

## **Management's Discussion and Analysis for three months ended June 30, 2014 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

In the first half of the year 2014 the recovery of world economic caused the increased in air travel demand resulting the global airline industry continued to expand, especially in the Asia-Pacific region which has been growing steadily due to a growth from low-cost airlines' fleet and number of flight. According to the data from Association of Asia-Pacific Airlines–AAPA they showed the expansion of the production capacity (ASK) of the Asia Pacific airlines increased from the first half of last year by 6.4 %, higher than the industry average global capacity has been increased by 5.6 % while passenger traffic (RPK) increased by 4.8 %, lower than the industry average of 5.9 %.

In the second quarter of 2014, Thai's civil aviation Airline Industry has continued to struggle with the political unrest since the last quarter of 2014 until overseeing Thailand's administration by National Council for Peace and Order (NCPO) effective since May 22, 2014, affecting the confidence in the safety of tourists. This made the obvious decline in number of tourists entering Thailand based on the statistics data indicated the number of arrival foreign tourists at Suvarnabhumi and Donmuang international airport, down to 22.6 % year-on-year, especially regional tourists, where the market fell to 28.4%. In the meanwhile, the rigorous competition from low cost carriers(LCC) increased. By developing the new product and services, the LCC connected their networking connectivity and expanded their long range routes into the market of Korea, Japan and China resulting in more intense price competition.

THAI continues to follow the plot of business strategies for supporting the competition and the dynamics of the situation and the environment as well as the ASEAN Economic Community (AEC) in 2015. In this quarter, THAI took delivery of 2 Airbus A320-200 aircraft while decommissioned 2 older Airbus A300-600 aircraft.

In respect of Thai Smile Airways LTD., a subsidiary company 100% owned by THAI has been operating under the new aviation code "WE" under the code-share flights with THAI for domestic flights since 10 April 2014.

In addition to the development of improved products and services, THAI continued to provide passengers with the best service in every way as the prime mission. THAI was awarded the 3 Best Airline awards from Skytrax in the 1<sup>st</sup> prize of Best Airline Staff Service in Asia and Best Economy Class Airline Catering while receiving the 3<sup>rd</sup> prize of Best Airport Services(Ground services).

Despite the prolonged and intensified political unrest in Bangkok prominently impacts THAI's the reduction of number of passenger in this quarter down to 17.3% year-on-year. Although THAI has reduced its flight frequency in line with the decrease of passenger traffic which decreased production passenger (Available Seat Kilometers : ASK) by 4.9%, the lower passenger traffic (Revenue Passenger Kilometers : RPK) greatly decreased 14.3% resulting the average cabin factor was 63.5 % decreased from last year's where cabin factor was 70.5%. Thus, the operating revenues decreased by THB 4,326 million or 9.2% from the same period last year resulting a loss before foreign currency exchange and income tax(exclude impairment loss of aircraft and assets), THB 4,422 million or 134.9% higher than the last year's loss.

In this quarter, THAI and its subsidiaries facing a net loss of THB 7,654 million, decreased from last year's net loss by THB 722 million. Loss attributable to owners of the parent amounted to THB 7,662 million. Loss per share was 3.51 THB compared to last year's loss per share of 3.87 THB.

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

The consolidated financial statements for the second 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.

## Financial Performance: Thai and its subsidiaries

Unit : Million Baht	Apr - Jun			
	2014	2013	Variance	
			MTHB	%
Total Operating Revenues	42,767	47,093	-4,326	-9.2
<u>Less</u> Total Operating Expenses	49,157	49,992	-835	-1.7
Operating profit (loss)	(6,390)	(2,899)	-3,491	-120.4
<u>Add</u> Other revenues	659	1,313	-654	-49.8
<u>Less</u> Other expenses	316	168	+148	+88.1
<u>Less</u> Finance cost	1,652	1,523	+129	+8.5
<b>Loss before foreign currency exchange, income tax, and impairment</b>	<b>(7,699)</b>	<b>(3,277)</b>	<b>-4,422</b>	<b>-134.9</b>
<u>Less</u> Impairment loss of asset and aircraft	1,214	1,404	-190	-13.5
<u>Add</u> Gain(Loss) on foreign currency exchange	1,008	(4,202)	+5,210	+124.0
Loss before tax	(7,905)	(8,883)	+978	+11.0
Net Loss	(7,654)	(8,426)	+772	+9.2
<b>Loss attributable to owners of the parent</b>	<b>(7,662)</b>	<b>(8,439)</b>	<b>+777</b>	<b>+9.2</b>
Net loss per share (THB)	(3.51)	(3.87)	+0.36	+9.3
EBITDA (MTHB)	(896)	3,233	-4,129	-127.7
Operating Profit(Loss) Margin (%)	(14.9)	(6.2)		-8.7
EBITDA Margin (%)	(2.1)	6.9		-9.0
Net Profit(Loss) Margin (%)	(17.9)	(17.9)		-

