

Thai AirAsia Company Limited  
Report and Financial statements  
31 December 2018

## Independent Auditor's Report

To the Shareholders of Thai AirAsia Company Limited

### Opinion

I have audited the accompanying financial statements of Thai AirAsia Company Limited (the Company), which comprise the statement of financial position as at 31 December 2018, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Thai AirAsia Company Limited as at 31 December 2018, its financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards.

### Basis for Opinion

I conducted my audit in accordance with Thai Standards on Auditing. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with the Code of Ethics for Professional Accountants as issued by the Federation of Accounting Professions as relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Other Matter

The financial statements of Thai AirAsia Company Limited for the year ended 31 December 2017 were audited by another auditor who, under his report dated 22 February 2018, expressed an unmodified opinion on those financial statements.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Thai Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Thai Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Thai Standards on Auditing, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am responsible for the audit resulting in this independent auditor's report.



Termphong Opanaphan

Certified Public Accountant (Thailand) No. 4501

EY Office Limited

Bangkok: 20 February 2019

**Thai AirAsia Company Limited**  
**Statement of financial position**  
**As at 31 December 2018**

(Unit: Baht)

	Note	2018	2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	4,036,975,843	5,210,622,777
Current investments	8	-	1,489,009,499
Trade and other receivables	9	492,273,479	454,416,761
Amounts due from related parties	6	872,216,691	944,812,563
Inventories		188,318,274	148,800,537
Prepaid expenses		423,093,077	369,479,072
Other current assets		262,234,278	299,052,917
<b>Total current assets</b>		<b>6,275,111,642</b>	<b>8,916,194,126</b>
<b>Non-current assets</b>			
Long-term investment	10	11,134,900	10,424,900
Aircraft maintenance reserves	6, 11	4,532,740,844	3,652,264,201
Property, aircraft, leasehold improvements and equipment	12	26,129,011,829	25,416,573,011
Intangible assets	13	26,990,643	33,078,364
Other non-current assets	6, 14	942,903,352	873,796,859
<b>Total non-current assets</b>		<b>31,642,781,568</b>	<b>29,986,137,335</b>
<b>Total assets</b>		<b>37,917,893,210</b>	<b>38,902,331,461</b>

The accompanying notes are an integral part of the financial statements.

**Thai AirAsia Company Limited**

**Statement of financial position (continued)**

**As at 31 December 2018**

(Unit: Baht)

	Note	2018	2017
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Trade payables		159,682,816	310,666,172
Other payables		392,713,357	477,741,231
Amounts due to related parties	6	699,189,680	170,092,214
Short-term borrowings from financial institutions	15	650,000,000	-
Current portion of long-term borrowings from financial institutions	16	213,772,250	1,348,080,475
Current portion of liabilities under finance lease agreements	18	1,300,075,453	1,299,335,216
Unearned income		4,986,934,947	4,820,988,435
Accrued expenses		2,560,887,266	2,373,009,919
Other current liabilities		57,188,709	52,307,213
<b>Total current liabilities</b>		<b>11,020,444,478</b>	<b>10,852,220,875</b>
<b>Non-current liabilities</b>			
Long-term borrowings from financial institutions			
- net of current portion	16	2,624,156,110	1,984,335,988
Debentures	17	4,095,126,167	1,598,005,612
Liabilities under finance lease agreements			
- net of current portion	18	11,919,246,970	13,231,620,700
Provision for long-term employee benefits	19	422,548,659	346,675,403
Deferred tax liabilities	23	58,303,226	267,434,714
<b>Total non-current liabilities</b>		<b>19,119,381,132</b>	<b>17,428,072,417</b>
<b>Total liabilities</b>		<b>30,139,825,610</b>	<b>28,280,293,292</b>

The accompanying notes are an integral part of the financial statements.

**Thai AirAsia Company Limited**

**Statement of financial position (continued)**

**As at 31 December 2018**

(Unit: Baht)

	Note	2018	2017
<b>Shareholders' equity</b>			
Share capital			
Registered			
43,555,560 ordinary shares of Baht 10 each		435,555,600	435,555,600
Issued and fully paid up			
43,555,560 ordinary shares of Baht 10 each		435,555,600	435,555,600
Premium on ordinary shares		2,628,786,469	2,628,786,469
Retained earnings			
Appropriated - statutory reserve	20	43,555,560	43,555,560
Unappropriated		4,670,169,971	7,514,140,540
<b>Total shareholders' equity</b>		<b>7,778,067,600</b>	<b>10,622,038,169</b>
<b>Total liabilities and shareholders' equity</b>		<b>37,917,893,210</b>	<b>38,902,331,461</b>
		-	-

The accompanying notes are an integral part of the financial statements.

Directors

**Thai AirAsia Company Limited**  
**Statement of comprehensive income**  
**For the year ended 31 December 2018**

(Unit: Baht)

	Note	2018	2017
<b>Profit or loss:</b>			
<b>Revenues</b>			
Revenues from sales and services	21	38,904,847,688	36,002,787,665
Gain on exchange		250,412,436	322,048,842
Other income		1,044,168,219	955,305,557
<b>Total revenues</b>		<b>40,199,428,343</b>	<b>37,280,142,064</b>
<b>Expenses</b>			
Cost of sales and services		36,423,955,628	31,023,541,295
Selling and distribution expenses		1,627,575,370	1,559,994,508
Administrative expenses		1,487,700,723	1,389,010,513
<b>Total expenses</b>		<b>39,539,231,721</b>	<b>33,972,546,316</b>
<b>Profit before finance cost and income tax</b>		<b>660,196,622</b>	<b>3,307,595,748</b>
Finance cost		(743,708,995)	(653,183,898)
<b>Profit (loss) before income tax</b>		<b>(83,512,373)</b>	<b>2,654,411,850</b>
Income tax revenue	23	211,053,612	33,338,749
<b>Profit for the year</b>		<b>127,541,239</b>	<b>2,687,750,599</b>
<b>Other comprehensive income:</b>			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods</i>			
Actuarial gain (loss)	19	9,610,620	(33,285,539)
Less: income tax effect	23	(1,922,124)	6,657,108
<b>Other comprehensive income for the year</b>		<b>7,688,496</b>	<b>(26,628,431)</b>
<b>Total comprehensive income for the year</b>		<b>135,229,735</b>	<b>2,661,122,168</b>
<b>Earnings per share</b>	25		
Basic earnings per share		2.93	61.71
Weighted average number of ordinary shares (Shares)		43,555,560	43,555,560

The accompanying notes are an integral part of the financial statements.



**Thai AirAsia Company Limited**

**Statement of changes in shareholders' equity**

**For the year ended 31 December 2018**

	(Unit: Baht)				
	Issued and paid-up	Premium on	Retained earnings		Total
	share capital	ordinary shares	Appropriated	Unappropriated	shareholders' equity
Balance as at 1 January 2017	435,555,600	2,628,786,469	43,555,560	6,181,462,952	9,289,360,581
Profit for the year	-	-	-	2,687,750,599	2,687,750,599
Other comprehensive income for the year	-	-	-	(26,628,431)	(26,628,431)
Total comprehensive income for the year	-	-	-	2,661,122,168	2,661,122,168
Dividend paid (Note 28)	-	-	-	(1,328,444,580)	(1,328,444,580)
Balance as at 31 December 2017	435,555,600	2,628,786,469	43,555,560	7,514,140,540	10,622,038,169
Balance as at 1 January 2018	435,555,600	2,628,786,469	43,555,560	7,514,140,540	10,622,038,169
Profit for the year	-	-	-	127,541,239	127,541,239
Other comprehensive income for the year	-	-	-	7,688,496	7,688,496
Total comprehensive income for the year	-	-	-	135,229,735	135,229,735
Dividend paid (Note 28)	-	-	-	(2,979,200,304)	(2,979,200,304)
Balance as at 31 December 2018	435,555,600	2,628,786,469	43,555,560	4,670,169,971	7,778,067,600

The accompanying notes are an integral part of the financial statements.

