Significant financial assets and liabilities classified by type of interest rate are summarised in the table below, with those financial assets and liabilities that carry fixed interest rates further classified based on the maturity date, or the repricing date if this occurs before the maturity date.

(Unit: Million Baht)

	Consolidated financial statement						Effective interest rate (% per annum)
	31 December 2013						
	Fixed interest rates			Floating	Non-interest	Total	
Within 1 year	1-5 years	Over 5 years	interest rate	bearing			
<b>Financial assets</b>							
Cash and cash equivalent	120	-	-	1,113	1,319	2,552	0.1 - 3.15
Current investments	470	-	-	-	41	511	2.35
Trade and other receivables	-	-	-	-	1,679	1,679	-
Restricted bank deposits	22	-	-	-	167	189	1.60 - 3.10
Other long-term investments	-	-	50	-	14,272	14,322	4.375
Long term loans to related parties	-	-	20	34	2	56	1, MLR
	<u>612</u>	<u>-</u>	<u>70</u>	<u>1,147</u>	<u>17,480</u>	<u>19,309</u>	
<b>Financial liabilities</b>							
Bank overdrafts and short-term loans from banks	650	-	-	21	-	671	3.25 - 7.38
Trade and other payables	-	-	-	-	2,357	2,357	-
Long-term loans	186	284	-	1,637	-	2,107	5.5 - 6.0 MLR - 1.5 to MLR
Liabilities arising from finance lease of aircrafts	424	408	-	-	-	832	6.68 - 7.79
Finance lease liabilities	27	33	-	-	-	60	2.19 - 8.07
Long-term loans from related parties	-	-	11,207	-	-	11,207	12.64
	<u>1,287</u>	<u>725</u>	<u>11,207</u>	<u>1,658</u>	<u>2,357</u>	<u>17,234</u>	

(Unit: Million Baht)

Consolidated financial statement							
31 December 2012							
Fixed interest rates							
Within	1-5	Over	Floating	Non-interest	Total	Effective	
1 year	years	5 years	interest rate	bearing		interest rate	
							(% per annum)
<u>Financial assets</u>							
Cash and cash equivalents	2	-	-	2,741	922	3,665	0.625 - 2.7
Current investments	-	-	-	-	60	60	-
Trade and other receivables	-	-	-	-	2,992	2,992	-
Short-term loans to related parties	-	-	-	289	-	289	1.00, MLR
Restricted bank deposits	20	-	-	-	150	170	3.125
Other long-term investments	-	-	-	-	13,836	13,836	-
Long-term loans to related parties	13	8	-	178	1	200	1.00, MLR
	<u>35</u>	<u>8</u>	<u>-</u>	<u>3,208</u>	<u>17,961</u>	<u>21,212</u>	
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans							
from banks	1,670	-	-	-	-	1,670	4.25 - 4.50
Trade and other payables	-	-	-	-	1,829	1,829	-
Long-term loans	214	594	25	1,892	420	3,145	5.5-6.75, MLR - 1.5 to MLR
Liabilities arising from finance lease of aircrafts	340	782	-	-	-	1,122	6.68 - 7.79
Finance lease liabilities	25	39	-	-	-	64	2.4 - 6.61
Long-term loans from related parties	-	-	11,097	-	-	11,097	12.64
	<u>2,249</u>	<u>1,415</u>	<u>11,122</u>	<u>1,892</u>	<u>2,249</u>	<u>18,927</u>	

(Unit: Million Baht)

Consolidated financial statement							
31 December 2011							
Fixed interest rates							
Within	1-5	Over	Floating	Non-interest	Total	Effective	
1 year	years	5 years	interest rate	bearing		interest rate	
							(% per annum)
<u>Financial assets</u>							
Cash and cash equivalents	105	-	-	358	896	1,359	0.1 - 2.85
Current investments	-	-	-	-	26	26	-
Trade and other receivables	-	-	-	-	1,256	1,256	-
Short-term loans to related parties	-	-	-	558	-	558	MLR
Restricted bank deposits	20	-	-	-	-	20	2.50
Other long-term investments	-	-	-	-	9,919	9,919	-
Long-term loans to related parties	-	31	-	180	1	212	MLR
	<u>125</u>	<u>31</u>	<u>-</u>	<u>1,096</u>	<u>12,098</u>	<u>13,350</u>	

(Unit: Million Baht)

## Consolidated financial statement

31 December 2011

	Fixed interest rates					Total	Effective interest rate (% per annum)
	Within	1-5	Over	Floating	Non-interest		
	1 year	years	5 years	interest rate	bearing		
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans							
from banks	1,199	-	-	-	-	1,199	5.00 - 8.00
Trade and other payables	-	-	-	-	1,752	1,752	-
Long-term loans	188	733	62	3,112	-	4,095	5.5 - 6.75, MLR + 0.25, MLR - 1.5 to MLR
Liabilities arising from finance lease of							
aircrafts	239	1,151	-	-	-	1,390	6.68 - 7.79
Finance lease liabilities	16	22	-	-	-	38	2.55 - 8.07
Long-term loans from related parties	-	-	10,911	-	-	10,911	12.64
	<u>1,642</u>	<u>1,906</u>	<u>10,973</u>	<u>3,112</u>	<u>1,752</u>	<u>19,385</u>	

(Unit: Million Baht)

## Separate financial statement

31 December 2013

	Fixed interest rates					Total	Effective interest rate (% per annum)
	Within	1-5	Over	Floating	Non-interest		
	1 year	years	5 years	interest rate	bearing		
<u>Financial assets</u>							
Cash and cash equivalents	-	-	-	974	1,260	2,234	0.1 - 2.7
Current investments	470	-	-	-	411	881	2.35
Trade and other receivables	-	-	-	-	1,258	1,258	-
Restricted bank deposits	1	-	-	-	167	168	1.60
Other long-term investments	-	-	50	-	11,863	11,913	4.375
Long-term loans to related parties	-	-	-	34	65	99	MLR
	<u>471</u>	<u>-</u>	<u>50</u>	<u>1,008</u>	<u>15,024</u>	<u>16,553</u>	



(Unit: Million Baht)

Separate financial statement							
31 December 2013							
Fixed interest rates							
Within 1 year	1-5 years	Over 5 years	Floating interest rate	Non-interest bearing	Total	Effective interest rate (% per annum)	
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans from banks	650	-	-	-	650	3.25 - 3.75	
Trade and other payables	-	-	-	2,217	2,217	-	
Long-term loans	186	284	1,110	-	1,580	5.5 - 6.0, MLR - 1.0 to MLR	
Liabilities arising from finance lease of aircrafts	424	408	-	-	832	6.68 - 7.79	
Finance lease liabilities	22	29	-	-	51	4.93 - 8.07	
Long-term loans from related parties	-	-	11,207	-	11,207	12.64	
	<u>1,282</u>	<u>721</u>	<u>11,207</u>	<u>1,110</u>	<u>2,217</u>	<u>16,537</u>	

(Unit: Million Baht)

Separate financial statement							
31 December 2012							
Fixed interest rates							
Within 1 year	1-5 years	Over 5 years	Floating interest rate	Non-interest bearing	Total	Effective interest rate (% per annum)	
<u>Financial assets</u>							
Cash and cash equivalents	2	-	2,626	905	3,533	0.1 - 2.7	
Trade and other receivables	-	-	-	2,652	2,652	-	
Short-term loans to related parties	-	-	289	-	289	MLR	
Restricted bank deposits	-	-	-	150	150	-	
Other long-term investments	-	-	-	11,907	11,907	-	
Long-term loans to related parties	-	-	248	-	248	MLR	
	<u>2</u>	<u>-</u>	<u>3,163</u>	<u>15,614</u>	<u>18,779</u>		

(Unit: Million Baht)

Separate financial statement							
31 December 2012							
Fixed interest rates							
Within	1-5	Over	Floating	Non-interest		Effective	
1 year	years	5 years	interest rate	bearing	Total	interest rate	
							(% per annum)
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans from banks	1,670	-	-	-	-	1,670	4.25 - 4.50
Trade and other payables	-	-	-	-	1,709	1,709	-
Short-term loans from related parties	28	-	-	-	-	28	1
Long-term loans	214	594	25	1,485	-	2,318	5.5 - 6.75, MLR
Liabilities arising from finance lease of aircrafts	340	782	-	-	-	1,122	6.68 - 7.79
Finance lease liabilities	22	34	-	-	-	56	5.17 - 6.61
Long-term loans from related parties	-	-	11,097	-	-	11,097	12.64
	<u>2,274</u>	<u>1,410</u>	<u>11,122</u>	<u>1,485</u>	<u>1,709</u>	<u>18,000</u>	

(Unit: Million Baht)

Separate financial statement							
31 December 2011							
Fixed interest rates							
Within	1-5	Over	Floating	Non-interest		Effective	
1 year	years	5 years	interest rate	bearing	Total	interest rate	
							(% per annum)
<u>Financial assets</u>							
Cash and cash equivalent	105	-	-	210	861	1,176	0.1 - 2.85
Trade and other receivables	-	-	-	-	889	889	-
Short-term loans to related parties	-	-	-	558	-	558	MLR
Other long-term investments	-	-	-	-	8,537	8,537	-
Long term loans to related parties	-	-	-	368	-	368	MLR
	<u>105</u>	<u>-</u>	<u>-</u>	<u>1,136</u>	<u>10,287</u>	<u>11,528</u>	

(Unit: Million Baht)

Separate financial statement							
31 December 2011							
Fixed interest rates							
Within 1 year	1-5 years	Over 5 years	Floating interest rate	Non- interest bearing	Total	Effective interest rate	
							(% per annum)
<b>Financial liabilities</b>							
Bank overdrafts and short-term loans							
from banks	1,140	-	-	-	1,140	5.00 - 5.50	
Trade and other payables	-	-	-	-	1,591	-	
Short-term loans from related parties	10	-	-	-	10	1	
Long-term loans	188	733	62	1,836	2,819	5.5 - 6.75, MLR - 0.5 to MLR	
Liabilities arising from finance lease of							
aircrafts	239	1,151	-	-	1,390	6.68 - 7.79	
Finance lease liabilities	12	17	-	-	29	4.93 - 8.07	
Long-term loans from related parties	-	-	10,911	-	10,911	12.64	
	<u>1,589</u>	<u>1,901</u>	<u>10,973</u>	<u>1,836</u>	<u>1,591</u>	<u>17,890</u>	

**Foreign currency risk**

The balances of financial assets and liabilities denominated in foreign currencies are summarised below.

Foreign currency	Consolidated financial statements								
	Financial assets as at 31 December			Financial liabilities as at 31 December			Average exchange rate as at 31 December		
	2013 (Million)	2012 (Million)	2011 (Million)	2013 (Million)	2012 (Million)	2011 (Million)	2013 (Baht per 1 foreign currency unit)	2012	2011
AUD	2	1	1	-	-	-	29.18	31.78	32.20
BDT	869	525	349	7	17	10	0.42	0.38	0.39
CNY	5	5	1	2	1	2	5.41	4.92	5.03
EUR	3	3	4	16	-	1	45.02	40.56	41.03
GBP	1	1	2	-	-	-	53.92	49.35	48.86
HKD	12	20	11	7	3	2	4.23	3.95	4.08
INR	181	154	130	16	12	15	0.53	0.56	0.59
JPY	31	37	21	-	-	1	0.31	0.35	0.41
RUB	25	23	8	-	-	-	1.00	1.01	0.99
SGD	1	1	1	-	-	-	25.88	25.03	24.39
USD	24	31	25	58	60	69	32.81	30.63	31.69
MYR	-	-	-	1	-	-	9.97	10.01	9.99

Foreign currency	Separate financial statements								
	Financial assets as at 31 December			Financial liabilities as at 31 December			Average exchange rate as at 31 December		
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
	(Million)	(Million)	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)		
AUD	2	1	1	-	-	-	29.18	31.78	32.20
BDT	869	525	349	7	17	10	0.42	0.38	0.39
CNY	5	5	1	2	1	2	5.41	4.92	5.03
EUR	3	3	4	2	-	1	45.02	40.56	41.03
GBP	1	1	2	-	-	-	53.92	49.35	48.86
HKD	12	20	11	7	3	2	4.23	3.95	4.08
INR	181	154	130	16	12	15	0.53	0.56	0.59
JPY	31	37	21	-	-	1	0.31	0.35	0.41
RUB	25	23	8	-	-	-	1.00	1.01	0.99
SGD	1	1	1	-	-	-	25.88	25.03	24.39
USD	23	31	25	48	59	69	32.81	30.63	31.69
MYR	-	-	-	1	-	-	9.97	10.01	9.99

#### 40.2 Fuel Price Risk

The Company's fuel price risk hedges covered 58.3 percent (2012: 61.8 percent) of its total fuel consumption. As at 31 December 2013, the Company had outstanding obligations from fuel price hedging until December 2013, amounting to 375,000 barrels (2012: 405,000 barrels) of jet fuel, with the lowest forward price being USD 112 per barrel and the highest contract price being USD 125 per barrel (2012: lowest price was USD 106 per barrel and highest price was USD 128.45 per barrel).

The Company has obligations in respect of the fuel price difference if the fuel price is lower than contract price and conversely, the Company will be compensated for the price difference if the fuel price is higher than the contract price.

#### 40.3 Fair values of financial instruments

Since the majority of the Company's financial instruments are short-term in nature or bear floating interest rates, their fair values are not expected to be materially different from the amounts presented in statement of financial position.

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value is determined by reference to the market price of the financial instruments or by using an appropriate valuation technique, depending on the nature of the instrument.

**41. Capital management**

The primary objective of the Company's capital management is to ensure that it has appropriate capital structure in order to support its business and maximise shareholder value. As at 31 December 2013, the Group's debt-to-equity ratio was 3.23:1 (2012: 3.15:1) and the Company's was 3.34:1 (2012: 3.15:1).

**42. Events after the reporting period**

On 12 February 2014, the Company signed a sale and purchase contract for 6 ATR aircrafts with Avions de Transport Regional G.I.E.. Delivery of the aircraft is scheduled for between November 2014 and February 2016.

**43. Approval of financial statements**

These financial statements were authorised for issue by the Company's Board of Directors on 28 March 2014.

Bangkok Airways Company Limited and its subsidiaries  
Report and consolidated financial statements  
31 December 2012

## **Independent Auditor's Report**

To the Shareholders of Bangkok Airways Company Limited

I have audited the accompanying consolidated financial statements of Bangkok Airways Company Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2012, and the related consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and have also audited the separate financial statements of Bangkok Airways Company Limited for the same period.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Thai Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bangkok Airways Company Limited and its subsidiaries and of Bangkok Airways Company Limited as at 31 December 2012, and their financial performance and cash flows for the year then ended, in accordance with Thai Financial Reporting Standards.

### **Emphasis of matter**

I draw attention to Note 3 to the financial statements regarding the change in the basis of preparation of the financial statements. In the year 2012, the Company changed the basis of preparation of financial statements from preparation in accordance with the Thai Financial Reporting Standards applicable to non-publicly accountable entities, as used in 2011, to preparation in accordance with Thai Financial Reporting Standards and changed some accounting policies. Such change required the Company to present the financial statements and make additional disclosure in accordance with Thai Financial Reporting Standards. Moreover, I draw attention to Note 4 to the financial statements, during the year 2012, the Company noted that some land held for rental or held for no specific purpose was nevertheless classified as property, plant and equipment. The Company therefore restated the consolidated financial statements and separate financial statements for the year ended 31 December 2011, presented herein for comparative purposes, in order to appropriately reflect the changes in accounting policies resulting from the application of Thai Financial Reporting Standards and the adjustment to investment properties, and to present the consolidated and separate statements of financial position as at 1 January 2012 for comparative purposes. My opinion is not qualified in respect of this matter.

