

# **Management's Discussion and Analysis for the year ended December 31, 2013 for Thai Airways International Public Company Limited and Its Subsidiaries**

## **1. Executive summary**

The global economic overview in 2013 is likely to improve as there are signs of recovery for the European Union economies since 2Q2013 despite the U.S. ongoing uncertainties. Most of Asian countries could handle better than last year. The major factors were from the recovery of export sector as well as economic stimulus packages from China and Japan administrations. These expanded world traffic demand in both passenger and cargo. The average growth of passenger and cargo was 5.2% and 1.4% from last year, respectively. For Asia-Pacific airlines which THAI is a member of this group, the international passenger traffic was 5.2% greater than last year while the recession of manufacturing and export sectors made lower cargo traffic down to 0.6%. However, the diminishing figure is decreased in the lower rate than the past 2 years.

THAI's economy expanded in the lower rate related to the recession in consumption and investment which still worried about the economic and political situation. The export sector cannot fully recover due to the shortage of raw materials in various industries and the limitation of modern technology. Moreover, the public sector had paid less attention to motivate the national economic. However, the high development rate of tourism sector is the protagonist to drive the economic in 2013. Unfortunately, during the last quarter of 2013, the issuance of the special edition of the new Chinese National Tourism Law, effective from October, and the nation's political turbulence made the significant slow down in Thai's tourism.

THAI is adhering to its long-term business roadmap and business strategies to enhance the competitive ability and ensure the sustainability in the long run by becoming the elite airline among the Asian airlines. In 2013 THAI strictly followed its long-term plan in regards to its network and fleet development strategy by receiving 17 aircraft aiming to replace the 6 THAI's own aging aircraft and return 5 aircraft to leaser due to the expire of contract and by launching new routes, especially on regional routes. To do so, THAI opened new routes to Sendai- Japan while THAI Smile opened its new routes to Mandalay- Myanmar, Luang Prabang- Laos, Chongqing and Changsha – China. THAI established and registered on October 17, 2013 THAISmile Airways Limited, a wholly owned subsidiary of THAI, to efficiently manage and independently operate as a part of Corporate Portfolio Strategy that aim mainly on sustainable growth and proactive act to all groups of customer's requirement which THAI's target market is middle-class customer, and to create more opportunity on Asian open skies policy. THAISmile expected to launch its own code in 3Q2014.

THAI continues to emphasize on risk management by implementing the proactive fuel hedging management to fix the fuel price in the frame construction and, mitigating risk of fluctuations in foreign exchange rates, providing expenses are denominated in the same income as much as possible :so-called Natural Hedging. However, on the part of the Baht has appreciated strongly in the year 2013 , THAI has expanded its revenue in the amount of Baht term to balance and reduce the impact of fluctuations in foreign exchange and also considered taking a loan together with loan restructuring to balance between the foreign currency and cash flow from operations.

In 2013 airline business expanded but the temperature of competition among airlines were higher from the emerging of new players: premium airlines and low cost carriers, both foreign and domestic. Also, all airlines took delivery of new aircraft as same as THAI which received more new aircraft than decommissioned aircraft which made traffic production in 2013 was higher than in 2012. Passenger traffic production was 8.1% higher than the average growth of entire industry and Asia-Pacific. Unfortunately, THAI could not immediately increase its passenger traffic at the same growth rate as production traffic which made lower cabin factor dropped from 76.6% last year to 74.1% this year. On the cargo side which has been impacted from recession since 2011 together with the belly production increased both THAI and other airlines made higher competition to wrest other market shares as well as the volume of export goods in every THAI's routes was lower than expected.

THAI's own freight production increased 2.6% from last year while freight traffic decreased 3.3% from last year which made lower freight load factor down from 54.2% last year to 51.1% this year.

Amidst the severe storm of competition, the strengthen value of Thai Baht during the fiscal year 2013 was the negative factor to THAI's operation since the THAI's major proportion of revenue was foreign currency around 70% . According to the strong value of Baht made 4.3% decrease of revenue from sales or revenue from services when compared to the average foreign exchange rate of 2012 while the proportion of expenses in the foreign currencies were less than revenue. Thus, the strengthen Baht only made 1.1% decrease of operating expenses. The situation got worse during the last quarter of 2013, internal political dilemma and enforcing the special edition of the new Chinese National Tourism Law which impacted the international tour price packages made Chinese tourists who are the high growth rate remarkably diminished. These made lower number of passenger in 4Q2013 3.5% dropped when compared to the same period last year. Noticeably during the first nine month of 2013 the number of passenger increased from last year around 7.1%. THAI realized to the problems by reducing unnecessarily cost and postponed the investment, especially the non-impact item to services and safety by monitoring the situation closely. Unfortunately, they made the significant negative results: THB 2,322 million in 4Q2013.

THAI and its subsidiaries' financial performance in 2013 showed a loss before foreign currency exchange and income tax(exclude impairment loss of aircraft and assets) of THB 3,608 million when compared to last year where reported profit of THB 4,662 million. Combined with a THB 5,426 million impairment loss and a THB 3,895 million loss on foreign currency exchange, THAI and its subsidiaries recorded a net loss for the period totaling THB 12,000 million compared to last year's net profit of THB 6,510 million.

## **2. Summary of Operating Results for Thai Airways International PCL. and its subsidiaries**

### **Financial Performance**

The consolidated financial statements for the year 2013 consists of THAI's financial statement and 5 subsidiary companies which are 1) THAI-Amadeus Southeast Asia Co.,Ltd., 2)Wingspan Services Co., Ltd., 3) THAI Flight Training Co., Ltd, 4) Tour Eurng Luang Co., Ltd., and 5) THAI Smile Airways Co., Ltd which was incorporated on October 17, 2013 with registered capital of 1,800 million baht or 100% holding by THAI but not operates under its own airline code.

This year's 2013 financial statement excludes that of Nok Airlines PCL. (Nok Air) resulting from the change in shareholding structure along with the change in composition of the board of directors with a greater number of board members since January 18, 2013. The result was THAI no longer having controlling power over Nok Air through THAI's representation on Nok Air's Board of Directors. In order to facilitate the year on year comparison, THAI has restated the statements of income for the year 2012 (excludes Nok Air) as if Nok Air is an associated company.

