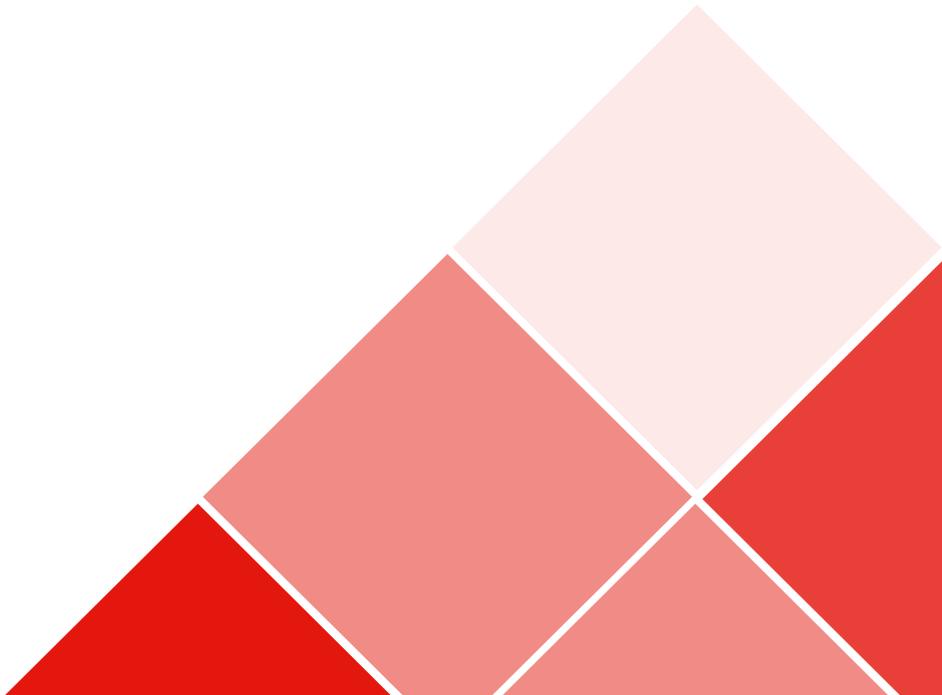




Management Discussion and Analysis

For the 3rd Quarter of 2018





Executive Summary

The global economy during the third quarter of 2018 (Q3/2018) is expected to expand but a sluggish growth, supported by the U.S. economy on the back of solid private investment growth, especially in the energy sector. While, an unemployment rate continued to decline, reflecting an upward trend in private consumption. On the other hand, the Chinese economy is expected to grow at a decelerated rate over the same period last year, due to the intensifying U.S trade protectionism. At the same time, the recovery of the Eurozone economy (EU) showed a sign of incomplete during this quarter, supported by domestic consumption remained the driven factor of the economy. In addition, Turkey's crisis, the political risks in Italy and Brexit of United Kingdom, as well as, the risk of the U.S. trade protectionism pressured the overall global economy. Therefore, the aforementioned volatilities impact Thailand's economic growth and may affect the company's operation.

In Q3/2018, the Thai economy is expected to expand, supported by the continual growth of the private sector's consumption and investment. Even as, the exports continued expansion but it grew at a slower pace following the sluggish growth of Thailand's trade partners. Furthermore, the expansion in services and tourism sector grew a slower rate than the previous year, as seen in the contraction of Chinese tourists to Thailand, which is the majority of international visitors, in August and September at 12% and 15% respectively, after the boat incident in Phuket. Nevertheless, the government stimulus measure is another key factor to support the domestic market such as tax incentive for tourists in 55 secondary provinces.