Rungnapa Lertsuwankul  
Certified Public Accountant (Thailand) No. 3516

Ernst & Young Office Limited  
Bangkok: 25 March 2013



**Bangkok Airways Company Limited and its subsidiaries**

**Statement of financial position**

**As at 31 December 2012**

(Unit: Baht)

	Note	Consolidated financial statements			Separate financial statements		
		As at	As at	As at	As at	As at	As at
		31 December	31 December	1 January	31 December	31 December	1 January
		2012	2011	2011	2012	2011	2011
			(Restated)	(Restated)		(Restated)	(Restated)
<b>Assets</b>							
<b>Current assets</b>							
Cash and cash equivalents	9	3,665,652,257	1,359,046,249	711,735,178	3,533,451,609	1,176,557,049	498,798,773
Current investments	10	59,727,500	26,315,403	-	-	-	-
Trade and other receivables	8, 11	2,991,925,425	1,255,503,921	1,156,455,894	2,652,033,923	889,190,970	883,796,669
Prepaid expenses		444,061,715	422,611,604	384,733,180	433,556,443	411,334,715	383,473,727
Short-term loans to related parties	8	289,024,854	557,550,307	1,026,050,666	289,024,854	557,550,308	1,026,050,666
Inventories	12	230,640,768	187,017,465	137,254,622	162,600,249	125,902,825	111,952,723
Other current assets		350,036,036	295,298,398	262,060,000	244,075,413	185,434,938	131,784,560
<b>Total current assets</b>		<b>8,031,068,555</b>	<b>4,103,343,347</b>	<b>3,678,289,540</b>	<b>7,314,742,491</b>	<b>3,345,970,805</b>	<b>3,035,857,118</b>
<b>Non-current assets</b>							
Restricted bank deposits	13	170,097,063	19,842,378	-	149,763,586	-	-
Investments in associates	15	1,974,929,042	1,968,637,317	1,929,978,202	2,405,570,907	2,405,570,907	2,402,570,907
Investments in subsidiaries	14	-	-	-	1,460,749,252	1,992,857,043	2,002,856,973
Other long-term investments	17	13,836,404,669	9,918,659,481	5,298,043,209	11,906,904,669	8,537,409,481	4,507,543,209
Long-term loans to related parties	8	200,008,278	212,123,029	247,141,519	247,531,400	368,252,253	414,156,886
Investment properties	16	317,707,932	1,010,350,497	649,554,141	317,707,932	1,108,749,978	753,345,070
Property, plant and equipment	18	6,379,411,793	7,148,146,814	6,999,845,903	5,725,965,420	5,827,888,076	5,624,073,405
Intangible assets	19	699,584,649	696,854,124	743,565,798	64,563,666	14,152,294	12,401,856
Leasehold rights		60,963,478	63,275,209	474,209,043	60,963,478	63,275,209	474,209,043
Other non-current assets	20	490,299,315	2,368,409,960	2,864,414,943	485,034,859	2,361,544,375	2,857,849,328
<b>Total non-current assets</b>		<b>24,129,406,219</b>	<b>23,406,298,809</b>	<b>19,206,752,758</b>	<b>22,824,755,169</b>	<b>22,679,699,616</b>	<b>19,049,006,677</b>
<b>Total assets</b>		<b>32,160,474,774</b>	<b>27,509,642,156</b>	<b>22,885,042,298</b>	<b>30,139,497,660</b>	<b>26,025,670,421</b>	<b>22,084,863,795</b>
<b>Liabilities and shareholders' equity</b>							
<b>Current liabilities</b>							
Bank overdrafts and short-term loans from financial institutions	21	1,670,000,000	1,198,565,454	1,331,009,861	1,670,000,000	1,140,000,000	1,260,000,000
Trade and other payables	8, 22	1,829,019,116	1,752,316,935	1,554,439,711	1,708,622,759	1,590,677,739	1,477,185,810
Current portion of long-term loans	23	896,174,224	788,866,541	429,945,050	595,824,224	534,871,126	279,545,050
Income tax payable		126,672,985	6,838,711	2,792,401	105,907,253	-	-
Current portion of liabilities arising from lease of aircrafts	24	340,418,713	238,841,643	212,027,965	340,418,713	238,841,643	212,027,965
Current portion of finance lease liabilities	25	25,162,150	15,579,246	40,639,172	21,845,133	12,289,920	35,955,562
Short-term loans from related parties	8	-	-	-	27,756,370	9,887,567	14,976,448
Current portion of loans from related party	26	195,780,413	187,053,981	179,687,191	195,780,413	187,053,981	178,716,508
Unearned income		1,740,737,555	1,427,086,207	1,115,960,444	1,737,234,958	1,427,040,936	1,115,960,444
Other current liabilities		869,119,465	920,768,819	769,281,419	640,584,273	673,552,824	447,084,631
<b>Total current liabilities</b>		<b>7,693,084,621</b>	<b>6,535,917,537</b>	<b>5,635,783,214</b>	<b>7,043,974,096</b>	<b>5,814,215,736</b>	<b>5,021,452,418</b>
<b>Non-current liabilities</b>							
Long-term loans, net of current portion	23	2,248,667,520	3,306,474,371	3,295,727,371	1,721,767,520	2,284,177,222	2,021,734,807
Liabilities arising from lease of aircrafts - net of current portion	24	782,068,090	1,151,541,124	1,323,314,157	782,068,090	1,151,541,124	1,323,314,157
Financial lease payable - net of current portion	25	38,918,530	22,254,049	10,363,327	33,773,463	16,907,322	7,278,861
Long-term loans - related party - net of current portion	26	8,084,840,835	8,280,621,248	8,467,675,229	8,084,840,835	8,280,621,248	8,467,675,229
Provision for long-term employee benefits	27	160,918,694	115,340,247	88,385,505	121,243,014	82,603,594	64,969,000
Other non-current liabilities		5,211,203	15,961,874	15,452,832	5,211,203	5,000,000	5,000,000
<b>Total non-current liabilities</b>		<b>11,320,624,872</b>	<b>12,892,192,913</b>	<b>13,200,918,421</b>	<b>10,748,904,125</b>	<b>11,820,850,510</b>	<b>11,889,972,054</b>
<b>Total liabilities</b>		<b>19,013,709,493</b>	<b>19,428,110,450</b>	<b>18,836,701,635</b>	<b>17,792,878,221</b>	<b>17,635,066,246</b>	<b>16,911,424,472</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Company Limited and its subsidiaries**

**Statement of financial position (continued)**

**As at 31 December 2012**

(Unit: Baht)

	Consolidated financial statements			Separate financial statements		
	As at	As at	As at	As at	As at	As at
	31 December	31 December	1 January	31 December	31 December	1 January
<b>Note</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2011</b>
		(Restated)	(Restated)		(Restated)	(Restated)
<b>Shareholders' equity</b>						
Share capital	28					
Registered						
125,000,000 ordinary shares (31 December 2011: 120,000,000 ordinary shares ) of Baht 10 each	1,250,000,000	1,200,000,000	1,200,000,000	1,250,000,000	1,200,000,000	1,200,000,000
Issued and fully paid up						
120,000,000 ordinary shares of Baht 10 each and 5,000,000 ordinary shares of Baht 2.50 each (31 December 2011: 120,000,000 ordinary shares of Baht 10 each)	1,212,500,000	1,200,000,000	1,200,000,000	1,212,500,000	1,200,000,000	1,200,000,000
Retained earnings						
Appropriated-statutory reserve	29	121,250,000	120,000,000	121,250,000	120,000,000	120,000,000
Unappropriated		670,712,565	(1,136,417,578)	1,428,592,123	107,482,729	99,179,543
Other components of shareholders' equity		10,942,247,328	7,771,896,269	3,971,712,914	6,963,121,446	3,754,259,780
Equity attributable to owners of the Company		12,946,709,893	7,955,478,691	3,966,026,920	12,346,619,439	8,390,604,175
Non-controlling interests of the subsidiaries		200,055,388	126,053,015	82,313,743	-	-
<b>Total shareholders' equity</b>		<b>13,146,765,281</b>	<b>8,081,531,706</b>	<b>4,048,340,663</b>	<b>12,346,619,439</b>	<b>8,390,604,175</b>
<b>Total liabilities and shareholders' equity</b>		<b>32,160,474,774</b>	<b>27,509,642,156</b>	<b>22,885,042,298</b>	<b>30,139,497,660</b>	<b>26,025,670,421</b>
		-	-	-	-	-

The accompanying notes are an integral part of the financial statements.

Directors

**Bangkok Airways Company Limited and its subsidiaries**

**Statement of comprehensive income**

**For the year ended 31 December 2012**

(Unit: Baht)

	Note	Consolidated financial statements		Separate financial statements		
		2012	2011	2012	2011	2010
<b>Profit or loss:</b>						
<b>Revenues</b>						
Passenger	8	14,598,603,417	11,408,960,424	14,601,031,604	11,410,095,949	9,682,926,878
Sales and service income	8	2,361,500,477	2,130,931,527	-	-	-
Freight	8	265,253,991	190,161,737	265,274,157	190,162,931	156,558,734
Passenger service charge		446,969,971	368,792,262	446,969,971	368,792,262	332,879,757
Dividend income	15.2	135,330,146	91,551,335	470,932,604	303,165,215	212,513,938
Gain on exchange		-	-	-	-	99,471,421
Gain on sales of investments		818,882,851	325,311,108	812,769,049	320,652,508	17,693,726
Gain on sales of investments in subsidiaries	2.2	226,794,123	-	-	-	-
Reversal of allowance for diminution in value of investments in subsidiaries	2.2	-	-	27,999,860	-	-
Other income	8	666,519,639	1,007,328,035	781,654,833	1,121,087,209	453,581,608
<b>Total revenues</b>		<b>19,519,854,615</b>	<b>15,523,036,428</b>	<b>17,406,632,078</b>	<b>13,713,956,074</b>	<b>10,955,626,062</b>
<b>Expenses</b>						
Cost of sales and services	8	13,124,625,272	10,758,179,808	11,696,575,651	9,401,202,299	7,511,399,936
Selling expenses		1,089,510,388	957,907,871	1,072,939,038	940,530,894	804,563,606
Administrative expenses	8	1,428,978,851	1,142,423,462	1,032,914,469	771,701,342	593,792,671
Loss on sales of investments in subsidiaries	2.2	-	-	55,969,942	-	-
Loss on sales from leasehold rights		-	369,272,360	-	369,272,360	-
Other expenses	8	34,358,089	61,396,871	38,392,690	65,321,422	51,431,636
<b>Total expenses</b>		<b>15,677,472,600</b>	<b>13,289,180,372</b>	<b>13,896,791,790</b>	<b>11,548,028,317</b>	<b>8,961,187,849</b>
<b>Profit before share of income from investments in associates and finance cost and income tax</b>						
		3,842,382,015	2,233,856,056	3,509,840,288	2,165,927,757	1,994,438,213
Share of income from investments in associates	15.2	361,679,184	261,284,115	-	-	-
<b>Profit before finance cost and income tax expenses</b>		<b>4,204,061,199</b>	<b>2,495,140,171</b>	<b>3,509,840,288</b>	<b>2,165,927,757</b>	<b>1,994,438,213</b>
Finance cost		(1,493,947,078)	(1,353,367,897)	(1,409,497,390)	(1,257,624,571)	(1,230,301,858)
<b>Profit before income tax expenses</b>		<b>2,710,114,121</b>	<b>1,141,772,274</b>	<b>2,100,342,898</b>	<b>908,303,186</b>	<b>764,136,355</b>
Income tax expenses	31	(176,407,890)	(8,773,952)	(123,233,504)	-	-
<b>Profit for the year</b>		<b>2,533,706,231</b>	<b>1,132,998,322</b>	<b>1,977,109,394</b>	<b>908,303,186</b>	<b>764,136,355</b>
<b>Other comprehensive income:</b>						
Exchange differences on translation of financial statements in foreign currency		(149,342)	581,676	-	-	-
Gain on changes in value of available-for-sale investments		3,169,405,294	3,799,611,045	2,621,155,870	3,208,861,666	2,080,611,279
<b>Other comprehensive income for the year</b>		<b>3,169,255,952</b>	<b>3,800,192,721</b>	<b>2,621,155,870</b>	<b>3,208,861,666</b>	<b>2,080,611,279</b>
<b>Total comprehensive income for the year</b>		<b>5,702,962,183</b>	<b>4,933,191,043</b>	<b>4,598,265,264</b>	<b>4,117,164,852</b>	<b>2,844,747,634</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Company Limited and its subsidiaries**

**Statement of comprehensive income (Continued)**

**For the year ended 31 December 2012**

(Unit: Baht)

	Note	Consolidated financial statements		Separate financial statements		
		2012	2011	2012	2011	2010
<b>Profit attributable to:</b>						
Equity holders of the Company		2,464,220,307	1,089,268,416	1,977,109,394	908,303,186	764,136,355
Non-controlling interests of the subsidiaries		69,485,924	43,729,906			
		<u>2,533,706,231</u>	<u>1,132,998,322</u>			
<b>Total comprehensive income attributable to:</b>						
Equity holders of the Company		5,633,481,202	4,889,451,771	4,598,265,264	4,117,164,852	2,844,747,634
Non-controlling interests of the subsidiaries		69,480,981	43,739,272			
		<u>5,702,962,183</u>	<u>4,933,191,043</u>			
<b>Earnings per share</b>						
	33					
Basic earnings per share						
Profit attributable to equity holders of the Company		<u>2.04</u>	<u>0.91</u>	<u>1.63</u>	<u>0.76</u>	<u>0.64</u>
Number of ordinary shares (Thousand shares)						
of Baht 1 each		<u>1,209,520</u>	<u>1,200,000</u>	<u>1,209,520</u>	<u>1,200,000</u>	<u>1,200,000</u>

The accompanying notes are an integral part of the financial statements.



**Bangkok Airways Company Limited and its subsidiaries**  
**Statement of changes in shareholders' equity (Continued)**  
**For the year ended 31 December 2012**

(Unit: Baht)

		<b>Separate financial statements</b>									
		<u>Other components of equity</u>									
		<u>Other</u>									
		<u>comprehensive income</u>									
		<u>Surplus</u>									
		<u>on changes</u>		<u>Total other</u>		<u>components of</u>		<u>shareholders'</u>		<u>Total</u>	
		<u>in value of</u>		<u>available-for-sale</u>		<u>investments</u>		<u>equity</u>		<u>shareholders'</u>	
		<u>investments</u>		<u>equity</u>		<u>shareholders'</u>		<u>equity</u>		<u>equity</u>	
		<u>Retained earnings</u>		<u>Unappropriated</u>		<u>Retained earnings</u>		<u>Unappropriated</u>		<u>Retained earnings</u>	
		<u>Appropriated</u>		<u>120,000,000</u>		<u>120,000,000</u>		<u>120,000,000</u>		<u>120,000,000</u>	
		<u>Issued and</u>		<u>paid-up</u>		<u>share capital</u>		<u>Issued and</u>		<u>paid-up</u>	
		<u>share capital</u>		<u>1,200,000,000</u>		<u>1,200,000,000</u>		<u>share capital</u>		<u>1,200,000,000</u>	
		<u>Note</u>		<u>36</u>		<u>28</u>		<u>36</u>		<u>29</u>	
	<b>Balance as at 1 January 2011</b>										
	Dividend paid										
	Total comprehensive income for the year										
	<b>Balance as at 31 December 2011</b>										
	<b>Balance as at 31 December 2011</b>										
	Increase share capital										
	Dividend paid										
	Total comprehensive income for the year										
	Transferred to statutory reserve										
	<b>Balance as at 31 December 2012</b>										

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Company Limited and its subsidiaries**
**Cash flow statement**
**For the year ended 31 December 2012**

(Unit: Baht)

