



## **Management's Discussion and Analysis**

For the period ended 31 December 2017

Bangkok Airways Public Company Limited and Its Subsidiaries



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#### **Executive Summary**

Thailand's economy in the last quarter of 2017 continuously grew from previous quarter supported by a pick-up in exports, blooming tourism and private consumption as well as a jump in manufacturing. Overall, the economy will expand 4 percent for the whole of 2017. The report showed that Thailand's export was improved mainly from a global trade recovery in which agricultural and electronic products were major contributions. In addition, a rise in fuel price can be observed. Meanwhile, Ministry of finance revealed that the inflation rate of 2017 is expected at 0.7 percent, increasing 0.2 percent from last year.

Considering global aviation industry of 2017, a growth in passenger traffic was supported by 7.6 percent increase in revenue passenger kilometers (RPK) where airlines in Asia-Pacific achieved highest growth at 10.1 percent following by Europe and Latin America, accounting for 8.2 and 7.0 respectively. On the other hands, worldwide capacity growth or Available seat kilometers (ASK) rose 6.3 percent on average. Again, Asia-Pacific remains at the top with a growth of 8.4 percent following by 6.5 and 6.2 percent in Middle-East and European carriers. *(Source: International Air Transport Association)*

Tourism industry in Thailand, a number of international tourist arrivals grew by 19.5 percent in last quarter of 2017, compared to the same period last year. The major growth was supported by from Southeast Asia and East Asia, accounting for 27.7 percent increase from last year followed by South Asia and the Africa with 20.7 and 6.9 percentage growth.

In the last quarter 2017, Chinese tourist arrivals increased dramatically by 67.2 percent, compared to the same period last year. This is because a recovery of zero-dollar tours situation in previous year. Overall, a number of Chinese visitors grew by 12 percent for the whole of 2017, compared to the same period last year.

Thailand tourism, in year 2017, improved from last year as can be seen from 8.8 percent growth of international tourist arrivals. Tourists from Asian countries had the highest growth of 9.9 percent, followed by America and Africa with 9.5 and 8.7 percent respectively. Additionally, a number of European tourists rose by 5.5 percent in which Russian tourists revealed the highest growth at 23.5 percent, resulting from an increase in direct flights between Russia and Thailand, and the followings is from East Europe with 17.1 percentage growth *(Source: Ministry of Tourisms and Sports)*.

The Company has increased flight frequencies in Bangkok-Danang route to 7 flights per week, Chiang Mai-Mandalay route to 7 flights per week and Chiang Mai-Mae Hong Son route to 14 flights per week starting from first quarter of year 2017. Additionally, new flights service have been started from Samui to Chongqing

and Samui to Guangzhou with three flights and seven flights per week respectively. In consequence, the route network development affected ASK growth at 9.7 percent compared with last year. International point-of-sales were our main target customers. The major passenger revenue were from point-of-sale in Europe at 27.0 percent, in Asia excluding Thailand at 25.0 percent and in Thailand at 18.0 percent of total passenger revenues. China contributed the highest proportion passenger revenue among Asia countries and achieved growth at 37.0 percent of passenger revenue due to the direct flights operation from Samui to China cities.

The Company has total revenue of 28,493.3 million baht, increased by 6.5 percent from the same period of the year 2016. This was largely due to a constant growth in airport-related businesses by 12.6 percent from a rising number of flights landed at Suvarnabhumi airport, together with new airline customers they engaged during the period. Besides, the increasing of revenue was from dividend received from investment, along with special item from gain on sales of investments in BDMS during the period which was amounting of 1,738.2 million baht. Nevertheless, the operating revenue of airline business slightly declined by 1.1 percent from highly intense competition which caused the average fare to drop by 6.3 percent, particularly in Indochina routes. The average passenger load factor was 68.5 percent, decreased from 69.2 percent. Passenger yield per RPK was shown at 4.44 baht, weakened from year 2016 by 9.0 percent.

The Company reported profit before income tax amounting to 1,318.4 million baht, decreased from the same period last year by 1,458.0 million baht or 52.5 percent. After corporate income tax, net gain was 846.4 million baht of which gain attributable to equity holders of the Company at the amount of 787.9 million baht. Earnings per share equaled to 0.38 baht.



