

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

### **1. Executive summary**

During the third quarter of the year 2014 the global economy continued to see recovery but at a pace that is much slower than expected. The Eurozone economy remained fragile with many challenges amongst its members within the union while the U.S. economy has experienced noticeable improvement reflected in its various economic indicators. Although the global airline industry continued to expand, there were various risk factors such as the Ebola virus epidemic and the unfortunate shooting down of a commercial airline over the skies of Ukraine had negative impact travel demand and in general, confidence in air travel.

In the third quarter of 2014, Thai's commercial Airline Industry benefited from the Royal Thai Government's tourism campaign which began on August 9, 2014 with lifting of visa fee for tourists from both Mainland China and Taiwan for 3 months to try to generate travel demand for Chinese tourists who have been the largest group of travelers to Thailand. Despite tourist confidence increasing over the previous quarter, it was far from normal. The martial law was still in force, bearing negative impact on the number of inbound tourists as compared to last year. Statistical data shows a drop in the number of foreign arrivals at Suvarnabhumi and Donmuang international airport to be down by 15.9 % year-on-year. The drop in the number of inbound tourists was most significant for regional tourists which saw an 18.4% drop. In the meanwhile, capacity expanded dramatically which resulted in a more intense price competition, especially from low cost carriers (LCC) with new comers such as NokScoot airline, ongoing fleet expansion and the launching new routes.

THAI continues to follow its established business strategies. In this quarter, THAI took delivery of 5 aircraft - 1 Airbus A320-200, 2 Boeing B777-300ER, and 2 Boeing B787-8 aircraft while decommissioning 2 older Airbus A300-600 aircraft. In respect of Thai Smile Airways LTD., a 100% owned subsidiary of THAI has been operating serving domestic travel out of Donmuang international airport to Chiang Mai, Khon kaen, and Phuket since August 8, 2014. .

In addition to the development of improved products and services, THAI continued to fulfill its prime mission of providing passengers with the best service. THAI was awarded the Fifth Best Airline Overall Worldwide, Fourth Best Business Class, and the Third Best Cabin service by Smart Travel Asia 2014, which was awarded by gathering votes from travelers worldwide. Also, THAI received the Best Airline Award 2013 from Travel and Leisure India magazine and South Asia which is the leading magazine for the content of tourism and travel media that has many readers in India.

The recovering domestic unrest and the fierce competition have had direct negative impact on THAI's number of passenger as the number was down by 12.5% year-on-year for the quarter. Although THAI reduced its flight frequency in line with the decrease of passenger traffic with passenger production (Available Seat Kilometers : ASK) down by 4.8%, passenger traffic (Revenue Passenger Kilometers : RPK) decreased more significantly by 10.1% resulting in an average cabin factor of 71.1 %, a decrease from last year's 75.3% cabin factor. The result was a drop in operating revenues by THB 4,853 million or 9.6% from the same period last year resulting in a loss before gain on foreign currency exchange and income tax(exclude impairment loss of aircraft and assets) of THB 5,237 million, which was THB 2,086 million or 66.2% higher than the last year's loss. Combined with a loss of impairment of assets and aircraft, amount of THB 1,220 million and gain of foreign currency exchange, amount of THB 7,379 million resulting THAI and its subsidiaries earned a net profit of THB 1,097 million as compared to last year's loss of THB 6,182 million. Profit attributable to owners of the parent amounted to THB 1,086 million. Profit per share was 0.50 THB compared to last year's loss per share of 2.84 THB.

To address the weaker results from operating performance, THAI developed a business turnaround plan which was approved in principle by the Board of Directors on August 5, 2014. The urgent plan focuses on increasing revenue, reducing costs to improve operating results in 2014 and ensuring sufficient liquidity and financing for investments and support its operations. On September 9, 2014 the Board of Directors appointed a strategy and reform committee made up of relevant Board of Directors and external experts to closely supervise and review the strategic and reorganization plan to ensure a competitive organization that is able to generate appropriate returns on a sustainable basis which would be implemented and planned to complete at the end of this year as a roadmap to generate the action plan of 2015 and the medium-term plan.