	Note	Consolidated financial statements		Separate financial statements	
		2012	2011	2012	2011
<b>Cash flows from operating activities</b>					
Profit before tax		2,710,114,121	1,141,772,274	2,100,342,898	908,303,186
Adjustments to reconcile profit before tax to net cash provided by (paid from) operating activities:					
Depreciation and amortisation		592,603,638	623,917,945	408,011,424	421,477,639
Allowance for doubtful accounts		33,310,149	12,876,906	21,993,844	36,833,816
Written off doubtful debts		159,029,694	-	159,029,694	-
Reduction of inventory to net realisable value		23,274,655	416,962	23,274,655	416,962
Gain on sales of property, plant and equipment		(212,738,873)	(807,052)	(218,436,463)	(2,399,172)
Written off intangible assets		-	96,813	-	-
Loss from disposal on investment properties		113,016,387	-	113,016,387	-
Gain on sales of long-term investments		(812,769,049)	(320,652,508)	(812,769,049)	(320,652,508)
Gain on sales of short-term investments		(6,113,802)	(4,658,600)	-	-
Unrealised loss on short-term investments		4,010,000	4,879,414	-	-
Loss on sale of leasehold right		-	369,272,360	-	369,272,360
Share of profit from investments in associates		(361,679,184)	(261,284,115)	-	-
Provision for long-term employee benefits		33,781,113	27,065,579	22,238,462	17,634,594
Loss on change in provision for long-term employee benefits		16,400,958	-	16,400,958	-
(Gain) loss on sales of investment in subsidiaries	2.2	(226,794,123)	-	55,969,942	-
Impairment in investments in subsidiaries (reversal)		-	-	(27,999,860)	9,999,930
Unrealised loss on exchange		47,343,244	158,482,297	47,473,232	157,788,612
Dividend income		(135,330,146)	(91,551,335)	(470,932,604)	(303,165,215)
Interest income		(69,254,739)	(63,541,926)	(69,569,359)	(66,456,754)
Interest expenses		1,493,947,078	1,353,367,897	1,409,497,390	1,257,624,571
Profit from operating activities before changes in operating assets and liabilities		3,402,151,121	2,949,652,911	2,777,541,551	2,486,678,021
Operating assets (increase) decrease					
Trade and other receivables		(748,272,611)	(80,150,695)	(601,190,110)	(10,394,332)
Loans to director		284,316,072	514,632,799	315,940,622	514,632,799
Short-term loans to related parties		10,784,080	(34,378,710)	92,359,151	(41,876,696)
Inventories		(71,243,828)	(50,179,805)	(59,972,079)	(14,367,064)
Share deposit		1,898,500,000	-	1,898,500,000	-
Other current assets		(86,437,954)	7,326,736	(67,957,359)	5,068,503
Other assets		(42,990,347)	517,352,664	(33,714,704)	537,495,013
Operating liabilities increase (decrease)					
Trade and other payables		105,769,856	(59,129,017)	7,261,206	(131,904,454)
Other current liabilities		306,677,382	444,876,592	286,688,600	517,838,289
Liabilities under finance lease payable		(287,136,885)	(189,896,877)	(284,400,698)	(184,593,948)
Provision for long-term employee benefits		(4,603,722)	(110,837)	-	-
Other non-current liabilities		(725,270)	509,042	270,653	-
Cash flows from operating activities		4,766,787,894	4,020,504,803	4,331,326,833	3,678,576,131
Cash paid for interest expenses		(1,482,238,162)	(1,346,464,774)	(1,395,169,744)	(1,253,511,975)
Cash paid for income tax expenses		(58,260,744)	(28,907,085)	(17,325,187)	(12,897,720)
<b>Net cash flows from operating activities</b>		<b>3,226,288,988</b>	<b>2,645,132,944</b>	<b>2,918,831,902</b>	<b>2,412,166,436</b>

The accompanying notes are an integral part of the financial statements.



**Bangkok Airways Company Limited and its subsidiaries**

**Cash flow statement (continued)**

**For the year ended 31 December 2012**

(Unit: Baht)

	Note	Consolidated financial statements		Separate financial statements	
		2012	2011	2012	2011
<b>Cash flows from investing activities</b>					
(Increase) decrease in restricted bank deposits		(150,254,685)	19,842,378	(149,763,586)	-
Acquisition of short-term investments		(176,300,580)	(104,403,617)	-	-
Acquisition of investment in associate		-	(3,000,000)	-	(3,000,000)
Acquisition of long-term investments		(946,915,335)	(919,261,209)	(946,915,335)	(919,260,588)
Acquisition of property, plant and equipment		(437,095,811)	(686,772,898)	(273,463,378)	(593,291,561)
Acquisition of intangible assets		(6,906,027)	(3,720,051)	(6,734,590)	(3,608,347)
Acquisition of leasehold right		-	(18,028,506)	-	(18,028,506)
Acquisition of investment properties		(1,384,163)	(362,105,491)	(1,384,163)	(362,105,491)
Interest income		26,181,854	58,979,989	50,345,112	80,278,946
Dividend income from investment in associates		355,387,458	225,625,000	355,387,458	225,625,000
Dividend income from long-term investments		135,330,146	91,551,335	115,545,146	77,540,215
Proceeds from sales of intangible assets		-	44,131,887	-	44,131,887
Proceeds from sales of property, plant and equipment		16,923,113	4,444,852	16,514,396	4,438,693
Cash received from sales of short-term investments		144,992,285	77,867,400	-	-
Cash received from sales of long term investments		1,011,345,067	418,908,490	1,011,345,067	418,908,490
Cash received from sales of investment in subsidiaries	2.2	50,137,762	-	50,137,763	-
Decrease in cash and cash equivalents from sales of subsidiaries		(43,561,050)	-	-	-
<b>Net cash flows from (used in) investing activities</b>		<b>(22,119,966)</b>	<b>(1,155,940,441)</b>	<b>221,013,890</b>	<b>(1,048,371,262)</b>
<b>Cash flows from financing activities</b>					
Increase (decrease) in bank overdrafts and					
short-term loans from financial institutions		492,115,880	(132,444,407)	530,000,000	(120,000,000)
Cash received from short-term loans		20,753,801	-	17,868,803	-
Cash received from long-term loans		483,532,352	801,329,317	71,700,000	800,000,000
Repayment of long-term loans		(1,244,312,599)	(611,348,017)	(760,270,035)	(460,948,017)
Repayment of short-term loans		-	-	-	(5,088,881)
Proceeds from increase in share capital		12,500,000	-	12,500,000	-
Dividend paid		(654,750,000)	(900,000,000)	(654,750,000)	(900,000,000)
Decrease in non-controlling interest from					
sale of subsidiaries	2.2	(7,803,643)	-	-	-
<b>Net cash flows used in financing activities</b>		<b>(897,964,209)</b>	<b>(842,463,107)</b>	<b>(782,951,232)</b>	<b>(686,036,898)</b>
<b>Increase in translation adjustments</b>		<b>401,195</b>	<b>581,675</b>	<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,306,606,008</b>	<b>647,311,071</b>	<b>2,356,894,560</b>	<b>677,758,276</b>
Cash and cash equivalents at beginning of year		1,359,046,249	711,735,178	1,176,557,049	498,798,773
<b>Cash and cash equivalents at end of year</b>		<b>3,665,652,257</b>	<b>1,359,046,249</b>	<b>3,533,451,609</b>	<b>1,176,557,049</b>

The accompanying notes are an integral part of the financial statements.

**Bangkok Airways Company Limited and its subsidiaries****Cash flow statement (continued)****For the year ended 31 December 2012**

(Unit: Baht)

	<b>Consolidated financial statements</b>		<b>Separate financial statements</b>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Supplemental cash flows information:</b>				
Non-cash items				
Increase in receivable from disposal of property, plants, and equipments	226,373,174	-	226,373,174	-
Increase in receivable from disposal of investment properties	672,820,122	-	672,820,122	-
Increase in payable from purchase of assets	57,647,986	10,074,088	48,925,759	4,279,903
Purchase vehicles under financial lease	45,926,088	31,768,318	42,926,088	25,597,412
Increase in receivable from sales of investments in subsidiaries	454,249,538	-	454,249,538	-
Gain on changes in value of available-for-sale investments	3,169,405,294	3,799,611,045	2,621,155,870	3,208,861,666

The accompanying notes are an integral part of the financial statements.

## Bangkok Airways Company Limited and its subsidiaries

### Notes to consolidated financial statements

#### For the year ended 31 December 2012

#### 1. General information

Bangkok Airways Company Limited (“the Company”) is a limited company incorporated and domiciled in Thailand with three major shareholders hold more than 20 percent each. The Company is principally engaged in the provision of air transportation and airport services and its registered address is 99 Mu 14, Vibhavadirangsit Road, Chom Phon, Chatuchak, Bangkok.

#### 2. Basis of preparation

- 2.1 The financial statements have been prepared in accordance with accounting standards enunciated under the Accounting Professions Act B.E. 2547 and their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 28 September 2011, issued under the Accounting Act B.E. 2543.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from the Thai language financial statements.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

The Company present the statement of comprehensive income for the year ended 31 December 2010 for comparative purpose.

#### 2.2 Basis of consolidation

- a) The consolidated financial statements include the financial statements of Bangkok Airways Company Limited (“the Company”) and the following subsidiary companies (“the subsidiaries”):

Company's name	Nature of business	Country of incorporation	Percentage of shareholding	
			<u>2012</u> Percent	<u>2011</u> Percent
<u>Held by the Company</u>				
Samui Palm Beach Resort Co., Ltd.	Hotel	Thailand	-	95.00
Bangkok Airways (Cambodia) Co., Ltd.	Air transportation	Cambodia	96.00	96.00
Bangkok Airways Holding Co., Ltd.	Holding	Thailand	99.99	99.99
Sukothai Property Co., Ltd.	Hotel	Thailand	-	99.99
Samui Park Avenue Co., Ltd.	Space rental	Thailand	-	99.99
BAGs Ground Services Co., Ltd.	Ground Services	Thailand	-	99.99
Bangkok Airways Ground Services Co., Ltd.	Ground Services	Thailand	99.99	-

Company's name	Nature of business	Country of incorporation	Percentage of shareholding	
			<u>2012</u> Percent	<u>2011</u> Percent
Bangkok Flight Training Center Co., Ltd.	Training Air Crews	Thailand	-	69.99
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	Ground Services	Thailand	88.13	88.13
Bangkok Air Catering Co., Ltd.	Catering	Thailand	59.80	59.80
Universal Catering & Services (Mauritius) Co., Ltd.	Catering	Mauritius	-	100.00
<u>Held by subsidiary companies</u>				
SA Services Co., Ltd. (99.99 percent held by Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.)	Ground Services	Thailand	88.12	88.12
BFS Cargo DMK Co., Ltd. (51.00 percent held by Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.)	Cargo	Thailand	44.95	-
BAC Gourmets House Co., Ltd. (99.99 percent held by Bangkok Air Catering Co., Ltd.)	Restaurant	Thailand	59.79	59.79
Bangkok Air Catering Phuket Co., Ltd. (70.00 percent held by Bangkok Air Catering Co., Ltd.)	Catering	Thailand	41.86	-
Samui Palm Beach Royal Wings Co., Ltd. (99.99 percent held by Samui Palm Beach Resort Co., Ltd.)	Hotel	Thailand	-	94.99

During the year 2012, the Company sold investments in subsidiaries were as follow

Company's name	Nature of business	Country of incorporation	Date of sold investments
BAGs Ground Services Co., Ltd	Ground Services	Thailand	14 August 2012
Samui Palm Beach Resort Co., Ltd.	Hotel	Thailand	1 December 2012
Sukothai Property Co., Ltd.	Hotel	Thailand	1 December 2012
Samui Park Avenue Co., Ltd.	Space rental	Thailand	1 December 2012
Bangkok Flight Training Center Co., Ltd.	Training Air Crews	Thailand	1 December 2012
<u>Held by Samui Palm Beach Resort Co., Ltd.</u>			
Samui Palm Beach Royal Wings Co., Ltd.	Hotel	Thailand	1 December 2012

During the year 2011, Universal Catering & Services (Mauritius) Co., Ltd. was terminated and the Company received capital refund in the year 2012.

The net asset values of subsidiaries as of the disposal dates were as follows:

(Unit: Thousand Baht)

	Consolidated financial statement					Total
	BAGs Ground Services Co., Ltd.	Samui Palm Beach Resort Co., Ltd. and its subsidiary	Sukothai Property Co., Ltd	Samui Park Avenue Co., Ltd	Bangkok Flight Training Center Co., Ltd.	
<b>Assets</b>						
Cash and cash equivalents	36,595	41	550	6,339	35	51,134
Other current assets	168,541	10,944	5,741	4,776	28,279	218,281
Total current assets	205,136	10,985	6,291	11,115	28,314	269,415
<b>Non-current assets</b>						
Property, plant and equipments-net	7,382	352,405	226,150	3,692	10,383	600,012
Other assets	10,188	100	1,260	1,800	-	13,348
Total non-current assets	17,570	352,505	227,410	5,492	10,383	613,360
Total assets	222,706	363,490	233,701	16,607	38,697	882,775
<b>Liabilities</b>						
Trade and other payables	122,162	4,255	5,873	15,182	-	147,472
Other liabilities	19,620	433,700	2,097	10,423	265	466,105
Total liabilities	141,782	437,955	7,970	25,605	265	613,577
Net assets	80,924	(74,465)	225,731	(8,998)	38,432	269,198
Less: Non-controlling interests of subsidiaries	-	3,727	-	-	(11,529)	(7,802)
Total net assets - the Company portion	80,924	(70,738)	225,731	(8,998)	26,903	261,396
Selling price	43,000	190,000	238,000	-	26,250	504,388
Gain (loss) on sales of investments	(37,924)	260,738	12,269	8,998	(653)	242,992
Less: Allowance for doubtful	-	-	-	(16,198)	-	(16,198)
Gain (loss) on sales of investments-net	(37,924)	260,738	12,269	(7,200)	(653)	226,794

(Unit: Thousand Baht)

	Consolidated financial statement				
	Samui Palm Beach Resort Co., Ltd. and its subsidiary	Sukothai Property Co., Ltd	Samui Park Avenue Co., Ltd	Bangkok Flight Training Center Co., Ltd.	Universal Catering & Services (Mauritius) Co., Ltd.
Selling price	43,000	238,000	-	26,250	497,250
Less: Cash and cash equivalents of subsidiary at the disposal date	36,595	-	-	-	36,595
Net cash from disposal of subsidiaries	6,405	-	-	-	6,405
Net receivable from disposal of subsidiaries (Note 11)	-	238,000	-	26,250	454,250
	Separate financial statement				
	Samui Palm Beach Resort Co., Ltd. and its subsidiary	Sukothai Property Co., Ltd	Samui Park Avenue Co., Ltd	Bangkok Flight Training Center Co., Ltd.	Universal Catering & Services (Mauritius) Co., Ltd.
Selling price	43,000	238,000	-	26,250	504,388
Cost of investment in subsidiaries	2,500	322,000	10,000	26,250	560,358
Gain (loss) on sales of investments in subsidiaries	40,500	(84,000)	(10,000)	-	(55,970)
Reverse impairment	-	-	10,000	5,000	3,000
Gain (loss) on sales of investments - net	40,500	(84,000)	-	5,000	(27,970)
Net cash from disposal of subsidiaries	43,000	-	-	-	50,138

- b) Subsidiaries are fully consolidated, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.
  - c) The financial statements of the subsidiaries are prepared using the same significant accounting policies as the Company.
  - d) The assets and liabilities in the financial statements of overseas subsidiary companies are translated to Baht using the exchange rate prevailing on the end of reporting period, and revenues and expenses translated using monthly average exchange rates. The resulting differences are shown under the caption of “Exchange differences on translation of financial statements in foreign currency” in the statements of changes in shareholders’ equity.
  - e) Material balances and transactions between the Company and its subsidiary companies have been eliminated from the consolidated financial statements.
  - f) Non-controlling interests represent the portion of profit or loss and net assets of the subsidiaries that are not held by the Company and are presented separately in the consolidated profit or loss and within equity in the consolidated statement of financial position.
- 2.3 The separate financial statements, which present investments in subsidiaries and associates under the cost method, have been prepared solely for the benefit of the public.

### **3. Change in basis of preparation**

During the current year, the Company changed the basis of preparation of the financial statements from the Thai Financial Reporting Standard applicable to non-publicly accountable entities to Thai Financial Reporting Standards, pursuant to its plan to list on the Stock Exchange of Thailand in 2013. The transition to Thai Financial Reporting Standards resulted in a change in the accounting policy for employee benefits, whereby the Company and its subsidiaries have to adopt an actuarial technique (Projected Unit Credit Method) to reliably estimate the amount of their employee benefit liabilities, in order to meet the requirements of Thai Accounting Standard No.19 Employee Benefits. Liabilities during the transition period are recognized retrospectively, as if the Company and its subsidiaries had recorded employee benefit expenses in accordance with this accounting standard throughout.

The amounts of the adjustments affecting items in the statement of financial position and the statement of comprehensive income are as follow.