## **Notable Events**

Notable events in year 2017:

1. The Company has increased flight frequencies, operated new routes and terminated underperforming route as following:

### Adding Flight Frequencies

- Bangkok-Danang from 4 flights per week to 7 flights per week (February 2017)
- Chiang Mai-Mandalay from 4 flights per week to 7 flights per week (March 2017)
- Chiang Mai-Mae Hong Son from 10 flights per week to 14 flights per week (March 2017)

### New Routes

- Samui-Guangzhou 7 flights per week (January 2017)
- Samui-Chongqing 3 flights per week (July 2017)
- Bangkok-Phu Quoc 4 flights per week (October 2017)

### Terminated Route

- Bangkok-Dhaka 7 flights per week (November 2017)

2. In February 2017, the Company received the new Air Operation Certificate (AOC) from the Civil Aviation Authority of Thailand. This certificate demonstrates that the Company's operational management and control systems are in high standards and being recognized internationally.
3. The Company has 23 codeshare partners in total in which the Company has entered into codeshare agreement with 3 airlines:
  - Xiamen Airlines (since May 2017)
  - Hong Kong Airlines (since November 2017)
  - Vietnam Airlines (since November 2017)

4. As of 31 December 2017, the Company has 38 aircrafts, which consists of:

<b>Fleet Type</b>	<b>As of 31 December 2017</b>	<b>As of 31 December 2016</b>
Airbus A320	9	9
Airbus A319	14	12
ATR72-500	6	6
ATR72-600	9	7
<b>Total</b>	<b>38</b>	<b>34</b>



Two additional ATR72-600 under financial lease were delivered in April and two additional Airbus A319s under operating lease were delivered in July 2017.

5. The Company introduced new International Passenger Lounge at Suvarnabhumi airport. The new lounge offers extra comfort and convenience to Bangkok Airways' passenger. The new lounge has 250 sq.m. in size and can accommodate up to 120 passengers. While the Blue Ribbon Club lounge has 200 sq.m. in size and can accommodate up to 50 passengers.
6. Bangkok Air Catering Company Limited (BAC) invested in a wholly owned subsidiary named Bangkok Air Catering Chiang Mai Company Limited (BAC-Chiang Mai) which has registered capital of 10 million baht. The objective of this establishment is to provide catering services at Chiang Mai airport.
7. As of 31 December 2017, Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground) had 4 additional airlines causing total number of its customers to be from 70 airlines to 74 airlines for ground service equipment.
8. Bangkok Airways Holding Company Limited established Air Siem Reap Company Limited with the purpose to operate aviation business in Cambodia on 10 February 2017. The registered capital, but uncalled, share capital is 3.0 million USD. Bangkok Airways Holding Company Limited holds 49.0 percent.
9. The Company received "World's Best Regional Airline" and "Best Regional Airline in Asia" from SKYTRAX World Airline Awards 2017. These awards were evaluated based on the world's largest airline passenger satisfaction survey, taken by travelers from around the world every year.
10. The Company received "Best in Travels Poll 2017" from Smart Travel Asia, including "Top 10 Airlines Worldwide", "Top 5 Best in Cabin Service – Worldwide 2017" and "Top 10 Airport Worldwide for Samui Airport 2017" which were conducted by SmartTravelAsia.com that involved millions of travelers from around the world voting for their favorite travel brands.
11. The Company received "Best Full-Service Boutique Airline - APAC" from Air Transport Awards 2017 which was organized by Transport News Intl, the transportation industry's leading publication in England. The winner award is selected on merit from the judging panel together with the voters who subscribe Transport News Intl website, and selected industry professionals to place a vote.
12. The Company received "Best Regional Airline 2017 Award" at the 28th Annual TTG Travel Awards 2017 Ceremony. The TTG Asia Travel Awards honored the best of the best in the Asia-Pacific travel trade.



## Management's Discussion and Analysis

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

Consolidated financial statement of the Company consists of Separate Financial Statement and Financial Statements of the 11 subsidiaries that include: 1) Bangkok Air Catering Company Limited (BAC) 2) Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground) 3) Bangkok Airways Ground Service Company Limited (PGGS) 4) Bangkok Airways Holding Company Limited (PGH) 5) SA Services Company Limited 6) BFS Cargo DMK Company Limited 7) BAC Gourmet House Company Limited 8) Bangkok Air Catering Phuket Company Limited 9) Gourmet Primo Company Limited 10) Bangkok Air Catering Samui Company Limited and 11) Bangkok Air Catering Chiang Mai Company Limited

