

Management's Discussion and Analysis for the year ended December 31, 2014 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

The overview of the global aviation industry in 2014 had been growing steadily. According to the International Air Transport Association. IATA statistics revealed the air transport of 2014, with passenger traffic, an increase of 5.9 % and freight traffic increased 4.5% from 2013 due to the expansion of the global economy and the world trade recovery. It forecasted a net profit in 2014 of the global aviation industry was a USD 19.9 billion over the previous year's net profit was USD 10.6 billion.

In 2014, the Asia Pacific region is known for the most air travelling density of in the world with passenger production was up 6.0%, in the higher growth rate than 4.7% growing passenger traffic. Freight demand increased after declining for 3 consecutive years.

However, the aviation industry of Thailand had the opposite direction due to the impact of political unrest in the first half of 2014 which made a decreased of tourists. Statistics from foreign tourist arrivals at Suvarnabhumi Airport and Don Mueang international airport during the first half of 2014 indicated the falling number down to 18.6% year-on-year, with in-bound foreign tourist fell by 11.3% during the entire year of 2014.

In 2014 THAI and its subsidiaries were affected by political unrest in Bangkok which lasted from late 2013 and intensified in the first quarter of 2014, which is normally a high season. The situation caused the number of passengers fell from last year down by 15.3%. due to the dramatic decline in tourist routes in Asia, especially in principle markets such as China, Japan and Korea. The passenger traffic (RPK) decreased by 12.6% resulting an operating loss while in the first quarter THAI's profitable capability was quite in the fine condition. Moreover, even in second quarter, the political situation has eased but the number of inbound foreign tourists arrival at Suvanabhumi and Don Manug international airport had decreased from last year by 22.6%, resulting passenger traffic (RPK) decreased by 14.3%. It made the net loss of the first 6 months of 2014, the amount of THB 10,274 million.

Hence, THAI seriously reviewed the strategic plan and developed a plan to resolve urgent problems which was approved in principle by the Board of Directors on July 24, 2014 with the main objective to determine solutions to business and financial liquidity for the year 2014 with a plan to increase revenue and reduce expenses in the second half of 2014, and to closely monitor and evaluate the situation on a monthly basis. In the last 6 months of the year 2014, the global economic was recovered at a lower rate than expected along with more various risk factors such as pandemic risk, the Ebola virus outbreak, commercial aviation threat, the crash of Malaysia Airlines's plane which was shot down in Ukraine. These threats affected the air travel demand and the confidence in air travel. Consequently, in the second half of 2014, passenger traffic despite improved over the first half, but was lower than the second half of 2013. As a result, THAI could not reach the target by increasing revenue while enabling to reduce costs as close to the target.

The recovering domestic unrest and the fierce competition have had direct negative impact on number of passenger of THAI and its subsidiaries as the number was down by 11.2% year-on-year. Although THAI reduced its flight frequency in line with the decrease of passenger traffic with passenger production (Available Seat Kilometers : ASK) down by 3.1%, passenger traffic (Revenue Passenger Kilometers : RPK) decreased more significantly by 9.9% resulting in an average cabin factor of 68.9 %, a decrease from last year's 74.1% cabin factor. On the freight traffic side, there were many positive factors from global economic recovery and the increase in manufacturing expansion in many countries but such expansion occurred in the countries where THAI did not operate and/or reducing in flight frequency due to the diminishing of passenger demand combined with the strong competitions due to the increase of production traffic resulting the reduction of both cargo production(Available Dead-load Ton-Kilometers : ADTK) and cargo traffic(Revenue Freight Ton-Kilometers : RFTK) by 3.0% and 4.2%, respectively. Average freight load factor was 50.5%, a

decrease from last year's 51.1%. The result was a drop in operating revenues by THB 17,969 million or 8.7% 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 23,019 million, which was THB 19,411 million more loss than the last year's loss. This year THAI had gain of foreign currency exchange, amount of THB 12,623 million while last year reported loss on foreign currency exchange, amount of THB 3,895 million Combined with a loss of impairment of assets and aircraft, amount of THB 6,342 million, an increase of THB 916 million from last year resulting THAI and its subsidiaries earned a net loss of THB 15,573 million, an increase loss of THB 3,573 million or 29.8%. Loss attributable to owners of the parent amounted to THB 15,612 million. Loss per share was 7.15 THB compared to last year's loss per share of 5.52 THB.