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

The consolidated financial statements for the third quarter of 2014 consists of THAI's financial statement and 5 subsidiaries - 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	Jul - Sep			
	2014	2013	Variance	
			MTHB	%
Total Operating Revenues	45,826	50,679	-4,853	-9.6
<u>Less</u> Total Operating Expenses	49,766	52,767	-3,001	-5.7
Operating profit (loss)	(3,940)	(2,088)	-1,852	-88.7
<u>Add</u> Other revenues	614	673	-59	-8.8
<u>Less</u> Other expenses	334	254	+80	+31.5
<u>Less</u> Share of loss (profit) of associates	105	(179)	+284	+158.7
<u>Less</u> Finance cost	1,472	1,661	-189	-11.4
<b>Loss before foreign currency exchange, income tax, and impairment</b>	<b>(5,237)</b>	<b>(3,151)</b>	<b>-2,086</b>	<b>-66.2</b>
<u>Less</u> Impairment loss of asset and aircraft	1,220	87	+1,133	-
<u>Add</u> Gain (loss) on foreign currency exchange	7,379	(2,890)	+10,269	+355.3
Profit (loss) before tax	922	(6,128)	+7,050	+115.0
Net Profit(Loss)	1,097	(6,182)	+7,279	+117.7
<b>Profit(Loss) attributable to owners of the parent</b>	<b>1,086</b>	<b>(6,195)</b>	<b>+7,281</b>	<b>+117.5</b>
Net Profit (loss) per share (THB)	0.50	(2.84)	+3.34	+117.6
EBITDA (MTHB)	1,381	3,550	-2,169	-61.1
Operating Profit(Loss) Margin (%)	(8.6)	(4.1)		-4.5
EBITDA Margin (%)	3.0	7.0		-4.0
Net Profit(Loss) Margin (%)	2.4	(12.2)		+14.6

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

In the third quarter of 2014, THAI's consolidated total operating revenues, totaled THB 45,826 million, which decreased by THB 4,853 million or by 9.6% due to the significant drop in passenger and excess baggage revenue which decreased THB 4,552 million or 10.7%; however, operating expenses was THB 49,766 million, THB 3,001 million or 5.7% lower than last year's expenses mainly due to the

reduction of employee benefit in the amount of THB 1,281 million or 15.0% and the decrease of production which lowered variable cost. The weakening value of Thai Baht caused expenses to be higher when translated to Baht term. Depreciation and cost of aircraft lease and spare parts were higher than last year resulting from additional aircraft joining the fleet as planned. The result was an operating loss of THB 3,940 million which was THB 1,852 million or 88.7% higher than last year's loss.

Other revenues amounted of THB 614 million, a decrease of THB 59 million or 8.8%. Other expense was THB 334 million, an increase of THB 80 million or 31.5% over last year, due to the loss on sale on aircraft, an A300-600 aircraft.

Share of loss of associates totaled THB 105 million while a profit of THB 179 million was reported last year. The main reason was recognition of loss from Nok Air's operations. However, the finance cost decreased by THB 189 million or 11.4%. Consequently, THAI's consolidated loss before foreign currency, income tax, and impairment of assets and aircraft amounted to THB 5,237 million, an increase from last year's loss of THB 2,086 million or 66.2%.

THAI's consolidated Loss on impairment of assets and aircraft: 2 Airbus A300-600 totaled THB 1,220 million. Gain on foreign currency exchange was THB 7,379 million which was the result of translating THAI's outstanding foreign currency loans into Baht term at the end of the period, while last year a loss of THB 2,890 million. Consequently, THAI and its subsidiaries reported a net profit of THB 1,097 million while last year the Company posted a loss of THB 6,182 million. Profit attributable to owners of the parent was THB 1,086 million or 0.50 baht per share, compared to a loss of 2.84 baht per share posted last year.

EBITDA was THB 1,381 million, a THB 2,169 million decrease from last year. EBITDA margin achieved was 3.0%, lower than last year's reported 7.0%.

### Operating performance :Thai and Thai Smile

		Jul - Sep		Variance
		2014	2013	
Production	(MATK)	3,049	3,177	- 4.0%
Traffic	(MRTK)	1,895	2,083	- 9.0%
Load Factor	(%)	62.1	65.6	- 3.5
Total yield	(THB/RTK)	22.54	22.77	- 1.0%
Passenger carried	(Million)	4.73	5.41	- 12.5%
Passenger Production	(MASK)	20,439	21,458	- 4.8%
Passenger Traffic	(MRPK)	14,523	16,149	- 10.1%
Cabin Factor	(%)	71.1	75.3	- 4.2
Passenger yield	(THB/RPK)	2.57	2.56	+ 0.4%
Freight Production	(MADTK)	1,207	1,246	- 3.2%
Freight Traffic	(MRFTK)	561	603	- 6.9%
Freight Load Factor	(%)	46.5	48.4	- 1.9
Freight loaded	(Ton)	139,260	154,446	- 9.8%
Freight yield	(THB/RFTK)	9.23	9.37	- 1.5%
Flight hours	(Hours)	90,574	95,083	- 4.7%