## Airline Operating Data

	Unit	January-December	
		2017	2016
Schedule passenger revenues <sup>(1)</sup>	Million Baht	20,501.8	20,760.6
Domestic		12,725.6	12,680.9
International		7,776.2	8,079.7
Available Seat Kilometers (ASK)	Million Seat -	6,741.8	6,148.6
Domestic	Kilometers	3,573.7	3,413.9
International		3,168.1	2,734.7
Revenue Passenger Kilometers (RPK)	Million Seat -	4,616.7	4,252.6
Domestic	Kilometers	2,650.6	2,515.2
International		1,966.1	1,737.4
Passenger Load Factor	Percentage	68.5	69.2
Domestic		74.2	73.7
International		62.1	63.5
Number of schedule passengers carried	Thousand	5,944.5	5,640.6
Domestic		4,254.8	4,044.3
International		1,689.7	1,596.3

	Unit	January-December	
		2017	2016
Number of flight flown	Flight	70,985	67,453
Domestic		48,153	45,856
International		22,832	21,597
Total seat capacity	Thousand	8,590.5	8,103.7
Domestic		5,751.2	5,469.1
International		2,839.3	2,634.6
Aircraft utilization	Block Hour	9.4	9.0
Airbus A320	per Day	10.4	10.1
Airbus A319	per Aircraft	10.2	9.6
ATR 72-500 & ATR 72-600		7.4	7.43
Number of aircraft at end of year	Aircraft	38	34
Airbus A320		9	9
Airbus A319		14	12
ATR 72-500		6	6
ATR 72-600		9	7
Kilometers flown	Million Kilometers	52.2	48.3
Average Stage Length	Kilometers	776.6	753.9
Passenger Yield <sup>(2)</sup>	Baht per Passenger - Kilometer	4.44	4.88
Revenue ASK (RASK)	Baht	3.34	3.65
Cost per ASK (CASK)		3.43	3.33
Cost per ASK excluding fuel cost		2.80	2.82
RASK – CASK		(0.09)	0.33

**Remark**

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

(2) Scheduled passenger revenues including fuel surcharge and insurance surcharge, but excluding excess baggage divided by RPKs.



**Operating performance summary for the period ended December 31, 2017 consisting of Separate Financial Statement and Financial Statements of the 11 subsidiaries**

Unit: million baht

	January-December			
	2017	2016	Variance	
			Amount	%
Net profit (loss) for the period	846.4	1,837.0	(990.6)	(53.9)
Plus:				
Finance Cost	1,839.6	1,753.6	86.0	4.9
Income tax expenses	472.0	939.4 <sup>(1)</sup>	(467.3)	(49.8)
Less:				
Dividend income	389.6	442.2	(52.6)	(11.9)
Interest received	116.8	171.1	(54.3)	(31.7)
Gain on exchange rate	55.7	179.4	(123.7)	(69.0)
Non-operating revenues <sup>(2)</sup>	1,731.9	7.5	1,724.4	23,074.6
<b>EBIT <sup>(3)</sup></b>	<b>864.0</b>	<b>3,729.8</b>	<b>(2,865.7)</b>	<b>(76.8)</b>
Plus:				
Depreciation and amortization	1,266.6	1,068.3	198.4	18.6
<b>EBITDA <sup>(3)</sup></b>	<b>2,130.6</b>	<b>4,798.0</b>	<b>(2,667.4)</b>	<b>(55.6)</b>
Plus:				
Operating lease expenses	2,152.5	1,772.4	380.1	21.5
<b>EBITDAR <sup>(3)</sup></b>	<b>4,283.2</b>	<b>6,570.4</b>	<b>(2,287.3)</b>	<b>(34.8)</b>
Total revenue	28,493.3	26,765.8	1,727.5	6.5
Operating revenue <sup>(4)</sup>	26,199.4	25,965.7	233.7	0.9



	January-December			
	2017	2016	Variance	
			Amount	%
Profit attributable to equity holders of the Company	788.0	1,768.4	(980.4)	(55.4)
<b>EBIT Ratio (%)</b>	<b>3.3</b>	<b>14.4</b>	<b>(11.1)</b>	
<b>EBITDA Ratio (%)</b>	<b>8.1</b>	<b>18.5</b>	<b>(10.3)</b>	
<b>EBITDAR Ratio (%)</b>	<b>16.3</b>	<b>25.3</b>	<b>(9.0)</b>	