EBITDA was THB 3,589 million, which decreased by THB 18,885 million or 84.0% over last year. EBITDA margin was 1.9%, as compared to last year's reported 10.6%.

To address the weaker results from operating performance, THAI developed a business turnaround plan which concentrated on the complicated processes unable to efficiently respond to the business changes and gain opportunity in a timely manner with effectiveness, rapidness, and under economy of scale. The purposes of these implementation were to maintaining the financial stability, generating profit, becoming the competitive airline with services excellence, and returning to the leading world-class airline once again. The reform plan, approved in by State Enterprise Policy Commission(Superboard) on January 26, 2015, consisted of 6 major areas to focus on which were the network strategy, the fleet strategy, the commercial strategy, the operation and cost strategy, the organization, and the strategy systematic portfolio strategy.

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

Financial Performance

The consolidated financial statements for the year 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.

In respect of Thai Smile Airways Co., Ltd., a subsidiary company 100% owned by THAI received Airline Operator License: AOL on January 10, 2014, Airline Operator Certificate: AOC on March 31, 2014, and Airline Designator Code from IATA on April 1, 2014, respectively. Thai Smile Airways began to operate under the new aviation code "WE" since 10 April 2014. During April to October 2014, Thai Smile and THAI decided to operate under the code-share agreement via THAI's selling and reservation system due to the incomplete Thai Smile's Distribution and Passenger Service System: DPS. To do so, Thai Smile was operating Carrier while THAI provided all available seats in term of hard block sales.

Concentrating on domestic routes from Suvarnabhumi airport, Thai Smile's primary routes consists of Chiang Rai, Hat Yai, Krabi, Ubon Ratchathani, Udon Thani, Surat Thani, and Macau, secondary domestic routes between Chiang Mai and Phuket and alternatives routes for passenger between DonMaung international airport and these cities which are Chiang Mai, Khon Kaen, and Phuket.

Financial Performance : THAI and its subsidiaries

Unit : Million Baht	Jan - Dec			
	2014	2013	Variance	
			MTHB	%
Total Operating Revenues	188,367	206,336	-17,969	-8.7
Other revenues	2,899	5,269	-2,370	-45.0
Total Revenues	191,266	211,605	-20,339	-9.6
<u>Less</u> Total Expenses	208,212	209,156	-944	-0.5
Finance cost	6,073	6,057	+16	+0.3
Loss before foreign currency exchange, income tax, and impairment	(23,019)	(3,608)	-19,411	-538.0
<u>Less</u> Impairment loss of asset and aircraft	6,342	5,426	+916	+16.9
<u>Add</u> Gain(Loss) on foreign currency exchange	12,623	(3,895)	+16,518	+424.1
Profit (Loss) before tax	(16,738)	(12,929)	-3,809	-29.5
Net Profit(Loss)	(15,573)	(12,000)	-3,573	-29.8
Profit(Loss) attributable to owners of the parent	(15,612)	(12,047)	-3,565	-29.6
Net Profit (Loss) per share (THB)	(7.15)	(5.52)	-1.63	-29.5
EBITDA (MTHB)	3,589	22,474	-18,885	-84.0
EBITDA Margin (%)	1.9	10.6		-8.7
Net Loss Margin (%)	(8.1)	(5.7)		-2.4

Note : Total Expense excl. impairment loss of asset and aircraft

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)