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	31 December 2011	1 January 2011	31 December 2011	1 January 2011
<b>Statement of financial position</b>				
Increase in employee benefits	322	2,845	-	-
Decrease in retained earning -				
Unappropriated	(322)	(2,845)	-	-

(Unit: Thousand Baht)

For the year ended

31 December 2011

	Consolidated financial statements	Separate financial statements
<b>Statement of comprehensive income</b>		
Decrease in cost of sales and service	(2,523)	-
Increase in basic earnings per share (Baht)	0.02	-

#### 4. Prior year adjustments

During year 2012, the Company found that some of its land around Samui Airport, some land surrounding Sukothai and Trad airports and land in the Ploenjit area, which were previously recorded as property, plant and equipment in the financial statements, met the criteria for classification as investment properties. The Company therefore decided to retrospectively adjust the financial statements of 2011, as presented herein for comparative purposes, in order to reflect the adjustment to investment properties:

The effects of the adjustments to the financial statements as at 31 December 2011 and 1 January 2011 are as follow.

(Unit: Thousand Baht)

	Separate financial statements	
	31 December 2011	1 January 2011
<b>Statement of financial position</b>		
Increase in investment in properties	1,108,750	753,345
Decrease in property, plant and equipments	(1,108,750)	(753,345)



## 5. New accounting standards not yet effective

The Federation of Accounting Professions issued the following new/revised accounting standards that are effective for fiscal years beginning on or after 1 January 2013.

Accounting standards:

TAS 12	Income Taxes
TAS 20 (revised 2009)	Accounting for Government Grants and Disclosure of Government Assistance
TAS 21 (revised 2009)	The Effects of Changes in Foreign Exchange Rates

Financial Reporting Standard:

TFRS 8	Operating Segments
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Accounting Standard Interpretations:

SIC 10	Government Assistance - No Specific Relation to Operating Activities
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders

The Company's management believes that these accounting standards will not have any significant impact on the financial statements for the year when they are initially applied, except for the following accounting standard.

### TAS 12 Income Taxes

This accounting standard requires an entity to identify temporary differences, which are differences between the carrying amount of an asset or liability in the accounting records and its tax base, and to recognize deferred tax assets and liabilities under the stipulated guidelines. The management of the Company expects the adoption of this accounting standard to have the effect of decreasing the Company and its subsidiaries' brought-forward retained earnings and other components of shareholders' equity of the year 2013 by approximately Baht 2,091 million in total (the Company only: decreasing approximately Baht 2,133 million).

In addition, the Federation of Accounting Professions has issued Notification No. 30/2555 - 34/2555, published in the Royal Gazette on 17 January 2013, mandating the use of accounting treatment guidance and accounting standard interpretations as follows.

	<u>Effective date</u>
Accounting Treatment Guidance for Transfers of Financial Assets	1 January 2013
Accounting Standard Interpretation:	
SIC 29 Service Concession Arrangements: Disclosures	1 January 2014

		<u>Effective date</u>
Financial Reporting Standard Interpretations:		
TFRIC 4	Determining whether an Arrangement contains a Lease	1 January 2014
TFRIC 12	Service Concession Arrangements	1 January 2014
TFRIC 13	Customer Loyalty Programmes	1 January 2014

Management is still evaluating the first-year impact to the financial statements of the adoption of Accounting Treatment Guidance for Transfers of Financial Assets, SIC 29, TFRIC 4, TFRIC 12 and TFRIC 13 and has yet to reach a conclusion.

## **6. Significant accounting policies**

### **6.1 Revenue recognition**

#### *Passenger revenues*

Revenue from ticket sales is recognised as revenue when transportation is provided.

#### *Sales of goods*

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales are the invoiced value, excluding value added tax, of goods supplied after deducting discounts and allowances.

#### *Service rendered*

Revenue from passenger, freight and passenger service charge are recognised in the income statement when the services are provided.

#### *Aircraft rental*

Revenue from aircraft rental is recognised in profit or loss based on rental period.

#### *Interest income*

Interest income is recognised on an accrual basis based on the effective interest rate.

#### *Dividends*

Dividends are recognised when the right to receive the dividends is established.

### **6.2 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and at banks, and all highly liquid investments with an original maturity of three months or less and not subject to withdrawal restrictions.

### **6.3 Trade accounts receivable**

Trade accounts receivable are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experience and analysis of debt aging.

### **6.4 Inventories**

Finished goods are valued at the lower of cost (first in - first out) and net realisable value.

Spare parts, supplies and air-tickets are valued at cost (moving average method) and constitute part of expenses wherever consumed.

### **6.5 Investments**

- a) Investments in securities held for trading are stated at fair value. Changes in the fair value of these securities are recorded in profit or loss.
- b) Investments in available-for-sale securities are stated at fair value. Changes in the fair value of these securities are recorded in other comprehensive income, and will be recorded in profit or loss when the securities are sold.
- c) Investments in debt securities, both due within one year and expected to be held to maturity, are recorded at amortised cost. The premium/discount on debt securities is amortised/accreted by the effective rate method with the amortised/accreted amount presented as an adjustment to the interest income.
- d) Investments in non-marketable equity securities, which the Company classifies as other investments, are stated at cost net of allowance for impairment loss (if any).
- e) Investments in associates are accounted for in the consolidated financial statements using the equity method.
- f) Investments in subsidiaries and associates are accounted for in the separate financial statements using the cost method.

The fair value of marketable securities is based on the latest bid price of the last working day of the year. The fair value of unit trusts is determined from their net asset value.

The weighted average method is used for computation of the cost of investments.

On disposal of an investment, the difference between net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

## 6.6 Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and allowance for loss on impairment (if any).

Depreciation of investment properties is calculated by reference to their costs on the straight-line basis over estimated useful lives of 20 years. Depreciation of the investment properties is included in determining income.

On disposal of investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period when the asset is derecognised.

## 6.7 Property, plant and equipment/Depreciation

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation and allowance for loss on impairment of assets (if any).

Depreciation of plant and equipment is calculated by reference to their costs on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	-	5 and 20	years
Airport and improvements	-	20	years
Aircrafts	-	20	years
Aircrafts parts and ground equipment	-	5 and 14	years
Furniture, fixtures and equipment	-	5 and 10	years
Vehicles	-	5	years

Depreciation is included in determining income.

No depreciation is provided on land and construction in progress.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal of an asset is included in profit or loss when the asset is derecognised.

## 6.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

## 6.9 Intangible assets

The intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (if any).

Intangible assets with finite lives are amortised on a systematic basis over the economic useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of such intangible assets are reviewed at least at each financial year end. The amortisation expense is charged to profit or loss.

A summary of the intangible assets with finite useful lives is as follows:

	<u>Useful lives</u>
Concessions	20 years
Computer software	5 years

## 6.10 Related party transactions

Related parties comprise enterprises and individuals that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies and individuals which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors, and officers with authority in the planning and direction of the Company's operations.

## 6.11 Long-term leases

Leases of property, plant or equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the 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 is depreciated over the shorter of the useful life of the asset and the lease period.

Leases of property, plant or equipment which do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

## **6.12 Foreign currencies**

Transactions in foreign currencies are translated into Baht at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Baht at the exchange rate ruling at the end of reporting period.

Gains and losses on exchange are included in determining income.

## **6.13 Impairment of assets**

At the end of each reporting period, the Company and its subsidiaries performs 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 recognised 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. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by a valuation model that, based on information available, reflects the amount that the Company and its subsidiaries could obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal.

An impairment loss is recognised in profit or loss.

## **6.14 Employee benefits**

### ***Short-term employee benefits***

Salaries, wages, bonuses and contributions to the social security fund are recognised as expenses when incurred.

### ***Post-employment benefits***

#### ***Defined contribution plans***

The Company, its subsidiaries and their employees have jointly established a provident fund. The fund is monthly contributed by employees and by the Company and its subsidiaries. The fund's assets are held in a separate trust fund and the Company and its subsidiaries' contributions are recognised as expenses when incurred.

### *Defined benefit plans*

The Company and its subsidiaries have obligations in respect of the severance payments it must make to employees upon retirement under labor law. The Company and its subsidiaries treat these severance payment obligations as a defined benefit plan.

The obligation under the defined benefit plan is determined by a professionally qualified independent actuary based on actuarial techniques, using the projected unit credit method.

Actuarial gains and losses arising from post-employment benefits are recognised immediately in profit or loss.

The defined benefits liability comprise(s) the present value of the defined benefit obligation less unrecognised past service cost and unrecognised actuarial gains or losses.

For the first-time adoption of TAS 19 Employee Benefits in 2011, the Company elected to recognise the transitional liability, which exceeds the liability that would have been recognised at the same date under the previous accounting policy, retrospectively as through the Company and its subsidiaries initially recorded these employee benefit expenses.

### **6.15 Provisions**

Provisions are recognised when the Company and its subsidiaries have a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### **6.16 Income tax**

Income tax is provided in the accounts at the amount expected to be paid to the taxation authorities, based on taxable profits determined in accordance with tax legislation.

### **7. Significant accounting judgements and estimates**

The preparation of financial statements in conformity with financial reporting standards at times requires management to make subjective judgements and estimates regarding matters that are inherently uncertain. These judgements and estimates affect reported amounts and disclosures; and actual results could differ from these estimates. Significant judgements and estimates are as follows:

**Leases**

In determining whether a lease is to be classified as an operating lease or finance lease, the management is required to use judgement regarding whether significant risk and rewards of ownership of the leased asset has been transferred, taking into consideration terms and conditions of the arrangement.

**Allowance for doubtful accounts**

In determining an allowance for doubtful accounts, the management needs to make judgement and estimates based upon, among other things, past collection history, aging profile of outstanding debts and the prevailing economic condition.

**Impairment of equity investments**

The Company treats available-for-sale investments and other investments 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 judgement of the management.

**Property plant and equipment/Depreciation**

In determining depreciation of plant and equipment, the management is required to make estimations of the useful lives and residual values of the plant and equipment and to review estimate useful lives and residual values when there are any changes.

In addition, the 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 judgements regarding forecast of future revenues and expenses relating to the assets subject to the review.

**Post-employment benefits under defined benefit plans**

The obligation under the defined benefit plans is determined 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**

The Company and its subsidiaries have contingent liabilities as a result of litigation. The Company’s management has used judgement to assess of the results of the litigation and believes that no loss will result. Therefore no contingent liabilities are recorded as at the end of reporting period.



## 8. Related party transactions

During the years, the Company and its subsidiaries had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.

(Unit: Million Baht)

	Consolidated		Separate		Transfer Pricing Policy
	financial		financial		
	statements		statements		
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
<u>Transactions with subsidiary companies</u>					
(eliminated from the consolidated financial statements)					
Passenger income	-	-	2	1	Authorized price
Permission fee	-	-	106	105	Contract price
Interest income	-	-	6	6	MLR
Rental income	-	-	6	6	Contract price
Consulting income	-	-	8	12	Contract price
Catering service expenses	-	-	308	205	Contract price
Utilities expenses	-	-	1	-	Actual charge
Ground service expenses	-	-	360	296	Contract price
Employee expenses	-	-	12	12	Contract price
<u>Transactions with associated companies</u>					
Service income	2	-	-	-	Contract price
Interest income	13	12	13	12	MLR
Shipping service expenses	18	13	18	13	Actual charge
Ground service income	2	2	-	-	Market price
Dividend income	-	-	355	226	As declared
Interest expenses	-	-	383	391	Contract price
<u>Transactions with related companies</u>					
Service income	3	9	-	-	Contract price
Passenger income	59	58	59	58	Contract price
Charter flight	3	18	3	18	Contract price
Ground service expenses	57	-	57	-	Contract price
Gain on sales of investments	227	-	-	-	Contract price
Loss from sales of investments	-	-	28	-	Contract price

(Unit: Million Baht)

	Consolidated		Separate		Transfer Pricing Policy
	financial		financial		
	statements		statements		
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Consulting income	4	-	4	-	Contract price
Medical expenses	2	2	2	2	Market price
Employee expenses	7	3	7	3	Market price
Aeronautical radio	326	305	326	305	Market price
Organizing expenses	4	1	4	1	Agree upon
<u>Transactions with management and directors</u>					
Interest income	47	46	47	46	MLR

As at 31 December 2012 and 2011, the balances of the accounts between the Company and those related companies are as follows:

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b><u>Trade and other receivables - related parties (Note 11)</u></b>				
Subsidiaries	-	-	29,695	47,802
Associated companies	635	378	-	-
Related companies (related by shareholders and/or directors)	<u>1,476,095</u>	<u>13,371</u>	<u>1,476,085</u>	<u>12,642</u>
Total trade and other receivables - related parties	<u>1,476,730</u>	<u>13,749</u>	<u>1,505,780</u>	<u>60,444</u>
<b><u>Trade and other payables - related parties (Note 22)</u></b>				
Subsidiaries	-	-	156,977	140,981
Associated companies	109,588	105,775	101,354	92,415
Related companies (related by shareholders and/or directors)	<u>59,289</u>	<u>61,836</u>	<u>60,332</u>	<u>61,641</u>
Total and other payables - related parties	<u>168,877</u>	<u>167,611</u>	<u>318,663</u>	<u>295,037</u>

Loans to related parties and loan from related parties

As at 31 December 2012 and 2011, the balance of loans between the Company and those related companies and the movement are as follows:

(Unit: Thousand Baht)

Consolidated financial statements				
Loans to	Balance as at 31 December 2011	Increase during the year	Decrease during the year	Balance as at 31 December 2012
Director	589,718	576,824	(855,972)	310,570
Associated companies	179,624	12,583	(13,744)	178,463
Related companies (related by directors)	151,968	171	(10,498)	141,641
	921,310	589,578	(880,214)	630,674
Less: Allowance for doubtful	(151,637)	(171)	10,167	(141,641)
<b>Total</b>	<b>769,673</b>	<b>589,407</b>	<b>(870,047)</b>	<b>489,033</b>

(Unit: Thousand Baht)

Separate financial statements				
Loans to	Balance as at 31 December 2011	Increase during the year	Decrease during the year	Balance as at 31 December 2012
Director	557,550	576,155	(844,680)	289,025
Subsidiaries	188,629	39,640	(159,201)	69,068
Associated companies	179,624	12,583	(13,744)	178,463
Related companies (related by directors)	146,588	171	(4,947)	141,812
	1,072,391	628,549	(1,022,572)	678,368
Less: Allowance for doubtful	(146,588)	(171)	4,947	(141,812)
<b>Total</b>	<b>925,803</b>	<b>628,378</b>	<b>(1,017,625)</b>	<b>536,556</b>

The Company received the totally of loans to director on 4 March 2013.

(Unit: Thousand Baht)

Separate financial statements				
Loans from	Balance as at 31 December 2011	Increase during the year	Decrease during the year	Balance as at 31 December 2012
Subsidiaries	9,888	17,868	-	27,756
<b>Total</b>	<b>9,888</b>	<b>17,868</b>	<b>-</b>	<b>27,756</b>

#### Directors and management's benefits

During the year ended 31 December 2012 and 2011, the Company and its subsidiaries had employee benefit expenses payable to their directors and management as below.

	Consolidated		(Unit: Million Baht)	
	financial statements		Separate	
	2012	2011	2012	2011
Short-term employee benefits	113	97	77	70
Post-employment benefits	19	6	12	4
<b>Total</b>	<b>132</b>	<b>103</b>	<b>89</b>	<b>74</b>

#### Guarantee obligations with related parties

The Company has outstanding guarantee obligations with its related parties, as described in Note 37.2 to the financial statements.

### **9. Cash and cash equivalents**

	Consolidated financial statements		(Unit: Thousand Baht)	
	Separate financial statements		Separate financial statements	
	2012	2011	2012	2011
Cash	36,192	31,566	34,467	30,910
Bank deposits	3,629,460	1,227,480	3,498,985	1,045,647
Bills of exchange	-	100,000	-	100,000
<b>Total</b>	<b>3,665,652</b>	<b>1,359,046</b>	<b>3,533,452</b>	<b>1,176,557</b>

As at 31 December 2012, bank deposits in saving accounts, fixed deposits and bills of exchange carried interests between 0.10 and 2.70 percent per annum (2011: between 0.10 and 2.75 percent per annum).

### **10. Current investments**

During the current year, the subsidiary sold trading securities with book values totaling Baht 138.9 million (2011: Baht 73.2 million) and recognised gains on the sales amounting to Baht 6.1 million in profit or loss (2011: Baht 4.7 million).

