

Management's Discussion and Analysis for three months ended March 31, 2014 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

The global economic overview in the first quarter of 2014 is likely to improve which makes the increase of air transport demand compared to the same period last year. The aviation industry expands dramatically. The outstanding signs of recovery is increasing traffic production by both premium and low-cost airlines to be ready for greater competitive capability and market shares. Based on data of International Air Transport Association(IATA) during January – March 2014 are found that the growth of passenger traffic production(ASK) raised 5.8% from last year while the passenger traffic demand (RPK) increased 5.6%. The aviation industry in Asia Pacific and South East Asia regions also improve continually, especially the low-cost airlines which greatly expands both their fleets and flight frequencies. Moreover, there are more new players step into the low-cost market which caused by the improving tourism industry, regional economic, and the Asian's open-skies policy that supporting factor. However, competition intensified and adaptation to the situation changes are the major challenges faced by airlines around the world.

Unlike the others, Thai aviation industry was highly impacted by the domestically political situation which directly obstructed the Thai economic growth and the announcement of state of emergency for Bangkok and some parts of nearby provinces during January 22 – March 18, 2014 which compromised the confidence of tourists' safety resulting the lower number of both inbound and outbound tourists, especially the Asian tourists.

In 2014, THAI continues to strengthen long-term competitive advantages by implementing fleet management strategy by adding 3 new aircraft to its fleet in this quarter which consists of a Boeing B777-300ER and 2 Airbus A320-200 aircraft while decommissioning 3 older Airbus A330-300 aircraft.

Despite the prolonged and intensified political unrest in Bangkok prominently impacts THAI's performance in the first quarter which normally is the high season but this year the number of passengers reduced obviously from the same period last year by 15.3% due to the reduction of passengers in Asian market, especially in the major markets which are China, Japan, and Korea. These caused lower passenger traffic (Revenue Passenger Kilometers : RPK) decreased 12.6%. To deal with the situation, THAI, decreased production traffic by 0.6% from the same period last year and reduced the flight frequency, to be in line with the passenger traffic resulting the average cabin factor was 70.1% as compared to last year's 79.8%. Thus, the operating revenues decreased 11.6% from the same period last year. However, THAI has adjusted its business plan in order to respond to the current financial situation and reduce the impact caused by the decrease in the volume of passenger travel with a concentration on revenue coupled with cost control for acceptable financial performance to support the ongoing business operation.

THAI and its subsidiaries' financial performance for the first quarter of 2014 indicated a loss before foreign currency exchange and income tax(exclude impairment loss of assets and aircraft) of THB 3,287 million when compared to last year where reported profit of THB 4,271 million. Combined with the impairment loss of assets and aircraft amount of THB 84 million, a decrease of THB 2,284 million from last year's and gain on foreign currency exchange amount of THB 990, a decrease of THB 5,139 million from last year, these results THAI and its subsidiaries facing a net loss of THB 2,619 million while last year's result reported a net profit of 8,295 million.

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

The consolidated financial statements for the first quarter of 2014 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.

Financial Performance

Unit : Million Baht	Jan - Mar			
	2014	2013	Variance	
			MTHB	%
Total Operating Revenues	49,533	56,013	-6,480	-11.6
<u>Less</u> Total Operating Expenses	51,762	51,570	+192	+0.4
Operating profit (loss)	(2,229)	4,443	-6,672	-150.2
<u>Add</u> Other revenues	448	1,129	-681	-60.3
<u>Less</u> Other expenses	83	(108)	+191	+176.9
<u>Less</u> Finance cost	1,423	1,409	+14	+1.0
Profit (Loss) before foreign currency exchange, income tax, and impairment	(3,287)	4,271	-7,558	-177.0
<u>Less</u> Impairment loss of asset and aircraft	84	2,368	-2,284	-96.5
<u>Add</u> Gain on foreign currency exchange	990	6,129	-5,139	-83.8
Profit (loss) before tax	(2,381)	8,032	-10,413	-129.6
Net Profit(Loss)	(2,619)	8,295	-10,914	-131.6
Profit(Loss) attributable to owners of the parent	(2,634)	8,283	-10,917	-131.8
Net Profit (loss) per share (THB)	(1.21)	3.79	-5.00	-131.9
EBITDA (MTHB)	3,242	10,459	-7,217	-69.0
Operating Profit(Loss) Margin (%)	(4.5)	7.9		-12.4
EBITDA Margin (%)	6.5	18.7		-12.2
Net Profit(Loss) Margin (%)	(5.3)	14.8		-20.1