The number of Thai tourists in the domestic market in the first nine-month grew steadily to stand at 117.6 million per visit, or increased by 5% from the same period last year. In addition, the number of international tourists to Thailand from January to September 2018 rose by 9% from the same period last year to 28.5 million. Meanwhile, the number of international tourists to Thailand from July to September 2018 rose by 2% over the same period last year to 9.1 million. ASEAN and South Asia regions are the highest growth among others, whereas Chinese, European, Oceania and Middle East visitors weaken over the same period last year, reflecting from the aforementioned circumstance. As a result, the number of passengers carried of Thai AirAsia in Q3/2018 was at 5.1 million, increased 4% over the same period last year. During the quarter, Thai AirAsia took one additional aircraft, totalling its fleet to 60 aircraft at the end of Q3/2018. Furthermore, Thai AirAsia inaugurates routes from Bangkok (Don Mueang) – Kota Kinabalu, Chiang Mai – Yangon and Chiang Mai – Taipei and increased frequencies in popular destinations in both domestic and international routes.

For Q3/2018, Asia Aviation Plc had a total revenue of Baht 9,307.0 million or up by 3% and net loss of Baht 358.1 million. This was mainly resulted from an increase in fuel costs in relation to the significant rise in global oil prices and the deceleration of Chinese visitors.

Financial Performance Summary

Asia Aviation Public Company Limited (“AAV”) is a major shareholder of Thai AirAsia Company Limited who is an airline operator of Thai AirAsia, in which the Company currently holds 55%.

Asia Aviation Public Company Limited’s financial performance for the three-month and nine-month period ended 30 September 2017 and 2018 has been summarised below:

Statement of Comprehensive Income

Asia Aviation Public Company Limited Unit: Baht million	Consolidated			Consolidated		
	For the three-month		Change	For the nine-month		Change
	period ended			period ended		
	30 September		30 September			
	2018	2017		2018	2017	
Total revenues	9,307.0	9,065.4	+3%	30,203.2	27,200.2	+11%
Total expenses	9,838.4	8,451.3	+16%	29,169.4	24,930.7	+17%
Profit (loss) before finance cost and income tax	(531.4)	614.1	>-100%	1,033.8	2,269.5	(-54%)
Profit (loss)/ Total comprehensive income for the period	(653.2)	473.4	>-100%	615.0	1,817.8	(-66%)
Equity holders of the Company	(358.1)	260.9	>-100%	339.9	1,001.9	(-66%)
Non-controlling interests of the subsidiary	(295.1)	212.4	>-100%	275.1	815.9	(-66%)
Earnings (loss) Per Share (Baht)	(0.0738)	0.0538	>-100%	0.0701	0.2066	(-66%)

In Q3/2018, Asia Aviation Plc had total revenues of Baht 9,307.0 million, increased by Baht 241.6 million or 3% compared to the same period last year. Whilst, total expenses were at Baht 9,838.4 million, rose by Baht 1,387.1 million or 16% compared to the same period last year. Thus, Net loss/ loss from Total comprehensive income for the period attributable to equity holders of the Company amounted to Baht 358.1 million and basic loss per share was at Baht 0.0738 per share.

For the first nine-month of 2018 (9M2018), Asia Aviation Plc had total revenues of Baht 30,203.2 million, increased by Baht 3,003.0 million or 11% compared to the same period last year. Additionally, profit before finance cost and income tax amounted to Baht 1,033.8 million, decreased by 54% compared to the same period last year. Thus, Net profit/ Total comprehensive income for the period attributable to equity holders of the Company in 9M2018 amounted to Baht 339.9 million, decreased by Baht 662.0 million or 66% compared to the same period last year, having a net profit margin of 1% and basic earnings per share was at Baht 0.0701 per share.