**Thai AirAsia Company Limited**
**Cash flow statement**
**For the year ended 31 December 2018**

(Unit: Baht)

	2018	2017
<b>Cash flows from operating activities</b>		
Profit (loss) before tax	(83,512,373)	2,654,411,850
Adjustments to reconcile profit (loss) before tax to net cash provided by (paid from) operating activities:		
Write-off of bad debts	2,239,192	3,042,202
Depreciation and amortisation	1,666,748,566	1,444,836,513
Gain on sales and write-off of leasehold improvements, equipment and intangible assets	(359,467)	(243,201)
Provision for long-term employee benefits	85,483,876	64,864,270
Unrealised (gain) loss on exchange	1,584,040	(416,755,628)
Interest income	(58,520,846)	(55,719,517)
Finance cost	743,708,995	653,183,898
Profit from operating activities before changes in operating assets and liabilities	2,357,371,983	4,347,620,387
Operating assets (increase) decrease		
Trade and other receivables	(48,415,228)	(10,844,013)
Amounts due from related parties	75,244,233	(140,059,047)
Inventories	(39,517,737)	(30,624,179)
Prepaid expenses	(53,614,005)	(47,316,513)
Other current assets	43,975,147	42,889,969
Other non-current assets	(69,106,493)	166,901,324
Operating liabilities increase (decrease)		
Trade payables	(150,983,356)	(178,294,253)
Other payables	(85,027,874)	137,477,738
Amounts due to related parties	529,097,466	(267,376,771)
Unearned income	165,946,512	582,842,823
Accrued expenses	202,314,027	492,170,848
Other current liabilities	4,881,496	13,345,625
Payment of provision for long-term employee benefits	-	(6,425,000)
Cash flows from operating activities	2,932,166,171	5,102,308,938
Cash paid for income tax	(7,156,508)	(9,233,473)
<b>Net cash flows from operating activities</b>	<b>2,925,009,663</b>	<b>5,093,075,465</b>

The accompanying notes are an integral part of the financial statements.

**Thai AirAsia Company Limited**
**Cash flow statement (continued)**
**For the year ended 31 December 2018**

(Unit: Baht)

	2018	2017
<b>Cash flows from investing activities</b>		
Decrease in restricted deposits at financial institutions	-	1,636,140
Decrease in current investments	1,493,248,063	486,342,968
Increase in long-term investment	(710,000)	(35,400)
Payment for aircraft maintenance reserves	(880,476,643)	(986,720,548)
Acquisitions of property, aircraft, leasehold improvements and equipment	(2,406,628,375)	(2,425,061,385)
Acquisitions of intangible assets	(4,164,654)	(27,332,282)
Interest income	63,818,410	49,357,538
Proceeds from sales of leasehold improvements and equipment	1,402,174	82,962,224
<b>Net cash flows used in investing activities</b>	<b>(1,733,511,025)</b>	<b>(2,818,850,745)</b>
<b>Cash flows from financing activities</b>		
Proceeds from short-term borrowings from financial institutions	650,000,000	-
Proceeds from long-term borrowings from financial institutions	1,226,187,000	3,510,000,000
Payment for front end fee of long-term borrowings	-	(1,800,000)
Repayment of long-term borrowings	(1,721,805,103)	(2,009,352,070)
Proceed from issuance of debentures	2,500,000,000	1,600,000,000
Payment for front end fee of debentures	(4,000,717)	(2,369,874)
Payments for early termination of finance lease agreements	-	(1,602,541,542)
Cash paid for liabilities under finance lease agreements	(1,291,551,592)	(1,116,483,886)
Interest paid	(681,760,565)	(615,548,394)
Dividend paid	(2,979,200,304)	(1,328,444,580)
<b>Net cash flows used in financing activities</b>	<b>(2,302,131,281)</b>	<b>(1,566,540,346)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,110,632,643)</b>	<b>707,684,374</b>
Cash and cash equivalents at beginning of the year	5,210,622,777	4,549,226,048
Unrealised exchange loss on cash and cash equivalents	(63,014,291)	(46,287,645)
<b>Cash and cash equivalents at end of the year (Note 7)</b>	<b>4,036,975,843</b>	<b>5,210,622,777</b>
	-	
Non-cash items:		
Increase (decrease) in other payables from acquisitions of equipment	(36,650,659)	27,940,481
Acquisitions of aircraft under finance lease agreements	-	4,173,977,431

The accompanying notes are an integral part of the financial statements.

**Thai AirAsia Company Limited****Notes to financial statements****For the year ended 31 December 2018****1. General information**

Thai AirAsia Company Limited (“the Company”) is a limited company incorporated and domiciled in Thailand. Its parent company is Asia Aviation Public Company Limited, a company listed in the Stock Exchange of Thailand, and incorporated in Thailand. The Company is principally engaged in low-fare airline business. Its registered address is at 222, Don Mueang International Airport, Central Office Building, Room no. 3200, 3rd floor, Vibhavadee Rangsit Road, Sanam Bin Sub-District, Don Mueang District, Bangkok.

**2. Basis of preparation**

The financial statements have been prepared in accordance with Thai Financial Reporting Standards enunciated under the Accounting Professions Act B.E. 2547 and their presentation has been made in compliance with the stipulations of the Notification of the Department of Business Development dated 11 October 2016, issued under the Accounting Act B.E. 2543.

The financial statements in Thai language are the official statutory financial statements of the Company. The financial statements in English language have been translated from the Thai language financial statements.

The financial statements have been prepared on a historical cost basis except where otherwise disclosed in the accounting policies.

**3. New financial reporting standards****3.1 Financial reporting standards that became effective in the current year**

During the year, the Company has adopted the revised financial reporting standards and interpretations (revised 2017) which are effective for fiscal years beginning on or after 1 January 2018. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards with most of the changes and clarifications directed towards disclosures in the notes to financial statements. The adoption of these financial reporting standards does not have any significant impact on the Company’s financial statements.

### **3.2 Financial reporting standards that will become effective for fiscal years beginning on or after 1 January 2019**

The Federation of Accounting Professions issued a number of revised and new financial reporting standards and interpretations (revised 2018) which are effective for fiscal years beginning on or after 1 January 2019. These financial reporting standards were aimed at alignment with the corresponding International Financial Reporting Standards with most of the changes directed towards clarifying accounting treatment and providing accounting guidance for users of the standards.

The management of the Company believes that most of the revised financial reporting standards will not have any significant impact on the financial statements when they are initially applied. However, the new standard involves changes to key principles, as summarised below.

#### **TFRS 15 Revenue from Contracts with Customers**

TFRS 15 supersedes the following accounting standards together with related Interpretations.

TAS 11 (revised 2017)	Construction contracts
TAS 18 (revised 2017)	Revenue
TSIC 31 (revised 2017)	Revenue - Barter Transactions Involving Advertising Services
TFRIC 13 (revised 2017)	Customer Loyalty Programmes
TFRIC 15 (revised 2017)	Agreements for the Construction of Real Estate
TFRIC 18 (revised 2017)	Transfers of Assets from Customers

Entities are to apply this standard to all contracts with customers unless those contracts fall within the scope of other standards. The standard establishes a five-step model to account for revenue arising from contracts with customers, with revenue being recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model.

The management of the Company expects the adoption of this accounting standard to result in the adjustments for processing and change of air ticket fees, which the Company has considered that such fees are collected as part of the flight service which is a contract performance obligation, and should be recognised throughout the flight service period. Previously, revenue was recognised in full upon passenger's process of purchase or change of an air ticket.

### **3.3 Financial reporting standards related to financial instruments that will become effective for fiscal years beginning on or after 1 January 2020**

During the current year, the Federation of Accounting Professions issued a set of TFRSs related to financial instruments, which consists of five accounting standards and interpretations, as follows:

Financial Reporting Standards:

TFRS 7	Financial Instruments: Disclosures
TFRS 9	Financial Instruments

Accounting Standard:

TAS 32	Financial Instruments: Presentation
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Financial Reporting Standard Interpretations:

TFRIC 16	Hedges of a Net Investment in a Foreign Operation
TFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

These TFRSs related to financial instruments make stipulations relating to the classification of financial instruments and their measurement at fair value or amortised cost (taking into account the type of instrument, the characteristics of the contractual cash flows and the entity's business model), calculation of impairment using the expected credit loss method, and hedge accounting. These include stipulations regarding the presentation and disclosure of financial instruments. When the TFRSs related to financial instruments are effective, some accounting standards, interpretations and guidance which are currently effective will be cancelled.

The management of the Company is currently evaluating the impact of these standards to the financial statements in the year when they are adopted.

## **4. Significant accounting policies**

### **4.1 Revenue recognition**

#### *Passenger service revenues and other related services*

Passenger service revenues and other related services such as baggage handling fee, assigned seat revenue and cancellation and documentation revenue are recognised upon the rendering of services. The value of seats sold for which services have not been rendered is included in deferred revenues.

#### *Sales of goods*

Sales of goods are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Sales are the invoiced value, excluding value added tax, of goods supplied after deducting discounts and allowances.

### *Interest income*

Interest income is recognised on an accrual basis based on the effective interest rate.