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 this quarter, THAI's consolidated operating loss totaled THB 2,229 million, while last year's result was a profit of THB 4,443 million since total operating revenues decreased by THB 6,480 million or by 11.6% due to the heavy drop of passenger and excess baggage revenue which decreased THB 6,517 million or 13.7%. Combined with net other revenue(expenses) which decreased THB 872 million while operating expenses was equivalent to last year's expenses made a loss before foreign currency, income tax, and impairment of assets and aircraft totally amounted to THB 3,287 million, a decrease from last year where reported profit of THB 4,271 million.

THAI's consolidated gain on foreign currency exchange was THB 990 million, which was THB 5,139 million lower than last year and loss of impairment of assets and aircraft, amount of THB 84 million which was a decrease of THB 2,284 million from last year. Consequently, THAI and its subsidiaries reported net loss of THB 2,619 million while last year's result was net profit of THB 8,295 million. Loss attributable to owners of the parent was THB 2,634 million or 1.21 baht per share, a decrease from last year where was a profit of 3.79 baht per share.

EBITDA was THB 3,242 million, which decreased by THB 7,217 million or 69.0% over last year. EBITDA margin was 6.5% lower than last year where reported 18.7%.

Operating performance

The Company		Jan - Mar		Variance
		2014	2013	
Production	(MATK)	3,097	3,153	- 1.8%
Traffic	(MRTK)	1,980	2,182	- 9.3%
Load Factor	(%)	63.9	69.2	- 5.3
Total yield	(THB/RTK)	23.49	24.25	- 3.1%
Passenger carried	(Million)	4.81	5.68	- 15.3%
Passenger Production	(MASK)	20,934	21,051	- 0.6%
Passenger Traffic	(MRPK)	14,677	16,802	- 12.6%
Cabin Factor	(%)	70.1	79.8	- 9.7
Passenger yield	(THB/RPK)	2.75	2.78	- 1.1%
Freight Production	(MADTK)	1,213	1,258	- 3.6%
Freight Traffic	(MRFTK)	629	641	- 1.9%
Freight Load Factor	(%)	51.9	50.9	+ 1.0
Freight loaded	(Ton)	158,155	165,759	- 4.6%
Freight yield	(THB/RFTK)	9.29	9.16	+ 1.4%
Flight Hours	(Hours)	93,498	95,926	- 2.5%
Average of Aircraft Utilization	(Hour/Aircraft/Day)	10.5	11.2	- 6.2%
Number of flight	(Flight)	23,812	24,210	- 1.6%

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues (included gain on foreign currency exchange) for the first quarter of 2014 earned was THB 50,971 million, a decrease of THB 12,300 million or 19.4% lower than last year. Details are as follows:

Unit : Million Baht	Jan - Mar					
	2014	% of Total Revenue	2013	% of Total Revenue	Variance	
					MTHB	%
Revenues from transportation activities						
Passenger and excess baggage revenue	41,035	80.5	47,552	75.1	-6,517	-13.7
Freight and mail revenue	6,023	11.8	6,071	9.6	-48	-0.8
Total Revenue from transportation activities	47,058	92.3	53,623	84.7	-6,565	-12.2
Revenue from business units	1,888	3.7	1,841	2.9	+47	+2.6
Revenue from other activities	587	1.2	549	0.9	+38	+6.9
Total operating revenue	49,533	97.2	56,013	88.5	-6,480	-11.6
Interest income	71	0.1	119	0.2	-48	-40.3
Other incomes	377	0.7	712	1.1	-335	-47.1
Gain on reclassified investment	-	-	298	0.5	-298	-100.0
Total other incomes	448	0.8	1,129	1.8	-681	-60.3
Gain on foreign currency exchange	990	2.0	6,129	9.7	-5,139	-83.8
Total Revenues	50,971	100.0	63,271	100.0	-12,300	-19.4

Revenues from transportation activities, representing 92.3% of total revenues, totaled THB 47,058 million, a decrease of THB 6,565 million or 12.2% over last year.