Operating performance: Thai airways and Thai Smile airways

		Jan - Dec		Variance
		2014	2013	
Production	(MATK)	12,346	12,728	- 3.0%
Traffic	(MRTK)	7,709	8,388	- 8.1%
Load Factor	(%)	62.4	65.9	- 3.5
Total yield	(THB/RTK)	22.83	23.05	- 1.0%
Passenger carried	(Million)	19.10	21.51	- 11.2%
Passenger Production	(MASK)	82,969	85,655	- 3.1%
Passenger Traffic	(MRPK)	57,194	63,479	- 9.9%
Cabin Factor	(%)	68.9	74.1	- 5.2
Passenger yield	(THB/RPK)	2.66	2.65	+ 0.4%
Freight Production	(MADTK)	4,869	5,019	- 3.0%
Freight Traffic	(MRFTK)	2,458	2,565	- 4.2%
Freight Load Factor	(%)	50.5	51.1	- 0.6
Freight loaded	(Ton)	613,915	655,570	- 6.4%
Freight yield	(THB/RFTK)	9.22	9.18	+ 0.4%
Flight hours	(Hours)	370,309	384,069	- 3.6%

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues (included gain on foreign currency exchange) for the year 2014 earned was THB 203,889 million, a decrease of THB 3,821 million or 1.8% lower than last year. Details are as follows:

Revenues Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Dec					
	2014	% of Total Revenue	2013	% of Total Revenue	Variance	
					MTHB	%
Revenues from transportation activities						
Passenger and excess baggage revenue	154,881	76.0	172,335	83.0	-17,454	-10.1
Freight and mail revenue	23,601	11.6	24,515	11.8	-914	-3.7
Total Revenue from transportation activities	178,482	87.6	196,850	94.8	-18,368	-9.3
Revenue from other activities	9,885	4.8	9,486	4.6	+399	+4.2
Total operating revenue	188,367	92.4	206,336	99.4	-17,969	-8.7
Interest income	280	0.1	516	0.3	-236	-45.7
Other incomes	2,619	1.3	3,733	1.8	-1,114	-29.8
Total other incomes	2,899	1.4	4,249	2.1	-1,350	-31.8
Gain (Loss) on foreign currency exchange	12,623	6.2	(3,895)	(1.9)	+16,518	+424.1
Gains on deemed disposal	-	-	722	0.3	-722	-100.0
Gains on reclassified investment	-	-	298	0.1	-298	-100.0
Total Revenues	203,889	100.0	207,710	100.0	-3,821	-1.8

Revenues from transportation activities, representing 87.6% of total revenues, totaled THB 178,482 million, saw a decrease of THB 18,368 million or 9.3% over last year.

- Passenger and excess baggage revenue

Passenger and excess baggage revenue totaled THB 154,881 million, a decrease of THB 17,454 million or 10.1% as passenger traffic (Revenue Passenger-Kilometers:RPK) decreased by 9.9%, approximately THB 16,700 million. Average passenger yield (including fuel and insurance surcharge) amounted to 2.66 THB/RPK, 0.01 THB/RPK or 0.4% higher than last year resulting from the weakening Baht when compared to last year which caused the higher passenger yield around 0.06 THB/RPK or THB 3,300 million. If excluded this effect from foreign currency exchange, average passenger yield decreased 0.05 THB/RPK or 1.9%, approximately around THB 2,860 million. The details of revenue based on territories as follows:

Passenger and excess baggage revenue classified by region: THAI and its subsidiaries

Unit : Million Baht	2557	2556	Variance	
			MTHB	%
Passenger and excess baggage revenue				
Regional	78,253	86,277	-8,024	-9.3
Intercontinental	64,843	71,050	-6,207	-8.7
Domestic	11,414	14,514	-3,100	-21.4
Non-schedule flight	371	494	-123	-24.9
Total Passenger and excess baggage revenue	154,881	172,335	-17,454	-10.1

-Regional passenger and excess baggage revenue amounted to THB 78,253 million, which was a decrease of 8,024 THB million or 9.3%. In 2014, THAI adjusted its networking and cancelled some routes that revenue was less than variable cost such as Bangkok - Sendai as well as flight frequency reduction and matching aircraft utilization with demand of passenger in order to solve the urgent difficulties as emergency plan resulting the 2.7% decrease of production. By the

way, there were fierce competitions, especially in Southern routes where there were numerous LCCs operated with high flight frequency and in Northern routes where LCCs established long-hauled LCCs such as ThaiAir AsiaX and NokScoot resulting the decrease of passenger traffic reduced greater than the decrease of production. These rendered RPK decreased by 9.4% while average cabin factor decreased from last year's 74.3% to 69.3% this year.