## **4.2 Cash and cash equivalents**

Cash and cash equivalents consist of cash in hand and at banks, and all highly liquid investments with an original maturity of three months or less.

## **4.3 Trade receivables**

Trade receivables are stated at the net realisable value. Allowance for doubtful accounts is provided for the estimated losses that may be incurred in collection of receivables. The allowance is generally based on collection experience and analysis of debt aging.

## **4.4 Inventories**

Inventories comprising food, beverages and merchandise are valued at the lower of cost (under the first-in, first-out method) and net realisable value.

Consumables used internally for aircraft repairs and maintenance are valued at the lower of cost (under the weighted average method) and net realisable value.

The cost of purchase comprises both the purchase price and costs directly attributable to the acquisition of the inventories such as import duties and transportation charges, less all attributable discounts, allowances or rebates.

Net realisable value is the estimate of the selling price in the ordinary course of business, less estimated cost necessary to make the sale. Allowance is made, as appropriate, for obsolete, slow moving or defective inventories.

## **4.5 Investments**

- a) Investments in debt securities, both due within one year and expected to be held to maturity, are recorded at amortised cost. The premium/discount on debt securities is amortised/accreted by the effective rate method with the amortised/accreted amount presented as an adjustment to the interest income.
- b) Investment in non-marketable equity securities, which the Company classifies as other investment, is stated at cost net of allowance for impairment loss (if any).

On disposal of an investment, the difference between net disposal proceeds and the carrying amount of the investment is recognised in profit or loss.

#### **4.6 Property, aircraft, leasehold improvement and equipment and depreciation**

Land is stated at cost less allowance for loss on impairment (if any).

Aircraft, leasehold improvements and equipments are stated at cost less accumulated depreciation and allowance for loss on impairment of assets (if any).

Initial cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to statement of comprehensive income during the financial period in which they are incurred.

The Company will transfer aircraft maintenance reserves to cost of aircraft and aircraft engines once the major overhaul occurred, approximately every 6 years, and amortised as expenses over the useful life not over 6 years on the straight line basis. In case that next major repair and maintenance occurs before the previously capitalised amount is fully amortised, the remaining balance of previous repair and maintenance will be charged to profit or loss in the financial period which next major repair and maintenance incurred.

Depreciation of aircraft, leasehold improvement and equipment is calculated by reference to their costs on the straight-line basis over the following estimated useful lives:

Aircraft and aircraft engines	-	5 - 25 years
Aircraft spare parts	-	10 years
Leasehold improvements	-	5 and 10 years
Computers	-	5 years
Furniture, fixture and office equipment	-	5 years
Operating equipment	-	5 years
Motor vehicles	-	5 years

Depreciation is included in determining income.

No depreciation is provided on land and assets under installation.

An item of property, aircraft, leasehold improvements and equipments is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on disposal of an asset is included in profit or loss when the asset is derecognised.



#### **4.7 Intangible assets**

Intangible assets are recognised at cost. Following the initial recognition, the intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (if any).

Intangible assets with finite lives are amortised on a systematic basis over the economic useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method of such intangible assets are reviewed at least at each financial year end. The amortisation expense is charged to profit or loss.

The intangible assets with finite useful lives, which are computer software, have useful lives of 5 years.

No amortisation is provided on computer software under installation.

#### **4.8 Related party transactions**

Related parties comprise individuals or enterprises that control, or are controlled by, the Company, whether directly or indirectly, or which are under common control with the Company.

They also include associated companies, and individuals or enterprises which directly or indirectly own a voting interest in the Company that gives them significant influence over the Company, key management personnel, directors, and officers with authority in the planning and direction of the Company's operations.

#### **4.9 Long-term leases**

Leases of aircraft, leasehold improvement or equipment which transfer substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lower of the fair value of the leased assets and the present value of the minimum lease payments. The outstanding rental obligations, net of finance charges, are included in long-term payables, while the interest element is charged to profit or loss over the lease period. The assets acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease period.

Leases of property, aircraft, leasehold improvement or equipment which do not transfer substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

#### **4.10 Foreign currencies**

The financial statements are presented in Baht, which is also the Company's functional currency.

Transactions in foreign currencies are translated into Baht at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Baht at the exchange rate ruling at the end of reporting period.

Gains and losses on exchange are included in determining income.

#### **4.11 Impairment of assets**

At the end of each reporting period, the Company performs impairment reviews in respect of the property, aircraft, leasehold improvement and equipment and other intangible assets whenever events or changes in circumstances indicate that an asset may be impaired. An impairment loss is recognised when the recoverable amount of an asset, which is the higher of the asset's fair value less costs to sell and its value in use, is less than the carrying amount.

An impairment loss is recognised in profit or loss.

#### **4.12 Employee benefits**

##### ***Short-term employee benefits***

Salaries, wages, bonuses and contributions to the social security fund are recognised as expenses when incurred.

##### ***Post-employment benefits***

###### ***Defined contribution plans***

The Company and its employees have jointly established a provident fund. The fund is monthly contributed by employees and by the Company. The fund's assets are held in a separate trust fund and the Company's contributions are recognised as expenses when incurred.

###### ***Defined benefit plans***

The Company has obligations in respect of the severance payments it must make to employees upon retirement under labor law. The Company treats these severance payment obligations as a defined benefit plan.

The obligation under the defined benefit plan is determined by a professionally qualified independent actuary based on actuarial techniques, using the projected unit credit method.

Actuarial gains and losses arising from defined benefit plans are recognised immediately in other comprehensive income.

#### **4.13 Provisions**

Provisions are recognised when the Company have a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

#### **4.14 Income tax**

Income tax represents the sum of corporate income tax currently payable and deferred tax.

##### **Current tax**

Current income tax is provided in the accounts at the amount expected to be paid to the taxation authorities, based on taxable profits determined in accordance with tax legislation.

##### **Deferred tax**

Deferred income tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts at the end of each reporting period, using the tax rates enacted at the end of the reporting period.

The Company recognises deferred tax liabilities for all taxable temporary differences while they recognise deferred tax assets for all deductible temporary differences and tax losses carried forward to the extent that it is probable that future taxable profit will be available against which such deductible temporary differences and tax losses carried forward can be utilised.

At each reporting date, the Company reviews and reduces the carrying amount of deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

The Company records deferred tax directly to shareholders' equity if the tax relates to items that are recorded directly to shareholders' equity.

#### **4.15 Derivatives**

Derivative financial instruments that the Company uses to manage risks comprise fuel price swap agreements, forward foreign exchange contracts, interest rate swap agreements and cross currency swap agreement. Such instruments are not recognised in the financial statements on inception, but are disclosed the fair values of financial instruments at the end of the reporting period.

#### **4.16 Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between buyer and seller (market participants) at the measurement date. The Company applies a quoted market price in an active market to measure their assets and liabilities that are required to be measured at fair value by relevant financial reporting standards. Except in case of no active market of an identical asset or liability or when a quoted market price is not available, the Company measures fair value using valuation technique that are appropriate in the circumstances and maximises the use of relevant observable inputs related to assets and liabilities that are required to be measured at fair value.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy into three levels based on categorise of input to be used in fair value measurement as follows:

Level 1 Use of quoted market prices in an active market for such assets or liabilities

Level 2 Use of other observable inputs for such assets or liabilities, whether directly or indirectly

Level 3 Use of unobservable inputs such as estimates of future cash flows

At the end of each reporting period, the Company determines whether transfers have occurred between levels within the fair value hierarchy for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis.

## **5. Significant accounting judgements and estimates**

The preparation of financial statements in conformity with financial reporting standards at times requires management to make subjective judgements and estimates regarding matters that are inherently uncertain. These judgements and estimates affect reported amounts and disclosures; and actual results could differ from these estimates. Significant judgements and estimates are as follows:

### **Deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the temporary differences and losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of estimate future taxable profits.

### **Post-employment benefits under defined benefit**

The obligation under the defined benefit plan is determined based on actuarial techniques. Such determination is made based on various assumptions, including discount rate, future salary increase rate, mortality rate and staff turnover rate.

## **6. Related party transactions**

Significant related persons and companies of the Company are summarised as below.

- Asia Aviation Public Company Limited, the parent company
- AirAsia Berhad Group, the 45% held shareholder in the Company
- Khun Tassapon Bijleveld, the major shareholder of the parent company, director, and management of the Company and its parent company, and the Bijleveld family

- The Srivaddhanaprabha family and the King Power Group (No longer be related parties since 27 December 2017 because Srivaddhanaprabha family, the former major shareholders of the parent company and the management of King Power Group, sold the parent company's shares of 1,761,588,286 shares back to Khun Tassapon Bijleveld)
- Directors and senior management of the Company and its parent company

During the years, the Company had significant business transactions with related parties. Such transactions, which are summarised below, arose in the ordinary course of business and were concluded on commercial terms and bases agreed upon between the Company and those related parties.