Statement of Financial Position

Asia Aviation Public Company Limited	Consolidated		Change
Unit: Baht million	As at 30 September 2018	As at 31 December 2017	
Total assets	62,375.5	62,773.6	(-1%)
Total liabilities	33,272.8	31,320.5	+6%
Equity attributable to owners of the Company	20,721.0	22,005.9	(-6%)
Non-controlling interests of the subsidiary	8,381.7	9,447.2	(-11%)
Total shareholders' equity	29,102.7	31,453.1	(-7%)

Assets

As at 30 September 2018, total assets amounted to Baht 62,375.5 million, decreased by Baht 398.1 million or 1% compared to the year ended 31 December 2017 and the return on assets (ROA) was 1.3%, due to;

- (1) Current assets decreased by Baht 2,193.5 million, mainly from a decrease in cash and cash equivalents in an amount of Baht 1,120.4 million, mainly from interim dividends for 2018.
- (2) Non-current assets increased by Baht 1,795.5 million due to an increase in aircraft, leasehold improvement and equipment in an amount of Baht 1,072.4 million, resulting from an additional aircraft delivered in this quarter. Meanwhile, aircraft maintenance reserves rose Baht 668.5 million in relation to the increase in flight hours.

Liabilities

As at 30 September 2018, total liabilities amounted to Baht 33,272.8 million, increased by Baht 1,952.4 million or 6% compared to the year ended 31 December 2017, due to;

- (1) Current liabilities decreased by Baht 166.1 million, mainly from a reduction in the current portion of long-term borrowings from financial institutions in an amount of Baht 484.5 million and unearned income in an amount of Baht 404.5 million due to an off-peak travelling season. Whereas, accrued dividend increased by Baht 654.7 million, resulting from a declared interim dividend during the said period.
- (2) Non-current liabilities increased by Baht 2,118.4 million, mainly from the issuance of the debentures in an amount of Baht 2,500.0 million and the proceeds will be used for general investment purpose and/or for working capital.

Equity

As at 30 September 2018, total shareholders' equity amounted to Baht 29,102.7 million, decreased by Baht 2,305.4 million or 7% compared to the year ended 31 December 2017. As a result, the Board of Directors approved interim dividends for 2018 of Baht 0.20 per share and Baht 0.135 per share in an amount of Baht 970.0 million and Baht 654.7 million, on May 11, 2018 and September 12, 2018 respectively. Hence, an equity attributable to owners of the Company and non-controlling interests of the subsidiary as at 30 September 2018 amounted to Baht 20,721.0 million and Baht 8,381.7 million, respectively, with the return on equity (ROE) of 3.8%.

Statement of Cash Flows

Asia Aviation Public Company Limited	Consolidated	
Unit: Baht million	For the nine-month period ended 30 September	
	2018	2017
Net cash generated from (used in) operating activities	1,941.7	3,181.7
Net cash generated from (used in) investing activities	(1,924.2)	(904.4)
Net cash generated from (used in) financing activities	<u>(1,052.1)</u>	<u>(1,355.4)</u>
Net increase (decrease) in cash and cash equivalents	(1,034.6)	921.9
Exchange gain (loss) on cash and cash equivalents	(85.8)	(43.2)
Cash and cash equivalents at the beginning of the period	<u>5,338.0</u>	<u>4,661.4</u>
Cash and cash equivalents at the end of the period	<u>4,217.6</u>	<u>5,540.1</u>

For the nine-month period ended 30 September 2018, Asia Aviation Plc had net cash generated from operating activities in an amount of Baht 1,941.7 million mainly due to operating profit in this period. In contrast, net cash used in investing activities was Baht 1,924.2 million, mainly from an aircraft acquisition and an increase in aircraft maintenance reserves in relation to the increase in flight hours. At the same time, net cash used in financing activities was Baht 1,052.1 million mainly due to dividend payment and payment for the current portion of long-term borrowings from financial institutions to close two long-term loan agreements. Even though, there was proceeding from the issuance of the debentures in an amount of Baht 2,500.0 million for general investment purpose and/or for working capital. As a result, Asia Aviation Plc had the net decrease in cash and cash equivalents of Baht 1,034.6 million, while the cash and cash equivalents at the end of the period amounted to Baht 4,217.6 million.