## 11. Trade and other receivables

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<u>Trade receivables - related parties</u>				
Aged on the basis of due dates				
Not yet due	8,163	5,156	22,635	44,484
Past due				
Up to 3 months	7,522	785	19,742	1,185
3 - 6 months	404	16	404	416
6 - 12 months	2,000	1,246	2,000	6,446
Over 12 months	159,810	143,602	159,833	158,853
Total	177,899	150,805	204,614	211,384
Less: Allowance for doubtful debts	(176,264)	(144,833)	(176,264)	(160,860)
Total trade receivables - related parties, net	1,635	5,972	28,350	50,524
<u>Trade receivables - unrelated parties</u>				
Aged on the basis of due dates				
Not yet due	1,260,847	969,458	962,119	696,720
Past due				
Up to 3 months	180,547	138,121	117,648	36,777
3 - 6 months	39,350	24,681	36,950	18,790
6 - 12 months	19,102	50,775	12,166	48,019
Over 12 months	60,051	25,280	60,051	21,136
Total	1,559,897	1,208,315	1,188,934	821,442
Less: Allowance for doubtful debts	(82,066)	(70,191)	(80,041)	(68,675)
Total trade receivables - unrelated parties, net	1,477,831	1,138,124	1,108,893	752,767
Total trade receivable - net	1,479,466	1,144,096	1,137,243	803,291
<u>Other receivables</u>				
Advances - related party	2,125	2,125	2,125	2,125
Note receivable from sales of assets and investments in subsidiaries	1,467,818	-	1,467,818	-
Others receivable - related parties	5,152	5,652	7,487	7,795
Others receivable - unrelated parties	37,364	103,631	37,361	75,980
Total other receivables	1,512,459	111,408	1,514,791	85,900
Trade and other receivables - net	2,991,925	1,255,504	2,652,034	889,191

## 12. Inventories

(Unit: Thousand Baht)

	Consolidated financial statements					
	Cost		Reduce cost to net realisable value		Inventories-net	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Spareparts	191,277	145,703	(39,843)	(16,568)	151,434	129,135
Duty free inventory	25,946	11,588	-	-	25,946	11,588
Foods and catering	39,645	35,692	-	-	39,645	35,692
Air Tickets	459	500	-	-	459	500
Others	13,157	10,102	-	-	13,157	10,102
Total	<u>270,484</u>	<u>203,585</u>	<u>(39,843)</u>	<u>(16,568)</u>	<u>230,641</u>	<u>187,017</u>

(Unit: Thousand Baht)

	Separate financial statements					
	Cost		Reduce cost to net realisable value		Inventories-net	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Spareparts	145,101	111,924	(39,843)	(16,568)	105,258	95,356
Duty free inventory	25,946	11,588	-	-	25,946	11,588
Foods and catering	17,780	9,056	-	-	17,780	9,056
Air Tickets	459	500	-	-	459	500
Others	13,157	9,403	-	-	13,157	9,403
Total	<u>202,443</u>	<u>142,471</u>	<u>(39,843)</u>	<u>(16,568)</u>	<u>162,600</u>	<u>125,903</u>

## 13. Restricted bank deposits

These represent current account which temporary suspense as discussed in Note 38.4.

## 14. Investments in subsidiaries

Details of investments in subsidiaries as presented in separate financial statements are as follows:

Company's name	Paid-up capital		Shareholding percentage		Cost	
	2012	2011	2012	2011	2012	2011
			(%)	(%)	(Thousand Baht)	(Thousand Baht)
Samui Palm Beach Resort Co.,Ltd.	-	200,000	-	95.00	-	190,000
Bangkok Airways (Cambodia) Co.,Ltd.	USD 1,000,000	USD 1,000,000	96.00	96.00	9,478	9,478
Bangkok Airways Holding Co.,Ltd.	571,000	571,000	99.99	99.99	570,999	570,999
Sukhothai Property Co.,Ltd.	-	322,000	-	99.99	-	322,000
Samui Park Avenue Co.,Ltd.	-	10,000	-	99.99	-	10,000
BAC Ground Services Co.,Ltd.	-	2,500	-	99.99	-	2,500
Bangkok Airways Ground Services Co.,Ltd.	250	-	99.99	-	250	-
Bangkok Flight Training Center Co.,Ltd.	-	37,500	-	69.99	-	26,250
Worldwide Flight Services Bangkok Air Ground Handling Co.,Ltd.	670,000	670,000	88.13	88.13	590,500	590,500
Bangkok Air Catering Co.,Ltd.	500,000	500,000	59.80	59.80	299,000	299,000
Universal Catering & Services (Mauritius) Co.,Ltd.	-	USD 270,000	-	100.00	-	9,608
Total					1,470,227	2,030,335
Less: Allowance for loss on diminution in value of investments					(9,478)	(37,478)
Investment in subsidiary companies - net					1,460,749	1,992,857

The Company's investments in subsidiaries amounting to Baht 593.6 million have been used as collateral for credit facilities of the subsidiaries.

The Company received capital refund from Universal Catering & Services (Mauritius) Company Limited amounting Baht 7.1 million. The Company recorded loss from investment amounting to Baht 2.5 million in profit or loss.

On 14 August 2012, the Company signs on sell of investment agreement in BAC Ground Services Company Limited (formerly known as "Bangkok Airways Ground Services Company Limited") with Baht 43 per share amounting to Baht 43 million. The Company received all cash on 28 August 2012.

On 1 December 2012, the Company signed an agreement with Sin Sahakol Co.,Ltd., a related party, to purchase and sell investments in 4 subsidiaries (Samui Palm Beach Resorts Co.,Ltd., Sukothai Property Co.,Ltd., Samui Park Avenue Co.,Ltd. and Bangkok Flight Training Center Co.,Ltd.) for a total of Baht 454 million, whereby the related company is to pay for the shares by issuing promissory notes with terms of one year (maturing within 27 December 2013) that are guaranteed by a local bank, as discussed in Note 2.2.

## 15. Investments in associates

### 15.1 Details of associates:

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Consolidated financial statements					
			Shareholding percentage		Cost		Carrying amounts based on equity method	
			2012 (%)	2011 (%)	2012	2011	2012	2011
WFS - PG Cargo Co., Ltd.			49.00	49.00	147,000	147,000	343,846	249,163
Samui Airport Property Fund (Leasehold)			25.00	25.00	2,255,571	2,255,571	1,628,203	1,716,562
S.E.A. Aviation Co., Ltd.			10.00	10.00	3,000	3,000	2,880	2,912
Total					2,405,571	2,405,571	1,974,929	1,968,637

(Unit: Thousand Baht)

Company's name	Nature of business	Country of incorporation	Separate financial statements							
			Shareholding percentage		Cost		Allowance for impairment of investments		Carrying amounts based on cost method - net	
			2012 (%)	2011 (%)	2012	2011	2012	2011	2012	2011
WFS - PG Cargo Company Limited			49.00	49.00	147,000	147,000	-	-	147,000	147,000
Samui Airport Property Fund (Leasehold)			25.00	25.00	2,255,571	2,255,571	-	-	2,255,571	2,255,571
S.E.A. Aviation Co., Ltd.			10.00	10.00	3,000	3,000	-	-	3,000	3,000
Total					2,405,571	2,405,571	-	-	2,405,571	2,405,571

The Company's investments in associates amounting to Baht 110.3 million have been used as collateral for credit facilities of the associates.

### 15.2 Share of profit/loss and dividend received

During the years, the Company has recognised its share of profit/loss from investments in associate companies in the consolidated financial statements and dividend income in the separate financial statements as follows:



(Unit: Thousand Baht)

Company's name	Consolidated financial statements		Separate financial statements	
	Share of profit/loss from investments in associates during the year		Dividend received during the year	
	2012	2011	2012	2011
WFS - PG Cargo Co., Ltd.	182,883	123,645	88,200	-
Samui Airport Property Fund (Leasehold)	178,828	137,678	267,188	225,625
S.E.A. Aviation Co., Ltd.	(32)	(39)	-	-
<b>Total</b>	<b>361,679</b>	<b>261,284</b>	<b>355,388</b>	<b>225,625</b>

### 15.3 Fair value investments in listed associates

In respect of investments in associated companies that are listed companies on the Stock Exchange of Thailand, their fair values are as follows:

(Unit: Million Baht)

Company's name	Fair value as at 31 December	
	2012	2011
Samui Airport Property Fund (Leasehold)	3,990	2,304
<b>Total</b>	<b>3,990</b>	<b>2,304</b>

### 15.4 Summarised financial information of associates

(Unit: Million Baht)

Company's name	Paid-up capital as at		Total assets as at		Total liabilities as at		Total revenues for the		Profit for the years ended	
	31 December		31 December		31 December		years ended		31 December	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
WFS - PG Cargo Co.,Ltd.	300	300	1,415	1,427	691	895	1,371	1,187	372	248
Samui Airport Property Fund (Leasehold)	9,208	9,208	10,365	10,444	62	60	1,136	979	1,098	942
S.E.A Aviation Co.,Ltd.	30	30	29	30	-	-	-	-	-	-

## 16. Investment properties

The net book value of investment properties as at 31 December 2012 and 2011 is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	Land awaiting for sales	Office and shops for rent	Total	Land awaiting for sales	Office and shops for rent	Total
	31 December 2012					
Cost	235,226	107,829	343,055	235,226	107,829	343,055
Less: Accumulated depreciation	-	(25,347)	(25,347)	-	(25,347)	(25,347)
Net book value	<u>235,226</u>	<u>82,482</u>	<u>317,708</u>	<u>235,226</u>	<u>82,482</u>	<u>317,708</u>
31 December 2011						
Cost	989,066	26,182	1,015,248	999,592	134,012	1,133,604
Less: Accumulated depreciation	-	(4,898)	(4,898)	-	(24,854)	(24,854)
Net book value	<u>989,066</u>	<u>21,284</u>	<u>1,010,350</u>	<u>999,592</u>	<u>109,158</u>	<u>1,108,750</u>
1 January 2011						
Cost	626,960	26,183	653,143	637,487	134,012	771,499
Less: Accumulated depreciation	-	(3,589)	(3,589)	-	(18,154)	(18,154)
Net book value	<u>626,960</u>	<u>22,594</u>	<u>649,554</u>	<u>637,487</u>	<u>115,858</u>	<u>753,345</u>

A reconciliation of the net book value of investment properties for the years 2012 and 2011 is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements		Separate financial statements	
	2012	2011	2012	2011
	Net book value at beginning of year	1,010,350	649,554	1,108,750
Acquisition of assets	1,384	362,105	1,384	362,105
Increase from sales of investments in subsidiaries - net book value	93,464	-	-	-
Disposals - net book value	(785,836)	-	(785,836)	-
Depreciation charged	(1,654)	(1,309)	(6,590)	(6,700)
Net book value at end of year	<u>317,708</u>	<u>1,010,350</u>	<u>317,708</u>	<u>1,108,750</u>

The fair value of the investment properties as at 31 December 2012 stated below:

(Unit: Thousand Baht)

	<u>2012</u>
Land awaiting for sales	312,275
Office and shops for rent	29,439

The fair values of the above investment properties have been determined based on valuations performed by an accredited independent valuer determined based on market prices and, for some land, the valuation prices from The Treasury Department.

The Company have pledged investment properties amounting to approximately Baht 234 million (2011: Baht 530 million) as collateral against credit facilities received from financial institutions.

#### 17. Others long-term investments

(Unit: Thousand Baht)

	Consolidated financial statements	
	2012	2011
Available-for-sales securities		
Market capital	2,834,601	2,136,914
Add: Unrealised gain from revaluation	10,944,277	7,774,871
Available-for-sales securities - net	13,778,878	9,911,785
Debt securities held to maturity	50,000	-
Other investments	7,527	6,874
Total	13,836,405	9,918,659

(Unit: Thousand Baht)

	Separate financial statements	
	2012	2011
Available-for-sales securities		
Market capital	2,265,101	1,567,414
Add: Unrealised gain from revaluation	9,584,277	6,963,121
Available-for-sales securities - net	11,849,378	8,530,535
Debt securities held to maturity	50,000	-
Other investments	7,527	6,874
Total	11,906,905	8,537,409

Certain available-for-sales securities with market value as at 31 December 2012 amounting to Baht 11,843 million (2011: Baht 7,787 million) have been used as collateral for short-term loans from financial institutions and long-term loans.

## 18. Property, plant and equipment

(Unit: Thousand Baht)

Cost	Consolidated financial statements							Total	
	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipments	Furniture, fixture and equipment	Vehicles		Construction in progress
1 January 2011	1,722,098	1,957,321	808,082	4,364,932	1,906,737	1,150,385	552,390	71,271	12,533,216
Purchase	388,495	6,425	-	-	104,187	38,970	24,492	162,826	725,395
Disposal	-	(5,402)	-	-	-	(7,755)	(19,938)	(121)	(33,216)
Transfer in (out)/adjust	(12)	56,326	545	-	-	16,175	877	(93,872)	(19,961)
31 December 2011	2,110,581	2,014,670	808,627	4,364,932	2,010,924	1,197,775	557,821	140,104	13,205,434
Purchase	60,817	16,955	-	-	151,088	74,229	38,994	149,378	491,461
Disposal	(7,209)	(25,030)	-	-	(6,763)	(22,163)	(24,578)	(2,010)	(87,753)
Transfer to investment properties	(10,526)	(107,829)	-	-	-	-	-	-	(118,355)
Decrease from sale of investments in subsidiaries	(334,506)	(403,770)	-	-	-	(140,063)	(3,722)	(17,914)	(899,975)
Transfer in (out)	-	88,766	14,690	-	-	31,460	91	(135,022)	(15)
31 December 2012	1,819,157	1,583,762	823,317	4,364,932	2,155,249	1,141,238	568,606	134,536	12,590,797

(Unit: Thousand Baht)

		Consolidated financial statements								
		Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipments	Furniture, fixture and equipment	Vehicles	Construction in progress	Total
<b>Accumulated depreciation</b>										
	1 January 2011	-	567,205	424,843	1,752,006	1,430,359	916,776	442,181	-	5,533,370
	Depreciation for the year	-	118,280	34,186	163,761	95,012	90,870	51,385	-	553,494
	Depreciation - disposal	-	(3,853)	-	-	-	(7,241)	(18,483)	-	(29,577)
	31 December 2011	-	681,632	459,029	1,915,767	1,525,371	1,000,405	475,083	-	6,057,287
	Depreciation for the period	-	120,327	32,970	172,826	103,062	71,668	35,296	-	536,149
	Depreciation - disposal	-	(5,248)	-	-	(6,758)	(21,407)	(23,784)	-	(57,197)
	Transfer to investment properties	-	(24,891)	-	-	-	-	-	-	(24,891)
	Decrease from sale of investments in subsidiaries	-	(167,706)	-	-	-	(128,694)	(3,563)	-	(299,963)
	31 December 2012	-	604,114	491,999	2,088,593	1,621,675	921,972	483,032	-	6,211,385
<b>Net book value</b>										
	1 January 2011	1,722,098	1,390,116	383,239	2,612,926	476,378	233,609	110,209	71,271	6,999,846
	31 December 2011	2,110,581	1,333,038	349,598	2,449,165	485,553	197,370	82,738	140,104	7,148,147
	31 December 2012	1,819,157	979,648	331,318	2,276,339	533,574	219,266	85,574	134,536	6,379,412
<b>Depreciation for the years ended 31 December</b>										
	2011 (Baht 428 million included in manufacturing cost, and the balance in selling and administrative expenses)									553,494
	2012 (Baht 386 million included in manufacturing cost, and the balance in selling and administrative expenses)									536,149

(Unit: Thousand Baht)

	Separate financial statements							Total	
	Land	Building and improvements	Airport and improvements	Aircrafts	Aircrafts parts and ground equipments	Furniture, fixture and equipment	Vehicles		Construction in progress
<b>Cost</b>									
1 January 2011	1,377,066	1,373,808	808,082	4,364,932	1,324,737	752,661	338,034	57,704	10,397,024
Purchase	388,495	9	-	-	52,602	23,655	11,627	143,560	619,948
Disposal	-	(4,104)	-	-	-	(6,568)	(15,218)	-	(25,890)
Transfer in (out)/adjust	(12)	46,233	545	-	-	11,748	877	(79,345)	(19,954)
31 December 2011	1,765,549	1,415,946	808,627	4,364,932	1,377,339	781,496	335,320	121,919	10,971,128
Purchase	60,817	-	-	-	69,055	39,481	31,075	115,677	316,105
Disposal	(7,209)	(18,265)	-	-	(6,763)	(17,112)	(24,019)	(2,010)	(75,378)
Transfer in (out)/adjust	-	68,921	14,690	-	-	17,348	91	(101,050)	-
31 December 2012	1,819,157	1,466,602	823,317	4,364,932	1,439,631	821,213	342,467	134,536	11,211,855
<b>Accumulated depreciation</b>									
1 January 2011	-	413,011	424,843	1,752,006	1,214,552	670,521	298,018	-	4,772,951
Depreciation for the year	-	82,527	34,186	163,761	44,154	47,431	22,080	-	394,139
Depreciation - disposal	-	(3,594)	-	-	-	(6,492)	(13,764)	-	(23,850)
31 December 2011	-	491,944	459,029	1,915,767	1,258,706	711,460	306,334	-	5,143,240
Depreciation for the period	-	82,865	32,970	172,826	51,034	34,948	18,934	-	393,577
Depreciation - disposal	-	(4,035)	-	-	(6,758)	(16,910)	(23,224)	-	(50,927)
31 December 2012	-	570,774	491,999	2,088,593	1,302,982	729,498	302,044	-	5,485,890
<b>Net book value</b>									
1 January 2011	1,377,066	960,797	383,239	2,612,926	110,185	82,140	40,016	57,704	5,624,073
31 December 2011	1,765,549	924,002	349,598	2,449,165	118,633	70,036	28,986	121,919	5,827,888
31 December 2012	1,819,157	895,828	331,318	2,276,339	136,649	91,715	40,423	134,536	5,725,965
<b>Depreciation for the years ended 31 December</b>									
2011 (Baht 264 million included in manufacturing cost, and the balance in selling and administrative expenses)									394,139
2012 (Baht 271 million included in manufacturing cost, and the balance in selling and administrative expenses)									393,577

As at 31 December 2012, certain property and equipments have been fully depreciated but are still in use. The gross carrying amount (before deducting accumulated depreciation) of those assets amounted to approximately Baht 2,617 million (2011: Baht 2,405 million (separate financial statements: Baht 2,289 million 2011: Baht 2,115 million)).