- Passenger and excess baggage revenue

Passenger and excess baggage revenue totaled THB 41,035 million, a decrease of THB 6,517 million or 13.7% since passenger traffic (Revenue Passenger-Kilometers:RPK) decreased by 12.6%. Average passenger yield (including fuel and insurance surcharge) decreased by 0.03 THB/RPK or 1.1% over last year; however, the weakening Baht also raised THAI's yield by about 0.09 THB/RPK. The main reason of the reduction was from the fierce competition along with the decrease in number of tourists due to the political unrest especially Chinese, Japanese, and Korean tourists which are the major market in the Asia territory.

- Freight and mail revenue

Freight and mail revenue amounted to THB 6,023 million, which was a decrease of THB 48 million or 0.8% resulting from a decrease of freight traffic(RFTK) by 1.9% and average freight yield (including fuel and insurance surcharge) which excluded effect of weakening Thai Baht decreased 0.36 THB/RFTK or 3.9% over last year due to a greater competition for conquering market shares which was the result from supply over demand.

- Revenues from Business Units

Revenues from Business Units, consists of Ground services, Catering , and Cargo handling services, amounted to THB 1,888 million, which increased by THB 47 million over last year mainly due to the increase of revenue from Ground services and cargo handling services. The greater revenues were from rising services rate and weakening Thai Baht which increased revenue in Baht term; however, the number of customer airlines' flight decreased. Catering had lower revenue due to lower number of passengers from customer airlines as the results from Thai political unrest.

- Other activities revenue

Other activities revenue amounted to THB 587 million, which increased, THB 38 million, from last year. The main reason was income from flight simulator services and maintenance of aircraft to the government agencies.

- Other income

Other income totaled THB 448 million, a decrease of THB 681 million or 60.3 from last year since

- interest income totaled THB 71 million, a decrease of THB 48 million or 40.3% due to lower cash and cash equipments than last year

- other income amounted to THB 377 million was a decrease of THB 335 million or 47.1 primarily due to last year's occurring of compensation for delay in aircraft delivery of THB 206 million, and recognition of passenger airport fees that were not billed to THAI for over 3 years which was THB 158 million but none of such revenues recognition this year.

- gains on reclassified investment decreased THB 298 million which was a gain on reclassified investment of Nok Airline PCL. from a subsidiary company to an associated company last year, amount of THB 298 million.

- gains on foreign currency exchange totaled THB 990 million which consisted of the unrealized portion totaling THB 777 million which was the result of translating the Company's outstanding foreign currency loans into Baht terms at the end of the period and realized foreign currency gain of THB 213 million resulting from active natural hedging to mitigate the impact from the foreign currency fluctuation.

Expenses for Thai Airways International PCL. and its subsidiaries

In the first quarter of 2014, total expenses amounted to THB 53,352 million, which was THB 1,887 million or 3.4% lower than the same period last year. A summary of operating expenses is as follows:

Unit : Million Baht	Jan - Mar					
	2014	% of Total Expense	2013	% of Total Expense	Variance	
					MTHB	%
Operating expense						
Fuel and oil	20,742	38.9	20,314	36.8	+428	+2.1
Employee benefit expenses	7,676	14.4	8,381	15.2	-705	-8.4
Flight service expenses	5,622	10.5	5,262	9.5	+360	+6.8
Crew expenses	1,470	2.8	1,458	2.6	+12	+0.8
Aircraft maintenance and overhaul costs	3,361	6.3	3,255	5.9	+106	+3.3
Depreciation and amortization expenses	5,106	9.6	4,779	8.7	+327	+6.8
Lease of aircraft and spare parts	1,418	2.6	1,044	1.9	+374	+35.8
Inventories and supplies	2,170	4.1	2,422	4.4	-252	-10.4
Selling and advertising expenses	1,998	3.7	2,256	4.1	-258	-11.4
Insurance expense	118	0.2	124	0.2	-6	-4.8
Other operating expenses	2,081	3.9	2,275	4.1	-194	-8.5
Total Operating Expense	51,762	97.0	51,570	93.4	+192	+0.4
Impairment loss of assets and aircraft	84	0.2	2,368	4.3	-2,284	-96.5
Financial cost	1,423	2.7	1,409	2.5	+14	+1.0
Share of profits of associates	(158)	-0.3	(349)	-0.6	+191	+54.7
Other expenses	241	0.4	241	0.4	-	-
Total Expenses	53,352	100.0	55,239	100.0	-1,887	-3.4

Total operating expenses amounted to THB 51,762 million, was THB 192 million or 0.4% higher than last year. Significant changes of expenses for this quarter included:

- Fuel and oil expense represented 38.9% of total expenses, was THB 428 million or 2.1% higher than last year resulting from the weakening Thai Baht affected the increase of THAI's fuel expense in baht terms. However, the decrease of both average jet fuel price and fuel consumption which reduced 4.3% and 3.1%, respectively. However, from fuel hedging policy made compensation income from fuel hedging amounting to THB 531 million.