	(Unit: Million Baht)	
	For the years ended 31 December	
	2018	2017
<b>Transactions with the parent company</b>		
Management expenses	31	25
Dividend paid	1,639	731
<b>Transactions with related companies</b>		
Passenger income	-	13
Advertising income	-	56
Interest income from default receivables	3	5
Other administrative income	40	38
Commission income from loyalty program to customers	51	56
Commission income from sales of duty free goods	-	16
Share of gain from fuel price swap agreements	255	629
Allocated staff cost for accounting and other service expenses	71	73
Aircraft and aircraft engines rental expenses	3,314	4,344
Aircraft repair and maintenance expenses	2,158	2,112
Purchases of merchandises and equipment	61	25
Management expenses	16	15
Booking fee expenses	163	178
Pilot training expenses	4	89
Brand license fee expenses	595	548
Expenses for loyalty program to customers	51	56
Sponsorship fee paid to Leicester City Football Club	-	40
Donation paid to King Power Foundation	-	5
Sponsorship fee paid to Thailand Polo Association	-	3
Ground handling service expenses	108	44
Security expenses	12	11
Conference room and other service expenses	1	-
Marketing fund expense	146	-
Dividend paid	1,341	598

As at 31 December 2018 and 2017, the outstanding balances between the Company and those related parties are as follows.

	(Unit: Baht)	
	2018	2017
<b>Receivables - related parties</b>		
Related companies (common shareholders and/or directors)	872,216,691	944,812,563
Total	<u>872,216,691</u>	<u>944,812,563</u>
<b>Aircraft maintenance reserves - related party (Note 11)</b>		
Related company (common shareholders and directors)	4,532,740,844	3,652,264,201
Total	<u>4,532,740,844</u>	<u>3,652,264,201</u>
<b>Other non-current assets - related parties (Note 14)</b>		
<i>Deposits for lease of aircraft and aircraft engines</i>		
Related company (common shareholders and directors)	364,818,240	657,120,066
<i>Deposits for fuel price swap agreements</i>		
Related company (common shareholders and directors)	16,142,400	16,257,300
<i>Other deposits</i>		
Related company (common directors)	20,000,000	-
Total	<u>400,960,640</u>	<u>673,377,366</u>
<b>Payables - related parties</b>		
Related companies (common shareholders and/or directors)	699,189,680	170,092,214
Total	<u>699,189,680</u>	<u>170,092,214</u>

#### Directors and management's benefits

During the years ended 31 December 2018 and 2017, the Company had employee benefit expenses payable to their directors and management as below.

	(Unit: Baht)	
	2018	2017
Short-term employee benefits	145,599,325	130,725,695
Post-employment benefits	13,312,749	6,373,889
Total	<u>158,912,074</u>	<u>137,099,584</u>

#### 7. Cash and cash equivalents

	(Unit: Baht)	
	2018	2017
Cash	32,307,459	8,567,450
Bank deposits	3,393,668,384	4,825,455,327
Bank deposit held for short-term payment	611,000,000	376,600,000
Total	<u>4,036,975,843</u>	<u>5,210,622,777</u>

As at 31 December 2018, bank deposits in saving accounts and fixed deposits carried interests between 0.25 and 3.05 percent per annum (2017: Between 0.10 and 3.20 percent per annum).

Bank deposit held for short-term payment represents a portion of the savings deposit that the Company has set aside for the payment of fuel costs to a local private company.

#### 8. Current investments

As at 31 December 2017, fixed deposits carried interests between 1.20 and 1.70 percent per annum (2018: Nil).

#### 9. Trade and other receivables

	(Unit: Baht)	
	2018	2017
<u>Trade receivables</u>		
Aged on the basis of due dates		
Not yet due	381,408,490	333,443,037
Past due		
Up to 3 months	36,615,849	42,465,551
3 - 6 months	17,720,138	3,936,934
6 - 12 months	6,708,364	108,784
Over 12 months	286,611	1,786,035
Total trade receivables	442,739,452	381,740,341
<u>Other receivables</u>		
Accrued airport fee and incentive income	5,063,889	16,886,607
Accrued income	1,561,695	13,228,906
Others	42,908,443	42,560,907
Total other receivables	49,534,027	72,676,420
Total trade and other receivables	492,273,479	454,416,761

#### 10. Long-term investment

General investment represents the investment in ordinary shares of Aeronautical Radio of Thailand Limited.

## 11. Aircraft maintenance reserves

AirAsia Berhad, a related party, had entered into an Aircraft maintenance services agreement with the Company. Under this agreement, the Company will make prepayments for the aircraft maintenance reserves based on the number of aircraft, number of engines and number of hours flown. These aircraft maintenance reserves are managed by AirAsia Berhad for future maintenance/overhaul deemed necessary to be performed once the aircraft reached certain engine hours/hours flown. Aircraft maintenance reserves will be transferred to aircraft upon actual overhaul occur.

Movements of the aircraft maintenance reserves account during the years 2018 and 2017 are summarised below.

	(Unit: Baht)	
	2018	2017
Net book value as at 1 January	3,652,264,201	2,665,543,653
Payment for aircraft maintenance reserves	880,476,643	986,720,548
Net book value as at 31 December	4,532,740,844	3,652,264,201



## 12. Property, aircraft, leasehold improvements and equipment

(Unit: Baht)

	Land	Aircraft and aircraft engines	Aircraft spare parts	Leasehold improvements	Computers	Furniture, fixtures and office equipment	Operating equipments	Motor vehicles	Assets under Installation	Total
<b>Cost</b>										
As at 1 January 2017	-	22,427,713,050	961,146,452	169,074,812	109,902,076	62,830,123	274,655,866	93,737,135	2,195,770	24,101,255,284
Additions	-	6,212,856,879	206,011,620	5,923,949	25,078,029	7,670,509	20,886,574	7,422,000	85,458,313	6,571,307,873
Disposals/write-off	-	-	(80,550,614)	(502,013)	(7,929,907)	(543,681)	(6,451,431)	(10,502,022)	(423,130)	(106,902,798)
Transfers	-	-	-	12,167,797	7,353,335	978,080	-	1,303,500	(21,802,712)	-
As at 31 December 2017	-	28,640,569,929	1,086,607,458	186,664,545	134,403,533	70,935,031	289,091,009	91,960,613	65,428,241	30,565,660,359
Additions	650,760,000	1,419,717,515	54,567,468	18,362,765	20,116,342	7,680,112	27,034,394	46,781,814	124,957,306	2,369,977,716
Disposals/write-off	-	-	(105,132)	(2,134,901)	(9,181,030)	(1,935,999)	(8,518,051)	-	-	(21,875,113)
Transfers	-	-	-	180,241,461	4,434,351	3,940,610	-	-	(188,616,422)	-
As at 31 December 2018	650,760,000	30,060,287,444	1,141,069,794	383,133,870	149,773,196	80,619,754	307,607,352	138,742,427	1,769,125	32,913,762,962
<b>Accumulated Depreciation</b>										
As at 1 January 2017	-	2,901,030,984	374,907,867	102,609,113	70,123,603	43,727,325	175,879,230	69,873,763	-	3,738,151,885
Depreciation for the year	-	1,242,941,982	88,972,583	30,452,558	16,675,720	9,161,594	39,218,864	7,695,939	-	1,435,119,240
Depreciation on disposals/write-off	-	-	(49,806)	(502,008)	(7,692,175)	(300,450)	(5,137,323)	(10,502,015)	-	(24,183,777)
As at 31 December 2017	-	4,143,972,966	463,830,644	132,559,663	79,107,148	52,588,469	209,960,771	67,067,687	-	5,149,087,348
Depreciation for the year	-	1,446,860,659	101,001,169	32,761,859	20,032,422	9,268,377	34,684,550	11,887,160	-	1,656,496,196
Depreciation on disposals/write-off	-	-	(16,662)	(1,847,055)	(8,710,056)	(1,881,071)	(8,377,567)	-	-	(20,832,411)
As at 31 December 2018	-	5,590,833,625	564,815,151	163,474,467	90,429,514	59,975,775	236,267,754	78,954,847	-	6,784,751,133
<b>Net book value</b>										
As at 31 December 2017	-	24,496,596,963	622,776,814	54,104,882	55,296,385	18,346,562	79,130,238	24,892,926	65,428,241	25,416,573,011
As at 31 December 2018	650,760,000	24,469,453,819	576,254,643	219,659,403	59,343,682	20,643,979	71,339,598	59,787,580	1,769,125	26,129,011,829
<b>Depreciation for the year</b>										
2017 (Baht 1,371 million included in cost of sales and services, and the balance in selling and distribution and administrative expenses)										1,435,119,240
2018 (Baht 1,582 million included in cost of sales and services, and the balance in selling and distribution and administrative expenses)										1,656,496,196

As at 31 December 2018, the Company had aircraft with net book value of Baht 17,467 million (2017: Baht 18,515 million) which were acquired under finance lease agreements.