- *Intercontinental passenger and excess baggage revenue* amounted to THB 64,843 million, which was a decrease of THB 6,207 million or 8.7%. In 2014, THAI adjusted flight plans to suit the operating environment by decreasing flight frequency in Australia and Europe in some routes, and Africa such as Bangkok-Perth, Bangkok- Madrid, and Bangkok- Johannesburg. As a result, ASKs decreased 3.5% but RPKs decrease 10.3%, while cabin factor was 68.7 % which was lower than the 73.8% average in 2013.

- *Domestic passenger and excess baggage revenue* amounted to THB 11,414 million, which was a decrease of THB 3,100 million or 21.4% resulted by lower passenger yield due to the penetration from Low Cost Carriers using the discount fare as the strategy to expand their market shares and developing their own networking rather than point-to-point operation. This year, THAI used THAISmile, operated at Donmaung, for being alternatives for passenger and replacement flights in some routes and adjusting aircraft to match traffic demand. As a result, ASKs decreased 1.6 % and RPKs 10.6 % while cabin factor was 68.7 % lower than 75.7% over the same period the year before.

- **Freight and mail revenue**

Freight and mail revenue amounted to THB 23,601 million, which was a decrease of THB 914 million or 3.7%. Freight traffic (Revenue Freight Ton-Kilometers: RFTK) decreased by 4.2 % or around THB 1,000 million and average freight yield (including fuel and insurance surcharge) was 9.22 THB/RFTK, an increase of 0.04 THB/RFTK or 0.4% over last year. The baht weaken also contributed to the stronger yield, especially in Euro Dollar term, around 0.28 THB/RFTK or around THB 690 million. If excluded this effect from foreign currency exchange, average freight yield decreased 0.24 THB/RFTK or 2.6%, approximately THB 600 million due to the reduction of fuel surcharge reflected by the diminishing fuel prices and the cancellation of insurance surcharge since April 2014.

Revenue 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 9,885 million, which increased by THB 399 million or 4.2% 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 and number of passenger decreased.

Other income

Other income totaled THB 2,899 million, a decrease of THB 1,350 million or 31.8% from last year due to

- interest income totaled THB 280 million, a decrease of THB 236 million or 45.7% due to lower average cash and cash equivalents than last year.

- other income amounted to THB 2,619 million was a decrease of THB 1,114 million or 29.8% primarily due to last year contained the revenue which did not occurred this year. They were

- recognition of passenger airport fees that were not billed to THAI for over 3 years

which was THB 631 million.

- recognition of compensation revenue from the delay delivery of aircraft: Airbus A380-800 aircraft, the amount THB 650 million.

Moreover, there was a recognition of insurance compensation received from floods disaster the 2011, which was THB 1,135 million while this year's amount of THB 165 million.

In 2014, THAI received damage compensation from the insurance company due to the A330-300 aircraft that has been damaged from skidding off the runway after landing at Suvarnabhumi Airport on September 8, 2013, amount of THB 696 million and compensation from European Aviation Safety Agency that called to monitor the safety of the A380-800 aircraft and detected wing rib cracks which those 4 aircraft were not capable to operate normally. The problem has since been rectified but the Company was compensated approximately THB 314 million.

Gain on foreign currency exchange

Gain on foreign currency exchange totaled THB 12,623 million which consisted of unrealized foreign currency gain of THB 10,521 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 2,102 million.