**Remark**

- (1) The Company had additional tax filing amounting to 506.1 million baht resulting from the discrepancy in corporate income tax calculation for tax privileges granted by the Board of Investment (BOI) in which the practice of the Revenue Department shall be followed as announced by the Ministry of Finance dated 16 September 2016. The filing was completed on 29 July 2016.
- (2) Comprises of gain on sale of investments, sale of investment in subsidiaries and sale of assets.
- (3) EBIT, EBIT margins, EBITDA, EBITDA margins, EBITDAR or EBITDAR margins are not standard measures, nor measurements of financial performance or liquidity, under TFRS, and should not be considered alternatives to net profit (loss) or any other performance measure or as an alternative to cash flow from operating activities. Since there are various calculation methods, its presentation may not be comparable to similarly titled measures used by other companies.
- (4) Comprises of total revenue net dividend income, gain on exchange rate, interest received and non-operating revenues.

**Operating Profit and Net Income**

The operating revenue of the Company for year 2016 and year 2017 were 25,965.7 million baht and 26,199.4 million baht respectively, increased by 0.9 percent while total operating expenses increased from 22,919.4 million baht to 26,143.9 million baht or around 14.0 percent.

The earnings before interest and tax, depreciation, amortization, and rent (EBITDAR) were derived from total income (excluding dividend income, gain on sale of investments, gain on sale of assets, interest income and gain on exchange rate) less total expenses plus depreciation and amortization expenses, and aircraft rental, equaled to 6,570.4 million baht and 4,283.2 million baht or 25.3 percent and 16.3 percent of total operating revenue for year 2016 and 2017 respectively.

For year 2017, the Company had profit before income tax expenses at the amount of 1,318.4 million baht and reported net profit at the amount of 846.4 million baht, dropped from the same period last year by 990.6 million baht or 53.9 percent. The gain attributable to equity holders of the Company was 787.9 million baht.



## Revenue

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

Unit: million baht

	January-December					
	2017	%	2016	%	Variance	
					Amount	%
1. Airlines	20,490.5	71.9	20,713.0	77.4	(222.5)	(1.1)
2. Airports	593.2	2.1	564.0	2.1	29.2	5.2
3. Airport-related services	3,846.8	13.5	3,414.9	12.8	431.9	12.6
4. Unallocated revenue	3,562.8	12.5	2,073.9	7.7	1,488.9	71.8
<b>Total Revenue</b>	<b>28,493.3</b>	<b>100.0</b>	<b>26,765.8</b>	<b>100.0</b>	<b>1,727.5</b>	<b>6.5</b>

## Revenue from Airline Operations

In year 2017, total revenue mainly derived from airline business which was accounted for 71.9 percent of total revenue. Revenue from airlines consists of earnings from scheduled flights, chartered flights and cargo with details as follows:

Unit: million baht

	January-December			
	2017	2016	Variance	
			Amount	%
Net scheduled passenger revenue	19,757.1	20,236.6	(479.5)	(2.4)
Charter flights and charter services revenue	491.8	194.4	297.4	153.0
<b>Total passenger revenue</b>	<b>20,248.9</b>	<b>20,431.0</b>	<b>(182.1)</b>	<b>(0.9)</b>
Cargo revenue	241.6	282.0	(40.4)	(14.3)
<b>Total revenue from airline business</b>	<b>20,490.5</b>	<b>20,713.0</b>	<b>(222.5)</b>	<b>(1.1)</b>

Revenue from scheduled flights was 19,757.1 million baht, dropped by 2.4 percent from the same period last year, mainly due to a decrease of revenue from international flight services particularly in Indochina routes. The weaker performance of this year was a consequence of highly intense competition which caused the average fare to drop by 6.3 percent and passenger yield per RPK to decrease by 9.0 percent. However, year 2017, number of passenger increased by 5.4 percent which was result from adding flight frequencies in high demand routes at the beginning of this year, together with launching new routes.

Revenue from charter flights and charter services increased from 194.4 million baht to 491.8 million baht, higher from year 2016 by 153.0 percent. The significant growth was due to launching scheduled charter services from Samui to Chengdu and Samui to Chongqing which started operating since July 2016 and July 2017 respectively.