Thai AirAsia's financial performance for the three-month and nine-month period ended 30 September 2017 and 2018 has been summarised below:

Statement of Comprehensive Income

Thai AirAsia Company Limited Unit: Baht million	For the three-month			For the nine-month		
	period ended 30		Change	period ended 30		Change
	September			September		
	2018	2017	2018	2017		
Total Revenues	9,307.0	9,065.4	+3%	30,203.2	27,199.4	+11%
Total Expenses	9,841.5	8,452.9	+16%	29,173.8	24,929.7	+17%
Profit (loss) before finance costs and income taxes	(534.5)	612.5	>-100%	1,029.3	2,269.7	(-55%)
Net Profit (loss)/Total Comprehensive income for the period	(655.7)	472.1	>-100%	611.4	1,818.0	(-66%)
Earnings (loss) per share (Baht)	(15.05)	10.84	>-100%	14.04	41.74	(-66%)

In Q3/2018, total revenues of Thai AirAsia amounted to Baht 9,307.0 million, increased by 3% from Baht 9,065.4 million in Q3/2017. Mainly, revenues from sales and services amounted to Baht 8,994.8 million, slightly grew by 2% from Baht 8,754.5 million in Q3/2017, resulting from the slower growth of Chinese tourists and an additional capacity during the quarter. As a result, the number of passengers carried in Q3/2018, achieving at 5.1 million or inched up by 4%. While, the load factor was at 81%, down by 4 percentage points (ppt) compared to the same period last year. In addition, the charter flight revenues amounted to Baht 280.4 million, dropped by Baht 141.9 million compared to the same period last year due to the decrease in the number of charter flights. As a result, the average fares in Q3/2018 was at Baht 1,418 per passenger or edged down by 3% compared to the same period last year.

The ancillary revenues of Thai AirAsia in Q3/2018 grew by 9% to Baht 1,714.9 million from Baht 1,574.6 million in Q3/2017, which is higher than 4% growth in the number of passengers in Q3/2018. As a result, ancillary revenues per passenger was at Baht 335 per passenger or increased by 5% from the same period last year. In fact, the fee structure adjustment and value pack promotion enhanced an increase in seat selection fees, other fees and revenues from in-flight meals and beverages compared the same period last year.

In Q3/2018, total expenses of Thai AirAsia amounted to Baht 9,841.5 million, raised by 16% from Baht 8,452.9 million in Q3/2017. Predominantly, the cost of sales and services amounted to Baht 9,137.8 million, or increased by 18% from Baht 7,750.9 million in Q3/2017, largely from fuel costs in an amount of 3,775.2 million which accounted for 38% of total expenses. The average reference jet fuel price in Q3/2018 was at 87 U.S. dollar per barrel, which increased by 45% from at 60 U.S. dollar per barrel in 3Q/2017. At the same time, selling and administrative expenses were at Baht 703.8 million similar to the same period with last year due to the reduction in selling promotion and advertising expenses. Besides, Thai AirAsia continuously monitors our punctuality, resulting in 89% on time performance (OTP) in Q3/2018, improved from 82% in Q3/2017.

In the said quarter, Thai AirAsia recorded an unrealised gain on the exchange rate in an amount of Baht 104.3 million or increased by 44% from the U.S. dollar depreciation compared to the last quarter and had an earning before finance cost, income tax, depreciation and amortisation, rental (EBITDAR) margin of 14%. However, an increase in expenses led to Net loss/ loss in Total comprehensive income in Q3/2018 in an amount of Baht 655.7 million, having a net loss margin of 7%.