Expenses for Thai Airways International PCL. and its subsidiaries

In 2014, total expenses amounted to THB 220,627 million, which was THB 12 million lower than the same period last year. A summary of operating expenses is as follows:

Unit : Million Baht	Jan - Dec					
	2014	% of Total Expense	2013	% of Total Expense	Variance	
					MTHB	%
Expense						
Fuel and oil	79,231	35.9	80,525	36.5	-1,294	-1.6
Employee benefit expenses	31,274	14.2	33,109	15.0	-1,835	-5.5
Flight service expenses	21,625	9.8	21,727	9.8	-102	-0.5
Crew expenses	5,832	2.6	6,009	2.7	-177	-2.9
Aircraft maintenance and overhaul costs	14,684	6.7	13,447	6.1	+1,237	+9.2
Depreciation and amortization expenses	20,535	9.3	20,025	9.1	+510	+2.5
Lease of aircraft and spare parts	6,593	3.0	4,699	2.1	+1,894	+40.3
Inventories and supplies	8,257	3.7	9,625	4.4	-1,368	-14.2
Selling and advertising expenses	8,920	4.1	9,496	4.3	-576	-6.1
Insurance expense	492	0.2	628	0.3	-136	-21.7
Other expenses	10,846	4.9	10,702	4.9	+144	+1.3
Share of profits(loss) of associates	(77)	-	(836)	(0.4)	+759	+90.8
Total Expense (Excl. Impairment and Financial cost)	208,212	94.4	209,156	94.8	-944	-0.5
Impairment loss of assets and aircraft	6,342	2.9	5,426	2.5	+916	+16.9
Financial cost	6,073	2.7	6,057	2.7	+16	+0.3
Total Expenses	220,627	100.0	220,639	100.0	-12	-

Total expenses (excluded impairment and finance cost) amounted to THB 208,212 million which was THB 944 million or 0.5% lower than last year. Significant changes of expenses for this year include:

- Fuel and oil expense amounted to THB 79,231 million, 35.9% of total expenses, was THB 1,294 or 1.6% lower with a decrease in production which caused the lower volume of fuel consumption by 5.2%. Average jet fuel price was 6.1% lower than the same period last year; however, the weakening Thai Baht against the US Dollar enlarged the cost by 6.0%. The fuel hedging caused the company's expense with THB 281 million.

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits amounted to THB 31,274 million, which was a decrease of THB 1,835 million or 5.5% over last year mainly due to last year's the provision for staff's special incentive for the year 2013 while there was none of such expenses this year. The reduction of traffic production and the cost management program caused the lower overtime, lower staff income tax directly caused by lower staff income. Moreover, there was lower contribution to staff pension fund. In 2014, THAI recognized THB 180 million as the Mutual Separation Plan(MSP) for 70 staffs who had health issue.

- Flight related expenses consisted of flight service expenses, crew expenses, and inventories and supplies totaled THB 35,714 million, a decrease of THB 1,647 million or 4.4% due to the decrease in production.

- Aircraft maintenance and overhaul costs totaled THB 14,684 million, an increase of THB 1,237 million or 9.2% due to the estimation of return condition and overhaul expenses for expired operating lease aircraft which were 3 Boeing 737-400 aircraft and for incoming expired aircraft totaled 4 aircraft consisted of 2 Boeing B777-200 and 2 Airbus A330-300 aircraft expired in 2016 and 2018, the amount of THB 2,080 million.

- Depreciation and amortization expenses totalled THB 20,535 million, an increase of THB 510 million or 2.5% since THAI's consolidated took delivery of 10 new aircraft during 2013 to 2014 (own aircraft and aircraft under finance lease); however, there were aircraft that fully depreciated.

- Lease of aircraft and spare parts totaled THB 6,593 million, an increase of THB 1,894 million or 40.3% due to the greater number of aircraft under operating lease totaled 21 aircraft during 2013 to 2014. However, 5 expiry operating aircraft were returned.

- Selling and advertising expenses totaled THB 8,920 million, a decrease of THB 576 million or 6.1% due to the decrease of sales volume resulting from the decrease in commission and reservation expenses. Moreover, the cost management program caused the lower advertising expense.

- Insurance expenses totaled THB 492 million, a decrease of THB 136 million or 21.7% due to the diminished premium of aircraft related which was lower than last year's.