#### **Revenue from Airport Operations**

In year 2017, revenue from airport operations was accounted for 2.1 percent of total revenue. Majority of the airport revenue was derived from growing number of flights landed and the passengers services charged to outbound passengers at Samui Airport. Year 2017, revenue from airport operations was 593.2 million baht or increased by 5.2 percent from year 2016 as a result of 3.4 percent growth in number of outbound passengers and 3.3 percent growth of flight landed at Samui Airport.

#### **Revenue from Airport-Related Operations**

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

Unit: million baht

	January-December	
	2017	2016
<b><i>Catering services (BAC):</i></b>		
Revenue <sup>(1)</sup>	1,550.7	1,456.4
EBITDA	396.0	419.3
Net income	95.3	275.8
Number of meals produced and uplifted (million meals)	10.2	10.2

	January-December	
	2017	2016
<b>Ground Services (BFS Ground):</b>		
Revenue <sup>(1)</sup>	2,537.2	2,382.9
EBITDA	404.4	404.6
Net income	254.3	255.5
Number of flights handled (flight)	68,356	63,226
<b>International cargo terminal services data (BFS Cargo):</b>		
Revenue <sup>(1)</sup>	1,937.4	1,702.0
EBITDA	924.6	773.2
Net income	688.1	526.8
Tonnage	402,297	378,026
Cargo capacity (ton per year)	450,000	450,000
Utilization (%)	89.4	84.0

Remark

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



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

Unit: million baht

	January-December			
	2017	2016	Variance	
			Amount	%
Bangkok Air Catering Company Limited (BAC)	1,093.6	972.1	121.5	12.5
Worldwide Flight Services Bangkok Air Ground Handling Company Limited (BFS Ground)	2,111.6	1,925.5	186.1	9.7
Bangkok Airways Ground Service Company Limited (PGGS)	383.0	396.2	(13.2)	(3.3)
Other revenue <sup>(1)</sup>	258.7	121.1	137.6	113.6
<b>Total revenue from airport-related operations</b>	<b>3,846.8</b>	<b>3,414.9</b>	<b>431.9</b>	<b>12.6</b>

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

***Bangkok Air Catering Company Limited (BAC)***

In year 2017, the operating performance of BAC was 1,093.6 million baht, improving by 12.5 percent. The main contribution of higher revenue derived from increasing number of meals served for business class. The proportion of meals served in the class was escalating by 17.9 percent.

The number of meals produced by BAC grew by 0.7 percent compared with last year. During first quarter of this year, BAC has entered into contract with Qantas Airways. As of 31 December 2017, BAC has 24 airline customers on hand.

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

The operating performance of BFS Ground for services provided to other airlines in year 2016 and year 2017 reported at the amount of 1,925.5 million baht and 2,111.6 million baht respectively, rose by 9.7 percent from the same period last year.

The better performance of BFS Ground was derived from increasing number of flights by 8.1 percent with additional of four new airline customers. As of 31 December 2017, BFS Ground has 74 airline customers in total.

***Bangkok Airways Ground Service Company Limited (PGGS)***

The total revenue of PGGS in year 2017 reported at the amount of 383.0 million baht, lower by 3.3 percent. This was resulted from 7.0 percent decreasing in number of flights from the same period last year.

**Unallocated Revenues**

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

Unit: million baht

	January-December			
	2017	2016	Variance	
			Amount	%
Gain on foreign exchanges	55.7	179.4	(123.7)	(69.0)
Dividend income	389.6	442.2	(52.6)	(11.9)
Gain on sales of investments	1,738.2	1.6	1,736.6	
Other revenues	1,379.3	1,450.7	(71.4)	(4.9)
<b><i>Total unallocated revenues</i></b>	<b>3,562.8</b>	<b>2,073.9</b>	<b>1,488.9</b>	<b>71.8</b>

Total unallocated revenues of the Company for year 2016 and year 2017 dramatically increased from 2,073.9 million baht to 3,562.8 million baht respectively or rose by 71.8 percent. A largely increase was derived from gain on sales of investments in marketable securities and other revenues. An increase in other revenues was usually derived from passenger ticket charges, excess baggage charges, breakage revenues on ticket expiry which aligned with growing number of passengers, in addition with rental income and interest earnings.

### ***Share of Profit from Investments in Associates***

The Company has share of profit from associated companies increased from 685.5 million baht to 815.9 million baht for year 2017 or increased by 19.0 percent. Increasing share of profit was largely due to a better performance of WFS Cargo along with an increase in percentage of ownership in SPF from 31.6 in year 2016 to 33.0 percent in year 2017.