Unit : Million Baht	Consolidated							
	2013	2012						
		Included	Variance			Excluded	Variance	
			Nok Air	MTHB	%		Nok air	MTHB
Total Operating Revenues	206,336	209,123	-2,787	-1.3	201,384	+4,952	+2.5	
<u>Less</u> Total Operating Expenses	209,232	202,967	+6,265	+3.1	195,631	+13,601	+7.0	
Operating profit (loss)	(2,896)	6,156	-9,052	-147.0	5,753	-8,649	-150.3	
<u>Add</u> Other revenues	5,269	4,407	+862	+19.6	4,334	+935	+21.6	
<u>Less</u> Other expenses	(76)	65	-141	-216.9	(183)	+107	+58.5	
<u>Less</u> Finance cost	6,057	5,836	+221	+3.8	5,836	+221	+3.8	
<b>Profit (Loss) before foreign currency exchange and income tax</b>	<b>(3,608)</b>	<b>4,662</b>	<b>-8,270</b>	<b>-177.4</b>	<b>4,434</b>	<b>-8,042</b>	<b>-181.4</b>	
<u>Less</u> Impairment loss of asset and aircraft	5,426	771	+4,655	+603.8	771	+4,655	+603.8	
<u>Add</u> Gain(loss) on foreign currency exchange	(3,895)	3,213	-7,108	-221.2	3,212	-7,107	-221.3	
Profit (loss) before tax	(12,929)	7,104	-20,033	-282.0	6,875	-19,804	-288.1	
Net Profit(Loss)	(12,000)	6,510	-18,510	-284.3	6,297	-18,297	-290.6	
<b>Profit(Loss) attributable to owners of the parent</b>	<b>(12,047)</b>	<b>6,229</b>	<b>-18,276</b>	<b>-293.4</b>	<b>6,251</b>	<b>-18,298</b>	<b>-292.7</b>	
Net Profit (loss) per share (THB)	(5.52)	2.85	-8.37	-293.7	2.86	-8.38	-293.0	
EBITDA (MTHB)	22,474	31,022	-8,548	-27.6	30,699	-8,225	-26.8	
Operating Profit(Loss) Margin (%)	(1.4)	2.9		-4.3	2.9		-4.3	
EBITDA Margin (%)	10.9	14.8		-3.9	15.2		-4.3	
Net Profit(Loss) Margin (%)	(5.8)	3.1		-8.9	3.1		-8.9	

EBITDA = Total Revenue - Total Expenses(exclude financial cost, tax, depreciation and amortization, gain/loss on foreign currency and impairment loss of assets and aircraft)

In 2013, THAI's consolidated operating loss totaled THB 2,896 million, which is lower than last year's reported profit excluded Nok Air of THB 5,753 million since

- Total operating revenue increased by THB 4,952 million or by 2.5%. The slight increase in operating revenue due to the high competition, latest China legislation tour edition, and impact from internal political crisis during the 4Q2013, a peak period of tourism in Thailand, which decreased the number of passenger down from last year. Consequently, total traffic (Revenue Ton-Kilometers:RTK) slightly increased only 1.9%. Also, the impact from the strong Thai Baht against foreign currencies, especially the Japanese Yen which is one of major currencies in terms of revenue, reduced operating revenue by approximately 4.3%. Passenger and excess baggage revenue increased by THB 6,849 million or 4.1% over last year due to increase of passenger traffic while average passenger yield was lower than last year. Revenue from business units and other activities also increased, totaling THB 334 million or 3.6% while revenue from freight and mail decreased by THB 2,231 million or 8.3% due to high competition which reduced both cargo traffic and average freight yield.

- Total operating expenses increased THB 13,601 million or 7.0%. Although THAI benefitted from the baht appreciation, reducing operating cost by approximately 1.1%, the increase in total production (ATK) by 5.9% increased expenses related to traffic production. The major expenses which extraordinarily increased were Aircraft maintenance and overhaul, Selling and advertising, Lease of aircraft and spare parts and Crew expenses.

THAI's consolidated loss before foreign currency exchange and income tax (exclude the loss of impairment both aircraft and assets) was THB 3,608 million when compared to last year where THAI reported a gain of THB 4,662 million. The loss of impairment from aircraft and other assets which is one-time item, totaled THB 5,426 million. THAI's consolidated loss on foreign currency exchange was THB

3,895 million. Consequently, THAI and its subsidiaries reported a net loss of THB 12,000 million compared to last year's gain of THB 6,297 million. Loss attributable to owners of the parent was THB 12,047 million or a loss of 5.52 baht per share, a decrease from last year's gain of 2.86 baht per share.

EBITDA was THB 22,474 million, which decreased by THB 8,225 million or 26.8% over last year. EBITDA margin was 10.9%, as compared to last year's reported 15.2%.

### Operating performance: The Company

The Company		2013	2012	% Change
Production	(MATK)	12,728	12,023	+ 5.9%
Traffic	(MRTK)	8,388	8,229	+ 1.9%
Load Factor	(%)	65.9	68.4	- 2.5
Total yield	(THB/RTK)	23.05	23.37	- 1.4%
Passenger carried	(Million)	21.51	20.61	+ 4.4%
Passenger Production	(MASK)	85,655	79,231	+ 8.1%
Passenger Traffic	(MRPK)	63,479	60,679	+ 4.6%
Cabin Factor	(%)	74.1	76.6	- 2.5
Passenger yield	(THB/RPK)	2.65	2.72	- 2.6%
Freight Production	(MADTK)	5,019	4,892	+ 2.6 %
Freight Traffic	(MRFTK)	2,565	2,653	- 3.3%
Freight Load Factor	(%)	51.1	54.2	- 3.1
Freight loaded	(Ton)	655,570	679,132	- 3.5%
Freight yield	(THB/RFTK)	9.22	9.78	- 5.7%
Flight Hours	(Hours)	384,069	364,536	+ 5.4%
Average of Aircraft Utilization	(Hour/Aircraft/Day)	11.2	11.5	- 2.6%
Number of flight	(Flight)	97,438	90,447	+ 7.7%

### Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues of 2013 earned was THB 211,605 million, a decrease of THB 1,925 million or 0.9% lower than last year. It should be noted that last year Nok Air's revenues was included in the Company's top line revenue. Without including the operating revenue of Nok Air, operating revenue of THAI and its subsidiaries increased by THB 5,887 million. Details are as follows:

	Consolidated									
	2013	%of Total Revenue	2012							
			Included Nok Air	%of Total Revenue	Variance		Excluded Nok Air	%of Total Revenue	Variance	
					MTHB	%			MTHB	%
<b>Revenues from transportation activities</b>										
Passenger and excess baggage revenue	172,335	81.4	173,458	81.2	-1,123	-0.6	165,486	80.4	+6,849	+4.1
Freight and mail revenue	24,515	11.6	26,764	12.6	-2,249	-8.4	26,746	13.0	-2,231	-8.3
<b>Total Revenue from transportation activities</b>	<b>196,850</b>	<b>93.0</b>	<b>200,222</b>	<b>93.8</b>	<b>-3,372</b>	<b>-1.7</b>	<b>192,232</b>	<b>93.4</b>	<b>+4,618</b>	<b>+2.4</b>
Revenue from business units	7,256	3.4	6,709	3.1	+547	+8.2	6,709	3.3	+547	+8.2
Revenue from other activities	2,230	1.1	2,192	1.0	+38	+1.7	2,443	1.2	-213	-8.7
<b>Total operating revenue</b>	<b>206,336</b>	<b>97.5</b>	<b>209,123</b>	<b>97.9</b>	<b>-2,787</b>	<b>-1.3</b>	<b>201,384</b>	<b>97.9</b>	<b>+4,952</b>	<b>+2.5</b>
Interest income	516	0.3	497	0.2	+19	+3.8	456	0.2	+60	+13.2
Other incomes	3,733	1.8	2,326	1.1	+1,407	+60.5	2,294	1.1	+1,439	+62.7
Gain on deemed disposal	722	0.3	-	-	+722	-	-	-	+722	-
Profitability on business acquisition	-	-	1,584	0.8	-1,584	-100.0	1,584	0.8	-1,584	-100.0
Gain on reclassified investment	298	0.1	-	-	+298	-	-	-	+298	-
<b>Total revenues</b>	<b>211,605</b>	<b>100.0</b>	<b>213,530</b>	<b>100.0</b>	<b>-1,925</b>	<b>-0.9</b>	<b>205,718</b>	<b>100.0</b>	<b>+5,887</b>	<b>+2.9</b>

**Revenues from transportation activities**, totaling THB 196,850 million, constituting 93.0% of total revenues, increased by THB 4,618 million or 2.4% over the same period last year. It should be noted that in September last year THAI developed a new passenger revenue accounting system has enabled THAI no longer reports its revenue on a net basis but now revenue constitutes of two parts – ticket sales and commissions due to agencies. In 2013, the amount of commission amounted to THB 2,679 million was booked as part of the passenger and excess baggage revenue account, the same amount was booked in the selling and advertising expenses account. The simultaneous booking in the revenue and expense accounts bears no overall effect to THAI's profit and loss statement.

**- Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 172,335 million, an increase of THB 6,849 million or 4.1% since THAI recognized sales commission, amount of THB 2,679 million, due to the new passenger revenue accounting system mentioned above and passenger traffic (Revenue Passenger Kilometers: RPK) increased by 4.6%, approximately THB 7,400 million, even average passenger yield (including fuel and insurance surcharge) decreased by 0.07 THB/RPK or 2.6% resulting from the Baht strength compared to the same period last year which finally decreased the revenue in Baht term around 0.13 THB/RPK or around THB 8,071 million. The details of revenue based on territories as follows:

Unit : Million Baht	2013	2012	Variance	
			MTHB	%
<b>Passenger and excess baggage revenue</b>				
Regional	66,986	65,744	+ 1,242	+ 1.9
Intercontinental	54,945	53,878	+ 1,067	+ 2.0
Domestic	14,336	14,691	- 355	- 2.4
Non-schedule flight	462	753	-291	- 38.6
Passenger insurance surcharge	1,876	1,562	+ 314	+ 20.1
Passenger fuel surcharge	33,730	28,858	+ 4,872	+ 16.9
<b>Total passenger and excess baggage revenue</b>	<b>172,335</b>	<b>165,486</b>	<b>+ 6,849</b>	<b>+ 4.1</b>

- *Regional passenger and excess baggage revenue* amounted to THB 66,986 million, which was an increase of THB 1,242 million or 1.9%. In 2013, THAI adjusted its plan in accordance with the national networking development strategy to promote Thailand as the aviation hub of Asia by route, flight frequency and capacity adjustment along with launching new destinations to Japan: city of Sendai, China: city of Chongqing and Changsha, Myanmar: city of Mandalay and Laos: city of Luang Prabang which increased passenger production by 3,883 million seat-kilometers or 11.5%. On the contrary, passenger traffic increased but not much as expected due to the aggressive competition, especially in India and Middle East market and new China's legislation tour edition, effective from October 1, 2013 which impacted the number of Chinese tourists, a group of tourists at the rate of growth, declined in the last quarter of 2013. As a result, the increase of production was higher than the increase of traffic which increased by 2,431 million passenger-kilometers or 9.5% while average cabin factor was 74.3%, lower than the 75.7% achieved in 2012. Another significant factor was the strengthen value of Baht term compared to other currencies in the region, especially Japanese Yen, and Indian Rupee, which lower revenue when translated to Thai Baht.

- *Intercontinental passenger and excess baggage revenue* amounted to THB 54,945 million, which was an increase of THB 1,067 million or 2.0%. In 2013, THAI adjusted flight plans to suit the operating environment by increasing flight frequency in the high demand routes and expanding the cooperation with alliances for more routes. As a result, ASKs increased by 2,444 million seat-kilometers or 6.0% but RPKs increase by 319 million passenger-kilometers or 1.0%, while cabin factor was 73.8% which was lower than the 77.5% average in 2012.