- Other expenses totaled THB 10,846 million, an increase of THB 144 million or 1.3% due to the loss of sale on aircraft which totaled 4 aircraft: 1 Airbus A300-600 and 3 Boeing B747-400 aircraft, the amount of THB 688 million. When excluded this loss, other expense was THB 544 million or 5.1% lower than last year partially due to the cost management program.

Impairment loss of aircraft and assets totaled THB 6,342 million, an increase of THB 916 million or 16.9% as the following details:

- Impairment loss of aircraft was THB 6,196 million, THB 1,104 million higher than last year, due to the provision for impairment loss of 19 aircraft including 8 Airbus A300-600 aircraft, 4 Airbus A340-500 aircraft, 1 Boeing B747-400, 4 Boeing B737-400, and 2 ATR72 aircraft when compared to last year's where were 11 aircraft.

- Impairment loss of assets was THB 146 million, THB 188 million or 56.3% lower than last year, due to lower reserved for damaged rotatable spare parts and could not be repaired decreased from last year.

Finance cost amounted to THB 6,073 million, an increase of THB 16 million or 0.3% since the increase of short-term loan. However, long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) which decreased from the same period last year by THB 7,798 million even THAI has been able to raise cheaper cost of funds since average interest rate was lower than last year.

Share of profits of associates amounted to THB 77 million, a decrease of THB 759 million or 90.8%. The major loss was from recognition of loss in Nok Air, the amount of THB 161 million compared to last year's profit of THB 489 million. THAI still recognized gain or loss of other associates' results. Details as follow:

- Suvarnabhumi Airport Hotel Ltd.'s amount of THB 25 million, an increase of THB 11 million,
- Donmuang International Airport Hotel Ltd.'s amount of THB 24 million, an increase of THB 2 million,
- Phuket Air Catering Ltd.'s amount of THB 76 million, a decrease of THB 9 million,
- Bangkok Aviation Fuel Services PCL's amount of THB 156 million, a decrease of THB 33 million, and
- Royal Orchid Hotel (Thailand) PCL's amount of THB -42 million while last year's amount of THB 38 million.

Income tax revenue

Income tax revenue of Thai Airways International PCL. and its subsidiaries amounted to THB 1,165 million. The main reasons were mainly from the impact of recording deferred income tax from the recognition of an impairment loss of assets.

3. Financial Position and Liquidity

Capital Expenditures

Unit : Million Baht	Jan - Dec	
	2014	2013
Aircraft and aircraft spare parts	14,313	36,573
Non-Aircraft	1,404	1,515
Total	15,717	38,088

Capital expenditures for 2014 totaled THB 15,717 million as the following details

- Investment in aircraft and aircraft spare parts totaled THB 14,313 million included payment for aircraft delivered in 2014, which totaled 5 new aircraft consisted of 3 Boeing B777-300ER, 2 Airbus A320-200 aircraft, and related expenses of existing aircraft, total amounted to

THB 9,626 million. Prepayment for acquisition of aircraft and engines in which delivery will be taken in 2015-2018 totaled THB 3,466 million and THB 1,221 million for rotatable aircraft spare part and spare engine. The amount of this year reduced by THB 22,260 million because the values of the aircraft delivered during 2014 were lower than the year before.

- Investments in other fixed assets amounted to THB 1,404 million. Most of them were invested in the flight support equipment in Technical and Ground Support Equipment activities.

Financing

The various negative matters caused weak results impacted level of cash from operating activities which resulted in requiring THAI to partially draw down committed revolving credit lines required addition long-term loans and issued debentures to sustain liquidity and to maintain adequate level of required cash flow for working capital, to meet its investment program without any delay during the implementation of transformation plan. In 2014, total long-term and short-term funding totaled THB 76,328 million with the following details

1) acquired long-term financing through financial lease using the aircraft as collateral amount of THB 17,208 million consisted of 2 types of aircraft payment in 1) the amount of EURO 346 million, or approximately THB 14,977 million to pay for 3 Boeing B777-300ER aircraft and 2) the amount of USD 68 million or approximately THB 2,231 million for 2 Airbus A320-200 aircraft,

2) acquired long-term funding, amount of THB 2,000 million, 7-year term, from local financial institution, for using as working capital,

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,

4) partial draw down of its THB 48,300 million committed revolving credit line from domestic financial institution and Bill of Exchange (B/E) to repay the loan at maturity and used as working capital, and

5) issued THB 7,200 million in new debentures for repaying the debentures at maturity in 2014, repaying the loan in Baht term, and using as the working capital.