An Airport including its facilities are used as collateral for compliance with the term and condition in the lease and services from facilities agreements with a Property Fund as discuss in Note 26.

Major portion of the Company's land together with the construction thereon are used as collateral for major portion of long-term loans as discuss in Note 23.

All aircrafts of the Company as at 31 December 2012 are purchased under conditional agreements. The ownership of the aircrafts will be transferred to the Company upon final payment.

#### **19. Intangible assets**

Two subsidiary companies have signed contracts with Airports of Thailand Public Company Limited (AOT) (which has sole right to operate Suvarnabhumi Airport), in order to engage in various projects at the Airport for 20 years from the day it opened officially (from 28 September 2006 to 27 September 2026). The subsidiaries have to pay annual benefits to AOT, in amounts not less than the minimum compensation rates set for each year, throughout the period of the concession.

<u>Company</u>	<u>Project</u>	<u>Period</u>
Bangkok Air Catering Co., Ltd.	Catering	20 years
Worldwide Flight Services Bangkok Air Ground Handling Company Limited	Ground service equipments and maintenance facilities	20 years

The rights in buildings and other components of each project are transferred to Ministry of Finance.

The net book value of intangible assets as at 31 December 2012 and 2011 is presented below.

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	Computer			Computer		
	Concessions	software	Total	Concessions	software	Total
As at 31 December 2012						
Cost	920,732	171,082	1,091,814	-	153,392	153,392
Less: Accumulated amortisation	(288,232)	(103,997)	(392,229)	-	(88,828)	(88,828)
Net book value	<u>632,500</u>	<u>67,085</u>	<u>699,585</u>	<u>-</u>	<u>64,564</u>	<u>64,564</u>
As at 31 December 2011						
Cost	920,732	115,352	1,036,084	-	95,339	95,339
Less: Accumulated amortisation	(242,090)	(97,140)	(339,230)	-	(81,187)	(81,187)
Net book value	<u>678,642</u>	<u>18,212</u>	<u>696,854</u>	<u>-</u>	<u>14,152</u>	<u>14,152</u>

A reconciliation of the net book value of intangible assets for the years 2012 and 2011 is presented below.

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	2012	2011	2012	2011
Net book value at beginning of year	696,854	743,566	14,152	12,402
Acquisition of computer software	56,115	6,941	55,944	6,831
Written off - net book value	-	(97)	-	-
Decrease from sale of investments				
in subsidiaries - net book value	(896)	-	-	-
Amortisation	<u>(52,488)</u>	<u>(53,556)</u>	<u>(5,532)</u>	<u>(5,081)</u>
Net book value at end of year	<u>699,585</u>	<u>696,854</u>	<u>64,564</u>	<u>14,152</u>



## 20. Other non-current assets

(Unit: Thousand Baht)

	Consolidated financial statements			Separate financial statements		
	31 December	31 December	1 January	31 December	31 December	1 January
	2012	2011	2011	2012	2011	2011
Deposit	447,003	426,110	934,263	441,739	419,747	929,162
Share deposit	-	1,898,500	1,898,500	-	1,898,500	1,898,500
Withholding tax	40,601	40,602	27,704	40,601	40,602	27,704
Others	2,695	3,198	3,948	2,695	2,695	2,483
<b>Total</b>	<b>490,299</b>	<b>2,368,410</b>	<b>2,864,415</b>	<b>485,035</b>	<b>2,361,544</b>	<b>2,857,849</b>

The Company signed a contract to purchase 99.5 million shares listed on the Stock of Thailand, at a price equal to the market price as at the transfer date. The Company made a deposit of Baht 1,899 million for this trade. Later, on 1 December 2012, the Company cancelled the contract and it received a full refund of the deposit on 28 December 2012.

## 21. Bank overdrafts and short-term loans from financial institutions

(Unit: Thousand Baht)

	Interest rate (percent per annum)	Consolidated financial		Separate	
		statements		financial statements	
		2012	2011	2012	2011
Bank overdrafts	7.00% - 10.00%	-	13,565	-	-
Short-term loans from financial institutions	4.25% - 7.90%	<u>1,670,000</u>	<u>1,185,000</u>	<u>1,670,000</u>	<u>1,140,000</u>
<b>Total</b>		<b><u>1,670,000</u></b>	<b><u>1,198,565</u></b>	<b><u>1,670,000</u></b>	<b><u>1,140,000</u></b>

Bank overdrafts and short-term loans from financial institutions are secured by available for sales securities investment of the Company and its subsidiary, director and the director's securities.

## 22. Trade and other payables

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	2012	2011	2012	2011
Trade payables - related parties	134,668	159,463	289,683	265,463
Trade payables - unrelated parties	1,155,041	1,117,052	1,106,181	1,030,638
Other payables - related parties	34,209	8,148	28,980	29,574
Other payables - unrelated parties	434,338	454,515	229,811	259,961
Other payables for purchase of software and equipment	70,763	13,139	53,968	5,042
<b>Total trade and other payables</b>	<b>1,829,019</b>	<b>1,752,317</b>	<b>1,708,623</b>	<b>1,590,678</b>

## 23. Long-term loans

### Company

(Unit: Thousand Baht)

Loan	Credit Facility	Interest rate (%)	Period (year)	Agreement Date	Repayment	Separate financial statements	
						2012	2011
1	100	Year 1 : MLR-0.75% Year 2 onward : MLR	7	10 August 2005	Monthly	-	13,850
2	119	Year 1 : MLR-0.50% Year 2 onward: MLR	7	23 March 2006	Monthly	5,811	26,811
3	78	Year 1 : MLR-1.00% Year 2 : MLR-0.50% Year 3 onward : MLR	7	20 December 2006	Monthly	19,229	39,629
4	300	6.75%	5	31 March 2009	Monthly	144,095	204,168
5	420	Year 1-2 : MLR-0.50% Year 3 onward : MLR	6	29 October 2009	Monthly	345,000	387,000
6	135	Year 1-2 : MLR-0.50% Year 3 onward : MLR	6	29 October 2009	Monthly	76,790	101,290
7	1,100	Year 1: MLR-1.0% Year 2: MLR-0.50% Year 3 onward : MLR	7	20 August 2010	Monthly	860,000	1,042,400
8	250	MLR	5	9 November 2010	Monthly	178,000	225,500
9	500	5.50%	7	9 May 2011	Yearly	398,187	500,000
10	300	5.50%	7	24 June 2011	Monthly	235,200	278,400
11	53	6.00%	7	24 January 2012	Monthly	45,540	-
12	100	6.00%	7	24 January 2012	Monthly	7,830	-
13	65	6.00%	5	24 January 2012	Monthly	1,910	-
<b>Total</b>						<b>2,317,592</b>	<b>2,819,048</b>
Less: Current portion						<b>(595,824)</b>	<b>(534,871)</b>
<b>Long-term loans, net of current portion</b>						<b>1,721,768</b>	<b>2,284,177</b>

## **Subsidiaries**

(Unit: Thousand Baht)

Company	Credit		Period (year)	Agreement Date	Repayment		
	Facilities	Interest rate (%)				2012	2011
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	630	MLR-1.50%	12	15 March 2004	Quarterly	407,000	467,000
Worldwide Flight Services Bangkok Air Ground Handling Co., Ltd.	160	MLR	6	17 August 2006	Quarterly	-	46,825
Bangkok Air Catering Co., Ltd.	710	MLR-1% to MLR	8	23 February 2006	Every 6 months	385,000	525,000
BAC Gourmets House Co., Ltd.	6	MLR	4	20 December 2010	Quarterly	3,950	5,600
BAC Gourmets House Co., Ltd.	40	MLR	4	24 April 2012	Quarterly	31,300	-
Samui Palm Beach Resort Co., Ltd.	135	MLR-2.0% to MLR+2.5%	11	12 October 2004	Monthly	-	87,107
Samui Palm Beach Royal Wings Co., Ltd.	152	MLR-2.0% to MLR+2.5%	11	3 August 2006	Monthly	-	144,760
Total						827,250	1,276,292
Less: Current portion						(300,350)	(253,995)
Long term net of current portion						526,900	1,022,297

	Consolidated		Separate	
	financial statements		financial statements	
	2012	2011	2012	2011
Total	3,144,842	4,095,340	2,317,592	2,819,048
Less: Current portion	(896,174)	(788,866)	(595,824)	(534,871)
Long-term loans, net of current portion	2,248,668	3,306,474	1,721,768	2,284,177

Long-term loans are secured by part of the Company and its subsidiary's land and construction, common shares of subsidiary, certain available for sales securities of the Company and its subsidiary, director and the director's securities.

The loan agreements contain covenants as specified in the agreements that, among other things, require the Company and its subsidiaries to maintain certain debt to equity and debt service coverage ratios according to the agreements.

As at 31 December 2012, the long-term credit facilities of the Company and its subsidiaries which have not yet been drawn down amounted to Baht 146 million (Company only: Baht 146 million).

## 24. Liabilities arising from lease of aircrafts

Liabilities arising from lease of aircrafts (effective rate from 6.68 percent to 7.79 percent) are due as follow:

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	2012		
	Liabilities arising from purchase	Deferred interest expenses	Total
Within one year	410,318	(69,899)	340,419
After one year but within five years	838,907	(56,839)	782,068
<b>Total</b>	<b>1,249,225</b>	<b>(126,738)</b>	<b>1,122,487</b>

(Unit: Thousand Baht)

	Consolidated financial statements and Separate financial statements		
	2011		
	Liabilities arising from purchase	Deferred interest expenses	Total
Within one year	328,924	(90,082)	238,842
After one year but within five years	1,282,621	(131,080)	1,151,541
<b>Total</b>	<b>1,611,545</b>	<b>(221,162)</b>	<b>1,390,383</b>

## 25. Liabilities under finance lease agreements

(Unit: Thousand Baht)

	Consolidated financial statements	
	2012	2011
Liabilities under finance lease agreements	69,268	40,643
Less : Deferred interest expenses	(5,187)	(2,810)
Total	64,081	37,833
Less : Portion due within one year	(25,162)	(15,579)
Liabilities under finance lease agreements - net of current portion	<u>38,919</u>	<u>22,254</u>

(Unit: Thousand Baht)

	Separate financial statements	
	2012	2011
Liabilities under finance lease agreements	60,046	31,265
Less : Deferred interest expenses	(4,428)	(2,068)
Total	55,618	29,197
Less : Portion due within one year	(21,845)	(12,290)
Liabilities under finance lease agreements - net of current portion	33,773	16,907

The Company has entered into the finance lease agreements with leasing companies for rental of motor vehicles and equipment for use in its operation, whereby it is committed to pay rental on a monthly basis. The terms of the agreements are generally between 3 and 4 years.

Future minimum lease payments required under the finance lease agreements were as follows:

(Unit: Thousand Baht)

	Consolidated financial statements		
	31 December 2012		
	Less than 1 year	1-5 years	Total
Future minimum lease payments	28,010	41,258	69,268
Deferred interest expenses	(2,848)	(2,539)	(5,187)
Present value of future minimum lease payments	25,162	38,919	64,081

(Unit: Thousand Baht)

	Consolidated financial statements		
	31 December 2011		
	Less than 1 year	1-5 years	Total
Future minimum lease payments	17,205	23,438	40,643
Deferred interest expenses	(1,626)	(1,184)	(2,810)
Present value of future minimum lease payments	15,579	22,254	37,833

	(Unit: Thousand Baht)		
	Separate financial statements		
	31 December 2012		
	Less than 1		
	year	1-5 years	Total
Future minimum lease payments	24,283	35,763	60,046
Deferred interest expenses	(2,438)	(1,990)	(4,428)
Present value of future minimum lease payments	<u>21,845</u>	<u>33,773</u>	<u>55,618</u>

	(Unit: Thousand Baht)		
	Separate financial statements		
	31 December 2011		
	Less than		
	1 year	1-5 years	Total
Future minimum lease payments	13,579	17,686	31,265
Deferred interest expenses	(1,289)	(779)	(2,068)
Present value of future minimum lease payments	<u>12,290</u>	<u>16,907</u>	<u>29,197</u>

## 26. Long-term loan - related party

	(Unit: Thousand Baht)
<b>Balance as at 31 December 2011</b>	8,467,675
Payment of principle	<u>(187,054)</u>
<b>Balance as at 31 December 2012</b>	8,280,621
Less: portion due within one year	<u>(195,780)</u>
<b>Long-term loan - related party - net of current portion</b>	<u>8,084,841</u>

On 24 November 2006, the Company entered into an agreement to lease Samui Airport, together with its facilities, to Samui Airport Property Fund (Leasehold) (Fund) for a period of 30 years (from 24 November 2006 to 23 November 2036) for Baht 9,300 million. The Company pledged the assets leased to the Fund, with a collateral values of Baht 20,900 million, to guarantee performance in accordance with the lease agreement. Under the term of the agreement, the Company (Bangkok Airways Co., Ltd. and/or its affiliates, and/or its subsidiary) must hold not less than 25% of the number of units issued and offered for sale by the Fund for the period of 20 years (from 24 November 2006 to 23 November 2026).

On the same date, the Company entered into an agreement to sublease the Airport from the Fund for a period of 3 years, renewable for 9 times of 3 years each, and another agreement under which the Company is to receive utilities system service at the Airport from the Fund for a period of 30 years (from 24 November 2006 to 23 November 2036). Payments on these agreements are as follows:

Sublease	- Baht 26,125,000 per month
Facilities	
- Fixed	- Baht 21,375,000 per month
- Additional	- Vary based on number of departing passengers and number of flight arrivals

The Company has to arrange for a bank guarantee to be issued by a commercial bank in Thailand and/or deposit cash as security in the bank account of the Fund and/or pledge of listed securities and/or other securities, such that their aggregate value is equal to 12 months of the sub-lease fee specified in Sub-Lease Agreement plus the fixed service fee specified in Utilities System Service Agreement. If listed securities and/or other securities are pledged, collateral value is not to be less than 120 percent of the pledged collateralized amount throughout the pledge period.

The Company has pledged common shares of Bangkok Dusit Medical Services Public Company Limited amounting to 8.5 million shares (2011: 12.8 million shares) that are owned by a director and an individual, with a fair value of Baht 965 million (2011: Baht 1,040 million) as at 31 December 2012, as collateral.

The Company records amortisation of long-term loan by fixed payments in each month as specified in Sub-lease and Utilities System Service Agreement by using the effective interest rate method.