- *Domestic passenger and excess baggage revenue* amounted to THB 14,336 million, which was a decrease of THB 355 million or 2.4% due to the penetration from Low Cost Carriers using the discount fare as the strategy to expand their market shares. This year, THAI increased flight frequency in the high traffic demand by using THAISmile for additional flights and replacement flights in some routes. As a result, ASKs increased by 193 million seat-kilometers or 4.2% and RPKs increased by 93 million passenger-kilometers or 2.7% while cabin factor was 75.7% lower than 76.9% over the same period the year before.

- *Passenger fuel surcharge* amounted to THB 33,730 million, which was an increase of THB 4,872 million or 16.9% mainly due to efficient and effective fuel surcharge adjustment and the increase in number of passenger.

#### - **Freight and mail revenue**

Freight and mail revenue amounted to THB 24,515 million, which was a decrease of THB 2,231 million or 8.3% due to the fierce war price, over supply situation and, greater competition amongst sea, land and air transport companies, and other airlines lowering the Company's freight traffic (Revenue Freight Ton-Kilometers: RFTK) by 3.3% and average freight yield (including fuel and insurance surcharge) decreased 0.56 THB/RFTK or 5.7% over last year. The baht strength also contributed to the weaker yield around 0.27 THB/RFTK or around THB 700 million.

#### **Revenues from Business Units**

Revenue from Business Units amounted to THB 7,256 million, an increase of THB 547 million or 8.2% resulting from higher revenue generated from all business units which was mainly derived from the increase of customer airlines's flights.

#### **Revenue from other activities**

Other activities revenue amounted to THB 2,230 million, which decreased by THB 213 million or 8.7% over last year. The main reason was the decrease in lease aircraft to Nok Air revenue since Nok returned the expiry aircraft to THAI.

### Other income

- interest income totalled THB 516 million, an increase of THB 60 million or 13.2%, due to increase of cash on hand
- other income amounted to THB 3,733 million, an increase of THB 1,439 million or 62.7% higher than last year as recognition of compensation received from the insurance company of the 2011 floods, which was THB 851 million higher than last year, recognition of passenger airport fees that were not billed to THAI for over 3 years which was THB 318 million higher than last year and Technical Department's other revenue increased THB 173 million.
- gain on deemed disposal amount of THB 722 million was the recognition of investment portion in Nok Airlines Public Company Limited amount of THB 1,241million or the Company's portion of 39.2 percent, net of the difference from changing in share portion of Nok Airlines Public Company Limited, which decreased from 49 to 39.2 percent, amount of THB 519 million after the sale of shares of the Nok 's 125 million shares at a price of 26 Baht per share on June 20, 2013.
- gains on reclassified investment totaled THB 298 million which was a gain on reclassified investment of Nok Air from a subsidiary company to an associated company

### Expenses for Thai Airways International PCL. and its subsidiaries

In 2013, total expenses (included loss on foreign currency exchange) amounted to THB 224,534 million, which was THB 18,108 million or 8.8% higher than the same period last year. Without including the operating expenses of Nok Air last year, operating expenses of THAI and its subsidiaries increased by THB 25,691 million or 12.9 percent. A summary of operating expenses is as follows:

	Consolidated									
	2013	%of Total Expenses	2012							
			Included Nok Air	%of Total Expenses	Variance		Excluded Nok Air	%of Total Expenses	Variance	
					MTHB	%			MTHB	%
<b>Operating expense</b>										
Fuel and oil	80,525	35.9	80,179	38.9	+346	+0.4	77,481	38.9	+3,044	+3.9
Employee benefit expenses	33,109	14.7	32,087	15.6	+1,022	+3.2	31,550	15.9	+1,559	+4.9
Flight service expenses	21,727	9.7	21,321	10.3	+406	+1.9	20,693	10.4	+1,034	+5.0
Crew expenses	6,009	2.7	5,707	2.8	+302	+5.3	5,547	2.8	+462	+8.3
Aircraft maintenance and overhaul costs	13,447	6.0	12,600	6.1	+847	+6.7	11,288	5.7	+2,159	+19.1
Depreciation and amortization expenses	20,025	8.9	20,524	9.9	-499	-2.4	20,429	10.3	-404	-2.0
Lease of aircraft and spare parts	4,699	2.1	4,552	2.2	+147	+3.2	3,683	1.9	+1,016	+27.6
Inventories and supplies	9,625	4.3	9,530	4.6	+95	+1.0	9,416	4.7	+209	+2.2
Selling and advertising expenses	9,496	4.2	6,833	3.3	+2,663	+39.0	6,539	3.3	+2,957	+45.2
Insurance expenses	628	0.3	893	0.4	-265	-29.7	760	0.4	-132	-17.4
Other operating expenses	9,942	4.4	8,741	4.2	+1,201	+13.7	8,245	4.1	+1,697	+20.6
<b>Total Operating Expenses</b>	<b>209,232</b>	<b>93.2</b>	<b>202,967</b>	<b>98.3</b>	<b>+6,265</b>	<b>+3.1</b>	<b>195,631</b>	<b>98.4</b>	<b>+13,601</b>	<b>+7.0</b>
Impairment loss of assets and aircraft	5,426	2.4	771	0.4	+4,655	+603.8	771	0.4	+4,655	+603.8
Loss on foreign currency exchange	3,895	1.7	(3,213)	-1.5	+7,108	+221.2	(3,212)	-1.6	+7,107	+221.3
Financial cost	6,057	2.7	5,836	2.8	+221	+3.8	5,836	2.9	+221	+3.8
Share of profits of associates	(836)	-0.4	(363)	-0.2	-473	-130.3	(611)	-0.3	-225	-36.8
Other expenses	760	0.4	428	0.2	+332	+77.6	428	0.2	+332	+77.6
<b>Total Expenses</b>	<b>224,534</b>	<b>100.0</b>	<b>206,426</b>	<b>100.0</b>	<b>+18,108</b>	<b>+8.8</b>	<b>198,843</b>	<b>100.0</b>	<b>+25,691</b>	<b>+12.9</b>

**Total operating expenses** amounted to THB 209,232 million which was THB 13,601 million or 7.0% higher than last year. Significant changes of expenses for this year include:

- Fuel and oil expense amounted to THB 80,525 million, 35.9% of total expenses, was THB 3,044 or 3.9% higher with an increase in production which caused the higher volume of fuel consumption by 5.2%. Average jet fuel price was 3.1% lower than the same period last year; moreover, the stronger Thai Baht further benefitted THAI lowering fuel cost in baht terms. Compensation from fuel hedging during the period totaled THB 1,885 million, THB 1,879 million lower than last year.