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

Unit : Million Baht	Jan - Dec	
	2014	2013
Net cash from operating activities	6,019	25,734
Net cash used in investing activities	(6,122)	(27,220)
Net cash from (used in) financing activities	12,199	(7,364)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(507)	559
Increase(decreases) in cash and cash equivalents	11,589	(8,291)

In 2014, net cash from operating activities was less than last year mainly due to greater loss from operation and loan due which required extra cash from financing activities. Consequently, cash and cash equivalents for the year ended December 31, 2014 increased from last year, THB 11,589 million

Fleet

In 2014, THAI's consolidated took delivery of total 14 aircraft which consisted of 5 aircraft under finance lease: 3 Boeing B777-300ER and 2 Airbus A320-200 aircraft, and 9 operating lease aircraft: 4 Boeing B787-8 and 5 Airbus A320-200 aircraft, respectively. THAI also decommissioned 5 Airbus A300-600, and 4 Airbus A330-300 aircraft (included 1 Airbus A330-300 aircraft that does not count toward the aircraft used in operations as of December 31, 2014 grounded and pending for damage inspection). Also, there were 3 Boeing B737-400 aircraft which were operating lease aircraft pending for return to lessor. When combined active aircraft as of December 31, 2013, totaled 100 aircraft, the above aircraft movement puts THAI's net active aircraft fleet at 102 aircraft.

Fleet details are as follow

AIRCRAFT TYPE	Number of Aircraft	Own	Finance Lease	Operating Lease	Active aircraft	
					As of December 31, 2014	Variance from As of December 31, 2013
BOEING B747-400	13	11	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 ⁴⁾	2	-3
BOEING B777-300ER	11	-	3	8	11	+3
BOEING B787-8	4	-	-	4	4	+4
AIRBUS A340-600	6	-	6	-	6	
AIRBUS A340-500	4	4	-	-		
AIRBUS A330-300	26	9	15	2	22	-4 ¹⁾
AIRBUS A320-200	17	-	2	15	17 ³⁾	+7
AIRBUS A380-800	6	2	4	-	6	
AIRBUS A300-600	8	8	-	-		-5
ATR 72	2	2	-	-		
FREIGHTER						
BOEING B747-400	2	2	-	-	2	
TOTAL	128	56²⁾	38	34	102	+2

Remarks : 1 Included 1 Airbus A330-300 aircraft that does not count toward the aircraft used in operations as of December 31, 2014 grounded and pending for damage inspection

2) Included 22 decommissioned aircraft owned by THAI and held for sales

3) Included 12 aircraft transferred the leasehold rights to Thai Smile Airways Co.,Ltd.

4) Includes 3 Boeing B737-400 aircraft held for returning to lessor

According to the fleet of THAI and subsidiaries development program, aircraft delivery commitments are as follows:

- Obligation to purchase 10 aircraft expected delivery during the year 2015 – 2018 which consists of 3 Airbus A320-200, 4 Airbus A350-900XWB, and 3 Boeing B777-300ER aircraft worth a total of THB 33,528 million

- Lease obligations and commitment fees for 34 operating lease aircraft which are now in service and 12 aircraft which have not been scheduled for delivery totaling THB 151,747 million.

Assets of Thai Airways International PCL. and its subsidiaries

As of December 31, 2014, total assets were THB 307,267 million, an increase of THB 182 million or 0.1% from as at December 31, 2013.

