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Subject: Management Discussion and Analysis of Financial Statements

To: President,  
The Stock Exchange of Thailand

**Airports of Thailand Public Company Limited and its subsidiaries**

Management discussion and analysis of financial statements for the three-month period ended December 31<sup>st</sup>, 2016

**Overall performance and significant events**

The overall aviation industry of Thailand during October 2016 – December 2016 improved slightly compared to the same period last year. After the repressive measures against illegal tours by the cooperation between the Thai government and the Chinese government, Chinese tourists reduced consequently. Therefore, tourism industry didn't grow as fast this quarter because the Chinese are the largest group of foreign tourists visiting Thailand. However, a stable domestic political situation, the government's domestic and international tourism stimulus policies, and the rapid expansion of low cost airlines with their competitive pricing, increased new demand for air travel for the middle-income group. All of these were factors in the positive results for both the aviation industry and the overall domestic economy.

In the first quarter of FY 2017, the air traffic volume from the six airports under the Airports of Thailand Public Company Limited (AOT) was 204,632 flights, a 6.94% increase compared to the same period last year. It comprised 99,993 international flights and 104,639 domestic flights. The total number of passengers was 30.69 million, a 6.11% increase compared to the same period last year. It comprised 16.52 million international passengers and 14.17 million domestic passengers.

For the significant and relevant events to the domestic aviation industry in the first quarter of FY 2017, they were mainly about the repressive measures against illegal tours by the government, which result in the reduction of Chinese tourists in the first quarter of the fiscal year. However, the effect was compensated by increases in other foreign passengers, especially Russians and Europeans. The consequence of the repressive measures against illegal tours by the government is expected to affect the volume of Chinese tourists for a short period of time. The industries that had been affected are hotels, airlines and retailing which made the entrepreneurs of those businesses need to adapt themselves to the government's solution to improve quality within the tourism

industry, by providing a variety of high quality tour packages at reasonable prices, to attract potential tourists to Thailand. This will lead to sustainable growth in the Thai tourism industry.

During the first quarter of FY 2017, AOT generated net profit of Baht 5,084.22 million. It increased by Baht 458.21 million or 9.91% from last year. Total revenues increased by Baht 1,008.67 million, total expenses increased by Baht 456.45 million, and income tax expense increased by Baht 89.67 million

## 1. Analysis of operations

### 1.1 Operating results for the three-month period ended December 31<sup>st</sup>, 2016

Unit: Million Baht

	Q1/2017	Q1/2016	Increase (decrease)	% YoY
Revenues from sales or services	12,612.88	11,814.11	798.77	6.76
<i>Aeronautical revenue</i>	7,086.15	6,831.83	254.32	3.72
<i>Portion</i>	56%	58%		
<i>Non-aeronautical revenue</i>	5,526.73	4,982.28	544.45	10.93
<i>Portion</i>	44%	42%		
Other income	572.91	363.01	209.90	57.82
<b>Total revenues</b>	<b>13,185.79</b>	<b>12,177.12</b>	<b>1,008.67</b>	<b>8.28</b>
<u>Less</u> Total expenses	6,768.69	6,312.24	456.45	7.23
<b>Profit before income tax expenses</b>	<b>6,417.10</b>	<b>5,864.88</b>	<b>552.22</b>	<b>9.42</b>
<u>Less</u> Income tax expense	1,318.65	1,228.98	89.67	7.30
<b>Net profit for the period</b>	<b>5,098.45</b>	<b>4,635.90</b>	<b>462.55</b>	<b>9.98</b>
<b>Profit attributable to:</b>				
<b>Owners of the parent</b>	<b>5,084.22</b>	<b>4,626.01</b>	<b>458.21</b>	<b>9.91</b>
Non-controlling interests	14.23	9.89	4.34	43.88
<b>Earnings per share (Baht)</b>	<b>3.56</b>	<b>3.24</b>	<b>0.32</b>	<b>9.88</b>

Net profit for the three-month period ended December 31<sup>st</sup>, 2016 was Baht 5,084.22 million. It increased by Baht 458.21 million or 9.91% comparing to the same period last year. Revenues from sales or services increased by Baht 798.77 million or 6.76% as a result of an increase in aeronautical revenue of Baht 254.32 million or 3.72% and non-aeronautical revenue of Baht 544.45 million or 10.93% because of increasing in number of flights and passengers. Other income increased by Baht 209.90 million or 57.82% mainly from an increase in gain on foreign exchange. Total expenses increased by Baht 456.45 million or 7.23%. The main reasons were an