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

In the second quarter of 2014, THAI's consolidated total operating revenues, amount of THB 42,767 million, which decreased by THB 4,326 million or by 9.2% due to the heavy drop of passenger and excess baggage revenue which decreased THB 4,245 million or 10.9%; however, operating expenses was THB 49,157 million, 1.7% slightly decreased from last year's expenses mainly due to the weakening value of Thai Baht which caused higher expenses when translated to Baht term. On the contrary, depreciation and lease of aircraft and spare parts were higher than last year resulting from the additional aircraft due to TG's fleet management strategy. These caused the operating loss of THB 6,390 million which was THB 3,491 million higher than last year's loss.

Combined with net other revenue(expenses) which decreased THB 802 million while the increase of financial cost, amount of THB 129 million or 8.5%, to maintain liquidity for adequate working capital and investing in obligation projects resulting a loss before foreign currency, income tax, and impairment of assets and aircraft totally amounted to THB 7,699 million, an increase from last year's loss amounted to THB 4,422 million or 134.9%.

THAI's consolidated gain on foreign currency exchange was THB 1,008 million, while last year reported the loss of THB 4,202 million and loss of impairment of assets and aircraft: Airbus A300-600, amount of THB 1,214 million which was a decrease of THB 190 million from last year. Consequently, THAI and its subsidiaries reported net loss of THB 7,654 million, which decreased THB 772 million from last year. Loss attributable to owners of the parent was THB 7,662 million or 3.51 baht per share, a decrease from last year where was a loss of 3.87 baht per share.

EBITDA was THB -896 million, which decreased from last year's THB 3,233 million. EBITDA margin was -2.1% lower than last year where reported 6.9%.

#### Operating performance :Thai and Thai Smile

		Apr - Jun		Variance
		2014	2013	
Production	(MATK)	2,960	3,081	- 3.9%
Traffic	(MRTK)	1,787	1,974	- 9.5%
Load Factor	(%)	60.4	64.1	- 3.7
Total yield	(THB/RTK)	22.43	22.18	+ 1.1%
Passenger carried	(Million)	4.23	5.11	- 17.3%
Passenger Production	(MASK)	19,889	20,906	- 4.9%
Passenger Traffic	(MRPK)	12,626	14,732	- 14.3%
Cabin Factor	(%)	63.5	70.5	- 7.0
Passenger yield	(THB/RPK)	2.69	2.56	+ 5.1%
Freight Production	(MADTK)	1,167	1,200	- 2.7%
Freight Traffic	(MRFTK)	625	621	+ 0.6%
Freight Load Factor	(%)	53.5	51.7	+ 1.8
Freight loaded	(Ton)	157,131	159,175	- 1.3%
Freight yield	(THB/RFTK)	9.37	9.10	+ 3.0%
Flight hours	(Hours)	88,660	93,009	- 4.7%

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

Total revenues (included gain on foreign currency exchange) for the second quarter of 2014 earned was THB 44,434 million, an increase of THB 230 million or 0.5% higher than last year. Details are as follows:

Unit : Million Baht	Apr - Jun					
	2014	% of Total Revenue	2013	% of Total Revenue	Variance	
					MTHB	%
<b>Revenues from transportation activities</b>						
Passenger and excess baggage revenue	34,547	77.8	38,792	87.8	-4,245	-10.9
Freight and mail revenue	6,060	13.6	5,903	13.3	+157	+2.7
<b>Total Revenue from transportation activities</b>	<b>40,607</b>	<b>91.4</b>	<b>44,695</b>	<b>101.1</b>	<b>-4,088</b>	<b>-9.1</b>
Revenue from other activities	2,160	4.9	2,398	5.5	-238	-9.9
<b>Total operating revenue</b>	<b>42,767</b>	<b>96.3</b>	<b>47,093</b>	<b>106.6</b>	<b>-4,326</b>	<b>-9.2</b>
Interest income	62	0.1	138	0.3	-76	-55.1
Other incomes	597	1.3	453	1.0	+144	+31.8
Gain on deemed disposal	-	-	722	1.6	-722	-100.0
Total other incomes	659	1.4	1,313	2.9	-654	-49.8
Gain(Loss) on foreign currency exchange	1,008	2.3	(4,202)	(9.5)	+5,210	+124.0
<b>Total Revenues</b>	<b>44,434</b>	<b>100.0</b>	<b>44,204</b>	<b>100.0</b>	<b>+230</b>	<b>+0.5</b>

**Revenues from transportation activities**, representing 91.4% of total revenues, totaled THB 40,607 million, a decrease of THB 4,088 million or 9.1% over last year.

**- Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 34,547 million, a decrease of THB 4,245 million or 10.9% since passenger traffic (Revenue Passenger-Kilometers:RPK) decreased by 14.3%. The main reason of this tremendous reduction was from the reduction of number of passenger due to the frightening of the situation in Thailand especially in the principle market; China and Japan. Combined with the fierce competition both domestic and regional level, it doubled the worst. Fortunately, average passenger yield (including fuel and insurance surcharge) amounted to 2.69 THB/RPK, increased by 0.13THB/RPK or 5.1% over last year resulting from the weakening Baht which raised THAI's yield compared to the exchange rate last year.

**- Freight and mail revenue**

Freight and mail revenue amounted to THB 6,060 million, which was an increase of THB 157 million or 2.7% resulting from the recovery of global economy increased freight traffic(RFTK) by 0.6% and average freight yield (including fuel and insurance surcharge) was 9.37 THB/RFTK increased 0.27 THB/RFTK or 3.0% over last year which effect by weakening Thai Baht.

### **Revenues from Other activities**

Revenues from other activities, consists of revenues from business units which are Ground services, Catering , Cargo handling services, and other activities revenue, amounted to THB 2,160 million, which decreased by THB 238 million over last year mainly due to the decrease of revenue from almost business units since the number of customer airlines' flight decreased. The decrease revenue of other activities was also caused by the decrease of income from maintenance services of other airlines and aircraft to the government agencies and revenue form lease aircraft and maintenance services to Nok Air.

### **Other income**

Other income totaled THB 659 million, a decrease of THB 654 million or 49.8% from last year since there was last year's gains on deemed disposal, amounted of THB 722 million. If excluded such amount in this quarter, other income of THAI and its subsidiaries increased only THB 68 million due to

- other income amounted to THB 597 million was an increase of THB 144 million or 31.8% primarily due to the discount from landing and parking fees from Airport of Thailand PCL., amount of THB 104 million based on the promotion campaign for passengers and airlines, the increase of other income from Technical department; however, recognition of passenger airport fees that were not billed to THAI for over 3 years but none of such revenues recognized this year.

- interest income totaled THB 62 million, a decrease of THB 76 million or 55.1% due to lower cash and cash equivalents than last year

### **Gain on foreign currency exchange**

Gain on foreign currency exchange totaled THB 1,008 million, which consisted of unrealized foreign currency, gain amount of THB 762 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, amount of THB 246 million.

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

In the second quarter of 2014, total expenses amounted to THB 52,339 million, which was THB 748 million or 1.4% lower than the same period last year. A summary of operating expenses is as follows:

Unit : Million Baht	Apr - Jun					
	2014	% of Total Expense	2013	% of Total Expense	Variance	
					MTHB	%
<b>Operating expense</b>						
Fuel and oil	18,717	35.8	18,453	34.8	+264	+1.4
Employee benefit expenses	7,768	14.8	8,742	16.5	-974	-11.1
Flight service expenses	5,180	9.9	5,227	9.9	-47	-0.9
Crew expenses	1,457	2.8	1,459	2.7	-2	-0.1
Aircraft maintenance and overhaul costs	3,051	5.8	3,237	6.1	-186	-5.7
Depreciation and amortization expenses	5,151	9.8	4,987	9.4	+164	+3.3
Lease of aircraft and spare parts	1,502	2.9	1,189	2.2	+313	+26.3
Inventories and supplies	1,927	3.7	2,245	4.2	-318	-14.2
Selling and advertising expenses	1,932	3.7	2,184	4.1	-252	-11.5
Insurance expense	120	0.2	169	0.3	-49	-29.0
Other operating expenses	2,352	4.5	2,100	4.0	+252	+12.0
<b>Total Operating Expense</b>	<b>49,157</b>	<b>93.9</b>	<b>49,992</b>	<b>94.2</b>	<b>-835</b>	<b>-1.7</b>
Impairment loss of assets and aircraft	1,214	2.3	1,404	2.6	-190	-13.5
Financial cost	1,652	3.2	1,523	2.9	+129	+8.5
Share of loss(gain) of associates	48	0.1	-166	-0.3	+214	+128.9
Other expenses	268	0.5	334	0.6	-66	-19.8
<b>Total Expenses</b>	<b>52,339</b>	<b>100.0</b>	<b>53,087</b>	<b>100.0</b>	<b>-748</b>	<b>-1.4</b>

**Total operating expenses** amounted to THB 49,157 million, was THB 835 million or 1.7% lower than last year. Significant changes of expenses for this quarter included:

- Fuel and oil expense amounted to THB 18,717 million or represented 35.8% of total expenses, was THB 264 million or 1.4% higher than last year resulting from the weakening Thai Baht affected the increase of THAI's fuel expense in baht terms and the increase of average jet fuel price; however, the decrease of fuel consumption which reduced 6.9%. From continuing and effective fuel hedging implementation made compensation income from fuel hedging amounting to THB 520 million.

