

Risk Factors

1. Risks Relating to Our Business

- 1.1 Our business, financial condition, results of operation and prospects are materially and adversely affected by the cost or unavailability of sufficient quantities of fuel.
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Aircraft fuel costs represent the largest component of our cost of sales and services, comprising 29.6% and 24.2% of our total consolidated cost of sales and services in 2015, 2016 respectively. As jet fuel constitutes a substantial portion of our operating costs, a relatively small increase in fuel costs can have 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 January 21, 2016 to a low of US\$32.3 per barrel on December 31, 2016. As of December 30, 2016, the spot price of jet fuel was US\$66.6 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, 2016 we have entered into hedging contracts for approximately 52.0% of our forecast jet fuel requirements. The company still have an obligation the hedging contract until December 2016 for 600,000 barrel. 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 other hedging activities.

We rely mainly on PTT Public Company Limited (“PTT”) and SUSCO Public Company Limited for our jet fuel requirements. In 2016, of our aircraft fuel expenses were the result of purchases of jet fuel from PTT and 70% and 20%, respectively, were from SUSCO Public Company Limited. 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.

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- 1.2 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.
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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.

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.

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- 1.3 Changes in code-share agreements with other airlines may have an adversely negative effect on our business, financial condition, results of operation and prospects.
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As of December 31st, 2016, we had code-share agreements in place with 21 airlines. This resulted in revenue generation for us from our code-shared partners. We expect more reliance on our code-share arrangements. However, 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 adverse effect on our business, financial condition, results of operation and prospects.



1.4 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.

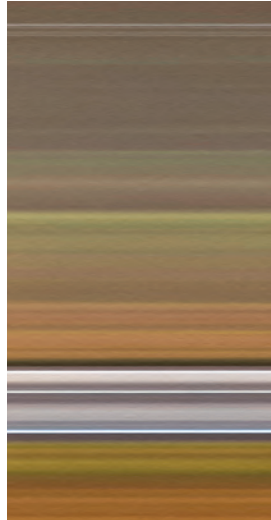
We have faced a high level of competition on our domestic and international routes. Airlines compete primarily on fare levels, frequency, reliability of service, brand recognition, passenger amenities, frequent flyer programs and the availability and convenience of other passenger services. In addition, 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. They may be in a better position to operate unprofitable routes for a longer period of time than us.

Our competition for our scheduled passenger services include other full-service operators, low-cost operators 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. The intensity of competition varies from route to route. We cannot assure you that our competitors will not engage in price cutting or other activities in an attempt to shift market share, which may have adverse effect on our business, financial condition, results of operation and prospects.

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- 1.5 Our airline and airport businesses are heavily dependent on travel to Thailand and the broader Southeast Asian markets, 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.
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The airline business is our core business, contributing 77.4% of our total consolidated revenues in 2016. It comprises air transport services for passengers domestically and internationally. 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, Samui Airport and Chiang Mai Airport. Our business, financial condition, results of operation and prospects would be 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 by a number of political demonstrations and strikes as well as reports of violence in certain areas of Bangkok. Our business is adversely affected by any circumstances causing deterioration in Thailand's appeal as a tourist destination, such as continued internal political instability, adverse changes in international economic conditions. We cannot assure you that we will be able to take any preventive measures to mitigate potential negative impacts to our operations. Moreover, as some of our interline passengers originate from Europe, any negative external factors affecting travel from Europe could have adverse effect on our business, financial condition, results of operation and prospects.





1.6 Our subsidiary and associated companies have been granted concessions to provide airline related services at 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, with a term of 20 years, expiring September 27, 2026. BFS Ground and BAC contributed 6.7% and 3.6%, respectively. 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 adverse effect on our business, financial condition, results of operation and prospects.

1.7 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. 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.

1.8 Our maintenance costs will increase as our fleet ages.

The average age of our aircraft was 9.2 years as of December 31, 2016. 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. 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.





1.9 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. We entered into a sale and purchase agreement for nine new ATR 72-600 aircraft. The delivery seven aircraft of all. We are likely to require financing and incur significant amounts of debt to fund such acquisitions. 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 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. 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.

1.10 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 we currently serve, expanding the number of destinations 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. Increasing the number of destinations, 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, Samui Airport, Chiang Mai Airport, and other Airports where we operate flights. 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 adverse effect on our business, financial condition, results of operation and prospects.

We expect a number of planned future destinations. 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 aircrafts, subject to applicable break fees, which may 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.