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

Total revenues (included gain on foreign currency exchange) for the third quarter of 2014 earned was THB 53,819 million, an increase of THB 5,357 million or 11.1% higher than last year. Details are as follows:

Unit : Million Baht	Jul - Sep					
	2014	% of Total Revenue	2013	% of Total Revenue	Variance	
					MTHB	%
<b>Revenues from transportation activities</b>						
Passenger and excess baggage revenue	37,903	70.4	42,455	87.6	-4,552	-10.7
Freight and mail revenue	5,440	10.1	5,878	12.1	-438	-7.5
<b>Total Revenue from transportation activities</b>	<b>43,343</b>	<b>80.5</b>	<b>48,333</b>	<b>99.7</b>	<b>-4,990</b>	<b>-10.3</b>
Revenue from other activities	2,483	4.6	2,346	4.9	+137	+5.8
<b>Total operating revenue</b>	<b>45,826</b>	<b>85.1</b>	<b>50,679</b>	<b>104.6</b>	<b>-4,853</b>	<b>-9.6</b>
Interest income	69	0.2	171	0.4	-102	-59.6
Other incomes	545	1.0	502	1.0	+43	+8.6
Total other incomes	614	1.2	673	1.4	-59	-8.8
Gain (loss) on foreign currency exchange	7,379	13.7	(2,890)	(6.0)	+10,269	+355.3
<b>Total Revenues</b>	<b>53,819</b>	<b>100.0</b>	<b>48,462</b>	<b>100.0</b>	<b>+5,357</b>	<b>+11.1</b>

**Revenues from transportation activities**, representing 80.5% of total revenues, totaled THB 43,343 million, saw a decrease of THB 4,990 million or 10.3% over last year.

### - Passenger and excess baggage revenue

Passenger and excess baggage revenue totaled THB 37,903 million, a decrease of THB 4,552 million or 10.7% as passenger traffic (Revenue Passenger-Kilometers:RPK) decreased by 10.1%. Average passenger yield (including fuel and insurance surcharge) amounted to 2.57 THB/RPK the same as last year's yield. The main reason was from the reduction of number of passengers especially in Asian and Australian markets and the fierce competition on both domestic and regional markets.

### - Freight and mail revenue

Freight and mail revenue amounted to THB 5,440 million, which was a decrease of THB 438 million or 7.5%. Despite the slight recovery of global economy, the increased production base in other countries where THAI did not operate and/or the countries where THAI reduced its frequency, and the aggressive competition due to the increase of other airlines' freight production resulted in the decrease of both freight production (ADTK) by 3.2% freight traffic(RFTK) by 6.9%, respectively. Average freight yield (including fuel and insurance surcharge) was 9.23 THB/RFTK decreased 1.5% over last year.

### 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 2,483 million, which increased by THB 137 million or 5.8% over last year mainly due to an increase of income from maintenance services and cargo handling service while revenue from other business units decreased since the number of customer airlines' flight decreased.

### Other income

Other income totaled THB 614 million, a decrease of THB 59 million or 8.8% from last year due to

- other income amounted to THB 545 million was an increase of THB 43 million or 8.6% primarily due to compensation from European Aviation Safety Agency that called to monitor the safety of the A380-800 aircraft and then detected wing rib cracks which those 2 aircraft were not capable to operate normally. The problem has since been rectified but the Company was compensated approximately THB150 million.

- interest income totaled THB 69 million, a decrease of THB 102 million or 59.6% due to lower cash and cash equivalents than last year since THAI issued debentures and long-term loans which enabled the Company to earn extra interest prior to repaying its loans to discharge its obligations under finance leases for 3 Airbus A340-500 aircraft in the fourth quarter of 2013.

### Gain on foreign currency exchange

Gain on foreign currency exchange totaled THB 7,379 million which consisted of unrealized foreign currency gain of THB 6,510 million which was the result of translating outstanding foreign currency loans into Baht terms at the end of the period and realized foreign currency gain totalling THB 869 million.