- Employee benefits expenses consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense amounted to THB 7,768 million, which was a decrease of THB 974 million or 11.1% over last year mainly due to last year's the provision for annual welfare, amount of THB 380 million while there was none of such expenses this year, staff income tax which was lower than last year due to the new personal tax structure, and the cost management implementation which cut the overtime down 40% from last year.

- Flight related expenses consisted of flight service expenses, crew expenses, and maintenance and overhaul costs totaled THB 9,688 million, a decrease of THB 235 million or 2.4% due to the decrease of production while weakening Baht made the trivial increase of the expenses.

- Depreciation and amortization expenses totaled THB 5,151 million, an increase of THB 164 million or 3.3% due to the delivery of 4 new aircraft from the second quarter last year to the second quarter this year.

- Lease of aircraft and spare parts totaled THB 1,502 million, an increase of THB 313 million or 26.3% due to the greater number of aircraft under operating lease totaled 13 aircraft from the second quarter last year to the second quarter this year while weakening Baht made the trivial increase of the expenses. It should be noted that THAI returned 5 operating lease aircraft.

- Other operating expenses consisted of inventories and supplies, selling and advertising expenses, insurance expenses, and other expenses totaled THB 6,331 million, a decrease of THB 367 million or 5.5% since the expenses related to production and traffic of this year was lower than last year. In this quarter, THAI increased the amount of allowance of doubtful accounts, amount of THB 177 million compared to last year.

**Impairment loss of assets and aircraft** totaled THB 1,214 million, a decrease of THB 190 million from last year, which consisted of impairment loss of assets, the amount of THB 95 million which increased THB 23 million, and impairment loss of aircraft, the amount of THB 1,119 million which decreased THB 213 million. The main reason was the recognized impairment loss of net book value of 2 Airbus A300-600 aircraft this year.

**Finance cost** amounted to THB 1,652 million, an increase of THB 129 million or 8.5% due to the increase of both short-term and long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) at the end of the second quarter last year: an increase of THB 6,426 million at the end of the second quarter this year. Another reason was the weakening Thai Baht raised foreign interest expenditure when converted to Baht while lower interest rates. In this quarter, THAI amortized the loan guarantee premium for purchasing of 3 Airbus A340-500 aircraft, amount of THB 95 million due to loan repayment in total amount.

**Share of loss of associates** amounted to THB 48 million while last year's profit of THB 166 million. The major loss was from recognition of loss in Nok Air, the amount of THB 63 million compared to last year's profit of THB 128 million. THAI still recognized other shares of gain or loss of other associates' results. Details as follow:

- Royal Orchid Hotel (Thailand) PCL's loss amount of THB 11 million loss, an increase of THB 9 million,

- Donmuang International Airport Hotel Ltd.'s gain amount of THB 4 million, an increase of THB 3 million

- Bangkok Aviation Fuel Services PCL's gain amount of THB 12 million, a decrease of THB 19 million,

- Phuket Air Catering Ltd.'s gain amount of THB 9 million, a decrease of THB 5 million,.

- Suvarnabhumi Airport Hotel Ltd.'s gain amount of THB 1 million, an increase of THB 6 million.

**Operating results of Thai Airways International PCL. and its subsidiaries of the first six months of 2014 (January – June 2014) are as follows:**

Unit : Million Baht	Jan - Jun			
	2014	2013	Variance	
			MTHB	%
Total Operating Revenues	92,300	103,105	-10,805	-10.5
<u>Less</u> Total Operating Expenses	100,919	101,562	-643	-0.6
Operating profit (loss)	(8,619)	1,543	-10,162	-658.6
<u>Add</u> Other revenues	1,107	2,443	-1,336	-54.7
<u>Less</u> Other expenses	399	59	+340	+576.3
<u>Less</u> Finance cost	3,075	2,932	+143	+4.9
<b>Profit (Loss) before foreign currency exchange, income tax, and impairment</b>	<b>(10,986)</b>	<b>995</b>	<b>-11,981</b>	<b>-</b>
<u>Less</u> Impairment loss of asset and aircraft	1,299	3,773	-2,474	-65.6
<u>Add</u> Gain on foreign currency exchange	1,999	1,927	+72	+3.7
Loss before tax	(10,286)	(851)	-9,435	-
Net Loss	(10,274)	(131)	-10,143	-
<b>Loss attributable to owners of the parent</b>	<b>(10,296)</b>	<b>(156)</b>	<b>-10,140</b>	<b>-</b>
Net loss per share (THB)	(4.72)	(0.07)	-4.65	-
EBITDA (MTHB)	2,346	13,693	-11,347	-82.9
Operating Profit(Loss) Margin (%)	(9.3)	1.5		-10.8
EBITDA Margin (%)	2.5	13.3		-10.8
Net Profit(Loss) Margin (%)	(11.1)	(0.1)		-11.0

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

- THAI and its subsidiaries' operating loss amounted to THB 8,619 million, compared to last year's profit of THB 1,543 million.