- Employee benefits expenses consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense amounted to THB 7,676 million, which was a decrease of THB 705 million or 8.4% over last year mainly due to last year's occurring of the performance incentive payment in February 2013, amount of THB 300 million, the provision for annual welfare, amount of THB 380 million, staff income tax which was lower than last year due to the new personal tax structure. However, the increment in annual salary and outsource expenses which increased by the new minimum wage policy made the increase of employee benefit expenses.

- Flight related expenses consisted of flight service expenses, crew expenses, and Maintenance and overhaul costs totaled THB 10,453 million, an increase of THB 478 million or 4.8% due to the weakening Baht which made the increase of the expenses while production was decreased.

- Depreciation and amortization expenses totaled THB 5,106 million, an increase of THB 327 million or 6.8% due to the delivery of 6 new aircraft since the first quarter of 2013.

- Lease of aircraft and spare parts totaled THB 1,418 million, an increase of THB 374 million or 35.8% due to the greater number of aircraft under operating lease totaled 8 aircraft.

- Other operating expenses consisted of inventories and supplies, selling and advertising expenses, insurance expenses, and other expenses totaled THB 6,367 million, a decrease of THB 710 million or 10.0% since production and traffic of this year was lower than last year.

Impairment loss of assets and aircraft totaled THB 84 million which consisted of the decrease of impairment loss of assets by THB 67 million and aircraft by THB 2,217 million. The main reason was last year the recognized impairment loss of 2 Airbus A300-600 aircraft, totaled THB 75 million and 4 Airbus A340-500 aircraft, totaled THB 2,186 million while there were an additional impairment loss of an Airbus A300-600 recognized in the 2nd. Quarter of 2013 this year, amount of THB 43 million this year.

Finance cost amounted to THB 1,423 million, an increase of THB 14 million or 1.0%. Short-term and long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) increased from the same period last year by THB 25,634 million and the weakening Thai Baht raised foreign interest expenditure when converted to Baht while lower interest rates.

Share of profits of associates amounted to THB 158 million, a decrease of THB 191 million or 54.7%. Details as follow:

- Nok Airlines PCL's amount of THB 16 million, a decrease of THB 192 million.
- Royal Orchid Hotel (Thailand) PCL's amount of THB -10 million a decrease of THB 44 million,
- Bangkok Aviation Fuel Services PCL's amount of THB 80 million, an increase of THB 23 million,
- Phuket Air Catering Ltd.'s amount of THB 42 million, an increase of THB 3 million,
- Suvarnabhumi Airport Hotel Ltd.'s amount of THB 22 million, an increase of THB 15 million.
- Donmuang International Airport Hotel Ltd.'s amount of THB 8 million, an increase of THB 4 million

3. Financial Position and Liquidity

Capital Expenditures

Capital expenditures for this quarter ending March 31, 2014 totaled THB 5,440 million, which decreased by THB 5,561 million or 50.5% from last year. Capital expenditures for this year mainly were payments for acquisition of new aircraft, amounted to THB 5,222 million, consisted of aircraft under finance lease: a Boeing B777-300ER aircraft delivered on January 21, 2014, and prepayment for acquisition of aircraft and rotatable aircraft spare part, amounted to THB 1,774 million. For the acquisition of new aircraft in which delivery will be taken in 2014-2018 and other fixed assets, the total amount was THB 218 million.

Unit : Million Baht	Jan - Mar	
	2014	2013
Aircraft and aircraft spare parts	5,222	10,612
Non-Aircraft	218	389
Total	5,440	11,001

Financing

In the first quarter of 2014 THAI financed based on financing plans both long-term and short-term funding, amount of THB 14,047 million as the following details

1) acquired long-term funding, amount of EUR 108 million or around THB 4,847 million, using aircraft as collateral to finance Boeing B777-300ER aircraft,

2) issued THB 3,200 million in new debentures for repaying the expiry of previous debentures lot, repaying the loan in Baht term, and for working capital.