1.11 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 Civil Aviation Authority of Thailand. The Civil Aviation Authority of Thailand is the regulatory authority responsible for regulating the Thai aviation sector. The Civil Aviation Authority of Thailand 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 Civil Aviation Authority of Thailand. Our revenue from domestic passenger services accounted for 60.9% and 66.0% of our revenues from passenger services in 2014 and the 2015, respectively. Any adverse changes in these policies, in addition to other regulations and policies governing airline operations, could have adverse effect on our business, financial condition, results of operation and prospects.

1.12 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. 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.

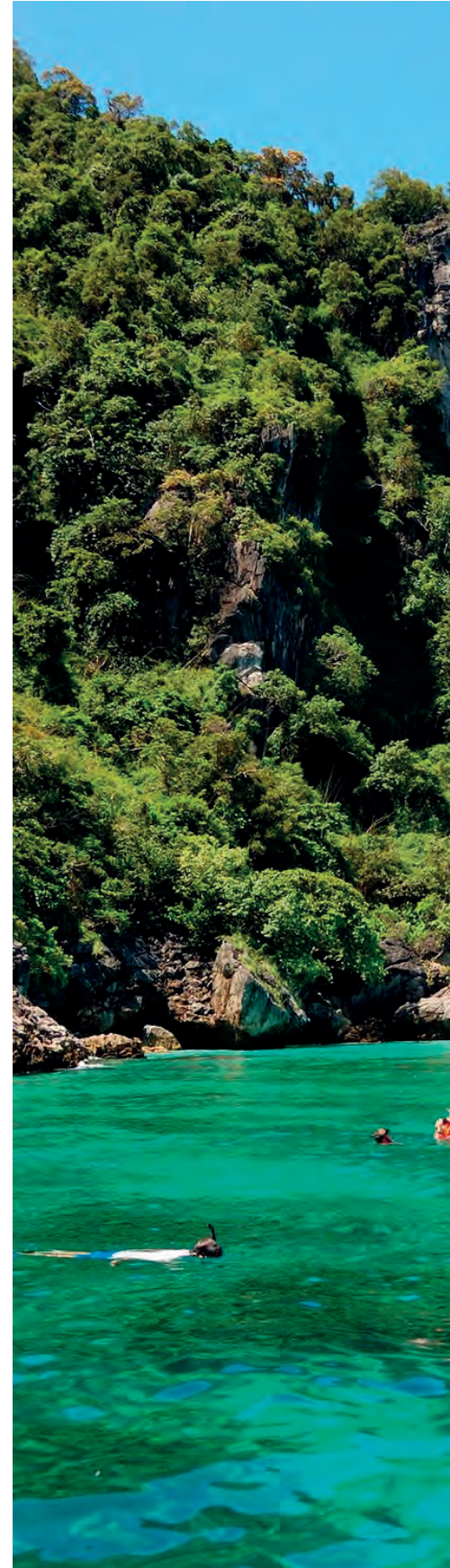
We may enter into U.S. Dollar commitments in the future, including in relation to future purchases of aircraft. Therefore, any depreciation in the Thai Baht against these foreign currencies would increase our obligations. There can be no assurance that we would be able to generate revenue increases sufficient to offset such increased obligations. As a result, fluctuations in the value of the Thai Baht against other foreign currencies may affect our business, financial condition, results of operations and prospects.



1.13 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 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.





2. Risk Relating to the Aviation Industry

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

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 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 adverse effect on our financial performance.

2.2 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 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;
- 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 adversely affected.

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

Terrorist attacks and their aftermath had a negative impact on the airline industry. The 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 reduced passenger traffic and yields due to the subsequent drop in demand for air travel globally. Terrorist attacks, or the fear of such attacks, or otherworld events could result in decreased passenger load factors and yields and could also result in increased 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 or 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 disrupt our operations, which could have an adverse effect on 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. 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 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.

2.4 The airline industry is under the supervision of international safety and operation standards

The airline industry is under the supervision of international safety and operation standards which is inspected and directed by international audit scheme. If there are any Significant Safety Concerns will get the status down on safety standard which affects directly and indirectly to the country and the office that administers all airlines in the country as well. Such effects include suspension of expanding route network, limiting flight frequency, limiting flight timetable, which will also affect the competitiveness, higher operation cost, limiting business opportunity, limiting profit making, higher leasing and insurance cost, to more strict maintenance conditions which will subsequently affect patronage decision making because safety is key for passengers to make their choice of airline service.