- Operating revenue decreased THB 10,805 million or 10.5% mainly due to the domestic turmoil and the higher competition in airline industry which made a decrease of total traffic by 9.4%. However, the weakening Baht also raised THAI's revenue when translated in Baht term around 4.2%. Passenger and excess baggage revenue decreased THB 10,762 million or 12.5% mainly due to the decrease of passenger traffic while average passenger yield was higher than last year. Revenues from business units and other activities slightly decreased, THB 152 million or 3.2% but freight and mail revenue increased THB 109 million or 0.9%. The increase in freight and mail revenue was mainly from the increase of average freight yield while freight traffic was just a little bit lower than last year.

- Operating expenses decreased THB 643 million or 0.6%. The diminishing rate of reduction was lower than the decrease of traffic production which decreased 2.8% resulting from the weakening Thai Baht that made the higher expenses when translated in Baht term. Depreciation and lease of aircraft and spare part were higher when compared to last year due to the additional number of aircraft based on fleet development strategy.



- Other revenues (expenses) decreased THB 1,676 million since last year there were gain on deemed disposal amount of THB 722 million and gain on reclassify investment amount of THB 298 million while no such income recognized this year. Moreover, interest income decreased THB 124 million resulting from the decrease of cash and cash equivalents and the decrease of share of profit of associates amounted to THB 405 million mainly due to the share of loss of Nok Air and Royal orchid hotel compared to last year's profit resulting the lower income in the second quarter this year.

- Impairment loss of assets and aircraft amounted to THB 1,299 million, decreased THB 2,474 million

- Gain on foreign currency exchange amounted to THB 1,999 million, THB 72 million or 3.7% higher than last year.

- Net loss amounted to THB 10,274 million, THB 10,143 million more loss when compared to the same period last year. Loss attributable to owners of the parent amounted to THB 10,296 million.

- Loss per share was 4.72 THB, compared to last year where THAI reported a loss per share of 0.07 THB.

- EBITDA was THB 2,346 million, a decrease of THB 11,347 million or 82.9% from last year

- EBITDA margin was 2.5% decreased from last year where reported 13.3%

Operating performance :Thai and Thai Smile

		Jan - Jun		Variance
		2014	2013	
Production	(MATK)	6,057	6,234	- 2.8%
Traffic	(MRTK)	3,767	4,156	- 9.4%
Load Factor	(%)	62.2	66.7	- 4.5
Total yield	(THB/RTK)	22.98	23.27	- 1.2%
Passenger carried	(Million)	9.04	10.79	- 16.2%
Passenger Production	(MASK)	40,823	41,957	- 2.7%
Passenger Traffic	(MRPK)	27,303	31,534	- 13.4%
Cabin Factor	(%)	66.9	75.2	- 8.3
Passenger yield	(THB/RPK)	2.72	2.67	+ 1.9%
Freight Production	(MADTK)	2,381	2,458	- 3.1%
Freight Traffic	(MRFTK)	1,254	1,261	- 0.6%
Freight Load Factor	(%)	52.7	51.3	+ 1.4
Freight loaded	(Ton)	315,286	324,864	- 2.9%
Freight yield	(THB/RFTK)	9.32	9.11	+ 2.3%
Flight hours	(Hours)	182,158	188,935	- 3.6%

### 3. Financial Position and Liquidity

#### Capital Expenditures

Capital expenditures for this quarter ending June 30, 2014 totaled THB 2,041 million, which decreased by THB 3,839 million from last year since there was none of new delivered aircraft in this quarter while last year there was one of Airbus A330-300 aircraft added to the fleet. Capital expenditures for this year mainly were payments for acquisition of new aircraft, amounted to THB 1,777 million, consisted of prepayment for acquisition of aircraft and rotatable aircraft spare part in which delivery will be taken in 2014-2018, and THB 264 million for other fixed assets. Combined with the capital expenditure, THB 5,440 million, in the first quarter, the accumulated amount for the first 6 month of 2014 totaled THB 7,481 million.

Unit : Million Baht	Jan - Jun	
	2014	2013
Aircraft and aircraft spare parts	6,999	16,289
Non-Aircraft	482	592
<b>Total</b>	<b>7,481</b>	<b>16,881</b>

#### Financing

According to the negative results impacted level of cash from operating activities which meaningfully decreased resulting THAI needed to draw down the committed revolving credit line for stabilizing its liquidity to maintain adequate level of required cash flow for working capital, to proceed with the obligation investment projects which in the middle of revising TG's business plan for the better performance in the future.