The Company has pledged its 2 aircraft (2017: 2 aircraft) amounting to approximately Baht 2,808 million (2017: Baht 2,476 million) as collateral against credit facilities received from financial institutions as discussed in Note 16.

### 13. Intangible assets

The net book value of intangible assets as at 31 December 2018 and 2017 is presented below.

	(Unit: Baht)		
	Computer software	Computer software under installation	Total
As at 31 December 2018:			
Cost	89,046,730	-	89,046,730
Less: Accumulated amortisation	(62,056,087)	-	(62,056,087)
Net book value	26,990,643	-	26,990,643
As at 31 December 2017:			
Cost	83,731,941	1,222,230	84,954,171
Less: Accumulated amortisation	(51,875,807)	-	(51,875,807)
Net book value	31,856,134	1,222,230	33,078,364

A reconciliation of the net book value of intangible assets for the years 2018 and 2017 is presented below.

	(Unit: Baht)	
	2018	2017
Net book value at beginning of year	33,078,364	15,463,357
Acquisition of computer software	4,164,654	27,332,282
Write-off - net book value at write-off date	(5)	(2)
Amortisation	(10,252,370)	(9,717,273)
Net book value at end of year	26,990,643	33,078,364

**14. Other non-current assets**

	(Unit: Baht)	
	2018	2017
Aircraft and aircraft engine rental deposits - related party	364,818,240	657,120,066
Aircraft and aircraft engine rental deposits - unrelated parties	343,998,289	10,545,395
Airport operation deposits	34,600,000	34,600,000
Fuel price swap deposits	16,142,400	16,257,300
Rental deposits	53,372,086	49,815,219
Other deposits	129,972,337	105,458,879
Total other non-current assets	942,903,352	873,796,859

**15. Short-term borrowings from financial institutions**

As at 31 December 2018, short-term borrowings were in the form of promissory notes and carried fixed interest at rates between 2.40 and 3.25 percent per annum (2017: Nil).

**16. Long-term borrowings from financial institutions**

	(Unit: Baht)	
	2018	2017
Current portion of long-term borrowings from financial institutions	214,682,250	1,349,210,475
Less: Front end fee	(910,000)	(1,130,000)
Net current portion of long-term borrowings	213,772,250	1,348,080,475
Long-term borrowings from financial institutions - net of current portion		
In over 1 year and up to 5 years	1,277,581,216	1,051,435,653
In over 5 years	1,347,699,813	934,935,254
Less: Front end fee	(1,124,919)	(2,034,919)
Long-term borrowings - net of current portion	2,624,156,110	1,984,335,988
Total long-term borrowings from financial institutions	2,837,928,360	3,332,416,463

As of 31 December 2018, the Company had long-term borrowings from several local financial institutions with terms of 6 and 12 years (2017: 3, 5, 6 and 12 years). Principal repayments are scheduled in monthly installments and interest is charged at both fixed and floating rates of between 3.10 and 3.95 percent per annum (2017: 2.76 to 3.13 percent per annum).

The long-term borrowings are secured by the pledge of the Company's aircraft as discussed in Note 12.

The borrowing agreement contains certain financial covenants relating to matters such as the maintenance of certain net interest bearing debt to ratios.

Fair value of long-term borrowings from financial institutions as of 31 December 2018 amounted to Baht 2,838 million (2017: Baht 3,332 million).

As at 31 December 2017, the long-term credit facilities of the Company which have not yet been drawn down amounted to Baht 800 million (2018: Nil).

Movements of long-term borrowings from financial institutions account during the years 2018 and 2017 are summarised below.

	(Unit: Baht)	
	2018	2017
Balance as at 1 January	3,332,416,463	1,832,753,453
Borrowing during the year	1,226,187,000	3,510,000,000
Payment for front end fee	-	(1,800,000)
Amortisation of front end fee	1,130,000	815,080
Repayment of borrowings	(1,721,805,103)	(2,009,352,070)
Balance as at 31 December	<u>2,837,928,360</u>	<u>3,332,416,463</u>

During the year 2017, the Company entered into fixed interest rate loan agreements with several local financial institutions to provide working capital and to fund settlement of the remaining obligations to existing financial institution lenders as a result of the early termination of the finance lease for an aircraft. This resulted in lower interest payments and provided a cash flow hedge of future interest payments. The agreements have terms of 5 and 6 years. The Company also entered into a floating interest rate loan agreement to fund the purchase of new aircraft, which has a term of 12 years. The borrowings are denominated in Thai Baht.

On 13 July 2018 the Company entered into a long-term loan agreement with a local bank to obtain a fixed interest rate loan of Baht 1,226 million to fund the acquisition of a new aircraft, which was transferred to the Company on 30 July 2018. The loan has a term of 12 years and is secured by the pledge of the new aircraft.

## 17. Debentures

As at 31 December 2018 and 2017, the outstanding balance of debentures are summarised below.

(Unit: Baht)								
No.	Series	Maturity date	No. of units (Million units)	Par value (Baht)	Interest rate (% p.a.)	Term of interest Payment	Book value	
							2018	2017
1/2017	1	Entirely redeemed on 19 May 2020 (3 years)	1.0	1,000	2.65	Semi-annual	1,000,000,000	1,000,000,000
1/2017	2	Entirely redeemed on 19 May 2022 (5 years)	0.6	1,000	3.28	Semi-annual	600,000,000	600,000,000
1/2018	1	Entirely redeemed on 26 June 2021 (3 years)	1.5	1,000	2.56	Semi-annual	1,500,000,000	-
1/2018	2	Entirely redeemed on 26 June 2023 (5 years)	1.0	1,000	2.95	Semi-annual	1,000,000,000	-
Total							4,100,000,000	1,600,000,000
Less: Deferred debenture issuing costs							(4,873,833)	(1,994,388)
Debenture - net							<u>4,095,126,167</u>	<u>1,598,005,612</u>

Debentures are unsubordinated and unsecured in Baht currency with fixed interest rates. Their fair value as at 31 December 2018 amounted to Baht 4,091 million (2017: Baht 1,625 million).

Movements of debentures account during the years 2018 and 2017 are summarised below.

(Unit: Baht)		
	2018	2017
Balance as at 1 January	1,598,005,612	-
Issuance during the year	2,500,000,000	1,600,000,000
Payment for front end fee	(4,000,717)	(2,369,874)
Amortisation of front end fee	1,121,272	375,486
Balance as at 31 December	<u>4,095,126,167</u>	<u>1,598,005,612</u>

On 19 May 2017, the Company issued two tranches of debentures no. 1/2017, which are named-registered, unsubordinated, unsecured and no representative holders in Baht currency. The Company intended to use the proceeds from the issuance for general investment purpose and/or for loan repayment and/or for working capital.

On 26 June 2018, the Company issued two tranches of debentures no. 1/2018, which are named-registered, unsubordinated and unsecured in Baht currency. The Company intended to use the proceeds from the issuance for general investment purpose and/or for loan repayment and/or for working capital.

## 18. Liabilities under finance lease agreements

	(Unit: Baht)	
	2018	2017
Liabilities under finance lease agreements	15,926,223,225	17,421,346,538
Less: Deferred interest expenses	(2,706,900,802)	(2,890,390,622)
Total	13,219,322,423	14,530,955,916
Less: Portion due within one year	(1,300,075,453)	(1,299,335,216)
Liabilities under finance lease agreements - net of current portion	<u>11,919,246,970</u>	<u>13,231,620,700</u>

The Company has entered into the finance lease agreements for rental of aircraft for use in its operation, whereby it is committed to pay rental on monthly and quarterly basis. The terms of the agreements are generally between 11 and 12 years.

Future minimum lease payments required under the finance lease agreements were as follows.