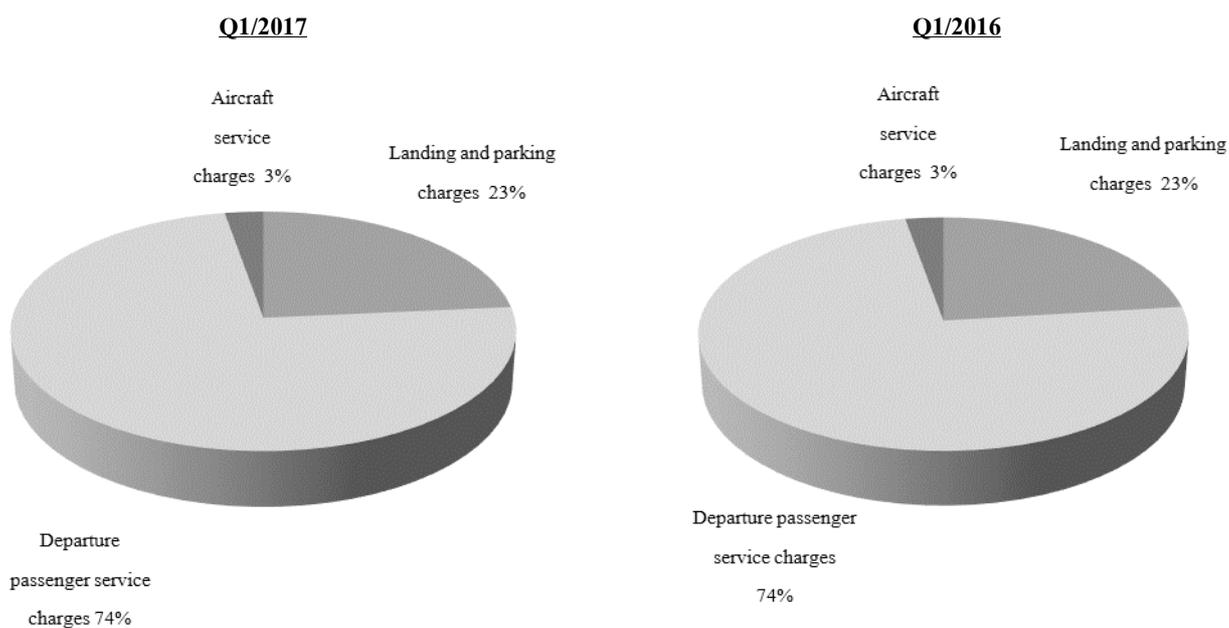
increase in outsourcing expenses. Income tax expense increased by Baht 89.67 million or 7.30% which was in line with an increase in profit.

The detailed analysis of each type of revenues and expenses are as follows;

## 1.2 Aeronautical Revenue

Unit: Million Baht

	Q1/2017	Q1/2016	Increase (decrease)	%YoY
Landing and parking charges	1,667.40	1,575.51	91.89	5.83
Departure passenger service charges	5,224.75	5,064.95	159.80	3.16
Aircraft service charges	194.00	191.37	2.63	1.37
<b>Total</b>	<b>7,086.15</b>	<b>6,831.83</b>	<b>254.32</b>	<b>3.72</b>