Unit: million baht

	January-December			
	2017	2016	Variance	
			Amount	%
WFS-PG Cargo Company Limited	339.6	260.7	78.9	30.3
Samui Property Fund	476.3	424.8	51.5	12.1
<b><i>Share of Profit from Investments in Associates</i></b>	<b>815.9</b>	<b>685.5</b>	<b>130.4</b>	<b>19.0</b>

### ***Expenses***

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

Unit: million baht

	January-December					
	2017	%	2016	%	Variance	
					Amount	%
Cost of sales and services	22,092.1	84.5	19,082.9	83.3	3,009.2	15.8
Selling expenses	2,082.2	8.0	1,980.5	8.6	101.7	5.1
Administrative expenses	1,969.6	7.5	1,856.0	8.1	113.6	6.1
Other expenses	7.3	0.0	2.0	0.0	5.3	265.0
<b><i>Total Expenses</i></b>	<b>26,151.2</b>	<b>100.0</b>	<b>22,921.4</b>	<b>100.0</b>	<b>3,229.8</b>	<b>14.1</b>

### **Costs of Sales and Services**

Costs of sales and services principally consist of fuel costs, cost of passenger services, personnel expenses, aircraft repair and maintenance costs, and aircraft rentals. For year 2016 and year 2017, costs of sales and services were accounted for 83.3 percent and 84.5 percent of total operating expenses.

Fuel Costs: fuel costs are variable based on number of block hours. For year 2016 and year 2017, fuel costs were 3,093.9 million baht and 4,264.7 million baht which were accounted for 18.0 percent and 21.6 percent of total cost of sales and services respectively. The rising amount was mostly due to higher average market fuel price, and additional excise tax rate on fuel costs from 1.0 percent to 23.0 percent of fuel consumption for domestic flights.

As of 31 December 2017, the Company has entered into a forward purchase contract (fuel hedging) at the average of 62.0 percent of fuel consumption.

Cost of Passenger Services: cost of passenger services reported at 3,446.4 million baht or rose by 6.2 percent comparing to year 2016. The increasing cost was due to rising number of passengers and number of flight which grew up by 5.4 percent and 5.2 percent respectively from year 2016. In addition with, an enhancement of service quality, and increasing service fees associated with ground services from service providers.

Personnel Expenses: the expenses were increasing from 3,227.2 million baht to 3,356.1 million baht for which was mainly derived from a growing number of employees, especially flight crews which aligned with ongoing fleet plan, and annual increase of salary and wages.

Aircraft Repair and Maintenance Costs: aircraft repair and maintenance costs were higher from 2,977.1 million baht to 3,251.2 million baht for year 2017 comparing to the previous year. These increasing costs were largely due to some additional costs incurred for repairing and maintaining the aging aircraft. There were also derived from “Maintenance Reserve Fund” which is attached to the aircraft lease agreement.

Aircraft Rental Costs: the aircraft rental costs increased from 1,772.4 million baht to 2,152.5 million baht for year 2017 comparing to last year due to wet lease arrangements to temporarily replace aircrafts which were under heavy maintenance exercise along with the delivery of additional of two aircrafts under operating lease during the period.





### **Selling Expenses**

For year 2016 and year 2017, selling expenses were accounted for 8.0 percent and 8.6 percent of total expenses respectively. The significant increase in selling expenses were mainly due to reimbursement of the usage of reservation system, expenses associated with reservation system and other supporting selling systems. The higher system usage costs were along with rising number of passengers.

### **Administrative Expenses**

The administrative expenses of the Company for year 2016 and year 2017 were accounted for 7.5 percent and 8.1 percent of total expenses respectively. The increasing administrative expenses mostly consist of professional fees, IT services and office rental fees.

### **Finance Costs**

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

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



Unit: million baht

	January-December			
	2017	2016	Variance	
			Amount	%
Interest expenses paid to the Samui Property Fund	1,410.9	1,457.9	(47.0)	(3.2)
Interest and Fee expenses <sup>(1)</sup>	428.7	295.7	133.0	45.0
<b>Total</b>	<b>1,839.6</b>	<b>1,753.6</b>	<b>86.0</b>	<b>4.9</b>

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

Total interest paid to SPF for year 2017 amounted to 1,410.9 million baht, decreased by 3.2 percent compared with the same period last year. The decreasing amount was due to suspension of Thai Airways' flight landed into Samui Airport since the beginning of December 2017. Since the interest expense paid to SPF usually derives from number of departure passengers along with number of arrival flights at Samui Airport.