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

In the third quarter of 2014, total expenses amounted to THB 52,897 million, which was THB 1,693 million or 3.1% lower than the same period last year. A summary of operating expenses is as follows:

Unit : Million Baht	Jul - Sep					
	2014	% of Total Expense	2013	% of Total Expense	Variance	
					MTHB	%
<b>Operating expense</b>						
Fuel and oil	19,479	36.8	20,131	36.9	-652	-3.2
Employee benefit expenses	7,279	13.8	8,560	15.7	-1,281	-15.0
Flight service expenses	5,038	9.5	5,451	10.0	-413	-7.6
Crew expenses	1,469	2.8	1,500	2.7	-31	-2.1
Aircraft maintenance and overhaul costs	3,174	6.0	3,520	6.4	-346	-9.8
Depreciation and amortization expenses	5,146	9.8	5,040	9.2	+106	+2.1
Lease of aircraft and spare parts	1,658	3.1	1,159	2.1	+499	+43.1
Inventories and supplies	1,970	3.7	2,438	4.5	-468	-19.2
Selling and advertising expenses	2,286	4.3	2,445	4.5	-159	-6.5
Insurance expense	112	0.2	184	0.3	-72	-39.1
Other operating expenses	2,155	4.1	2,339	4.3	-184	-7.9
<b>Total Operating Expense</b>	<b>49,766</b>	<b>94.1</b>	<b>52,767</b>	<b>96.6</b>	<b>-3,001</b>	<b>-5.7</b>
Impairment loss of assets and aircraft	1,220	2.3	87	0.2	+1,133	-
Finance cost	1,472	2.8	1,661	3.0	-189	-11.4
Share of loss (profit) of associates	105	0.2	(179)	-0.3	+284	+158.7
Other expenses	334	0.6	254	0.5	+80	+31.5
<b>Total Expenses</b>	<b>52,897</b>	<b>100.0</b>	<b>54,590</b>	<b>100.0</b>	<b>-1,693</b>	<b>-3.1</b>

**Total operating expenses** amounted to THB 49,766 million, was THB 3,001 million or 5.7% lower than last year. Significant changes of expenses for this quarter included:

- Fuel and oil expense amounted to THB 19,479 million or represented 36.8% of total expenses, was THB 652 million or 3.2% lower than last year resulting from the decrease of traffic production which reduced fuel consumption 7.0% and the reduction of average jet fuel price from last year around by 3.0%; however, the weakening Thai Baht against the US Dollar enlarged the cost by 2%. The effective fuel hedging provided the company with THB 71 million in compensation.

- Employee benefits expenses consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense amounted to THB 7,279 million, which was a decrease of THB 1,281 million or 15.0% 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, the adjustment on annual salary increment which was over-accrued amount in previous quarter, and the cost management implementation which cut the overtime down 19% from last year.

- Flight related expenses consisted of flight service expenses, crew expenses, maintenance and overhaul costs, and inventories and supplies totaled THB 11,651 million, a decrease of THB 1,258 million or 9.7% due to the decrease of production, the cost management implementation, and maintenance rate of Total care maintenance program for Trent engines which was lower than last year.

- Depreciation and amortization expenses totaled THB 5,146 million, an increase of THB 106 million or 2.1% due to the delivery of 5 new aircraft from the third quarter last year to the third quarter this year.

- Lease of aircraft and spare parts totaled THB 1,658 million, an increase of THB 499 million or 43.1% due to the greater number of aircraft under operating lease totaled 14 aircraft from the third quarter last year to the third quarter this year. It should be noted that THAI returned 2 operating lease aircraft.

- Insurance expenses totaled THB 112 million, a decrease of THB 72 million or 39.1% due to the diminished premium of aircraft related which was lower than last year's.

- Selling and advertising expenses totaled THB 2,286 million, a decrease of THB 159 million or 6.5% due to the lower reservation expense related to the lower number of passenger and the lower advertising expense.

- Other operating expenses totaled THB 2,155 million, a decrease of THB 184 million or 7.9% since the concession fee decreased related to the decrease of external revenue from Business Units.

**Impairment loss of assets and aircraft** totaled THB 1,220 million, an increase of THB 1,133 million from last year, which consisted impairment loss of aircraft : 2 Airbus A300-600, the amount of THB 1,131 million and impairment loss of assets was similar to the previous year's.

**Finance cost** amounted to THB 1,472 million, a decrease of THB 189 million or 11.4% due to the decrease of long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) at the end of the third quarter this year which was lower than the end of the third quarter last year at the amount of THB 10,993 million. Although short-term loan increased, interest rates was lower than last year.

**Share of loss of associates** amounted to THB 105 million while last year's profit of THB 179 million. The major loss was from recognition of loss in Nok Air, the amount of THB 139 million compared to last year's profit of THB 96 million. THAI still recognized gain or loss of other associates' results. Details as follow:

- Royal Orchid Hotel (Thailand) PCL's loss amount of THB 17 million loss, an increase of THB 13 million,
- Suvarnabhumi Airport Hotel Ltd.'s loss amount of THB 3 million, an increase of THB 3 million,
- Donmuang International Airport Hotel Ltd.'s gain amount of THB 7 million, an increase of THB 3 million,
- Bangkok Aviation Fuel Services PCL's gain amount of THB 43 million, a decrease of THB 32 million,
- Phuket Air Catering Ltd.'s gain amount of THB 4 million, a decrease of THB 4 million.