In the second quarter of 2014 THAI financed based on financing plans both long-term and short-term funding to use as its working capital, amount of THB 14,000 million as the following details

1) acquired long-term funding, amount of THB 1,000 million, 5-year term, from local financial institution,

2) activated revolving credit line, amount of THB 13,000 million loan facility from a domestic financial institution to be used as working capital and then during the period THAI compensated THB 4,000 million accumulated with the remaining short-term loan at the end of the previous quarter, amounted to THB 4,000 million, made the total short-term funding as of June 30, 2014 totaling THB 13,000 million.

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

Unit : Million Baht	Jan - Jun	
	2014	2013
Net cash from (used in) operating activities	(2,283)	13,695
Net cash used in investing activities	(4,032)	(5,589)
Net cash from financing activities	5,177	7,190
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(167)	(405)
<b>Increase(decreases) in cash and cash equivalents</b>	<b>(1,305)</b>	<b>14,891</b>

Net cash from operating activities for the six-months period ended June 30, 2014 decreased THB 15,978 million mainly due to the higher loss from operation. Moreover, THAI acquired the additional working capital used in operating activities and amount of loans that came due lower than last year. Net cash used in investing activities was lower than last year. Hence, lower cash and cash equivalents as of June 30, 2014 as compared to December 31, 2013, by THB 1,305 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 June 30, 2014, THAI had contracts and 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 41,981 million. Moreover, THAI has obligations to pay for 29 operating lease aircraft and 17 aircraft pending for delivery which made to the amount of THB 154,087 million.

In this quarter, THAI took delivery of 2 new operating lease aircraft: Airbus A320-200 in May and June, respectively . THAI also decommissioned 2 Airbus A300-600. When combined active aircraft as of March 31, 2014 resulting, as of June 30, 2014, THAI's fleet remained 101 aircraft but there was an increase of 1 aircraft compared to the end of the year 2013.

The details as follow:

AIRCRAFT TYPE	Number of Aircraft	Own	finance lease	Operating lease	Active aircraft		
					As of June 30,2014	Variance from As of December 31,2013	New(+)/Decommission(-) during July -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 B787-8	-						+4
AIRBUS A340-600	6		6		6		
AIRBUS A340-500	4	4					
AIRBUS A330-300	27	10	15	2	24	-2 <sup>1)</sup>	-2
AIRBUS A320-200	14	-	-	14	14 <sup>3)</sup>	+4	+3
AIRBUS A380-800	6	2	4	-	6		
AIRBUS A300-600	9	9	-	-	3	-2	-3
ATR 72	2	2	-	-			
FREIGHTER							
BOEING B747-400	2	2			2		
<b>TOTAL</b>	<b>124</b>	<b>61<sup>2)</sup></b>	<b>34</b>	<b>29</b>	<b>101</b>	<b>+1</b>	<b>+1</b>

- 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 23 decommissioned aircraft owned by THAI and held for sales
  - 3) Included 9 aircraft transferred the leasehold rights to Thai Smile Airways Co.,LTD.

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

As of June 30, 2014, total assets were THB 300,055 million, a decrease of THB 7,030 million or 2.3% from as at December 31, 2013.

	Consolidated			
	Jun 30, 2014		Dec 31, 2013	
	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets				
Cash and cash equivalents	10,453	3.5	11,758	3.8
Non-current assets classified as held for sale	8,861	2.9	7,197	2.3
Other current assets	37,146	12.4	39,530	12.9
<b>Current Assets</b>	<b>56,460</b>	<b>18.8</b>	<b>58,485</b>	<b>19.0</b>
Property, plant and equipment				
Prepaid aircraft and spare engine	17,715	5.9	17,986	5.8
Aircraft	57,828	19.3	64,091	20.9
Aircraft under finance leases	125,428	41.8	124,091	40.4
Aircraft spare parts	12,827	4.3	12,504	4.1
Work in process	1,200	0.4	1,113	0.4
Land, building and improvements	6,543	2.2	6,711	2.2
Other plant and equipment	4,928	1.6	4,953	1.6
<b>Property, plant and equipment-net</b>	<b>226,469</b>	<b>75.5</b>	<b>231,449</b>	<b>75.4</b>
Other non-current assets	17,126	5.7	17,151	5.6
<b>Total Assets</b>	<b>300,055</b>	<b>100.0</b>	<b>307,085</b>	<b>100.0</b>

Current assets were THB 56,460 million or accounted for 18.8% of total assets, a decrease of THB 2,025 million or 3.5% from as of December 31, 2013. The significant items consisted of

- A decrease in cash and cash equivalents of THB 1,305 million, mainly from the operating loss of the first six-month of 2014 resulting net cash using in operating items, amount of THB 2,283 million and the investing activities which included taking delivery of and repaying advance payment of the aircraft, the amount of up to THB 4,032 million, while net financing was only THB 5,177 million.