Percentage of expenses by nature	Q3/2018	Q3/2017	9M2018	9M2017
Fuel costs	38.36	30.49	36.61	31.10
Staff costs	13.60	16.03	14.48	14.94
Aircraft and aircraft engine rental	13.43	14.61	13.08	15.10
Ramp and airport operating costs	10.76	12.61	11.55	13.18
Repair and maintenance	8.55	9.25	8.26	8.76
Selling and administrative expenses	5.73	6.80	6.21	6.90
Guest service and distribution	4.38	4.87	4.73	4.93
Depreciation and amortisation	4.32	4.46	4.23	4.25
Other operating costs	0.87	0.88	0.85	0.84

For 9M2018, total revenues of Thai AirAsia amounted to Baht 30,203.2 million, expanded by 11% from Baht 27,199.4 million in 9M2017. Mainly, revenues from sales and services amounted to Baht 29,249.8 million, increased by 11% compared to the same period last year, supported by the 11% growth in the number of passengers carried to standing at 16.1 million, which that growth is lower than a rise in the seat capacity's growth. As a result, Thai AirAsia reported a load factor at 85%, edged down by 2 percentage points. In 9M2018, the average fare was at Baht 1,499 per passenger, nearly flat over the same period last year, even the growth showed a slowdown at the end of the period. At the same time, the company took six additional aircraft delivery compared to the same period last year in order to support routes expansion and additional frequencies. This has led to a 13% increase in ASK compared to the same period last year, as well as, an increase in its aircraft utilisation to 12.0 hours per day in 9M2018 from 11.7 hours per day in 9M2017 for the purpose of revenue and capacity management.

In 9M2018, total expenses of Thai AirAsia amounted to Baht 29,173.8 million, increased by 17% from Baht 24,929.7 million in 9M2017, mainly from the significant increase in global oil prices. This had a direct effect on the company as fuel costs account for 37% of the total costs of the company. While the proportion of selling and administrative per main revenues edged down compared to the same period last year as a result of the cost containment. In addition, the company exercised the carry forward of unused tax loss to calculate income tax for the period, resulting in the decrease in income tax. As a result, Thai AirAsia has a net profit/Total comprehensive income in 9M2018 amounted to Baht 611.4 million, decreased by 66% compared to the same period last year, have a net profit margin of 2%.

Thai AirAsia Company Limited	Q3/2018	Q3/2017	Change	9M2018	9M2017	Change
Passenger Carried (Million)	5.12	4.93	+4%	16.07	14.48	+11%
Capacity (Million seats)	6.34	5.79	+9%	18.84	16.67	+13%
Load Factor (%)	81%	85%	-4 ppts	85%	87%	-2 ppts
Revenue Passenger Kilometres (Million seats-km)	4,979	4,891	+2%	15,791	14,269	+11%
Available seat kilometres (Million seats-km)	6,167	5,707	+8%	18,559	16,407	+13%
Average fare (Baht)	1,418	1,460	-3%	1,499	1,502	0%
Revenue per Available seat kilometres(Baht)	1.45	1.53	-5%	1.58	1.60	-1%
Cost per Available seat kilometres (Baht)	1.60	1.48	+8%	1.57	1.52	+3%
Cost per Available seat kilometres (ex-fuel)(Baht)	0.98	1.03	-4%	1.00	1.05	-5%

Statement of Financial Position

Thai AirAsia Company Limited	As at	As at	Change
Unit: Baht million	30 September 2018	31 December 2017	
Total assets	37,901.2	38,902.3	(-3%)
Total liabilities	29,647.0	28,280.3	+5%
Total shareholders' equity	8,254.2	10,622.0	(-22%)

Assets

As at 30 September 2018, total assets amounted to Baht 37,901.2 million, decreased by Baht 1,001.1 million or 3% compared to the year ended 31 December 2017, due to;

- (1) Current assets decreased by Baht 2,796.7 million, mainly from a decrease in cash and cash equivalents in an amount of Baht 1,724.4 million, mainly from interim dividends for 2018.
- (2) Non-current assets increased by Baht 1,795.5 million due to an increase in aircraft, leasehold improvement and equipment in an amount of Baht 1,072.4 million, resulting from an additional aircraft delivered in this quarter. Meanwhile, aircraft maintenance reserves rose Baht 668.5 million in relation to the increase in flight hours.