**Operating results of Thai Airways International PCL. and its subsidiaries of the first ninemonths of 2014 (January - September 2014)** are as follows:

Unit : Million Baht	Jan - Sep			
	2014	2013	Variance	
			MTHB	%
Total Operating Revenues	138,126	153,785	-15,659	-10.2
<u>Less</u> Total Operating Expenses	150,685	154,329	-3,644	-2.4
Operating profit (loss)	(12,559)	(544)	-12,015	-
<u>Add</u> Other revenues	1,721	3,115	-1,394	-44.8
<u>Less</u> Other expenses	843	828	+15	+1.8
<u>Less</u> Share of profit of associates	(5)	(694)	+689	+99.3
<u>Less</u> Finance cost	4,548	4,593	-45	-1.0
<b>Loss before foreign currency exchange, income tax, and impairment</b>	<b>(16,224)</b>	<b>(2,156)</b>	<b>-14,068</b>	<b>-652.5</b>
<u>Less</u> Impairment loss of asset and aircraft	2,519	3,859	-1,340	-34.7
<u>Add</u> Gain (loss) on foreign currency exchange	9,378	(963)	+10,341	-
Loss before tax	(9,365)	(6,978)	-2,387	-34.2
Net Loss	(9,177)	(6,313)	-2,864	-45.4
<b>Loss attributable to owners of the parent</b>	<b>(9,211)</b>	<b>(6,351)</b>	<b>-2,860</b>	<b>-45.0</b>
Net loss per share (THB)	(4.22)	(2.91)	-1.31	-45.0
EBITDA (MTHB)	3,727	17,243	-13,516	-78.4
Operating Profit(Loss) Margin (%)	(9.1)	(0.4)		-8.7
EBITDA Margin (%)	2.7	11.2		-8.5
Net Profit(Loss) Margin (%)	(6.6)	(4.1)		-2.5

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

- THAI and its subsidiaries' operating loss amounted to THB 12,559 million, THB 12,015 million higher than last year's loss.

- Operating revenue decreased THB 15,659 million or 10.2% mainly due to the domestic turmoil and the higher competition in airline industry which made a decrease of total traffic by 9.3%. However, the weakening Baht also raised THAI's revenue when translated in Baht term around 3.5%. Passenger and excess baggage revenue decreased THB 15,314 million or 11.9% mainly due to the decrease of passenger traffic, 12.3% lower than last year, while average passenger yield was 1.5% higher than last year. Freight and mail revenue decreased THB 329 million or 1.8%. The decrease in freight and mail revenue was mainly from freight traffic which was 2.7% lower than last year, but the increase of average freight yield, 1.0% higher than last year. Revenues from business units and other activities were similar to last year.

- Operating expenses decreased THB 3,644 million or 2.4%. The diminishing rate of reduction was lower than the decrease of traffic production which decreased 3.2% resulting from the weakening Thai Baht that made the higher expenses when translated in Baht term about 4.1%. 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 decreased THB 1,394 million or 44.8% since last year there were gain on deemed disposal amount of THB 722 million and gain on reclassify investment amount of THB 298 million. Moreover, interest income decreased THB 226 million resulting from the decrease of average amount cash and cash equivalents during the nine month of 2014.

- Share of profits of associates decreased THB 689 million or 99.3% due to the recognition of loss in Nok Air, the amount of THB 185 million compared to last year's profit of THB 432 million while most associates earned less profit.

- Impairment loss of assets and aircraft decreased THB 1,340 million or 34.7%. The lower impairment loss resulted from reserving impairment loss of 5 Airbus A300-600 aircraft, totaled THB 2,294 million, while last year's reserved impairment loss of 7 aircraft: 3 Airbus A300-600 and 4 Airbus A340-500 aircraft, totaled THB 3,593 million.

- Gain on foreign currency exchange amounted to THB 9,378 million while last year reported loss of THB 963 million.

- Net loss amounted to THB 9,177 million, THB 2,864 million more loss when compared to the same period last year. Loss attributable to owners of the parent amounted to THB 9,211 million.

- Loss per share was 4.22 THB, compared to last year where THAI reported a loss per share of 2.91 THB.