3) acquired short-term loan, amount of THB 6,000 million loan facility from a domestic financial institution to be used as working capital and then during the period THAI compensated THB 2,000 million which made the remaining short-term loan at the end of this quarter was THB 4,000 million.

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

Unit : Million Baht	Jan - Mar	
	2014	2013
Net cash from (used in) operating activities	(2,075)	7,559
Net cash used in investing activities	(1,951)	(2,475)
Net cash from (used in) financing activities	2,225	(5,744)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(166)	(756)
Increase(decreases) in cash and cash equivalents	(1,967)	(1,416)

Net cash from operating activities for the three-months period ended March 31, 2014 decreased THB 9,634 million mainly due to the loss from operation while last year's result reported as profit. Although net cash used in investing activities decreased when compared to last year and acquiring the additional working capital used in operating activities and amount of loans that came due resulting in repayment; thus, lower cash and cash equivalents as of March 31, 2014 as compared to December 31, 2013, by THB 1,967 million.

Fleet

According to the fleet development plan, the objective is to enhance effectiveness by concentrating on overhaul and maintenance cost reduction, enhancing fuel-cost efficiency, reducing Carbon dioxide emission to lower environmental impact, and increasing aircraft utilization by commonizing aircraft and engine type THAI's fleet development strategy includes the retiring older aircraft along while commissioning new ones.

As of March 31, 2014, THAI had obligations to acquire new aircraft consisted of new aircraft purchasing during 2014 – 2018 totaled 14 aircraft. These aircraft are 5 Airbus A320-200, 4 A350-900XWB, and 5 Boeing B777-300ER aircraft, whose entire amount was THB 43,260 million. Moreover, THAI has obligations to pay for 27 operating lease aircraft and still pending for delivery aircraft totaled 19 aircraft which made to the amount of THB 155,427 million. These operating lease aircraft will be terminated during 2014 – 2029.

In this quarter, THAI took delivery of 3 new aircraft which are a aircraft under finance lease: Boeing B777-300ER and two operating lease aircraft: Airbus A320-200. THAI also decommissioned 2 Airbus A330-300(excludes 1 Airbus A330-300 aircraft that has been damaged and grounded waiting for damages inspection and did not be counted as a part of THAI's fleet). When combined active aircraft as of December 31, 2013 which consisted of 100 aircraft, as of March 31, 2014 THAI's fleet totaled 101 aircraft, net increase of 1 aircraft.

The details as follow:

AIRCRAFT TYPE	Number of Aircraft	Own	finance lease	Operating lease	Active aircraft		
					As of March 31,2014	Variance from As of March 31,2014	New(+)/Decommission(-) during April -December 2014
BOEING B747-400	16	14	2	-	12		
BOEING B777-300	6	6			6		
BOEING B777-200ER	6	-	6		6		
BOEING B777-200	8	6		2	8		
BOEING B737-400	9	6		3	5		-3
BOEING B777-300ER	9	-	1	8	9	+1	+2
BOEING B787-800	-						+4
AIRBUS A340-600	6		6		6		
AIRBUS A340-500	4	4					
AIRBUS A330-300	27	10	15	2	24	-2 ¹⁾	-2
AIRBUS A320-200	12	-	-	12	12 ³⁾	+2	+5
AIRBUS A380-800	6	2	4	-	6		
AIRBUS A300-600R	9	9	-	-	5		-5
ATR 72	2	2	-	-			-2
FREIGHTER							
BOEING B747-400	2	2			2		
TOTAL	122	61²⁾	34	27	101	+1	-1

Remarks : 1) excluded 1 Airbus A330-300 aircraft that does not count toward the aircraft used in operations as of December 31, 2013 grounded and pending for damage inspection

2) Included 21 decommissioned aircraft owned by THAI and held for sales

3) Included a aircraft transferred the leasehold rights to Thai Smile Airways Co.,LTD.

Assets of Thai Airways International PCL. and its subsidiaries

As of March 31, 2014, total assets were THB 306,675 million, a decrease of THB 410 million or 0.1% from as at December 31, 2013.