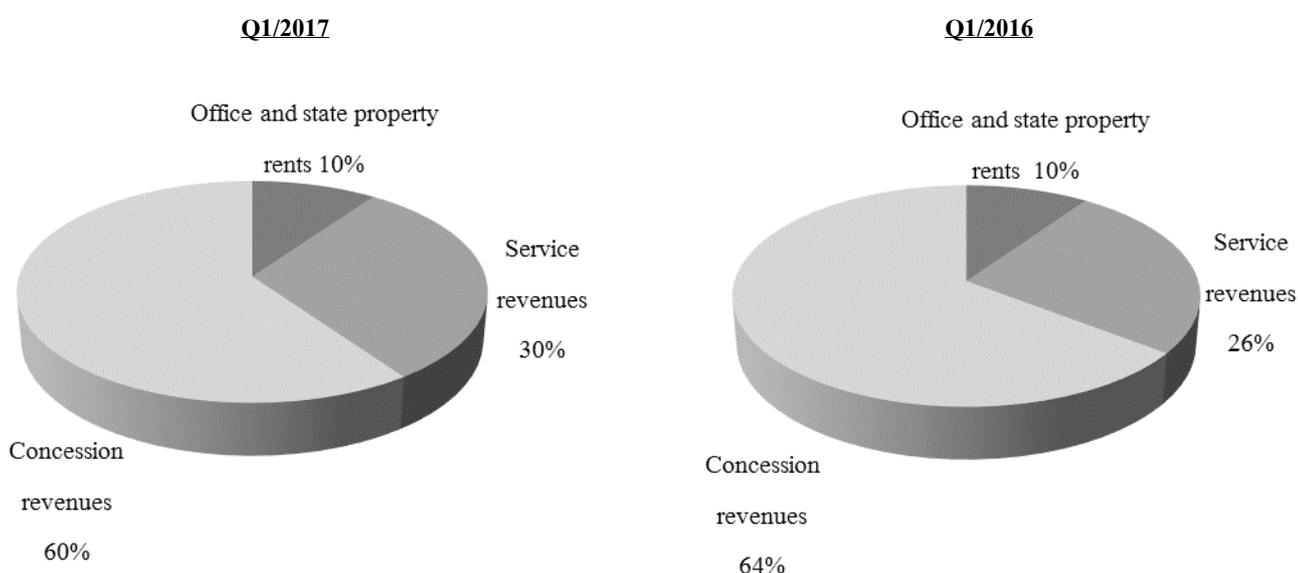
A portion of aeronautical revenue in each type in the first quarter of FY 2017 was not changed from the same period last year. The majority of aeronautical revenue was departure passenger service charges.

Aeronautical revenue of Baht 7,086.15 million increased by Baht 254.32 million or 3.72% comparing to the same period last year due to an increase in departure passenger service charges of Baht 159.80 million or 3.16%. This was because of an increase in the number of passengers in six airports 6.11% which mainly from an increase in passengers of low cost airlines 33.40%. Moreover, landing and parking charges and aircraft service charges increased by Baht 91.89 million and Baht 2.63 million, respectively. This was because the number of flights increased by 6.94% which mainly from an increase in flights of low cost airlines 30.88%.

### 1.3 Non-Aeronautical Revenue

Unit: Million Baht

	Q1/2017	Q1/2016	Increase (decrease)	%YoY
Office and state property rents	541.32	481.56	59.76	12.41
Service revenues	1,682.70	1,284.33	398.37	31.02
Concession revenues	3,302.71	3,216.39	86.32	2.68
<b>Total</b>	<b>5,526.73</b>	<b>4,982.28</b>	<b>544.45</b>	<b>10.93</b>



A portion of non-aeronautical revenue in each type in the first quarter of FY 2017 was not significant changed from the same period last year. The majority of non-aeronautical revenue increased by service revenues.

Non-aeronautical revenue of Baht 5,526.73 million increased by Baht 544.45 million or 10.93% comparing to the same period last year due to an increase in service revenues of Baht 398.37 million or 31.02% which mainly increased from service charges of passenger advance checking by Baht 378.48 million. This was because AOT installed Advance Passenger Processing System (APPS) since December 1<sup>st</sup>, 2015. Concession revenues increased by number of passengers and users in airports.

#### 1.4 Other income

Unit: Million Baht

	Q1/2017	Q1/2016	Increase (decrease)	%YoY
Gain on foreign exchange	245.54	22.20	223.34	1,006.04
Interest income	266.37	299.40	(33.03)	(11.03)
Others	61.00	41.41	19.59	47.31
<b>Total</b>	<b>572.91</b>	<b>363.01</b>	<b>209.90</b>	<b>57.82</b>

Other income was Baht 572.91 million. It increased by Baht 209.90 million or 57.82% comparing to the same period last year. This was a result of an increase in gain on foreign exchange by Baht 223.34 million due to the appreciation of Thai Baht against Japanese Yen.