- EBITDA was THB 3,727 million, a decrease of THB 13,516 million or 78.4% from last year

- EBITDA margin was 2.7% decreased from last year where reported 11.2%



## Operating performance :Thai and Thai Smile

		Jan - Sep		Variance
		2014	2013	
Production	(MATK)	9,107	9,411	- 3.2%
Traffic	(MRTK)	5,662	6,239	- 9.3%
Load Factor	(%)	62.2	66.3	- 4.1
Total yield	(THB/RTK)	22.84	23.10	- 1.1%
Passenger carried	(Million)	13.77	16.20	- 15.0%
Passenger Production	(MASK)	61,262	63,415	- 3.4%
Passenger Traffic	(MRPK)	41,826	47,683	- 12.3%
Cabin Factor	(%)	68.3	75.2	- 6.9
Passenger yield	(THB/RPK)	2.67	2.63	+ 1.5%
Freight Production	(MADTK)	3,587	3,704	- 3.1%
Freight Traffic	(MRFTK)	1,815	1,865	- 2.7%
Freight Load Factor	(%)	50.6	50.3	+ 0.3
Freight loaded	(Ton)	454,546	479,310	- 5.2%
Freight yield	(THB/RFTK)	9.29	9.20	+ 1.0%
Flight hours	(Hours)	272,733	284,018	- 4.0%

### 3. Financial Position and Liquidity

#### Capital Expenditures

Capital expenditures for this quarter ending September 30, 2014 totaled THB 5,379 million, which increased by THB 2,184 million from last year since there were 2 new delivered aircraft: Boeing B777-300ER, in this quarter while last year no new aircraft added to the fleet. Capital expenditures for this year mainly were payments for acquisition of new aircraft, amounted to THB 5,035 million which some parts of this amount consisted of prepayment for acquisition of aircraft and rotatable aircraft spare part in which delivery will be taken in 2014-2018, and THB 344 million for other fixed assets. Combined with the capital expenditure, THB 7,481 million, in the first six month of 2014, the accumulated amount for the first 9 month of 2014 totaled THB 12,860 million.

Unit : Million Baht	Jan - Sep	
	2014	2013
Aircraft and aircraft spare parts	12,034	19,229
Non-Aircraft	826	777
<b>Total</b>	<b>12,860</b>	<b>20,076</b>

## Financing

The weak results impacted level of cash from operating activities which resulted in requiring THAI to partially draw down committed revolving credit lines to sustain liquidity and to maintain adequate level of required cash flow for working capital, to meet its investment program. A new strategic plan is currently being drafted to ensure improved financial performance.

In the third quarter of 2014, total long-term and short-term funding totaled THB 31,750 million with the following details

1) acquired long-term financing through financial lease using the aircraft as collateral in the amount of EURO 238 million, or approximately THB 10,130 million to pay for 2 Boeing B777-300ER aircraft.

2) acquired long-term funding, amount of THB 1,000 million, 7-year term, from local financial institution,

3) acquired short-term financing in the Bridge Loan from Boeing Capital Corporation to pay a Boeing B777-300ER aircraft in the process of long-term financing of USD 50 million, or about THB 1,620 million, and

4) a partial draw down of its THB 19,000 committed revolving credit line from domestic financial institution to repay the loan at maturity and used as working capital.

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

Unit : Million Baht	Jan – Sep	
	2014	2013
Net cash from operating activities	530	17,764
Net cash used in investing activities	(5,748)	(8,594)
Net cash from financing activities	12,514	6,275
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(429)	(172)
<b>Increase in cash and cash equivalents</b>	<b>6,867</b>	<b>15,273</b>

Net cash from operating activities for the nine-months period ended September 30, 2014 decreased THB 17,234 million mainly due to the higher loss from operation. Moreover, THAI acquired additional working capital used to support its operating activities and refinance loans that came due in 2014 where refinancing needs were lower last year. Net cash used in investing activities was lower than last year. Hence, cash and cash equivalents were higher as of September 30, 2014 than as compared to December 31, 2013, by THB 6,867 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 September 30, 2014, THAI had contracts and obligations to acquire new aircraft consisting of new aircraft acquisition during 2014 – 2018 totaling 12 aircraft. These aircraft include 5 Airbus A320-200, 4 A350-900XWB, and 3 Boeing B777-300ER aircraft, whose entire amount was THB 35,429 million. Moreover, THAI has obligations to pay for 32 operating lease aircraft and 14 aircraft pending for delivery which made to the amount of THB 151,429 million.

In this quarter, THAI took delivery of 5 new aircraft which 2 Boeing B777-300ER aircraft was aircraft under financing lease while 2 Boeing B787-8, and 1 Airbus A320-200 were aircraft under operating lease. THAI also decommissioned 2 Airbus A300-600. When combined active aircraft as of June 30, 2014, totaled 101 aircraft, resulting, as of September 30, 2014, THAI's fleet remained 104 aircraft. When compared to the end of the year 2013, there were 4 additional aircraft. It should be noted that in September 2014, an Airbus A300-600 aircraft, which had been ground since March 2013, was sold. This made THAI's owned aircraft went down by 1 aircraft.