	(Unit: Baht)			
	2018			
	Less than 1 year	1-5 years	Over 5 years	Total
Future minimum lease payments	1,833,298,943	7,333,195,771	6,759,728,511	15,926,223,225
Deferred interest expenses	(533,223,490)	(1,557,562,734)	(616,114,578)	(2,706,900,802)
Present value of future minimum lease payments	<u>1,300,075,453</u>	<u>5,775,633,037</u>	<u>6,143,613,933</u>	<u>13,219,322,423</u>
	(Unit: Baht)			
	2017			
	Less than 1 year	1-5 years	Over 5 years	Total
Future minimum lease payments	1,812,725,383	7,250,901,531	8,357,719,624	17,421,346,538
Deferred interest expenses	(513,390,167)	(1,569,571,181)	(807,429,274)	(2,890,390,622)
Present value of future minimum lease payments	<u>1,299,335,216</u>	<u>5,681,330,350</u>	<u>7,550,290,350</u>	<u>14,530,955,916</u>

## 19. Provision for long-term employee benefits

Provision for long-term employee benefits, which represents compensation payable to employees after they retire, was as follows:

	(Unit: Baht)	
	2018	2017
<b>Provision for long-term employee benefits at beginning of year</b>	346,675,403	254,950,594
Included in profit or loss:		
Current service cost	75,742,456	56,986,494
Interest cost	9,741,420	7,877,776
Included in other comprehensive income:		
Actuarial (gain) loss arising from		
Demographic assumption changes	-	15,923,770
Financial assumption changes	(6,687,462)	17,364,365
Experience adjustments	(2,923,158)	(2,596)
Benefits paid during the year	-	(6,425,000)
<b>Provision for long-term employee benefits at end of year</b>	<b>422,548,659</b>	<b>346,675,403</b>

Line items in profit or loss under which long-term employee benefit expenses are recognised are as follows:

	(Unit: Baht)	
	2018	2017
Cost of sales and services	70,755,528	53,615,285
Selling and distribution expenses	1,747,601	2,726,438
Administrative expenses	12,980,747	8,522,547
Total expenses recognised in profit or loss	<b>85,483,876</b>	<b>64,864,270</b>

The Company expects to pay Baht 2 million of long-term employee benefits during the next year.

As at 31 December 2018, the weighted average duration of the liabilities for long-term employee benefit is 15 years (2017: 15 years).

Significant actuarial assumptions are summarised below.

	(Unit: % p.a.)	
	2018	2017
Discount rate	2.92	2.81
Salary increase rate	5.59 - 10.00	5.59 - 10.00
Turnover rate	0.00 - 10.00	0.00 - 10.00

The results of sensitivity analysis for significant assumptions that affect the present value of the long-term employee benefit obligation as at 31 December 2018 and 2017 are summarised below:

(Unit: Baht)

	2018		2017	
	Increase 1%	Decrease 1%	Increase 1%	Decrease 1%
Discount rate	(54,807,587)	66,385,623	(45,637,241)	55,484,498
Salary increase rate	63,023,235	(53,302,727)	52,027,083	(43,806,102)
Turnover rate	(59,137,788)	51,155,593	(49,217,494)	43,208,968

On 13 December 2018, The National Legislative Assembly passed a resolution approving the draft of a new Labour Protection Act, which is in the process being published in the Royal Gazette. The new Labour Protection Act stipulates additional legal severance pay rates for employees who have worked for an uninterrupted period of twenty years or more. Such employees are entitled to receive not less than 400 day's compensation at the latest wage rate. This change is considered a post-employment benefits plan amendment and the Company has additional liabilities for long-term employee benefits of Baht 111 million. The Company will reflect the effect of the change by recognising past services costs as expenses in the statement of comprehensive income of the period in which the law is effective.

## 20. Statutory reserve

According to the Thai Civil and Commercial Code, the Company is required to set aside to a statutory reserve an amount equal to at least five percent of its net profit each time the Company pays out a dividend, until such reserve reaches ten percent of its registered share capital. The statutory reserve cannot be used for dividend payment. At present, the statutory reserve has fully been set aside.

## 21. Revenues from sales and services

Revenues from sales and services for the years 2018 and 2017 are summarised below.

(Unit: Baht)

	2018	2017
Passenger service revenues	29,072,863,090	26,622,872,171
Baggage handling and other service fees	7,853,071,515	6,993,722,079
Charter flight revenues	1,064,717,911	1,615,185,222
In-flight revenues	606,671,457	469,781,529
Freight revenues	270,000,000	230,000,000
Advertising income	37,523,715	71,226,664
Total revenues	<u>38,904,847,688</u>	<u>36,002,787,665</u>



## 22. Expenses by nature

Significant expenses classified by nature are as below.

	(Unit: Baht)	
	2018	2017
Salaries, wages and other employee benefits	5,782,491,129	5,459,056,016
Depreciation and amortisation expenses	1,666,748,566	1,444,836,513
Fuel costs	14,635,577,794	10,582,509,529
Aircraft and aircraft engine rental - related party	3,314,226,271	4,343,894,681
Aircraft rental - unrelated parties	1,833,630,036	645,283,314
Repair and maintenance expenses	3,207,765,104	2,904,050,794
Ramp and airport operating costs	4,487,472,051	4,317,966,060

## 23. Income tax

Income tax revenue for the years 2018 and 2017 are made up as follows.

	(Unit: Baht)	
	2018	2017
<b>Current income tax:</b>		
Current income tax charge for the year	-	-
<b>Deferred tax:</b>		
Relating to origination and reversal of temporary differences	(211,053,612)	(33,338,749)
<b>Income tax revenue reported in the statement of comprehensive income</b>	<b>(211,053,612)</b>	<b>(33,338,749)</b>

The amounts of income tax relating to each component of other comprehensive income for the years 2018 and 2017 are as follows.

	(Unit: Baht)	
	2018	2017
Deferred tax on actuarial (gain) loss	(1,922,124)	6,657,108
	<u>(1,922,124)</u>	<u>6,657,108</u>

The reconciliation between accounting profit (loss) and income tax revenue is shown below.

	(Unit: Baht)	
	2018	2017
Accounting profit (loss) before tax	<u>(83,512,373)</u>	<u>2,654,411,850</u>
Applicable tax rate	20%	20%
Accounting profit (loss) before tax multiplied by income tax rate	(16,702,475)	530,882,370
Effects of:		
Promotional privileges (Note 24)	(207,192,769)	(572,986,011)
Non-deductible expenses	3,041,698	1,249,913
Revenue subject to tax	9,799,934	7,514,979
Total	<u>(194,351,137)</u>	<u>(564,221,119)</u>
Income tax revenue reported in the statement of comprehensive income	<u>(211,053,612)</u>	<u>(33,338,749)</u>

The components of deferred tax assets and deferred tax liabilities are as follows:

	(Unit: Baht)	
	2018	2017
<b>Deferred tax assets</b>		
Provision for long-term employee benefits	81,557,793	66,344,386
Unused tax losses	483,219,589	288,135,842
Total	564,777,382	354,480,228
<b>Deferred tax liabilities</b>		
Finance leases	(623,080,608)	(621,914,942)
Total	(623,080,608)	(621,914,942)
Net	(58,303,226)	(267,434,714)

The unused tax losses amounting to Baht 483 million (2017: Baht 288 million) will expire by 2023 (2017: 2022).

#### 24. Promotional privileges

As at 31 December 2018, the Company received 15 certificates (2017: 12 certificates) of promotional privileges from the Board of Investment ("BOI") for 44 aircraft (2017: 38 aircraft) for air transportation business. The main privileges include exemption from payment of import duty on aircraft and related spare parts, and exemption from corporate income taxes for the promoted activities for periods of 5 and 8 years starting from the date on which the Company started earning income from the promoted activities (commencing from 27 December 2011). To be entitled to the privileges, the Company must comply with the conditions and restrictions provided in the promotional certificates. As at 31 December 2018, the Company had received 43 aircraft (2017: 37 aircraft) under such certificates of promotional privileges from the BOI.

#### 25. Earnings per share

Basic earnings per share is calculated by dividing profit for the year (excluding other comprehensive income) by the weighted average number of ordinary shares in issue during the year.

#### 26. Segment information

Operating segment information is reported in a manner consistent with the internal reports that are regularly reviewed by the chief operating decision maker in order to make decisions about the allocation of resources to the segment and assess its performance. The chief operating decision maker has been identified as the Board of Directors that makes strategic decisions.

For management purposes, the Company is organised into business units based on its services and have two reportable segments as follows:

- Schedule flight operations: The Company provides passenger air transportation services to routine destination for scheduled flight. The Company sells tickets through its distribution channels such as website, sale counter, travel agents, etc.
- Chartered flight operations: The Company provides passenger air transportation services to non-routine destinations. Flights are operated when there is a hiring from customers who normally are tourist agency companies.