#### 1.5 Total expenses

Unit: Million Baht

	Q1/2017	Q1/2016	Increase (decrease)	%YoY
Employee benefit expenses	1,415.37	1,301.39	113.98	8.76
Utilities expenses	607.48	631.62	(24.14)	(3.82)
Outsourcing expenses	1,305.72	799.47	506.25	63.32
Repairs and maintenance	478.98	470.53	8.45	1.80
State property rental	542.82	510.09	32.73	6.42
Depreciation and amortisation expenses	1,429.35	1,580.52	(151.17)	(9.56)
Loss on impairment of assets	19.71	11.11	8.60	77.41
Loss on sales of assets	58.86	17.48	41.38	236.73
Other expenses	591.21	629.06	(37.85)	(6.02)
Financial costs	319.19	360.97	(41.78)	(11.57)
<b>Total</b>	<b>6,768.69</b>	<b>6,312.24</b>	<b>456.45</b>	<b>7.23</b>

Total expense was Baht 6,768.69 million. It increased by Baht 456.45 million or 7.23% comparing to the same period last year. This was mainly due to an increase in outsourcing expenses of Baht 506.25 million mainly from expense of advance passenger processing system (APPS) and an increase in employee benefit expenses

of Baht 113.98 million, while decrease in depreciation and amortisation expenses of Baht 151.17 million. Other categories of expenses did not change significantly comparing to the same period last year.

## 2. Analysis of financial position

The financial position as at December 31<sup>st</sup>, 2016 of AOT is as follows:

Unit: Million Baht

	31 Dec 2016	30 Sep 2016	Increase (decrease)	% change
Total assets	172,537.32	172,216.39	320.93	0.19
Total liabilities	45,879.17	50,637.84	(4,758.67)	(9.40)
Total shareholders' equity	126,658.15	121,578.55	5,079.60	4.18

The material changes in assets, liabilities and shareholders' equity as at December 31<sup>st</sup>, 2016 comparing to September 30<sup>th</sup>, 2016 are as follows:

### 2.1 Analysis of assets

Total assets as at December 31<sup>st</sup>, 2016 were Baht 172,537.32 million. An increase of total assets from September 30<sup>th</sup>, 2016 of Baht 320.93 million or 0.19% is detailed below.

Unit: Million Baht

	31 Dec 2016	30 Sep 2016	Increase (decrease)	% change
Current assets	67,676.72	64,157.71	3,519.01	5.48
Investment	1,272.72	1,996.29	(723.57)	(36.25)
Property plant equipment and investment properties	99,908.81	100,677.12	(768.31)	(0.76)
Other non-current assets	3,679.07	5,385.27	(1,706.20)	(31.68)
<b>Total assets</b>	<b>172,537.32</b>	<b>172,216.39</b>	<b>320.93</b>	<b>0.19</b>

Current assets of Baht 67,676.72 million increased by Baht 3,519.01 million or 5.48% due to an increase in short-term investments of Baht 2,600.00 million, cash and cash equivalents of Baht 690.78 million. Moreover, trade accounts receivable slightly increased by Baht 161.42 million which was in line with an increase in revenues. Other current assets (i.e. other receivables, inventories and supplies) did not change significantly comparing to last year.

Investment of Baht 1,272.72 million decreased by Baht 723.57 million or 36.25% due to a decrease in deposits at financial institution with maturity more than one year of Baht 700 Million.

Property plant equipment and investment properties of Baht 99,908.81 million decreased by Baht 768.31 million or 0.76% because of sales of assets.

Other non-current assets of Baht 3,679.07 million decreased by Baht 1,706.20 million or 31.68% due to a decrease in the value of cross currency swap contracts recognised as assets of Baht 1,700.47 million. The value of cross currency swap contracts recognised as assets because exchange rates stated in the contracts were lower than closing exchange rate as at the end of the period. The decrease was primarily due to the appreciation of Thai Baht against Japanese Yen.

## 2.2 Analysis of liabilities

Total liabilities as at December 31<sup>st</sup>, 2016 were Baht 45,879.17 million. A decrease of total liabilities from September 30<sup>th</sup>, 2016 of Baht 4,758.67 million or 9.40% is detailed below.

**Unit: Million Baht**

	<b>31 Dec 2016</b>	<b>30 Sep 2016</b>	<b>Increase (decrease)</b>	<b>% change</b>
Current liabilities	16,048.09	18,428.60	(2,380.51)	(12.92)
Long-term loans	23,275.97	26,659.21	(3,383.24)	(12.69)
Other non-current liabilities	6,555.11	5,550.03	1,005.08	18.11
<b>Total liabilities</b>	<b>45,879.17</b>	<b>50,637.84</b>	<b>(4,758.67)</b>	<b>(9.40)</b>

Current liabilities of Baht 16,048.09 million decreased by Baht 2,380.51 million or 12.92% due to a decrease in accounts payable of Baht 2,095.47 million which mainly from payment of state property rental FY 2016 and decrease in other current liabilities decreased by Baht 1,295.59 million mainly because payments of bonus. However, income tax payable increased by Baht 1,151.58 million.