The details as follow:

AIRCRAFT TYPE	Numner of Aircraft	Own	finance lease	Operating lease	Active aircraft		
					As of September 30, 2014	Variance from As of December 31, 2013	New(+)/Decommission(-) during October - 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		-2
BOEING B777-300ER	11	-	3	8	11	+3	
BOEING B787-8	2			2	2	+2	+2
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	15	-	-	15	15 <sup>3)</sup>	+5	+2
AIRBUS A380-800	6	2	4	-	6		
AIRBUS A300-600	8	8	-	-	1	-4	-1
ATR 72	2	2	-	-			
FREIGHTER							
BOEING B747-400	2	2			2		
<b>TOTAL</b>	<b>128</b>	<b>60<sup>2)</sup></b>	<b>36</b>	<b>32</b>	<b>104</b>	<b>+4</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 and a Airbus A330-300 aircraft pending for insurance compensation

3) Included 10 aircraft transferred the leasehold rights to Thai Smile Airways Co.,LTD.

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

As of September 30, 2014, total assets were THB 310,243 million, an increase of THB 3,158 million or 1.0% from as at December 31, 2013.

	Consolidated			
	Sep 30, 2014		Dec 31, 2013	
	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets				
Cash and cash equivalents	18,625	6.0	11,758	3.8
Non-current assets classified as held for sale	8,939	2.9	7,197	2.3
Other current assets	38,098	12.3	39,530	12.9
<b>Current Assets</b>	<b>65,662</b>	<b>21.2</b>	<b>58,485</b>	<b>19.0</b>
Property, plant and equipment				
Prepaid aircraft and spare engine	13,770	4.4	17,986	5.8
Aircraft	54,209	17.5	64,091	20.9
Aircraft under finance leases	134,032	43.2	124,091	40.4
Aircraft spare parts	12,511	4.0	12,504	4.1
Work in process	919	0.3	1,113	0.4
Land, building and improvements	6,539	2.1	6,711	2.2
Other plant and equipment	4,786	1.6	4,953	1.6
<b>Property, plant and equipment-net</b>	<b>226,766</b>	<b>73.1</b>	<b>231,449</b>	<b>75.4</b>
Other non-current assets	17,815	5.7	17,151	5.6
<b>Total Assets</b>	<b>310,243</b>	<b>100.0</b>	<b>307,085</b>	<b>100.0</b>

Current assets were THB 65,662 million or accounted for 21.2% of total assets, an increase of THB 7,177 million or 12.3% from as of December 31, 2013. The significant items consisted of

- An increase in cash and cash equivalents of THB 6,867 million, mainly from net financing, the amount of THB 12,514 million, net cash from operating items, amount of THB 530 million and net cash used in investing activities, amount of THB 5,748 million

- An increase in non-current assets classified as held for sale of THB 1,742 million, mainly from 7 decommission aircraft held for sale which consisted of 3 Airbus A330-300 in the first quarter and 4 Airbus A300-600 aircraft in the second and third quarter of 2014. In this quarter, there was an aircraft transferred: A330-300 aircraft that has been damaged from skidding off the runway after landing at Suvarnabhumi Airport on September 8, 2013, to be current assets pending for damage compensation from insurance company, the amount of THB 380 million and THAI sold 1 Airbus A300-600 aircraft.

- A decrease in other current assets of THB 1,432 million mainly from the decrease of trade receivables, amount of THB 1,085 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 32 days in the first nine month of 2013 to 29 days this year which was lower than THAI's normal collecting period.

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

Unit : Million Baht	Sep 30, 2014	Dec 31, 2013
Aging Periods:		
Not over 6 months	12,322	13,512
Over 6 months to 1 year	329	358
Over 1 year to 2 years	293	350
Over 2 years	882	1,309
Total	13,826	15,529
<u>Less</u> Allowance for doubtful account	(1,271)	(1,889)
<b>Trade receivables - net</b>	<b>12,555</b>	<b>13,640</b>

Property, plant and equipment-net totaled THB 226,766 million or represented 73.1 % of total assets, which saw a decrease of THB 4,683 million or 2.0% from December 31, 2013 resulting from

- Prepaid aircraft and spare engines decreased THB 4,216 million due to the prepayment transfer of 3 Boeing B777-300ER aircraft delivered in the 1<sup>st</sup> quarter and 3<sup>rd</sup> quarter this year 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 decreased THB 9,882 million resulting from depreciation estimated which was a normal practice and the transferring 7 decommissioned aircraft consisted of 3 Airbus A330-300 and 4 Airbus A300-600 aircraft to be non-current assets classified as held for sales.