Performance of each operating segment is measured by profit or loss from operation which is using the same basis that the Company measures its profit or loss from operation in the financial statements. Net gain on exchange rates, other income, finance cost and income tax are not allocated to each reporting segment.

The Company's total assets are joint assets that are used among segment. Hence, they are not allocated to each reporting segment.

The basis of accounting for any transactions between reportable segments is consistent with that for third party transactions.

Revenues and profit (loss) information regarding the Company's operating segments for the years 2018 and 2017 are as follows.

	(Unit: Baht)		
	Scheduled flight operations	Charter flight operations	Total segments
<b>For the year ended 31 December 2018</b>			
<b>Revenues</b>			
Revenues from sales and services	37,840,129,777	1,064,717,911	38,904,847,688
<b>Total revenues</b>	<u>37,840,129,777</u>	<u>1,064,717,911</u>	<u>38,904,847,688</u>
<b>Operating result</b>			
<b>Segment loss</b>	(599,089,396)	(35,294,637)	(634,384,033)
Gain on exchange rate			250,412,436
Other income			1,044,168,219
Finance cost			(743,708,995)
<b>Loss before income tax</b>			(83,512,373)
Income tax revenue			211,053,612
<b>Profit for the year</b>			<u>127,541,239</u>
<b>Total assets</b>			<u>37,917,893,210</u>

	(Unit: Baht)		
	Scheduled flight operations	Charter flight operations	Total segments
<b>For the year ended 31 December 2017</b>			
<b>Revenues</b>			
Revenues from sales and services	34,387,602,443	1,615,185,222	36,002,787,665
<b>Total revenues</b>	<b>34,387,602,443</b>	<b>1,615,185,222</b>	<b>36,002,787,665</b>
<b>Operating result</b>			
<b>Segment operating profit</b>	1,915,283,996	114,957,353	2,030,241,349
Gain on exchange rate			322,048,842
Other income			955,305,557
Finance cost			(653,183,898)
<b>Profit before income tax</b>			2,654,411,850
Income tax revenue			33,338,749
<b>Profit for the year</b>			<b>2,687,750,599</b>
<b>Total assets</b>			<b>38,902,331,461</b>

#### *Geographic information*

The Company has operating hubs only in Thailand. As a result, all the revenues and assets as reflected in the financial statements pertain exclusively to this geographical reportable segment.

#### *Major customers*

For the years 2018 and 2017, the Company has no major customer with revenue of 10 percent or more of an entity's revenues.

## **27. Provident fund**

The Company and its employees have jointly established a provident fund in accordance with the Provident Fund Act B.E. 2530. Both employees and the Company contribute to the fund monthly and the fund will be paid to employees upon termination in accordance with the fund rules. The contributions for the year 2018 amounting to approximately Baht 124 million (2017: Baht 115 million) were recognised as expenses.

**28. Dividend paid**

(Unit: Baht)			
Dividend	Approved by	Dividend paid	Dividend per share
Interim dividends for 2017	Board of Directors' Meeting on 9 November 2017	1,328,444,580	30.50
Total dividends for 2017		<u>1,328,444,580</u>	<u>30.50</u>
Interim dividends for 2018	Board of Directors' Meeting on 11 May 2018	1,785,777,960	41.00
	Board of Directors' Meeting on 12 September 2018	1,193,422,344	27.40
Total dividends for 2018		<u>2,979,200,304</u>	<u>68.40</u>

**29. Commitments and contingent liabilities****29.1 Operating aircraft lease commitments**

The Company had the future aggregate minimum lease payment in respect of operating aircraft lease agreements made with AirAsia (Mauritius) Limited, a related company, and other lessors, and insurance agreements of aircraft and aircraft engines in respect of non-cancellable, as below.

(Unit: USD)				
	2018		2017	
	Lease agreements	Insurance agreements	Lease agreements	Insurance agreements
Payable:				
In up to 1 year	165,455,844	2,186,958	146,254,409	1,731,785
In over 1 and up to 5 years	447,783,158	-	450,960,870	-
In over 5 years	231,310,984	-	154,582,432	-
Total	<u>844,549,986</u>	<u>2,186,958</u>	<u>751,797,711</u>	<u>1,731,785</u>
Total equivalent to Thai Baht	<u>27,544,828,874</u>	<u>71,327,213</u>	<u>24,694,449,773</u>	<u>56,884,288</u>

**29.2 Aircraft maintenance service commitments**

The Company has commitments under aircraft maintenance service agreements made with AirAsia Berhad and AirAsia (Mauritius) Limited, which are related companies, and other aircraft lessors. The Company agrees to pay aircraft maintenance service fees at the rates in USD currency stipulated in the agreements, which vary for each aircraft depending on flight hours and the age of the aircraft.

### 29.3 Operating lease commitments

The Company had the future minimum lease payments in respect of non-cancellable space, office, office equipment and ground support equipment leases as follows.

		(Unit: Baht)	
		2018	2017
Payable:			
In up to 1 year		196,314,881	143,864,226
In over 1 and up to 5 years		320,217,553	6,483,665
In over 5 years		82,390,295	-
Total		598,922,729	150,347,891

### 29.4 Guarantees

- 1) As at 31 December 2018, the Company had guarantee obligations for pilot trainees' education loans from a bank for commercial pilot license courses amounting to Baht 65 million (2017: Baht 86 million) with the term of guarantees of 18 months from the start date of each loan agreement.
- 2) The Company had commitments from letters of guarantee in respect of ground handling, technical support and other flight operating activities including maintenance reserve fund in the ordinary course of business as follows.

		2018						2017				
		Baht	USD	MYR	SGD	EUR	INR	Baht	USD	MYR	SGD	INR
Guarantees relating to												
flight operating activities		9.40	0.74	1.00	1.81	-	81.82	7.90	0.60	1.00	1.81	83.36
Guarantees relating to												
maintenance reserve fund		-	50.18	-	-	-	-	-	42.23	-	-	-
Letter of credit relating to												
acquiring operating												
equipment		-	-	-	-	0.19	-	-	-	-	-	-
Total		9.40	50.92	1.00	1.81	0.19	81.82	7.90	42.83	1.00	1.81	83.36
Total equivalent to Thai Baht		9.40	1,660.75	7.91	43.49	7.12	40.53	7.90	1,406.85	8.17	44.76	45.45

### 30. Fair values hierarchy

As at 31 December 2018 and 2017, the Company had assets and liabilities in US Dollar and Baht currencies disclosed at fair value which the hierarchy is level 2 as follows.

	(Unit: Baht)			
	2018		2017	
	Contract currency		Contract currency	
	USD	Baht	USD	Baht
<b>Assets for which fair value are disclosed</b>				
Derivatives				
Fuel price swap agreements	-	-	164,574,209	-
Interest rate swap agreements	129,165,612	-	95,847,815	-
Foreign exchange forward contracts	15,727,820	-	-	-
<b>Liabilities for which fair value are disclosed</b>				
Derivatives				
Fuel price swap agreements	995,910,971	-	-	-
Interest rate swap agreements	-	43,893,249	-	65,881,468
Foreign exchange forward contracts	247,666,883	-	233,934,268	-
Cross currency swap agreements	86,753,139	-	79,991,180	-
Long-term borrowings from financial institutions	-	2,837,928,360	-	3,332,416,463
Debentures	-	4,091,474,283	-	1,624,836,995
Liabilities under finance lease agreements	-	13,219,322,423	-	14,530,955,916

During the years 2018 and 2017, there were no transfers within the fair value hierarchy.

### 31. Financial instruments

#### 31.1 Financial risk management

The Company's financial instruments, as defined under Thai Accounting Standard No.107 "Financial Instruments: Disclosure and Presentations", principally comprise cash and cash equivalents, current investments, trade and other receivables, amounts due from related parties, trade payables, other payables, amounts due to related parties, short-term borrowings from financial institutions, long-term borrowings from financial institutions, debentures, and liabilities under finance lease agreements. The financial risks associated with these financial instruments and how they are managed is described below.

##### **Fuel price risk**

The Company is exposed to the fluctuation of fuel price. To manage the risk of fuel price fluctuation, AirAsia Berhad, a related party, is carried out the risk management on behalf of the Company.

### **Credit risk**

The Company is exposed to credit risk primarily with respect to trade and other receivables and amounts due from related parties. The Company manages the risk by adopting appropriate credit control policies and procedures and therefore does not expect to incur material financial losses. In addition, the Company does not have high concentrations of credit risk since it has a large customer base. The maximum exposure to credit risk is limited to the carrying amounts of trade and other receivables and amounts due from related parties as stated in the statement of financial position.