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits amounted to THB 33,109 million, which was an increase of THB 1,559 million or 4.9% over last year mainly due to the increment in employee benefits obligation, annual staff salary, higher overtime pay and holiday work, and a higher number of outsourced expense as compared to last year. These mainly were caused by the increase of production, Government's minimum wage policy and shortage of outsourced staff. Other items contributing to the rise in employee benefits include increase in professional license fee for the Technical Department to ensure compliance with international standards.

- Flight related expenses consisted of flight service expenses and crew expenses totaled THB 27,736 million, an increase of THB 1,496 million or 5.7% due to the increase in production.

- Depreciation and amortization expenses totalled THB 20,025 million, a decrease of THB 404 million or 2.0% since THAI took delivery of 5 new aircraft this year (own aircraft and aircraft under finance lease); however, the change of estimate useful life of the aircraft and engines from 15 to 20 years decreasing the depreciation expense by THB 2,512 million.

- Maintenance and overhaul costs totaled THB 13,447 million, an increase of THB 2,159 million or 19.1% due to an increase in average rate of repaired engine and maturity of spare parts and engines maintenance which was higher than the same period last year

- Selling and advertising expenses totaled THB 9,496 million, an increase of THB 2,957 million or 45.2% due to the increase of selling expense, amount of THB 2,533 million resulting from the implementation of a new passenger revenue accounting system mentioned above. (see also Passenger and excess baggage revenue) The reservation expense increased THB 270 million due to the increase in number of passenger and revenue.

- Lease of aircraft and spare parts totaled THB 4,699 million, an increase of THB 1,016 million or 27.6% due to the greater number of aircraft under operating lease totaled 7 aircraft.

- Other operating expenses consisted of inventory, insurance and other expenses totaled THB 20,195 million, an increase of THB 1,774 million or 9.6%.

**Impairment loss of aircraft and assets** totaled THB 5,426 million, an increase of THB 4,655 million or 603.8% as the following details:

- Impairment loss of aircraft was THB 5,092 million, THB 4,911million higher than last year, due to the provision for impairment loss of 11 aircraft including 4 Airbus A340-500 aircraft, 3 Airbus A300-600 aircraft, and 4 Boeing B737-400 aircraft when compared to last year' where were 2 aircraft. Most of such expenses was from Airbus A340-500 fleet.



- Impairment loss of assets was THB 334 million, THB 256 million or 43.4% lower than last year, due to lower reserved for damaged rotatable spare parts and could not be repaired decreased from last year.

**Loss on foreign currency exchange** of THAI and its subsidiaries totaled THB 3,895 million which consists of realizing foreign currency gain of THB 1,961 million resulting from active natural hedging to mitigate the impact from foreign currency fluctuation and the unrealized loss portion totaling THB 5,856 million resulting from the translation of the Company's outstanding foreign currency loans into Baht terms at the end of the period.

**Finance cost** amounted to THB 6,057 million, an increase of THB 221 million or 3.8% since the increase of long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) which increased from the same period last year by THB 17,665 million even THAI has been able to raise cheaper cost of funds since average interest rate was lower than last year.

**Share of profits of associates** amounted to THB 836 million. Details as follow:

- Nok Airlines PCL's amount of THB 489 million. It should be noted that last year, Nok Airlines PLC was recognized as a subsidiary company of THAI.
- Bangkok Aviation Fuel Services PCL's amount of THB 189 million, an increase of THB 28 million,
- Phuket Air Catering Ltd.'s amount of THB 85 million, an increase of THB 33 million,
- Royal Orchid Hotel (Thailand) PCL's amount of THB 38 million a decrease of THB 110 million,
- Donmuang International Airport Hotel Ltd.'s amount of THB 22 million, while last year reported profit of THB 0.24 million, and
- Suvarnabhumi Airport Hotel Ltd.'s amount of THB 14 million, an increase of THB 12 million.

**Other expenses** totaled THB 760 million, an increase of THB 332 million, mostly due to provision for obsolescence of aircraft spare parts increased from the previous year, THB 353 million, for the Antitrust which set aside in fiscal year 2008 and has revised it down so the results considering that occur periodically balances at year-end 2012 total THB 769 million that, this year, THAI has cut another THB 372 million to THB 397 million to spare (see also detailed in the notes to the financial statements 5.17.6).

#### **Net income tax expenses(revenue)**

Net income tax revenue of Thai Airways International PCL. and its subsidiaries amounted to THB 929 million, compared to last year where's recognized as expense amounted to THB 578 million. The main reasons were mainly from the impact of recording deferred income from the recognition of an impairment loss of assets and the benefit from the promotion certificate for the investment of air transport aircraft which reduced tax burden.

#### **Net Profit(Loss)**

Net loss amounted to THB 12,000 million or net loss margin of 5.82% which consisted of loss attributable to owners of the parent amounted to THB 12,047 million and profit attributed non-controlling interests amounted to THB 47 million when compared to last year where THAI and its subsidiaries reported profit of THB 6,297 million or a 3.11% net profit margin.

### 3. Financial Position and Liquidity

#### Capital Expenditures

Capital expenditures for 2013 totaled THB 38,088 million, a decrease of THB 2,488 million from last year where THAI took delivery of 5 new own aircraft and aircraft under finance lease while 6 new aircraft were added to the fleet last year. Capital expenditures for this year mainly were prepayments for acquiring aircraft and engines totalling THB 30,556 million for aircraft and engines delivered from 2014-2018 as well as investment in in-flight equipment consisted of current aircraft and new aircraft, including the cabin reconfiguration programs with a total investment value of THB 6,017 million. Other fixed assets amounted to THB 1,515 million. Details as follows:

Unit : Million Baht	Jan - Dec	
	2013	2012
Aircraft and aircraft spare parts	36,573	39,956
Non-Aircraft	1,515	620
<b>Total</b>	<b>38,088</b>	<b>40,576</b>

#### Financing

In 2013 THAI financed based on financing plans to use as its working capital, amount of THB 31,762 million as the following details

- 1) acquired long-term funding, amount of EUR 296 million, using aircraft as collateral to finance its new 2 Airbus A330-300 and 1 Airbus A380-800 aircraft,
- 2) sought a 17-year USD 500 million loan facility from the Ministry of Finance to finance its 2 Airbus A380-800 aircraft
- 3) issued THB 9,000 million in new debentures for investing in various assets and repaying the loan with a higher cost in order to reduce the financial burden
- 4) sought USD 200 million loan facility from a domestic financial institution to be used as repayment for outstanding obligations on the 3 Airbus A340-500 aircraft.