The interest paid to financial institutions and lessors under finance lease agreement increased from 295.7 million baht to 428.7 million baht mainly due to additional leasing agreements for ATR72-600s incurred during the period. As of 31 December 2017, the Company has 9 aircrafts under finance lease.

### Assets

As of 31 December 2017, the Company and its subsidiaries have total assets amounted of 57,941.6 million baht, decreased by 2,347.1 million baht from:

Unit: million baht

	As at December 31, 2017	As at December 31, 2016	Variance
<b>Current assets</b>			
Cash & cash equivalents and current investments	9,995.9	10,669.9	(674.0)
Trade and other receivables	1,854.0	1,965.6	(111.6)
Reimbursable maintenance expense	1,552.2	672.0	880.2
<b>Total current assets</b>	<b>14,380.6</b>	<b>14,192.2</b>	<b>188.4</b>

	As at December 31, 2017	As at December 31, 2016	Variance
<b><i>Non-current assets</i></b>			
Investments in associates	3,240.0	2,862.1	377.9
Other long-term investments	24,028.8	28,506.3	(4,477.5)
Property, plant and equipment	14,502.9	12,793.4	1,709.5
<b><i>Total Non-current assets</i></b>	<b>43,561.0</b>	<b>46,096.5</b>	<b>(2,535.5)</b>
<b><i>Total assets</i></b>	<b>57,941.6</b>	<b>60,288.7</b>	<b>(2,347.1)</b>

### **Current assets**

Total current assets of the Company as of 31 December 2017 is 14,380.6 million baht, increased from 31 December 2016 by 188.4 million baht. This was mainly due to:

- *Cash and cash equivalents* lower by 674.0 million baht, mainly from the acquisition of property, plant & equipment including two ATR72-600s.
- Reimbursable maintenance expense rose by 880.2 million baht mostly due to outstanding amount to be claimed from overpaid maintenance reserve fund

### **Non-current assets**

Total non-current assets of the Company is 43,561.0 million baht, declined from the end of 2016 by 2,535.5 million baht. This was resulted from:

- *Investment in associates* rose by 377.9 million baht largely due to additional investment in Samui Property Fund (SPF) which resulted to the percentage of ownership to be 33.0 percent.
- *Other long-term investments* decreased by 4,477.5 million baht due to the mark-to-market of long-term investments and selling of investment in marketable securities in fourth quarter 2017.
- *Property, Plant and Equipment* increased by 1,709.5 million baht, mainly from the purchase of two ATR72-600s including spare parts, and the establishment of catering facilities in Phuket and Gourmet Primo in Bangkok.

## **Liabilities**

As of 31 December 2017, the Company and its subsidiaries have liabilities amounting of 29,556.0 million baht. An increase of 1,255.9 million baht from 31 December 2016 was as follows:

Unit: million baht

	As at December 31, 2017	As at December 31, 2016	Variance
<b><i>Current liabilities</i></b>			
Trade and other payables	2,815.7	2,687.3	128.4
Current portion of long-term loans, Liabilities arising from financial lease of aircrafts and Finance lease liabilities	539.5	465.3	74.2
Unearned revenue	2,625.7	2,368.8	256.9
Other current liabilities	2,077.0	1,765.5	311.5
<b><i>Total current liabilities</i></b>	<b>8,315.4</b>	<b>7,327.6</b>	<b>987.8</b>
<b><i>Non-Current liabilities</i></b>			
Long-term loans , Liabilities arising from financial lease of aircrafts and Finance lease liabilities – net of current portion	4,650.6	3,685.3	965.3
Long-term loans from related party – net of current portion	11,365.3	11,374.4	(9.1)
Deferred tax liabilities	4,576.0	5,295.5	(719.5)
<b><i>Total non-current liabilities</i></b>	<b>21,240.6</b>	<b>20,972.5</b>	<b>268.1</b>
<b><i>Total liabilities</i></b>	<b>29,556.0</b>	<b>28,300.1</b>	<b>1,255.9</b>

### **Current liabilities**

Total current liabilities amounting to 8,315.4 million baht, increased from 31 December 2016 by 987.8 million baht, the changes was mainly due to:

- *Current portion of long-term loans, Liabilities arising from financial lease of aircrafts and finance lease liabilities* amounting to 539.5 million baht, mainly from current portion of liabilities arising from financial lease of aircrafts increased by 62.1 million baht from the delivery of two ATR72-600s.
- *Unearned revenue* increased by 256.9 baht from 31 December 2016, resulted from increasing of passengers which have not been flown.
- *Other current liabilities* amounting to 2,077.0 million baht, rose by 311.5 million baht. This was mainly derived from additional maintenance reserve fund (MRF) for the ATR72-600s and ATR72-500s, together with liabilities arisen from entering into derivative transaction.