### **Interest rate risk**

The Company's exposure to interest rate risk relates primarily to its deposits at financial institutions, current investments, short-term borrowings from financial institutions, long-term borrowings from financial institutions, debentures and liabilities under finance lease agreements. Most of the Company's financial assets and liabilities bear floating interest rates or fixed interest rates which are close to the market rate. The Company uses interest rate swap agreements as a risk management instrument for the future interest payments on certain long-term borrowings and liabilities under finance lease agreements that carry interest at floating rates.

As at 31 December 2018 and 2017, significant financial assets and liabilities classified by type of interest rate are summarised in the table below.

(Unit: Million Baht)					
	2018				Effective interest rate (% p.a.)
	Fixed interest rates	Floating interest rate	Non-interest bearing	Total	
<b>Financial assets</b>					
Cash and cash equivalent	233	1,839	1,965	4,037	0.25 - 3.05
Trade and other receivables	-	-	492	492	-
Amounts due from related parties	872	-	-	872	6.00
	1,105	1,839	2,457	5,401	
<b>Financial liabilities</b>					
Trade payables	-	-	160	160	-
Other payables	-	-	393	393	-
Amounts due to related parties	699	-	-	699	6.00
Short-term borrowings from financial institutions	650	-	-	650	2.40 - 3.25
Long-term borrowings from financial institutions	1,600	1,238	-	2,838	3.10 - 3.95
Debentures	4,095	-	-	4,095	2.56 - 3.28
Liabilities under finance lease agreements	5,647	7,572	-	13,219	3.46 - 6.00
	12,691	8,810	553	22,054	



(Unit: Million Baht)

	2017				Effective interest rate (% p.a.)
	Fixed interest rates	Floating interest rate	Non-interest bearing	Total	
<b>Financial assets</b>					
Cash and cash equivalent	743	1,711	2,757	5,211	0.10 - 3.20
Current investments	1,489	-	-	1,489	1.20 - 1.70
Trade and other receivables	-	-	454	454	-
Amounts due from related parties	945	-	-	945	6.00
	<u>3,177</u>	<u>1,711</u>	<u>3,211</u>	<u>8,099</u>	
<b>Financial liabilities</b>					
Trade payables	-	-	311	311	-
Other payables	-	-	478	478	-
Amounts due to related parties	170	-	-	170	6.00
Long-term borrowings from financial institutions	1,982	1,350	-	3,332	2.76 - 3.13
Debentures	1,598	-	-	1,598	2.65 - 3.28
Liabilities under finance lease agreements	6,099	8,432	-	14,531	2.31 - 4.95
	<u>9,849</u>	<u>9,782</u>	<u>789</u>	<u>20,420</u>	

As at 31 December 2018 and 2017, the Company had outstanding interest rate swap agreements as follows.

2018				
Currency	Contract	Interest rate		Maturity date
	amount	Fixed	Floating	
	(Million)	(%)	(%)	
Baht	2,702	4.66 - 5.09	THB FIX1M + 1.98 - 2.20, THB FIX6M + 2.25	10 Jul 19 - 10 Jun 26
US Dollar	104	2.24 - 4.21	USD LIBOR3M + 0.56 - 3.00	9 Nov 24 - 20 Jan 27
2017				
Currency	Contract	Interest rate		Maturity date
	amount	Fixed	Floating	
	(Million)	(%)	(%)	
Baht	2,941	4.66 - 5.09	THB FIX1M + 1.98 - 2.20, THB FIX6M + 2.25	10 Jul 19 - 10 Jun 26
US Dollar	117	2.24 - 4.21	USD LIBOR3M + 0.56 - 3.00	9 Nov 24 - 20 Jan 27

Interest rate swap agreements are due for settlements of the differences in interest amount on a monthly basis.

### **Foreign currency risk**

The Company's exposure to foreign currency risk arises mainly from cash and cash equivalents, trade and other receivables, amounts due from related parties, account payables, other payables, amounts due to related parties and liabilities under finance lease agreements that are denominated in several foreign currencies.

As at 31 December 2018, the balances of financial assets and liabilities denominated in US Dollar which is major foreign currency are USD 39 million and USD 210 million, respectively (2017: USD 105 million and USD 203 million, respectively). Moreover, the Company also has balances in other foreign currencies such as China Yuan, Singapore Dollar, Indian Rupee, Macao Pataca, Malaysian Ringgit, Viet Nam Dong, etc.

The Company has a natural hedge to the extent that payments for foreign currency payables are matched against receivables denominated in the same foreign currency. Moreover, the Company uses forward foreign exchange contract to hedge its exposure to foreign currency risk for payments to be settled in foreign currencies.

As at 31 December 2018 and 2017, foreign exchange contracts outstanding are summarised below.

2018					
Foreign currency	Bought amount	Sold amount	Contractual exchange rate		Contractual maturity date
			Bought	Sold	
	(Million)	(Million)	(Baht per 1 foreign currency unit)		
US Dollar	150	-	30.60 - 33.73	-	3 Jun 19 - 20 Jan 27

  

2017					
Foreign currency	Bought amount	Sold amount	Contractual exchange rate		Contractual maturity date
			Bought	Sold	
	(Million)	(Million)	(Baht per 1 foreign currency unit)		
US Dollar	203	-	33.12 - 33.73	-	29 Jan 18 - 20 Jan 27

The Company entered into cross currency swap agreements in order to use it as a risk management instrument to manage on the foreign exchange rate and the fluctuation of interest rate in foreign currency.

As of 31 December 2018 and 2017, the Company had the cross currency swap agreements as below.

2018				
Currency	Amount per contract (Million)	Interest rate		Maturity date
		Fixed (%)	Floating (%)	
US Dollar	54	2.64 and 3.74	USD LIBOR3M + 0.70 and 1.95	10 Nov 25 and 30 Sep 28

  

2017				
Currency	Amount per contract (Million)	Interest rate		Maturity date
		Fixed (%)	Floating (%)	
US Dollar	59	2.64 and 3.74	USD LIBOR3M + 0.70 and 1.95	10 Nov 25 and 30 Sep 28

### 31.2 Fair values of financial instruments

The financial instruments which the fair value is not expected to be materially different from the amounts presented in the statement of financial position since they are short-term in nature or carrying interest at rates close to the market interest rates are cash and cash equivalents, current investments, trade and other receivables, amounts due from related parties, trade payables, other payables, amounts due to related parties and short-term borrowings from financial institutions.

As at 31 December 2018 and 2017, the estimated fair value of long-term financial instruments, in comparison with the related amounts carried in the statement of financial position, is as follows.

(Unit: Baht)

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial liabilities</b>				
Long-term borrowings from				
financial institutions	2,837,928,360	2,837,928,360	3,332,416,463	3,332,416,463
Debentures	4,095,126,167	4,091,474,283	1,598,005,612	1,624,836,995
Liabilities under finance lease				
agreements	13,219,322,423	13,219,322,423	14,530,955,916	14,530,955,916

The methods and assumptions used by the Company in estimating the fair value of financial instruments are as follows.

- For long-term borrowings from financial institutions and liabilities under finance lease agreements carrying fixed interest rates, their fair value is estimated by discounting expected future cash flow by the current market interest rate of the borrowings with similar terms and conditions.

- b) For long-term borrowings from financial institutions and liabilities under finance lease agreements carrying floating interest rates, their fair value is estimated by book values in the statement of financial position.
- c) For debentures, fair value is derived from quoted market prices of the Thai Bond Market Association.

The fair value of the derivatives as of 31 December 2018 and 2017 as presented in Note 30 has been determined by using a discounted future cash flow model and a valuation model technique. Most of the inputs used for the valuation are observable in the relevant market, such as spot rates of foreign currencies, yield curves of the respective currencies, interest rate yield curves and commodity price yield curves. The Company had considered to counterparty credit risk when determining the fair value of derivatives.

### **32. Capital management**

The Company's objectives for managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

In order to obtain the promotional privileges from the Board of Investment, the Company has also to maintain minimum capital investment as specified in each certificate.

### **33. Reclassifications**

The Company reclassified certain amounts in the comprehensive income statements for the year ended 31 December 2017 to conform to the current year's classifications, as follows.

	(Unit: Baht)	
	As reclassified	As previously reported
Revenues from sales and services	36,002,787,665	35,931,561,001
Other income	955,305,557	1,026,532,221

The reclassifications had no effect to previously reported profit or shareholders' equity.

### **34. Approval of financial statements**

These financial statements were authorised for issue by the Company's Board of Directors on 20 February 2019.