Summary of cash from and used in each activity are as follows:

Unit : Million Baht	Consolidated		The Company	
	2013	2012	2013	2012
Net cash from operating activities	25,734	31,163	25,588	30,224
Net cash used in investing activities	(27,220)	(14,764)	(27,011)	(14,441)
Net cash used in financing activities	(7,363)	(12,426)	(7,228)	(12,080)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	559	(591)	559	(591)
<b>Increase(decreases) in cash and cash equivalents</b>	<b>(8,290)</b>	<b>3,382</b>	<b>(8,092)</b>	<b>3,112</b>

Cash and cash equivalents for the year ended December 31, 2013 totaled THB 11,758 million, a decreased of THB 8,290 million from December 31, 2012 mainly due to cash from operations totaling THB 25,734 million which was THB 5,429 million lower than last year. Cash used in investing activities totaled THB 27,220 million, increased THB 12,456 million compared to last year. Cash from financing activities totaled THB 7,363 million decreased THB 5,063 million.

## Fleet

In 2013, THAI took delivery of total 17 aircraft which consisted of THAI's own aircraft: 2 Airbus A380-800 aircraft, aircraft under finance lease: 2 Airbus A330-300 and 1 Airbus A380-800 aircraft, and operating lease aircraft: 6 Boeing B777-300ER and 6 Airbus A320-200 aircraft, respectively. THAI also decommissioned 2 Boeing B747-400, 5 Boeing B777-300ER, 2 Airbus A300-600, and 1 Airbus A330-300 aircraft that has been damaged from skidding off the runway after landing at Suvarnabhumi Airport on September 8, 2013 the above aircraft movement puts THAI's net active aircraft fleet at 100. (As of December 31, 2012, THAI had 95 active aircraft)

Fleet details are as follow

Aircraft type	Number of Aircraft	Owned	Financial Lease	Operating Lease	Aircraft in Services		
					As at Dec 31, 2013	Variance from Dec 31, 2012	New(+)/Decom(-) 2014
Boeing 747-400	16	14	2	-	12	-2	
Boeing 777-300	6	6	-	-	6		
Boeing 777-200ER	6	-	6	-	6		
Boeing 777-200	8	6	-	2	8		
Boeing 737-400	9	6	-	3	5		-3
Boeing 777-300ER	9	-	-	9 <sup>1)</sup>	8	+1	+3
Boeing 787-8							+4
Airbus 340-600	6	-	6	-	6		
Airbus 340-500	4	4	-	-	-		
Airbus 330-300	27	10 <sup>2)</sup>	15	2	26	+1	-5
Airbus 320-200	10	-	-	10	10	+6	+7
Airbus 380-800	6	2	4	-	6	+3	
Airbus 300-600R	9	9	-	-	5	-4	-5
ATR 72	2	2	-	-	-		
Freighter aircraft							
Boeing 747-400	2	2	-	-	2		
<b>Total</b>	<b>120</b>	<b>61</b>	<b>33</b>	<b>26</b>	<b>100</b>	<b>+5</b>	<b>+1</b>

Remarks : 1) Included 1 Boeing B777-300ER aircraft: expiry of operating lease

2) Included 1 Airbus A330-300 aircraft grounded and pending for damage inspection

3) 20 decommissioned aircraft owned by THAI and held for sales

According to THAI's fleet development program, aircraft delivery commitments are as follows:

- Obligation to purchase 15 aircraft expected delivery during the year 2014 – 2022 which consists of 5 Airbus A320-200, 4 Airbus A350-900XWB, and 6 Boeing B777-300ER aircraft worth a total of THB 49,432 million

- Lease obligations and commitment fees for 26 operating lease aircraft which are now in service and 21 aircraft which have not been scheduled for delivery totaling THB 158,762 million. The lease terms of 47 operating lease aircraft will be for the period between 2014-2029.

### Assets of Thai Airways International PCL. and its subsidiaries

As of December 31, 2013, total assets were THB 307,085 million, an increase of THB 2,989 million or 1.0% from as at December 31, 2012.

	Consolidated				The Company			
	Dec 31, 2013		Dec 31, 2012		Dec 31, 2013		Dec 31, 2012	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets								
Cash and cash equivalents	11,758	3.8	20,048	6.6	11,650	3.8	19,742	6.6
Non-current assets classified as held for sale	7,197	2.3	7,430	2.4	7,197	2.4	7,430	2.5
Other current assets	39,530	12.9	44,133	14.5	39,749	13.1	42,185	14.1
<b>Current Assets</b>	<b>58,485</b>	<b>19.0</b>	<b>71,611</b>	<b>23.5</b>	<b>58,596</b>	<b>19.3</b>	<b>69,357</b>	<b>23.2</b>
Property, plant and equipment								
Prepaid aircraft and spare engine	17,986	5.8	17,617	5.8	17,986	5.9	17,617	5.9
Aircraft	64,091	20.9	51,661	17.0	64,091	21.1	51,661	17.3
Aircraft under finance leases	124,091	40.4	122,707	40.4	124,091	40.9	122,707	41.0
Aircraft spare parts	12,504	4.1	12,506	4.1	12,504	4.1	12,506	4.2
Work in process	1,113	0.4	2,488	0.8	1,113	0.4	2,488	0.8
Land, building and improvements	6,711	2.2	7,020	2.3	6,711	2.2	7,020	2.3
Other plant and equipment	4,953	1.6	4,569	1.5	4,945	1.6	4,479	1.5
<b>Property, plant and equipment-net</b>	<b>231,449</b>	<b>75.4</b>	<b>218,568</b>	<b>71.9</b>	<b>231,441</b>	<b>76.2</b>	<b>218,478</b>	<b>73.0</b>
Other non-current assets	17,151	5.6	13,917	4.6	13,639	4.5	11,521	3.8
<b>Total Assets</b>	<b>307,085</b>	<b>100.0</b>	<b>304,096</b>	<b>100.0</b>	<b>303,676</b>	<b>100.0</b>	<b>299,356</b>	<b>100.0</b>