Long-term loans of Baht 23,275.97 million decreased by Baht 3,383.24 million or 12.69% due to a repayment of borrowing and the effect from foreign exchange rates.

Other non-current liabilities of Baht 6,555.11 million increased by Baht 1,005.08 million or 18.11% due to an increase in the value of cross currency swap contracts recognised as liabilities of Baht 1,263.44 million. The value of cross currency swap contracts recognised as liabilities because exchange rates in the forward contracts were higher than the closing rates. The increase was primarily due to the appreciation of Thai Baht against Japanese Yen.

## 2.3 Analysis of shareholders' equity

The total shareholders' equity as at December 31<sup>st</sup>, 2016 was Baht 126,658.15 million. It increased by Baht 5,079.60 million or 4.18% from total comprehensive income for the period.

### 3. Analysis of liquidity

As at December 31<sup>st</sup>, 2016, cash and cash equivalents were Baht 6,577.04 million. It increased from September 30<sup>th</sup>, 2016 of Baht 690.78 million as detailed below.

**Unit: Million Baht**

	<b>Q1/2017</b>
Cash flows from operating activities	4,063.79
Cash flows from investing activities	(2,490.33)
Cash flows from financing activities	(882.68)
<b>Net increase in cash and cash equivalents</b>	<b>690.78</b>
Cash and cash equivalents at the beginning of the period	5,886.26
Cash and cash equivalents at the end of the period	6,577.04

The change in cash and cash equivalents for the three-month period ended December 31<sup>st</sup>, 2016 can be analysed as below;

Cash generated from operating activities of Baht 4,063.79 million. It resulted from an operation of the current period.

Cash used in investing activities of Baht 2,490.33 million. It resulted from short term investments increased of Baht 1,900.00 million and investment in property plant and equipment increased of Baht 448.71 million. The majority was investment at the Suvarnabhumi Airport, Phuket International Airport and Don Mueang International Airport.

Cash used in financing activities of Baht 882.68 million. It resulted from the settlement of loans and interest of long-term loans of Baht 820.01 million.

### 4. Ratio analysis

	<b>Q1/2017</b>	<b>Q1/2016</b>
<b>Profitability ratio</b>		
Ratio of profit from operations to revenue from operations (%)	49.70	49.94
Return on equity (ROE) (%)	4.10	4.17
Return on total assets (ROA) (%)	2.95	2.88
	<b>31 Dec 2016</b>	<b>30 Sep 2016</b>
<b>Financial structure and liability ratio</b>		
Debt to equity ratio (Time)	0.36	0.42
Liquidity ratio (Time)	4.22	3.48

AOT has made the ratio of profit from operations to revenue from operations, return on equity and return on total assets were not significant changed from the same period last year. For the financial structure, AOT was able to maintain its financial structure by having debt to equity ratio less than one time and liquidity ratio exceeding four times by having plan to invest in the future.

#### **5. Factors affecting future operation**

Due to a stable domestic political situation, the government's domestic and international tourism stimulus policies, increased the demand of air travelling which were factors in the positive results for domestic aviation industry. Especially, low cost airlines which are still expanding continuously.

AOT is responsible for managing six international airports that are fundamental to serve air travel demands. AOT develops the infrastructure and airports under its responsibility to build the airports' capabilities to support the demand and competition in the Asian Economic Community. In this fiscal year, AOT will receive positive factors throughout the year from the opening of Terminal 2 of Don Mueang International Airport and International terminal of Phuket International Airport. This can accommodate an increase in passenger volumes and commercial rental areas at these airports. For the new master plan starting from the fiscal year 2017 to the next 10 years, AOT plans to increase the proportion of commercial rental areas in the airports, which are a stable revenue source from long term agreements and a guaranteed minimum rental income to reduce the instability in the aviation business. Moreover, AOT has been continuously improving the six international airports under its responsibility to promote Thailand as a centre for regional aviation and leader in air cargo. AOT is the gateway for air travelling. This will help the trade, investment and tourism business including competitiveness and driving the economy of Thailand.

Please be informed, accordingly.

Yours sincerely,

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