## 27. Provision for long-term employee benefits

Provision for long-term employee benefits, which is compensations on employees' retirement, was as follows:

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	2012	2011	2012	2011
<b>Defined benefit obligation at</b>				
<b>beginning of year</b>	115,340	88,386	82,604	64,969
Current service cost	29,406	23,702	19,128	15,194
Interest cost	4,375	3,363	3,110	2,441
Benefits paid during the year	(410)	(111)	-	-
Actuarial loss	16,401	-	16,401	-
Decrease from sale of investments in subsidiaries	(4,193)	-	-	-
<b>Provisions for long-term employee</b>				
<b>benefits at end of year</b>	<u>160,919</u>	<u>115,340</u>	<u>121,243</u>	<u>82,604</u>

Long-term employee benefit expenses included in the profit or loss was as follows:

(Unit: Thousand Baht)

	Consolidated		Separate	
	financial statements		financial statements	
	2012	2011	2012	2011
Current service cost	29,406	23,702	19,128	15,194
Interest cost	4,375	3,363	3,110	2,441
Actuarial loss recognised during the year	16,401	-	16,401	-
Total expense recognised in profit or loss	<u>50,182</u>	<u>27,065</u>	<u>38,639</u>	<u>17,635</u>
Line items under which such expenses are included in profit or loss				
Cost of sales and service	28,666	17,692	19,848	10,756
Selling and administrative expenses	21,516	9,373	18,791	6,879



Principal actuarial assumptions at the valuation date were as follows:

	Consolidated financial statements		Separate financial statements	
	2012	2011	2012	2011
	(% per annum)	(% per annum)	(% per annum)	(% per annum)
Discount rate	3.36% - 4.17%	3.00% - 4.17%	3.58%	3.76%
Future salary increase rate	4.00% - 5.00%	4.00% - 5.00%	5.00%	5.00%
Staff turnover rate				
(depending on age)	0.00% - 46.00%	0.00% - 46.00%	8.00%-10.00%	5.00%-10.00%

Amounts of defined benefit obligation for the current and previous two periods are as follows:

(Unit: Thousand Baht)

	Defined benefit obligation		Experience adjustments arising on the plan liabilities	
	Consolidated financial statements	Separate financial statements	Consolidated financial statements	Separate financial statements
Year 2012	160,919	121,243	7,813	7,813
Year 2011	115,340	82,604	-	-
Year 2010	88,386	64,969	-	-

## 28. Share capital

On 8 February 2012, the Extraordinary General Meeting of the Company's shareholders approved a Baht 50 million increase in the registered capital, through the issue of Baht 5 million new shares with a par value of Baht 10 each. Of this, 25 percent or a value of a Baht 2.50 per share is called up, resulting in an increase in the Company's paid up share capital of Baht 1,212.5 million. The Company registered the increase in its share capital with the Ministry of Commerce on 17 February 2012.

### Reconciliation of number of ordinary shares

(Unit: Shares)

	Consolidated and Separate financial statements	
	2012	2011
<b>Registered ordinary shares</b>		
Number of ordinary shares at the beginning of the year	120,000,000	120,000,000
Increase registered ordinary shares	5,000,000	-
Number of ordinary shares at the end of the year	<u>125,000,000</u>	<u>120,000,000</u>

	(Unit: Shares)	
	Consolidated and Separate financial statements	
	2012	2011
<b>Issued and paid-up ordinary shares</b>		
Number of ordinary shares at the beginning of the year	120,000,000	120,000,000
Increase paid-up ordinary shares	1,250,000	-
Number of ordinary shares at the end of the year	121,250,000	120,000,000

### 29. Statutory reserve

According to the Thai Civil and Commercial Code, the Company is required to set aside to a statutory reserve an amount equal to at least five percent of its net profit each time the Company pays out a dividend, until such reserve reaches ten percent of its registered share capital. The statutory reserve cannot be used for dividend payment. At present, the statutory reserve has fully been set aside.

### 30. Expenses by nature

Significant expenses by nature are as follows:

	(Unit: Thousand Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Salary and wages and other employee benefits	3,282,090	2,730,784	2,204,772	1,780,275
Depreciation	537,803	554,803	400,167	400,839
Amortisation expenses	54,802	69,114	7,844	20,638
Rental expenses from operating lease	1,549,563	1,338,404	1,452,153	1,300,177
Fuel expenses	3,852,728	3,049,204	3,852,728	3,049,204
Repair and maintenance	1,313,440	1,005,404	1,220,014	931,748
Ground service expenses	483,603	344,367	843,178	639,942
Raw materials and supply used	437,037	375,925	-	-

### 31. Income tax

No corporate income tax was payable for the year 2011 since the Company had tax loss brought forward from prior year over its net income for the year from the non-promoted operation, after adding back expenses which are disallowed for tax computation purposes.

### 32. Promotional privileges

By virtue of the provisions of Investment Promotion Act, the Company was granted certain privileges by exemption from income tax for net income from promoted business for eight years as follows:

Promotion certificate No.	Description	Commencing date	Expiring date
Air transportation operations			
1734(2)/2547	4 aircrafts with capacity of 600 seats	16 September 2004	16 September 2012
2072(2)/2548	6 aircrafts with capacity of 795 seats	1 July 2007	1 July 2015
2199(2)/2551	3 aircrafts with capacity of 430 seats	30 January 2009	30 January 2017
1204(2)/2555	2 aircrafts with capacity of 300 seats	11 March 2012	11 March 2020
2019(2)/2555	1 aircraft with capacity of 162 seats	30 November 2012	30 November 2020
Commercial airport operations			
1352(2)/2550	Samui airport	14 March 2007	14 March 2015
Catering operations			
2110(3)/2549	Manufacturing food	-	-

As a promotion company, the Company must comply with certain conditions and restrictions provided for in the promotional certificates.

The Company's operating revenues for the years are below shown divided according to promoted and non-promoted operations.

	(Unit: Thousand Baht)					
	Promoted operations		Non-promoted operations		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Sales						
Passenger	10,936	9,725	3,665	1,685	14,601	11,410
Others	838	700	1,968	1,604	2,806	2,304
Total sales	<u>11,774</u>	<u>10,425</u>	<u>5,633</u>	<u>3,289</u>	<u>17,407</u>	<u>13,714</u>

### 33. Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the Company (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the year, after adjusting the number of ordinary shares in proportion to the change in the par value of the shares from Baht 10 to Baht 1 per share as discussed in Note 41.2, because these change were occurred after the end of the reporting period but before the financial statements were authorised for issue. The number of ordinary shares of the prior year used for the calculation, as presented for comparative purposes, has been adjusted in proportion to the change in the par value of the shares as a result of the change in the par value of the shares had been occurred at the beginning of the earliest period reported.

The following table sets forth the computation of basic earnings per share:

	Profit for the years		Weighted average number of ordinary shares		Earnings per share	
	2012	2011	2012	2011	2012	2011
	(Thousand Baht)	(Thousand Baht)	(Thousand shares)	(Thousand shares) (Restated)	(Baht)	(Baht) (Restated)
Consolidated						
financial statements	2,464,220	1,089,268	1,209,520	1,200,000	<u>2.04</u>	<u>0.91</u>
Separate						
financial statements	1,977,109	908,303	1,209,520	1,200,000	<u>1.63</u>	<u>0.76</u>

### 34. Segment information

The Company and its subsidiaries' business operations involve 4 principal segments: (1) Airlines (2) Airports (3) Supporting Airlines Business and (4) Others. These operations are mainly carried on in Thailand. Below is the consolidated financial information of the Company and its subsidiaries for the years ended 31 December 2012 and 2011 by segment.

(Unit: Million Baht)

	Airlines segment		Airports segment		Supporting Airlines Business segments		Other segments		Elimination of inter-segment revenues		Consolidation	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	2	1	447	369	2,330	2,059	61	71	-	-	17,702	14,099
Revenue from external customers	14,864	11,599	447	369	2,330	2,059	61	71	-	-	17,702	14,099
Intersegment revenues	2	1	-	-	638	500	14	12	(655)	(513)	-	-
Total revenues	14,866	11,600	447	369	2,969	2,559	75	83	(655)	(513)	17,702	14,099
Segment operating profit	4,133	3,005	133	74	285	268	(3)	(6)			4,548	3,341
Unallocated income and expenses:												
Gain from sales of current investments											819	325
Gain from sales of investments in subsidiaries											227	-
Dividend income											135	91
Other income											666	1,007
Selling expenses											(1,090)	(958)
Administrative expenses											(1,429)	(1,142)
Loss from disposal of leasehold right											-	(369)
Other expenses											(34)	(61)
Share of profit of associated companies											361	261
Financial cost											(1,494)	(1,353)
Income tax expenses											(176)	(9)
Non-controlling interests of the subsidiaries											(69)	(44)
Profit for the year	3,476	3,722	2,248	2,201	653	607	2	617			2,464	1,089
Property, plant and equipment											6,379	7,147
Unallocated assets											25,781	20,363
Total assets											32,160	27,510

Transfer prices between business segments are as set out in Note 8 to the financial statements.

### 35. Provident fund

The Company and its employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. Both employees and the Company contribute to the fund monthly at the rate of 2 percent to 5 percent of basic salary. The fund, which is managed by MFC Assets Management Public Co., Ltd., will be paid to employees upon termination in accordance with the fund rules. During the year 2012, the Company contributed Baht 25 million (2011: Baht 20 million) to the fund.

Subsidiaries and its employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. Both employees and subsidiaries contribute to the fund monthly at the rate of 3 percent to 7 percent of basic salary. The fund, which is managed by Tisco Assets Management Public Co., Ltd., will be paid to employees upon termination in accordance with the fund rules. During the year 2012, Subsidiaries contributed Baht 23 million (2011: Baht 21 million) to the fund.

### 36. Dividends

	Approved by	Total dividends (Thousand Baht)	Dividend per share (Baht)
Interim dividends for 2012 income	Annual General Meeting of the shareholders on 22 November 2012	654,750	5.40
		<u>654,750</u>	<u>5.40</u>
Final dividends on 2010 income	Annual General Meeting of the shareholders on 27 April 2011	120,000	1.00
Interim dividends for 2011 income	Board of Directors' meeting on 23 June 2011	480,000	4.00
Interim dividends for 2011 income	Annual General Meeting of the shareholders on 25 August 2011	300,000	2.50
		<u>900,000</u>	<u>7.50</u>

### 37. Commitments and contingent liabilities

#### 37.1 Operating lease commitments

The Company has entered into several aircraft lease agreements with foreign companies, office premises and utilities.

As at 31 December 2012, future minimum lease payments required under aircraft lease agreements total USD 118 million (2011: USD 101 million).

Future minimum lease payments required under concessions and non-cancellable rental agreements of building with local and aboard were as follows.

	(Unit: Million Baht)			
	Consolidated		Separate	
	financial statements		financial statements	
	As at 31 December		As at 31 December	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Payable:				
In up to 1 year	487	479	55	63
In over 1 and up to 5 years	1,780	1,697	72	36
In over 5 years	4,498	5,127	13	20

### 37.2 Guarantees

- (a) As at 31 December 2012, the Company has guaranteed bank credit facilities of its subsidiaries companies amounting to Baht 2,235 million (2011: Baht 2,395 million) and associated companies amounting to Baht 1,040 million (2011: Baht 1,040 million).
- (b) As at 31 December 2012, the Company has outstanding bank guarantees of approximately Baht 105.7 million, USD 2.5 million, INR 23.9 million, BDT 7.5 million, MYR 1.0 million and SGD 0.1 million issued by banks on behalf of the Company in the normal course of business (2011: Baht 204.6 million, USD 1.9 million, EUR 0.01 million, INR 23.4 million and SGD 0.11 million) and its subsidiary has outstanding bank guarantees of approximately Baht 280.7 million (2011: Baht 251.5 million).

### 37.3 Pledges

#### The Company and its subsidiaries

- 37.3.1 As at 31 December 2012 and 2011, the Company and its subsidiaries have the following contingent liabilities in respect of loan guarantees.

		(Unit: Million Baht)	
Guarantor	Guarantee	2012	2011
Bangkok Air Catering Co.,Ltd.	BAC Gourmet House Co.,Ltd.	46	6
Samui Palm Beach Resort Co.,Ltd.	Samui Palm Beach Royal Wings Co.,Ltd.	-	132

37.3.2 As at 31 December 2012 and 2011, the Company and its subsidiaries have the following contingent liabilities in respect of guarantees for bank overdraft facilities.

(Unit: Million Baht)

Guarantor	Guarantee	2012	2011
Bangkok Air Catering Co.,Ltd.	BAC Gourmet House Co.,Ltd.	5	1
Samui Palm Beach Resort Co.,Ltd.	Samui Palm Beach Royal Wings Co.,Ltd	-	7

### 38. Litigation

#### The Company

- 38.1 The Company was sued by 3 ex-employees claiming Baht 0.2 million for bonus of 2007. The Company protested the claim citing the resignation took place in May 2008 making them ineligible for the previous year's bonus which made a payment during the year 2008. At present, the case is being considered by the Supreme Court of Thailand.
- 38.2 The Company was sued by a plaintiff who acted as an agent in finding sponsorship of the Company's annual events; "Bangkok Airways Samui Superstar Beach Volleyball 2005" and "Bangkok Airways Open 2005", for a payment of commissions at the rate of 10 percent of the amounts received from sponsorship of these events in the years 2006 and 2007. The claimed amount is Baht 0.6 million together with interest at a rate of 15 percent per annum, calculated from 2 February 2008. The Company is disputing the claim citing that the plaintiff was hired as an agent exclusively for the year 2005, making the plaintiff ineligible for the commissions for the years 2006 and 2007. At present, the case is being considered by the Appeal Court.
- 38.3 During the year 2010, property tax amounting to Baht 119 million was assessed against the Company by Koh Samui Municipality for Samui Airport, covering the years 2007 to 2010. The assessment was based on the annual rental that the Company paid to a related company, as discussed in Note 26. The Company paid all tax to Koh Samui Municipality and recorded it as a prepaid expense. The Company filed an appeal against the assessment made with the Koh Samui Municipality, who subsequently notified the Company of its final decision that the assessment of property tax made was in accordance with the law. Therefore, on 12 April 2011, the Company filed suit against the Koh Samui Municipality with the Central Tax Court and the court ordered Koh Samui Municipality to repay the property tax with interest to the Company. At present, the case is being considered by the Appeal Court.



Koh Samui Municipality subsequently charged the Company property tax for 2011 and 2012 amounting to Baht 38.8 million each year, calculated under the abovementioned basis. The Company filed an appeal against the assessment and paid all of the tax, and Koh Samui Municipality notified the Company of its final decision. The Company then filed suit against Koh Samui Municipality. At present, the case is being considered by the Central Tax Court.

- 38.4 The Company was sued by a plaintiff who acted as an agent for ticketing and air cargo services operated in Bangladesh. The plaintiff filed a civil lawsuit against the Company with the Civil Court, alleging that the Company was in breach of agreement as a result of the non-renewal of the agency appointment, resulting in damages amounting 807 million Bangladeshi Taka, or about Baht 308 million, and petitioned the court to issue an order of temporary protection prohibiting the Company from any transactions through the Company's accounts at the Banani Branch of HSBC Bank, as discussed in Note 13. The court of first instance accepted the lawsuit but dismissed the petition for a temporary protection order. The plaintiff therefore filed an appeal of the decision of the court of first instance with the Supreme Court and the Supreme Court decided that the temporary protection order should be granted by the court of first instance, and dissolved after 2 months from the date the order is received. The Company has engaged legal counsel to dispute the charges since the renewal of an agreement appointing an agent is the Company's right and the agreement appointing the agent did not stipulate that the Company required the consent of the agent in the matter of renewal of the agreement. At present, the case is being considered by the Court.

### **Subsidiaries**

- 38.5 During 2008, the subsidiary was sued for Baht 68.6 million by its construction contractor in a dispute between the parties over the subsidiary's opinion that the contractor had not complied with the terms and conditions of a construction contract. On 20 April 2010, the Court of First Instance ordered the subsidiary to pay compensation of Baht 25.4 million, together with interest at 7.5% per annum computed from 15 October 2007 until the compensation is fully settled. On 14 July 2010, the subsidiary sought a stay of execution from the Court of Appeal.