Current assets were THB 58,485 million or accounted for 19.0% of total assets, a decrease of THB 13,126 million from as of December 31, 2012. The main reason was

- a decrease in cash and cash equivalents of THB 8,290 million, mainly from investing in fixed assets and taking delivery of and repaying advance payment of the aircraft, the amount of up to THB 28,803 million, while net financing was only THB 7,363 million. Moreover, cash from operations was less than a previous year since operating expenses was higher than income from operations.

- a decrease in trade receivables of THB 2,098 million mainly from the diminished sales during the forth quarter of 2013 when compared to last year. It should be noted that this year THAI has been able to better manage faster collection period by speeding up from 31 days in 2012 to 29 days this year.

Comparison between trade receivables as of December 31, 2013 and 2012 classified by aging period as the following details

	Consolidates		The Company	
	Dec 31, 2013	Dec 31, 2012	Dec 31, 2013	Dec 31, 2012
Aging Periods:				
Not over 6 months	13,512	15,525	13,476	15,466
Over 6 months to 1 year	358	398	355	398
Over 1 year to 2 years	350	157	350	157
Over 2 years	1,309	1,451	1,285	1,426
Total	15,529	17,531	15,466	17,447
Less Allowance for doubtful account	(1,889)	(1,793)	(1,863)	(1,768)
<b>Trade receivables - net</b>	<b>13,640</b>	<b>15,738</b>	<b>13,603</b>	<b>15,679</b>

Trade receivables, not government agencies and state enterprises, are set an allowance for doubtful accounts by analyzing a payment history and connection data together with aging analysis of each trade receivables as a criteria. The ratio between trade receivables aging over 6 months and allowance for doubtful account was 94.0%. Thus, THAI has confidence in its adequacy of the allowance for doubtful accounts.

Property, plant and equipment-net totaled THB 231,449 million or represented 75.4 % of total assets, which saw an increase of THB 12,881 million or 5.9% from December 31, 2012 resulting from the increase in the number of aircraft and aircraft under finance lease, totaled 5 aircraft. There were 12 decommissioned aircraft transferred to non-current assets classified as held for sales this year.

Non-current assets totaled THB 17,151 million or represented 5.6% of total assets, which increased THB 3,234 million from as of December 31, 2012 resulting from

- the change in position of Nok Air from a subsidiary to an associated company. Hence, the investments in associated company increased THB 3,338 million. Goodwill, recorded in the first quarter last year was lower by THB 1,391 million. The intangible assets decreased THB 559 million.

- Other non-current assets increased THB 774 million due to the increase of deferred charges, amount of THB 658 million, from loan guarantee fee aircraft: A380-800 and A330-300 aircraft

- Deferred tax assets increased by THB 775 million mainly due to the recording of deferred tax assets from the increase of impairment, amount of THB 781 million.

Return on assets of 2013 was -2.25% lower than last year's 4.48% due to the impairment of aircraft consisted of 3 Airbus A300-600 aircraft and 4 Airbus A340-500 aircraft, and 4 Boeing B737-400 aircraft the total amount was THB 5,092 million. Unless excluded such expense, return on assets would be -0.58% which is still lower than the same period last year due to the great number of delivered aircraft this year. However, it is unable to effectively increase revenue to retain speed with the assets growth and last year THAI earned gain on acquisition of subsidiary and consolidated Nok Airline PCL's financial statement.

#### **Liabilities of Thai Airways International PCL. and its subsidiaries**

Total liabilities as of December 31, 2013 totaled THB 250,166 million, which was an increase of THB 15,888 million or 6.8% from as of December 31, 2012. These comprise of:

	Consolidated				The Company			
	Dec 31, 2013		Dec 31, 2012		Dec 31, 2013		Dec 31, 2012	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities
Current liabilities (including current Portion of long-term liabilities)	82,369	32.9	82,683	35.3	83,155	33.1	81,632	35.0
<b>Long-term liabilities</b>								
Debentures	37,400	15.0	32,120	13.7	37,400	14.9	32,120	13.8
Liabilities under financial leases	63,319	25.3	61,611	26.3	63,319	25.2	61,611	26.4
Long term borrowings	50,831	20.3	41,011	17.5	50,831	20.3	41,011	17.6
<b>Total long-term liabilities</b>	<b>151,550</b>	<b>60.6</b>	<b>134,742</b>	<b>57.5</b>	<b>151,550</b>	<b>60.4</b>	<b>134,742</b>	<b>57.8</b>
Other non-current liabilities	16,247	6.5	16,853	7.2	16,211	6.5	16,738	7.2
<b>Total Liabilities</b>	<b>250,166</b>	<b>100.0</b>	<b>234,278</b>	<b>100.0</b>	<b>250,916</b>	<b>100.0</b>	<b>233,112</b>	<b>100.0</b>

The increase in liabilities was primarily a result of long-term liabilities as of December 31, 2013 (including liabilities under finance lease, long-term borrowings, and debentures) amounted to THB 151,550 million or represented 60.6% of total liabilities, which was an increase of THB 16,808 million from December 31, 2012. Consequently, interest bearing debt to equity increased from 2.27 times from the end of last year to 3.10 times at the end of this year. In 2013, THAI obtained a total of THB 31,762 million in long-term financing, (Also see page 10 for details) while current liabilities as of December 31, 2013 were THB 82,369 million or represented 32.9% of total liabilities which was similar to the previous year.

#### **Shareholders' Equity of Thai Airways International PCL. and its subsidiaries**

As of December 31, 2013, shareholders' equity totaled THB 56,919 million, a decrease of THB 12,899 million from December 31, 2012 due to loss from operations. A dividend payment was made to shareholders totaling THB 1,226 million in 2013 and the effect of losing control in Nok Airlines PCL., decreased THAI's equity by THB 721 million. Moreover, the gain on actuarial estimates for employee benefit obligations amounted THB 1,306 million. Consequently, return on equity for 2013 decreased from 9.76 last year to -19.04 this year.