Liabilities

As at 30 September 2018, total liabilities amounted to Baht 29,647.0 million, increased by Baht 1,366.7 million compared to the year ended 31 December 2017, primarily due to;

- (1) Current liabilities decreased by Baht 751.3 million, mainly from a reduction in the current portion of long-term borrowings from financial institutions in an amount of Baht 484.5 million and unearned income in an amount of Baht 404.5 million due to an off-peak travelling season.

- (2) Non-current liabilities increased by Baht 2,118.0 million. The increase was mainly from the issuance of the debentures in an amount of Baht 2,500.0 million and the proceeds will be used for general investment purpose and/or for working capital.

Equity

As at 30 September 2018, total shareholders' equity amounted to Baht 8,254.2 million, decreased by Baht 2,367.8 million or 22% compared to the year ended 31 December 2017. As a result, the Board of Directors approved interim dividends of Baht 41.00 per share and Baht 27.40 per share in an amount of Baht 1,785.8 million and Baht 1,193.4 million on May 11, 2018 and September 12, 2018, respectively.

Thai AirAsia's Debt-to-Equity ratio (Interest Bearing Debt) and Net Gearing ratio as at 30 September 2018 were 2.56x and 2.08x, respectively.

Statement of Cash Flows

Thai AirAsia Company Limited	For the nine-month period ended 30 September	
	2018	2017
Unit: Baht million		
Net cash generated from (used in) operating activities	2,006.3	3,227.9
Net cash generated from (used in) investing activities	(1,924.3)	(904.4)
Net cash generated from (used in) financing activities	<u>(1,720.6)</u>	<u>(1,355.4)</u>
Net increase (decrease) in cash and cash equivalents	(1,638.6)	968.1
Exchange gain (loss) on cash and cash equivalents	(85.8)	(43.2)
Cash and cash equivalents at the beginning of the period	<u>5,210.6</u>	<u>4,549.2</u>
Cash and cash equivalents at the end of the period	<u>3,486.2</u>	<u>5,474.1</u>

For the nine-month period ended 30 September 2018, Thai AirAsia had net cash generated from operating activities in an amount of Baht 2,006.3 million mainly due to operating profit in this period. In contrast, net cash used in investing activities was Baht 1,924.3 million, mainly from an aircraft acquisition and an increase in aircraft maintenance reserves in relation to the increase in flight hours. At the same time, net cash used in financing activities was Baht 1,720.6 million mainly due to dividend payment and payment for the current portion of long-term borrowings from financial institutions to close two long-term loan agreements. Even though, there was proceeding from the issuance of the debentures in an amount of Baht 2,500.0 million for general investment purpose and/or for working capital. As a result, Thai AirAsia had a net decrease in cash and cash equivalents of Baht 1,638.6 million, while the cash and cash equivalents at the end of the period amounted to Baht 3,486.2 million



Business Outlook

 The global economy in 2018 is expected to grow with a slower pace due to the increased risks of the trade war and the lower expected expansion in some regions, as well as the higher oil prices, lead to inflationary pressure. Hence, the International Monetary Fund (IMF) cuts the global growth forecast in 2018 and 2019 to 3.7%. However, a solid economy of the U.S is one of the supporting factors for Federal Reserve (Fed) to hike its policy interest rate again in December. Consequently, an increase in the interest rate will strengthen the U.S. dollar. As the company has revenues and expenses in various different currencies such as passenger fares, repair and maintenance as well as aircraft rental, the company has adopted the practice of Natural Hedging by matching cash expenses and revenues in the same currency as practically possible. While the structure the foreign currency loans are made in accordance with the highest currency net operating cash flow. Furthermore, the company may incur a significant amount of debt in the future in order to finance for new aircraft or for business expansion. The increasing interest rate is likely to affect the borrowing costs of the company. Therefore, the company has set a measure to alleviate interest rate risk by fixing interest rate during the negotiation for financial lease contracts and by considering using financial instruments at an appropriate time.