- A decrease in other current assets of THB 2,384 million mainly from the decrease of trade receivables, amount of THB 1,528 million due to the decrease of sales. It should be noted that this year THAI has been able to better manage faster collection period by speeding up from 31 days in the first six month of 2013 to 29 days this year which was lower than THAI's normal collecting period.

THAI's trade receivables as of June 30, 2014 and December 31, 2013 classified by aging period as the following details

Unit : Million Baht	Jun 30,2014	Dec 31,2013
Aging Periods:		
Not over 6 months	11,956	13,512
Over 6 months to 1 year	273	358
Over 1 year to 2 years	400	350
Over 2 years	708	1,309
Total	13,337	15,529
<u>Less</u> Allowance for doubtful account	(1,225)	(1,889)
<b>Trade receivables - net</b>	<b>12,112</b>	<b>13,640</b>

Moreover, prepaid expenses and security deposit reduced THB 338 million due to the refund of security deposit of due operating lease of aircraft.

- Non-current assets classified as held for sale was THB 1,664 million higher due to 5 retired aircraft: 3 Airbus A330-300 in the previous quarter and 2 Airbus A300-600 during this quarter.

Property, plant and equipment-net totaled THB 226,469 million or represented 75.5 % of total assets, which saw a decrease of THB 4,980 million or 2.1% from December 31, 2013 resulting from

- Prepaid aircraft and spare engines amounted to THB 17,715 million, a decrease of THB 271 million due to the prepayment transfer of a Boeing B777-300ER aircraft and spare engine to be aircraft under finance lease and rotatable spare parts, respectively. However, there were additional prepayment for Boeing B777-300ER, Airbus A350-900XWB, and Airbus A320-200.

- Aircraft totaled THB 57,828 million, a decrease of THB 6,263 million resulting from depreciation estimated which was a normal practice and the transferring 5 decommissioned aircraft consisted of 3 Airbus A330-300 and 2 Airbus A300-600 aircraft to be non-current assets classified as held for sales.

- Aircraft under finance lease totaled THB 125,428 million, an increase of THB 1,337 million mainly due to delivery of a new Boeing B777-300ER in the previous quarter. However, the result from depreciation estimate lowered the amount of aircraft under finance lease.

- Rotatable spare parts totaled THB 12,827 million, an increase of THB 323 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.

Return on assets was -2.4% compared to 0.7% year-on-year due to the negative results this year.

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

Total liabilities as of June 30, 2014 totaled THB 253,460 million, which was an increase of THB 3,294 million or 1.3% from as of December 31, 2013. These comprise of:

	Consolidated			
	Jun 30, 2014		Dec 31, 2013	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities
Current liabilities (including current portion of long-term liabilities)	91,079	35.9	82,369	32.9
<b>Long-term liabilities</b>				
Debentures	37,600	14.8	37,400	15.0
Liabilities under financial leases	61,823	24.4	63,319	25.3
Long term borrowings	46,117	18.2	50,831	20.3
<b>Total long-term liabilities</b>	<b>145,540</b>	<b>57.4</b>	<b>151,550</b>	<b>60.6</b>
Other non-current liabilities	16,841	6.7	16,247	6.5
<b>Total Liabilities</b>	<b>253,460</b>	<b>100.0</b>	<b>250,166</b>	<b>100.0</b>

Current liabilities(excluding current portion of long term liabilities' amount of THB 27,464 million) totaled THB 63,615 million or represented 25.1 % of total Total liabilities, an increase from December 31,2013 of THB 6,046 million or 10.5% due to

- Short-term loan, an increase of THB 13,000 million, was loan from related parties, amount of THB 7,000 million, consisted of The Government Saving Bank, and other financial institution, amount of THB 6,000 million, as working capital.
- Accrued expenses, a decrease of THB 2,819 million, was principally from the reduction of accrued flight service expenses due to the decrease of traffic production and demand.
- Trade account payable, a decrease of THB 1,150 million, was principally from the decrease of traffic production and demand.
- Other current assets, a decrease of THB 2,787 million mainly due to airport tax levied on passengers waiting to be delivered to other airlines or other countries lower than last year.

Long-term liabilities as of June 30, 2014 (including liabilities under finance lease, long-term borrowings, and debentures totaled THB 27,464 million) totaled THB 173,004 million represented 68.3% of total liabilities, which was a decrease of THB 3,346 million or 1.9% from December 31, 2013 primarily due to long-term repayment which was greater than additional long-term financing and the strengthening value of the Baht as of June 30, 2014 when compared to the end of 2013 benefited from the reduction of long-term liabilities translated to Baht terms.