#### **4. Factors affecting future operations**

World economy forecast in 2014 is projected to be more improvement in numerous countries due to economic stimulus packages such as USA, China and Japan. Meanwhile, the economy of the European Union, which has probably passed the worst situation already, was expected to be back on track and started to expand once again. However, the political opposition in many countries both domestically and internationally might have a direct impact on the economy in 2014. Also, sharpened competition in the aviation business, the exchange rate fluctuations, and higher production costs are the key risk factors that may affect the operations of THAI.

The impact of the political turmoil in the country that lasted from the end of 2013 is expected to affect the confidence of investors and tourists to travel into the country in 1Q2014 more severe than in 4Q2013. Moreover, the results of the latest China legislation tour edition, effective from October 1, 2013, reduced the number of Chinese tourists in 4Q2013 noticeably and was estimated to continue to drop in the beginning of 2014, especially Chinese New Year, where normally the spectacular number of Chinese traveler normally came to Thailand for celebration. The significant impact clearly demonstrated that the number of foreign visitors in the first 9 months of 2013 was up to 23.2 % from 2012, but fourth quarter, tourist arrivals increased merely 10.7 percent from 2012. To mitigate the impact which expected to occur during the 1Q2014, the high season period, and the 2Q2014, the low season period, THAI planed to reduce number of flights to suit the market demand while focus on

revenue increasing from Business units and other ancillary revenues along with intensive cost management program. Nevertheless, the Department of Tourism . Ministry of Tourism and Sports also predicted that the number of tourists in 2014 will increase by about 13.0%. THAI has high hope that the situation would be recovered since the 3Q2014 onward.

According to those events which directly impacted THAI's performance and competition becoming more intense, this year THAI prepares the Strategic plan 2014 in line with the internal situation by implementing the enhancing plan to deal with the brutal competition, especially in Asia-Pacific region and reorganizing the structure of THAI, changes in corporate culture to be able to conduct business in a sustainable manner under unfavorable factors. This concentrates on routing and guidance in the development of products and services in accordance with the particular groups of customers' satisfaction. Changing work processes in order to optimize and control costs in the action as well as improving the management of human resources, and the organizational structure to be able to respond quickly to changes in business. THAI also plans to improve communication both internally and externally in order to get the information correctly and timely.

In 2014, THAI plans to take delivery of 14 aircraft consists of 3 Boeing B777-300ER, 7 Airbus A320-200, and 4 Boeing B787-8 aircraft. The B787-8 is quite a remarkable aircraft with lighter weight and fuel-saving ability up to 25% when compared to the other types of aircraft. THAI has schedule to continually decommission aging aircraft and operating lease aircraft which their contracts were expired totaled 13 aircraft: 5 Airbus A330-300 and 5 Airbus A300-600 aircraft and 3 Boeing B737-400 aircraft.

THAI has a financing plan by finance lease and then using aircraft as collateral to finance for 5 aircraft delivered in 2014 and expect to issue around THB 15,000 million new debentures during 2014 for working capital and investing in various assets and repaying maturity debentures and loan with a higher cost in order to reduce the financial burden. The new set of debenture will be offered in February 2014, amount of THB 3,200 million.

For financial risk management THAI stands by the credit facilities and utilization of committed revolving credit line in the amount of approximately THB 20,000 million and uncommitted credit line about THB 10,000 million to support economic fluctuations. Also, THAI has constant foreign exchange risk management plan in major currencies and considers the hedging interest rate in line with economic conditions.

THAISmile Airways Limited will begin to operate under its own airline code in 3Q2014 by using 10 Airbus A320-200 aircraft, sublease aircraft from THAI, and 7 additional aircraft delivered in 2014. Its routes consists of domestic routes between Bangkok and these cities which are Chiang Mai, Chiang Rai, Phuket, Krabi, Surat Thani, Hat Yai, Ubon Ratchathani, Udon Thani, and Khon Kaen, secondary domestic routes between Chiang Mai and these cities which are Phuket and Udon Thani, and international routes which are Macau, Xiamen, Chongqing, Changsha, Rangoon, Mandalay, Ho Chi Minh City, Hanoi, Luang Prabang, Phnom Penh, Penang, New Delhi, Calcutta, and, Colombo.

## 5. Financial Ratios

	Consolidated		The Company	
	2013	2012	2013	2012
<b>Liquidity Ratio</b>				
Current Ratio (times)	1.58	2.05	1.55	2.02
<b>Profitability Ratio</b>				
Operating Profit (loss) Margin %	(1.40)	2.94	(1.48)	2.78
Net Profit (loss) Margin %	(5.82)	3.11	(6.52)	2.20
Return on Equity %	(19.04)	9.76	(22.58)	6.92
<b>Efficiency Ratio</b>				
Return on Total Assets %	(2.25)	4.48	(2.77)	3.77
<b>Financial Policy Ratio</b>				
Interest Bearing Debt to Equity (times)	3.10	2.27	3.34	2.40
Interest Coverage Ratio (times)	3.71	5.32	3.47	4.93

### GLOSSARY

**EBITDA** = Total Revenue - Total Expenses(exclude financial cost, tax, depreciation and amortization, gain/loss on foreign currency and impairment loss of assets and aircraft)

**EBITDA MARGIN** = EBITDA/ Total operating revenue

**Current Ratio** = Current Assets / Current Liabilities (Excluding Current Portion of Long-Term Liabilities and Unearned Transportation Revenues)

**Operating Profit Margin** = (Total Operating revenue – Operating expenses)/ Total Operating revenue

**Net Profit Margin** = Net Profit / Total Operating revenue

**Return on Equity** = Net Profit / Average Shareholders' Equity

**Return on Total Assets** = Profit before interest and tax/ Average total assets

**Interest Bearing Debt to Equity** = (Short-term Loan + Long-term Loan including current portion of Long-term Loan within 1 year) / Shareholders' Equity

**Interest Coverage ratio** = EBITDA/interest