- Aircraft under finance lease increased THB 9,941 million mainly due to delivery of 3 new Boeing B777-300ER aircraft, 1 in the 1<sup>st</sup> quarter and another 2 in this quarter, respectively. However, the result from depreciation estimate lowered the amount of aircraft under finance lease.

Return on assets was -1.6% compared to -0.8% year-on-year due to the negative results this year.

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

Total liabilities as of September 30, 2014 totaled THB 262,552 million, which was an increase of THB 12,386 million or 5.0% from as of December 31, 2013. These comprise of:

	Consolidated			
	Sep 30, 2014		Dec 31, 2013	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities
Current liabilities (including current Portion of long-term liabilities)	97,084	37.0	82,369	32.9
<b>Long-term liabilities</b>				
Debentures	37,600	14.3	37,400	15.0
Liabilities under financial leases	63,847	24.3	63,319	25.3
Long term borrowings	46,727	17.8	50,831	20.3
<b>Total long-term liabilities</b>	<b>148,174</b>	<b>56.4</b>	<b>151,550</b>	<b>60.6</b>
Other non-current liabilities	17,294	6.6	16,247	6.5
<b>Total Liabilities</b>	<b>262,552</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 24,321 million) totaled THB 72,763 million or represented 27.7 % of total Total liabilities, an increase from December 31,2013 of THB 15,194 million or 26.4% due to

- Short-term loan, an increase of THB 19,000 million, was loan from related parties, amount of THB 10,000 million, consisted of The Government Saving Bank and Krungthai Bank, and other financial institution, amount of THB 9,000 million, as working capital and repayment of short-term maturity.
- Accrued expenses, a decrease of THB 2,969 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 665 million, was principally from the decrease of traffic production and demand.

Long-term liabilities as of September 30, 2014 (including current portion of long term liabilities' totaled THB 24,321 million) totaled THB 172,495 million represented 65.7% of total liabilities, which was a decrease of THB 3,855 million or 2.2% from December 31, 2013 primarily due to the strengthening value of the Baht as of September 30, 2014 when compared to the end of 2013 benefited from the reduction of long-term liabilities translated to Baht terms. When excluded foreign currency adjustment, the amount of THB 8,474 million, long-term liabilities increased THB 4,619 million mainly due to

- acquiring the additional long-term financing totaled THB 20,176 million to pay for aircraft purchases, 3 Boeing B777-300ER, approximately THB 14,976 million, long-term loan from domestic financial institution, THB 2,000 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.
- Long-term repayment, amount of THB 15,557 million, which consisted of long-term repayment and liabilities under financial leases totaled THB 14,837 million and debentures repayment totaled THB 720 million.

At the end of the third 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 September 30, 2014, shareholders' equity totaled THB 47,691 million, a decrease of THB 9,228 million from December 31, 2013 due to the unfavorable performance from THAI and its subsidiaries. Hence, return on equity decreased from -9.6 % last year to -17.6% this year.

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

In the last quarter of 2014 known as a high season of tourism tourism demand is likely to improve since there are many positive factors from the holiday season and the continuation of the festival such as Loy Krathong festival, H.M. the King's birthday, Christmas and New Year. Moreover, combined with the lessening of internal security concerns and the National Day of the People's Republic of China in October, the number of Chinese tourists is expected to increase. However, the conflict between Ukraine and Russia, the weakening Euro zone economies, Ebola epidemic which has been closely monitored may affect the tourism sector including THAI's business operations along with the fluctuation in foreign currency exchange rates and oil prices.

In the 4th quarter of the year 2014, THAI plans to take delivery of 4 new aircraft - 2 Airbus A320-200 and 2 Boeing B787-8 aircraft and gradually decommission 5 aging aircraft, including 2 Airbus A330-300, 1 Airbus A300-600 and 2 Boeing B737-400 aircraft.

## 5. Financial Ratios

		Jan - Sep	
		2014	2013
<b>Liquidity Ratio</b>			
Current Ratio	(times)	1.29	2.22
<b>Profitability Ratio</b>			
Operating Profit (loss) Margin	%	(9.09)	(0.35)
Net Profit (loss) Margin	%	(6.64)	(4.10)
Return on Equity	%	(17.55)	(9.61)
<b>Efficiency Ratio</b>			
Return on Total Assets	%	(1.56)	(0.76)
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	4.02	2.98
Interest Coverage Ratio	(times)	0.82	3.75

### 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