	Consolidated			
	Mar 31, 2014		Dec 31, 2013	
	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets				
Cash and cash equivalents	9,791	3.2	11,758	3.8
Non-current assets classified as held for sale	8,213	2.7	7,197	2.3
Other current assets	40,397	13.2	39,530	12.9
Current Assets	58,401	19.1	58,485	19.0
Property, plant and equipment				
Prepaid aircraft and spare engine	17,311	5.6	17,986	5.8
Aircraft	61,411	20.0	64,091	20.9
Aircraft under finance leases	127,588	41.6	124,091	40.4
Aircraft spare parts	12,579	4.1	12,504	4.1
Work in process	885	0.3	1,113	0.4
Land, building and improvements	6,626	2.2	6,711	2.2
Other plant and equipment	4,861	1.6	4,953	1.6
Property, plant and equipment-net	231,261	75.4	231,449	75.4
Other non-current assets	17,013	5.5	17,151	5.6
Total Assets	306,675	100.0	307,085	100.0

Current assets were THB 58,401 million or accounted for 19.1% of total assets, an increase of THB 84 million from as of December 31, 2013. The significant items consisted of

- a decrease in cash and cash equivalents of THB 1,967 million, mainly from using in operating activities, amount of THB 2,075 million resulting from higher expenditures over operating revenues. The activities were investing in fixed assets and taking delivery of and repaying advance payment of the aircraft, the amount of up to THB 1,951 million, while net financing was only THB 2,225 million.

- Non-current assets classified as held for sale was THB 1,016 million higher due to 3 retired aircraft, Airbus A330-300, held for sale during the period.

- An increase in other current assets of THB 867 million mainly from the increase of trade receivables, amount of THB 700 million, since March 2014's sale volume which was higher than December 2013's. It should be noted that this year THAI has been able to better manage faster collection period by speeding up from 29 days in 2013 to 28 days this year.

THAI's trade receivables as of March 31, 2014 and 2013 classified by aging period as the following details

Unit : Million Baht	Jan - Mar	
	2014	2013
Aging Periods:		
Not over 6 months	14,258	13,512
Over 6 months to 1 year	298	358
Over 1 year to 2 years	357	350
Over 2 years	670	1,309
Total	15,583	15,529
<u>Less</u> Allowance for doubtful account	(1,242)	(1,889)
Trade receivables - net	14,341	13,640

Property, plant and equipment-net totaled THB 231,261 million or represented 75.4 % of total assets, which saw a decrease of THB 188 million or 0.1% from December 31, 2013 resulting from

- Prepaid aircraft and spare engines amounted to THB 17,311 million, a decrease of THB 675 million due to the prepayment transfer of a Boeing B777-300ER aircraft to be aircraft under finance lease; however, there were additional prepayment for Boeing B777-300ER, Airbus A350-900XWB, and Airbus A320-200.

- Aircraft totaled THB 61,411 million, a decrease of THB 2,680 million resulting from depreciation estimated which was a normal practice and the transferring 3 decommissioned Airbus A330-300 aircraft to be non-current assets classified as held for sales.

- Aircraft under finance lease totaled THB 127,588 million, an increase of THB 3,497 million mainly due to delivery of a new Boeing B777-300ER. However, the result from depreciation estimate lowered the amount of aircraft under finance lease.

- Aircraft spare parts totaled THB 12,579 million, an increase of THB 75 million due to the delivery of aircraft which had to reserve rotatable spare parts. However, the result from depreciation estimate lowered the amount of such assets.

- Other property, plant and equipment consisted of work in process, land, building and improvement, and other plants and equipment, totaled THB 12,372 million, which saw a decrease of THB 405 million resulting from the transferring of finished overhaul(D-Check) and installed equipments of delivered aircraft's seats to aircraft and aircraft under finance lease in this quarter as well as the normal depreciation estimates meanwhile there were additional assets.

Return on assets was -0.3% lower than last year's 3.1% due to the negative results this year.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of March 31, 2014 totaled THB 252,374 million, which was an increase of THB 2,208 million or 0.9% from as of December 31, 2013. These comprise of:

	Consolidated			
	Mar 31, 2014		Dec 31, 2013	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities
Current liabilities (including current portion of long-term liabilities)	82,103	32.5	82,369	32.9
Long-term liabilities				
Debentures	40,600	16.1	37,400	15.0
Liabilities under financial leases	64,701	25.6	63,319	25.3
Long term borrowings	48,422	19.2	50,831	20.3
Total long-term liabilities	153,723	60.9	151,550	60.6
Other non-current liabilities	16,548	6.6	16,247	6.5
Total Liabilities	252,374	100.0	250,166	100.0