In the first six month of 2014, THAI had long-term repayment and liabilities under financial leases totaled THB 10,307 million and debentures repayment totaled THB 720 million. Simultaneously, THAI acquired additional long-term financing totaled THB 9,047 million to pay for aircraft purchases, 1 Boeing B777-300ER, approximately THB 4,847 million, long-term loan from domestic financial institution, THB 1,000 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.

At the end of the second quarter of 2014, interest bearing debt to equity was 4.0 times when compared to the end of 2013's 3.1 times.

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

As of June 30, 2014, shareholders' equity totaled THB 46,595 million, a decrease of THB 10,324 million from December 31, 2013 due to the unfavorable performance from THAI and its subsidiaries. Hence, return on equity decreased from -0.2% last year to -19.9% this year.

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

In the next 6 months of 2014, although there is a very high possibility that the world economic would be steadily recovery, it still would be low and fragile. Despite the change in monetary policy in both US and EU zone as well as the international conflict, especially the conflict between Ukraine and Russia, would be closely monitor as these situation would affect the fluctuation of foreign currency exchange, fuel prices, and security measures, which are the key factors to THAI's operation. In term of overall situation of Thai's economy, there is a good sign that indicates the improvement in the next 6 months. For the tourism sector, some predicts that the recovery would be obvious in the third quarter mainly due to the numerous measures aimed at improving the experience of travelers and tourists visiting Thailand by announcing an additional holiday during the Mother's day, implementing the suppression of influence groups easing the problems of tourism, building confidence to tourists and foreign investors. With these continuing campaigns, it is expected that the number of tourists will increase in the third quarter onward. However, the expansion of airline industry, especially the Low Cost Carriers, will boost the competitive situation to be more enormous.

Under the chronic political turbulence since the forth quarter of 2013 coupled with intense competition has resulted the operation loss of THAI. THAI has prepared the business turnaround plan, which was approved in principle by the Board of Directors on August 5, 2014, now under consideration by The Company's business plan screening working group. The joint meeting was held on August 8, 2014 and would meet again on August 18, 2014. During this urgent stage to accelerate the loans to maintain liquidity, the meeting took place among THAI's management in consultation with the representatives from Ministry of Finance consisted of representative from the State Enterprise Policy Office (SEPO) and the Public Debt Management Office(PDMO) in order to solve the problem on August 7, 2014 by the Ministry of Finance as the major shareholders would support by providing the financing to fix the problem. Aimed to implement the plan in the second half of 2014, and continue for reconstruction plan for the next 2 years by concentrating on liquidity adjustment, revenue increment, cost reduction and control, risk management, internal processes and human resources management with the principle of good governance, information technology improvement and managerial information during crisis and strengthening the organization to handle the fiercer competition and the dynamics changes of the future aviation industry more effectively, these measures intend to generate the sustainable operating profit in the future.

In the second half of 2014, THAI's fleet plan stated that 9 additional aircraft will be delivered consisted of 2 Boeing B777-300ER aircraft, 3 Airbus A320-200 aircraft, and 4 Boeing B787-8aircraft which contains such special benefits such as lighter weight and more fuel saving at maximum 25%. Simultaneously, THAI will decommission 8 aircraft consisted of 2 Airbus A330-300, 3 Airbus A300-600, and 3 Boeing B737-400 aircraft.

For the progress of ThaiSmile, it will have launched its operating at Don Mueang International airport since August 8, 2014 for passenger's convenience and alternatives for domestic flight in 3 cities: Don Mueang – Chang Mai, Don Mueang – KhonKaen, and Don Maeang-Phuket.



## 5. Financial Ratios

		Jan - Jun	
		2014	2013
<b>Liquidity Ratio</b>			
Current Ratio	(times)	1.30	2.28
<b>Profitability Ratio</b>			
Operating Profit (loss) Margin	%	(9.34)	1.50
Net Profit (loss) Margin	%	(11.13)	(0.13)
Return on Equity	%	(19.85)	(0.19)
<b>Efficiency Ratio</b>			
Return on Total Assets	%	(2.38)	0.66
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	3.99	2.65
Interest Coverage Ratio	(times)	0.76	4.67

### GLOSSARY

**EBITDA** = Total Revenue (Exclude gain/loss on foreign currency) - Total Expenses(exclude financial cost, tax, depreciation and amortization, 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(Loss) Margin** = (Total Operating revenue – Operating expenses)/ Total Operating revenue

**Net Profit(Loss) Margin** = Net Profit(Loss) / Total Operating revenue

**Return on Equity** = Net Profit(Loss) / Average Shareholders' Equity

**Return on Total Asset** = Profit(Loss) 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 expense