### **Non-current liabilities**

Total non-current liabilities of the Company is 21,240.6 million baht, rose by 268.1 million baht from 31 December 2016, largely derived from:

- The purchase of two ATR72-600s under finance lease agreement caused *liabilities arising from finance lease of aircrafts* to increase by 305.3 million baht.
- *Deferred tax liabilities* lower by 719.5 million baht due to selling of investments in marketable securities and changes in market value of the available-for-sale investment in securities.

## **Shareholders' Equity**

Unit: million baht

	<b>As at December 31, 2017</b>	<b>As at December 31, 2016</b>	<b>Variance</b>
Paid up capital	2,100.0	2,100.0	-
Premium on ordinary shares and capital reserve for share-based payment transactions	9,319.5	9,319.5	-
Retained earnings	448.2	663.7	(215.5)
<b><i>Total shareholders' equity</i></b>	<b>28,385.6</b>	<b>31,988.5</b>	<b>(3,603.0)</b>

As of 31 December 2017, total shareholders' of the Company and its subsidiaries is 28,385.6 million baht, a decrease of 3,603.0 million baht from the changes in the market value of the available-for-sale investment in securities. The Company has retained gain at the amount of 448.2 million baht, declined by 215.5 million baht.

## **Statement of Cash Flow**

Unit: million baht

	<b>January – December</b>	
	<b>2017</b>	<b>2016</b>
Net cash inflow from operating activities	762.1	3,494.6
Net cash inflow from investing activities	2,690.3	(675.3)
Net cash outflow from financing activities	(2,958.8)	(4,396.0)
<b><i>Cash and cash equivalents at end of the period</i></b>	<b>3,544.9</b>	<b>3,051.4</b>

### **Cash flows from operating activities**

As of 31 December 2017, the profit of the Company and its subsidiaries before changes in operating activities is 1,323.2 million baht while the amount of net cash from operating activities is 762.1 million baht. This change was mainly due to outstanding amount of prepaid maintenance reserve fund awaiting for a reimbursement and liabilities increased from entering into derivative transaction.

### **Cash flows from investing activities**

As of 31 December 2017, cash inflows from investing activities of the Company and its subsidiaries is 2,690.3 million baht which resulted from dividend received from SPF and Bangkok Dusit Medical Services (BDMS) amounted to 1,254.4 million baht, together with cash received from sales of long term investments amounted to 1,807.2 million baht. However, this was offset by cash outflows used for acquisition of property, plant and equipment and increase in percentage of ownership in SPF to be 33.0 percent.

### **Cash flows from financing activities**

As of 31 December 2017, the Company and its subsidiaries have cash outflows from financing activities at the amount of 2,958.8 million baht, mainly from the payment of interest expenses, dividend payment to shareholders and payment under finance lease amounting to 3,576.8 million baht.



### Summary Consolidated Financial and Ratio

		As at 31 December	
		2017	2016
Liquidity Ratio	Current Ratio (Time)	1.7	1.9
	Quick Ratio (Time)	3.5	4.5
	Collection Period (Day)	25.6	25.8
	Stock Turnover Period (Day)	6.9	6.4
	Payment Period (Day)	34.3	35.2
Profitability Ratio	Gross Profit Margin (%)	11.4	22.7
	Operating Profit Margin (%)	3.5	15.1
	EBITDAR Margin (%)	16.3	25.3
	Net profit Margin (%)	3.0	6.9
	Return on Equity (%)	2.8	5.8
Efficiency Ratio	Return on Assets (%)	1.4	3.1
	Return on Fixed Assets (%)	15.5	26.0
	Asset Turnover (Time)	0.5	0.5
Leverage Ratio	Debt to Equity (Time)	1.0	0.9
	Interest Coverage Ratio (Time)	1.2	2.7





## Glossary

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