In March 2011, the subsidiary returned the retention, amounting to Baht 10.4 million, to the plaintiff, together with the corresponding interest, or a total of Baht 13.1 million. Moreover, on 17 March 2011, the subsidiary placed the remaining Baht 15 million and the corresponding interest charge, or a total of Baht 19.8 million, as a bond, in accordance with an order of the Court of Appeal. On 2 June 2011, the Court of Appeal ordered the subsidiary to pay for incremental costs. Later, on 30 September 2011, the subsidiary filed an appeal of the case with the Supreme Court. Currently, the case is pending in the Supreme Court and the outcome cannot yet be determined. However, the subsidiary believes that the provisions made in the accounts are adequate to cover any losses that may arise from this case.

### **39. Financial instruments**

#### **39.1 Financial risk management**

The Company's financial instruments, as defined under Thai Accounting Standard No.107 "Financial Instruments: Disclosure and Presentations", principally comprise cash and cash equivalents, trade accounts receivable, loans, investments, and short-term and long-term loans. The financial risks associated with these financial instruments and how they are managed is described below.

##### ***Credit risk***

The Company is exposed to credit risk primarily with respect to trade accounts receivable, loans, notes and other receivable. The Company manages the risk by adopting appropriate credit control policies and procedures and therefore does not expect to incur material financial losses. In addition, the Company does not have high concentrations of credit risk since it has a large customer base. The maximum exposure to credit risk is limited to the carrying amounts of receivables, loans, other receivables and notes receivable as stated in the statement of financial position.

##### ***Interest rate risk***

The Company's exposure to interest rate risk relates primarily to its cash at banks, bank overdrafts, debentures and long-term borrowings. However, since most of the Company's financial assets and liabilities bear floating interest rates or fixed interest rates which are close to the market rate, the interest rate risk is expected to be minimal.

Significant financial assets and liabilities classified by type of interest rate are summarised in the table below, with those financial assets and liabilities that carry fixed interest rates further classified based on the maturity date, or the repricing date if this occurs before the maturity date.

(Unit: Million Baht)

Consolidated financial statement							
As at 31 December 2012							
Fixed interest rates							
Within	1-5	Over	Floating	Non- interest	Total	Effective	
1 year	years	5 years	interest rate	bearing		interest rate	
(% per annum)							
<u>Financial Assets</u>							
Cash and cash equivalent	2	-	-	2,741	922	3,665	0.625%-2.7%
Current investments	-	-	-	-	60	60	-
Trade and other receivables	-	-	-	-	2,922	2,992	-
Short-term loans to related parties	-	-	-	289	-	289	1.00%, MLR
Restrict bank deposits	20	-	-	-	150	170	3.125%
Other long-term investments	-	-	-	-	13,836	13,836	-
Long term loans to related companies	13	8	-	178	1	200	1.00%, MLR
	35	8	-	3,208	17,961	21,212	
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans							
from financial institutions	1,670	-	-	-	-	1,670	4.25%-4.50%
Trade and other payables	-	-	-	-	1,829	1,829	-
Long-term loans	214	594	25	1,892	420	3,145	5.5%-6.75%, MLR-1.5% to MLR
Liabilities arising from lease of							
aircrafts	340	782	-	-	-	1,122	6.68%-7.79%
Finance lease liabilities	25	39	-	-	-	64	2.4%-6.61%
Long-term loans from related parties	196	879	7,206	-	-	8,281	4.57%
	2,445	2,294	7,231	1,892	2,249	16,111	

(Unit: Million Baht)

Consolidated financial statement							
As at 31 December 2011							
Fixed interest rates							
Within	1-5	Over	Floating	Non- interest	Total	Effective	
1 year	years	5 years	interest rate	bearing		interest rate	
(% per annum)							
<u>Financial Assets</u>							
Cash and cash equivalent	105	-	-	358	896	1,359	0.1%-2.85%
Current investments	-	-	-	-	26	26	-
Trade and other receivables	-	-	-	-	1,256	1,256	-
Short-term loans to related parties	-	-	-	558	-	558	MLR
Deposits at bank with restrictions	20	-	-	-	-	20	2.50%
Other long-term investments	-	-	-	-	9,919	9,919	-
Long term loans to related companies	-	31	-	180	1	212	MLR
	125	31	-	1,096	12,098	13,350	

(Unit: Million Baht)

## Consolidated financial statement

As at 31 December 2011

	Fixed interest rates			Floating interest rate	Non- interest bearing	Total	Effective interest rate (% per annum)
	Within 1 year	1-5 years	Over 5 years				
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans							
from financial institutions	1,199	-	-	-	-	1,199	5.00%-8.00%
Trade and other payables	-	-	-	-	1,752	1,752	-
Long-term loans	188	733	62	3,112	-	4,095	5.5%-6.75%, MLR+0.25%, MLR-1.5% to MLR
Liabilities arising from lease of							
aircrafts	239	1,151	-	-	-	1,390	6.68%-7.79%
Finance lease liabilities	16	22	-	-	-	38	2.55%-8.07%
Long-term loans from related parties	187	840	7,441	-	-	8,468	4.57%
	<u>1,829</u>	<u>2,746</u>	<u>7,503</u>	<u>3,112</u>	<u>1,752</u>	<u>16,942</u>	

(Unit: Million Baht)

## Separate financial statement

As at 31 December 2012

	Fixed interest rates			Floating interest rate	Non- interest bearing	Total	Effective interest rate (% per annum)
	Within 1 year	1-5 years	Over 5 years				
<u>Financial Assets</u>							
Cash and cash equivalent	2	-	-	2,626	905	3,533	0.1%-2.7%
Trade and other receivables	-	-	-	-	2,652	2,652	-
Short-term loans to related parties	-	-	-	289	-	289	MLR
Deposits at bank with restrictions	-	-	-	-	150	150	-
Other long-term investments	-	-	-	-	11,907	11,907	-
Long term loans to related companies	-	-	-	248	-	248	MLR
	<u>2</u>	<u>-</u>	<u>-</u>	<u>3,163</u>	<u>15,614</u>	<u>18,779</u>	

(Unit: Million Baht)

Separate financial statement							
As at 31 December 2012							
	Fixed interest rates					Total	Effective interest rate (% per annum)
	Within 1 year	1-5 years	Over 5 years	Floating interest rate	Non- interest bearing		
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans from financial institutions	1,670	-	-	-	-	1,670	4.25%-4.50%
Trade and other payables	-	-	-	-	1,709	1,709	-
Short-term loans from related parties	28	-	-	-	-	28	1%
Long-term loans	214	594	25	1,485	-	2,318	5.5%-6.75%, MLR
Liabilities arising from lease of aircrafts	340	782	-	-	-	1,122	6.68%-7.79%
Finance lease liabilities	22	34	-	-	-	56	5.17%-6.61%
Long-term loans from related parties	196	879	7,206	-	-	8,281	4.57%
	<u>2,470</u>	<u>2,289</u>	<u>7,231</u>	<u>1,485</u>	<u>1,709</u>	<u>15,184</u>	

(Million Baht)

Separate financial statement							
As at 31 December 2011							
	Fixed interest rates					Total	Effective interest rate (% per annum)
	Within 1 year	1-5 years	Over 5 years	Floating interest rate	Non- interest bearing		
<u>Financial Assets</u>							
Cash and cash equivalent	105	-	-	210	861	1,176	0.1%-2.85%
Trade and other receivables	-	-	-	-	889	889	-
Short-term loans to related parties	-	-	-	558	-	558	MLR
Other long-term investments	-	-	-	-	8,537	8,537	-
Long term loans to related companies	-	-	-	368	-	368	MLR
	<u>105</u>	<u>-</u>	<u>-</u>	<u>1,136</u>	<u>10,287</u>	<u>11,528</u>	

(Million Baht)

Separate financial statement							
As at 31 December 2011							
Fixed interest rates							
	Within 1 year	1-5 years	Over 5 years	Floating interest rate	Non- interest bearing	Total	Effective interest rate
							(% per annum)
<u>Financial liabilities</u>							
Bank overdrafts and short-term loans from financial institutions	1,140	-	-	-	-	1,140	5.00%-5.50%
Trade and other payables	-	-	-	-	1,591	1,591	-
Short-term loans from related parties	10	-	-	-	-	10	1%
Long-term loans	188	733	62	1,836	-	2,819	5.5%- 6.75%,MLR- 0.5% to MLR
Liabilities arising from lease of aircrafts	239	1,151	-	-	-	1,390	6.68%-7.79%
Finance lease liabilities	12	17	-	-	-	29	4.93%-8.07%
Long-term loans from related parties	187	840	7,441	-	-	8,468	4.57%
	<u>1,776</u>	<u>2,741</u>	<u>7,503</u>	<u>1,836</u>	<u>1,591</u>	<u>15,447</u>	

### **Foreign currency risk**

The balances of financial assets and liabilities denominated in foreign currencies are summarised below.

Consolidated financial statements						
Foreign currency	Financial assets		Financial liabilities		Average exchange rate	
	as at 31 December		as at 31 December		as at 31 December	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)	
AUD	1	1	-	-	31.78	32.20
BDT	525	349	17	10	0.38	0.39
CNY	5	1	1	2	4.92	5.03
EUR	3	4	-	1	40.56	41.03
GBP	1	2	-	-	49.35	48.86
HKD	20	11	3	2	3.95	4.08

Foreign currency	Consolidated financial statements					
	Financial assets		Financial liabilities		Average exchange rate	
	as at 31 December		as at 31 December		as at 31 December	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)	
INR	154	130	12	15	0.56	0.59
JPY	37	21	-	1	0.35	0.41
RUB	23	8	-	-	1.01	0.99
SGD	1	1	-	-	25.03	24.39
USD	31	25	60	69	30.63	31.69

Foreign currency	Separate financial statements					
	Financial assets		Financial liabilities		Average exchange rate	
	as at 31 December		as at 31 December		as at 31 December	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	(Million)	(Million)	(Million)	(Million)	(Baht per 1 foreign currency unit)	
AUD	1	1	-	-	31.78	32.20
BDT	525	349	17	10	0.38	0.39
CNY	5	1	1	2	4.92	5.03
EUR	3	4	-	1	40.56	41.03
GBP	1	2	-	-	49.35	48.86
HKD	20	11	3	2	3.95	4.08
INR	154	130	12	15	0.56	0.59
JPY	37	21	-	1	0.35	0.41
RUB	23	8	-	-	1.01	0.99
SGD	1	1	-	-	25.03	24.39
USD	31	25	59	69	30.63	31.69

### 39.2 Fuel Price Risk

The Company's fuel price risk hedges covered 61.8 percent (2011: 42.7 percent) of its total fuel consumption. As at December 31, 2012, the Company had outstanding obligations from fuel price hedging until December 2013, amounting to 405,000 barrels (2011: 273,000 barrels) of jet fuel, with the lowest forward price being USD 106 per barrel and the highest contract price being USD 128.45 per barrel (2011: lowest price was USD 105.25 per barrel and highest price was USD 134.95 per barrel).

The Company has obligations in respect of the fuel price difference if the fuel price is lower than contract price and conversely, the Company will be compensated for the price difference if the fuel price is higher than the contract price.

### **39.3 Fair values of financial instruments**

Since the majority of the Company's financial instruments are short-term in nature or bear floating interest rates, their fair value is not expected to be materially different from the amounts presented in statement of financial position.

A fair value is the amount for which an asset can be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value is determined by reference to the market price of the financial instruments or by using an appropriate valuation technique, depending on the nature of the instrument.

## **40. Capital management**

The primary objective of the Company's capital management is to ensure that it has appropriate capital structure in order to support its business and maximise shareholder value. As at 31 December 2012, the Group's debt-to-equity ratio was 1.45:1 (2011: 2.40:1) and the Company's was 1.44:1 (2011: 2.10:1).

## **41. Events after the reporting period**

41.1 On 7 February 2013, the Board of Directors Meeting No.2/2013 passed a resolution to call up the residual payment of 75 percent of the registered share capital, amounting to Baht 50 million or a Baht 7.5 per share, resulting in an increase in called-up capital to Baht 1,250 million. The Company registered the increase with the Ministry of Commerce on 27 February 2013.

41.2 On 26 February 2013, the Extraordinary Shareholders Meeting No.1/2013 passed resolutions approving the following:

- 1) Payment of dividend totaling Baht 850 million, or Baht 7.01 per share, in respect of the operating results of the fourth quarter of year 2012, on 6 March 2013.
- 2) An increase of Baht 850,000,000 in the registered capital, from Baht 1,250,000,000 to Baht 2,100,000,000. The Company registered the capital increase on 27 February 2013.
- 3) A change in the par value of the shares from Baht 10 to Baht 1 per share, resulting in an increase in number of the ordinary shares from 125,000,000 ordinary shares to 1,250,000,000 ordinary shares.



- 4) Allocation of 850 million additional shares as follows:
- 4.1 Up to Baht 300 million of ordinary shares to be offered to existing shareholders in proportion to their shareholding. The Company received such share subscription payment on 7 March 2013 and registered the increase of its paid-up capital with the Ministry of Commerce on 21 March 2013.
- 4.2 Up to Baht 30 million of ordinary shares to be offered to directors, executives, and employees in their positions as at 31 January 2013 (ESOP), at a price equal to or higher than book value, with the number of shares allocated based on position and length of service of its paid-up.
- 4.3 Up to Baht 520 million of ordinary shares to be issued through an initial public offering.

41.3 On 27 February 2013, the Company registered its transformation from a Company Limited to a Public Company Limited with the Ministry of Commerce and the change of its name to “Bangkok Airways Public Company Limited”.

41.4 On 25 March 2013, The Board of Directors Meeting 5/2013 passed a resolution to increase the Company's shareholding in 2 subsidiaries, Bangkok Airways Worldwide Flight Service Company Limited and Bangkok Air Catering Company Limited.

#### 42. Reclassification

Certain amounts in the financial statements for the year ended 31 December 2011 and as at 1 January 2011 have been reclassified to conform to the current year's classification. The reclassifications are as follow:

	(Unit: Thousand Baht)			
	As at 31 December 2011		As at 1 January 2011	
	As reclassified	As previously reported	As reclassified	As brought forward
<b>Statement of financial position</b>				
Value added and withholding tax	-	49,997	-	35,448
Loan to directors	-	412,598	-	927,231
Short-term loans from related parties	557,550	-	1,026,051	-
Other current assets	185,435	320,992	131,784	222,860
Investment properties	1,108,750	-	753,345	-

	(Unit: Thousand Baht)			
	As at 31 December 2011		As at 1 January 2011	
	As reclassified	As previously reported	As reclassified	As brought forward
Property, plant and equipment	5,827,888	6,936,638	5,624,073	6,377,418
Deposit	-	419,747	-	929,162
Share deposits	-	1,898,500	-	1,898,500
Other current liabilities	2,361,544	2,695	2,857,849	2,483

	(Unit: Thousand Baht)	
	For the year ended 31 December 2011	
	As reclassified	As previously reported
<b>Statement of comprehensive income</b>		
Other income	1,121,087	1,118,688
Loss on exchange	-	65,321
Loss on sales from leasehold rights	369,272	-
Loss from sales of equipments	-	366,873
Other expenses	65,321	-

The reclassifications had no effect to previously reported profit or shareholders' equity.

#### 43. Approval of financial statements

These financial statements were authorised for issue by the Company's Directors on 25 March 2013.

**Registered Office of the Company**

**Bangkok Airways Public Company Limited**

99 Mu 14, Vibhavadirangsit Road  
Chom Phon, Catuchak  
Bangkok 10900  
Thailand

**Legal Advisors**

*To the Company*

*as to U.S. Federal and English law*

**White & Case Pte. Ltd.**

8 Marina View #27-01  
Asia Square Tower 1  
Singapore 018960  
Republic of Singapore

*as to Thai law*

**Charin & Associates Ltd.**

16th Floor, Unit 1611, Park Ventures Ecoplex  
57 Wireless Road, Lumpini, Pathumwan  
Bangkok 10330  
Thailand

*To the International Managers*

*as to U.S. Federal and English law*

**Shearman & Sterling LLP**

6 Battery Road # 25-03  
Singapore 049909  
Singapore

*as to Thai law*

**Weerawong, Chinnavat & Peangpanor Ltd.**

22nd Floor, Mercury Tower  
540 Ploenchit Road  
Lumpini, Pathumwan  
Bangkok 10330  
Thailand

**Independent Accountants**

**Ernst & Young Office Limited**

33rd Lake Rajada Office Complex  
193/136-137 Rajadapisek Road  
Klong Toey, Bangkok 10110  
Thailand