 The global crude oil price tends to decline in a narrow frame when compared to the previous quarter. The recent global oil price was priced in the risks of the United States' sanction on Iran and the political problem in Venezuela. In addition, the Organization of the Petroleum Exporting (OPEC) and Russia agreed to raise the production, which could disrupt the global oil price. Whereas, the trade war between the U.S. and China may fuel worries about the global economic growth and demand for crude in the foreseeable future. In an attempt to ensure against the fluctuation in fuel costs, the company has the fuel hedging policy as a tool to mitigate its exposure to volatile.

 Thai Economic outlook in the fourth quarter of 2018 (Q4/2018) is expected to continually improve with a sluggish growth, led by slower growth in exports, following the weakened growth of Thailand's trade partners. Nevertheless, the expansion in the private sector has been seen from consumption and investment parts. Apart from this, tourism will expand in accordance with the global economy and the government planning tourism stimulus packages, given waving visa on arrival fees to encourage Chinese tourists and stimulating local tourism through several activities during the year. The Tourism Authority of Thailand (TAT) forecasts the number of international tourists by nationality in Q4/2018 to reach 9.9 million, or up 7%. While, Thai tourists in the domestic market is expected to stand 49.7 million per visit, or up 3% from the same period last year, of which 23.3 million visitors plan to visit the secondary markets, enhanced by several holidays such as Constitution Day, Christmas and New Year's Eve. Nonetheless, the impact of the U.S trade protectionism and the trade retaliation measures from its trade partners may affect the expansion of the world and the Thai economy.

 For Q4/2018, Thai AirAsia is planning to launch over 10 new routes from Bangkok (Don Mueang), Krabi and Chiang Mai as well as continually add frequencies in favourable destinations in order to increase aircraft utilisation and dominate the market. Furthermore, Thai AirAsia is planning to add more routes to the Indian and the Asean markets while maintaining its position in the Chinese market. Therefore, this diversified strategy tends to minimise the risk of dependence on the major customer base, enhancing the Company and Thai AirAsia's sustainable revenue growth in the future and maintain its leading low-fares airline in Thailand.



Glossary

Load factor = Represents the number of passengers carried as a proportion to capacity, which is the number of seats available for passengers

Available seat kilometres (ASK) = which is the total number of seats available on all flights multiplied by the number of kilometres these seats were flown

Revenue passenger kilometres (RPK) = Revenue passenger kilometres, which is the number of paying passengers carried on all flights multiplied by the number of kilometres those seats were flown

Average fare = Calculated as Thai AirAsia's total passenger revenues and fuel surcharge divided by total number of passengers carried

Revenue per ASK (RASK) = Calculated as Thai AirAsia's revenues divided by ASK

Cost per ASK (CASK) = Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses (but excluding finance costs) divided by ASK

Cost per ASK (CASK ex-fuel) = Calculated as the sum of Thai AirAsia's operating costs, selling expenses and administrative expenses (but excluding finance costs) less fuel costs divided by ASK

Average stage length (kilometres) = Represents the average number of kilometres flown per flight

Aircraft utilisation = Represents the average block hours per day per aircraft during the relevant period. Block hours is calculated by measuring the duration between the time of departure of an aircraft and the time of arrival at its destination.

Debt to Equity ratio (D/E) = Calculated as Thai AirAsia's total interest bearing debt divided by total equity

Net Gearing ratio = Calculated as Thai AirAsia's total interest bearing debt less cash divided by total equity

Available seat kilometres (ASK) = which is the total number of seats available on all flights multiplied by the number of kilometres these seats were flown

Revenue passenger kilometres (RPK) = Revenue passenger kilometres, which is the number of paying passengers carried on all flights multiplied by the number of kilometres those seats were flown