Current liabilities(excluding current portion of long term liabilities' amount of THB 24,391 million) totaled THB 57,712 million, an increase from December 31,2013 of THB 143 million or 0.2% due to

- Short-term loan from related parties, an increase of THB 4,000 million, was loan from The Government Saving Bank using as working capital
- Accrued expenses, a decrease of THB 1,235 million, was principally from the reduction of accrued flight service expenses due to the decrease of traffic and production.
- Unearned transportation revenue, a decrease of THB 1,200 million due to the decrease of sale volume in this quarter when compared to the previous quarter.
- Other current liabilities decreased by THB 1,730 million, mainly from Airport tax levied on passengers waiting to be delivered to other airlines or other countries lower than last year.

Long-term liabilities as of March 31, 2014 (excluding current portion of long-term liabilities totaled THB 24,391 million) totaled THB 178,114 million represented 70.6% of total liabilities, which was an increase of THB 1,764 million or 1.0%from December 31, 2013 primarily due to additional long-term financing, amounted to THB 8,047 million which included 1 Boeing B777-300ER under finance lease, approximately THB 4,847 million and debentures issuance, amount of THB 3,200 million for debentures repayment which was due in 2014, loan repayment according to the present loan agreement and use for working capital. However, there were decrease in some liabilities which consisted of long-term repayment with expiry debentures repayment, amount of THB 5,481 million. Furthermore, the strengthen value of the Baht as of March 31, 2014 when compared to the end of 2013 benefited from the reduction of long-term liabilities translated to Baht terms.

At the end of the first quarter of 2014, interest bearing debt to equity was 3.4 times when compared to the end of 2013's 3.1 times.

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

As of March 31, 2014, shareholders' equity totaled THB 54,302 million, a decrease of THB 2,617 million from December 31, 2013 due to the unfavorable performance from THAI and its subsidiaries. Hence, return on equity decreased from 11.3% last year to -4.7% this year.

4. Factors affecting future operations

In the next quarter, there is a very high possibility that the air transport situation of Thailand will be enhanced after the state of emergency was lifted which reflected the changes of foreign countries to reduce the level of warning. Simultaneously with Songkran festival in April will benefit the situation. However, if political stability were uncertain, it would hurt the confidence of both foreign investor and tourists coming to Thailand which could be the negative factor to reduce the number of them. For the global scale, the world economic trends to be better in many countries such as the United States of America, European Union, and Japan. For the Chinese's economic is facing the slight slowdown from the restructuring of internal economic. When looking at the Asian's economic, it seems to be on the good sign in line with the world economic recovery. However, the tremendous transform of the U.S.'s financial policy and the international conflicts such as the forefront between Russia and Ukraine is the situation that will be closely monitored since it might fluctuate the currency exchange and the fuel price which both are the significant factors of THAI's operating.

THAI has prepared promotion plans and revenue enhancement in the second half of 2014 by using the on-time price adjustment strategy to cope with rapid situation changes, the premium services, flexible strategy to streamline the business processes, and positioning and comprehensible market segmentation among THAI, ThaiSmile, and Nok Airline along with more network collaboration. Thus, the new selling plan will focus on network traffic instead of point-to-point traffic by using the advantage of location of Thailand as the regional hub to reduce the connecting time and competitive prices. Moreover, the implementation of human resources management plan will match staff with appropriate competencies, age, and number of staff for more efficiency and personnel cost reduction in the long run.

In the second quarter, another new Boeing B787-800 aircraft which contains such special benefits such as lighter weight and more fuel saving. THAI plans to use it to operate in Australia and Japan routes.

For the progress of ThaiSmile, it received the Air Operator Certification(AOC) from Department of Civil Aviation on March 31, 2014 and started to operate in domestic routes on April 10, 2014 onwards under its own code as "WE".

5. Financial Ratios

		Jan - Mar	
		2014	2013
Liquidity Ratio			
Current Ratio	(times)	1.52	1.99
Profitability Ratio			
Operating Profit (loss) Margin	%	(4.50)	7.93
Net Profit (loss) Margin	%	(5.29)	14.81
Return on Equity	%	(4.71)	11.27
Efficiency Ratio			
Return on Total Assets	%	(0.31)	3.09
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	3.35	2.02
Interest Coverage Ratio	(times)	2.28	7.42

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