	Consolidated			
	Dec 31, 2014		Dec 31, 2013	
	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets				
Cash and cash equivalents	23,347	7.6	11,758	3.8
Non-current assets classified as held for sale	4,826	1.6	7,197	2.3
Other current assets	36,112	11.7	39,530	12.9
Current Assets	64,285	20.9	58,485	19.0
Property, plant and equipment				
Prepaid aircraft and spare engine	12,368	4.0	17,986	5.8
Aircraft	51,322	16.7	64,091	20.9
Aircraft under finance leases	134,611	43.8	124,091	40.4
Aircraft spare parts	13,191	4.3	12,504	4.1
Work in process	1,274	0.4	1,113	0.4
Land, building and improvements	6,449	2.1	6,711	2.2
Other plant and equipment	4,806	1.6	4,953	1.6
Property, plant and equipment-net	224,021	72.9	231,449	75.4
Other non-current assets	18,961	6.2	17,151	5.6
Total Assets	307,267	100.0	307,085	100.0

Current assets were THB 64,285 million or accounted for 20.9% of total assets, an increase of THB 5,800 million or 9.9% from as of December 31, 2013. The significant items consisted of

- An increase in cash and cash equivalents of THB 11,589 million, mainly from net financing, the amount of THB 12,199 million,

- Although non-current assets classified as held for sale increased due to the decommissioned aircraft which were 4 Airbus A330-300 and 5 Airbus A300-600, the amount of THB 3,404 million, overall amount of non-current assets classified as held for sale decreased THB 2,371 million, mainly from the provision impairment loss of aircraft totalling 19 aircraft which were 8 Airbus A300-600, 1 Boeing B747-400, 4 Airbus A340-500, 4 Boeing B737-400, and 2 ATR72 aircraft. Also, THAI sold 4 aircraft which were 1 Airbus A300-600 and 3 Boeing B747-400 aircraft. In 2014, there was an aircraft transferred, A330-300, to be current assets pending for damage compensation from insurance company. According to the above reasons, these made the decrease of non-current assets classified as held for sale in the total amount of THB 5,808 million.

- A decrease in other current assets of THB 3,418 million mainly from the decrease of inventories and supplies, amount of THB 1,127 million which caused by the decrease of production. Besides, trade receivables declined THB 947 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 29 days in 2013 to 28 days this year which was lower than THAI's normal collecting period.

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

Unit : Million Baht	DEC 31, 2014	DEC 31,2013
Aging Periods:		
Not over 6 months	12,426	13,512
Over 6 months to 1 year	334	358
Over 1 year to 2 years	253	350
Over 2 years	849	1,309
Total	13,862	15,529
<u>Less</u> Allowance for doubtful account	(1,169)	(1,889)
Trade receivables - net	12,693	13,640

Trade receivables, not government agencies and state enterprises, are set an allowance for doubtful accounts by analyzing a payment history and connection data together with aging analysis of each trade receivables as a criteria. The ratio between trade receivables aging over 6 months and allowance for doubtful account was 81.0%. Thus, THAI has confidence in its adequacy of the allowance for doubtful accounts.

Property, plant and equipment-net totaled THB 224,021 million or represented 72.9 % of total assets, which saw a decrease of THB 7,428 million or 3.2% from December 31, 2013 resulting from

- the decrease in the prepaid aircraft and spare engines, totaled THB 5,618 million due to the transaction transfer from aircraft prepayment: 3 Boeing B777-300ER and 2 Airbus A320-200 aircraft to aircraft under finance lease and engine prepayment to rotatable spare part; however, there were aircraft prepayment of Boeing B777-300ER, Airbus A350-900XWB, and Airbus A320-200 aircraft.

- Aircraft decreased THB 12,769 million due to the normal calculation of aircraft depreciation and transferring decommissioned aircraft to non-current assets classified as held for sales, totaling 9 aircraft: 4 Airbus A330-300 and 5 Airbus A300-600 aircraft.

- Aircraft under finance lease increased THB 10,520 million due to new delivered aircraft: 3 Boeing B777-300ER and 2 Airbus A320-200 aircraft. However, the calculation of depreciation caused the decrease of aircraft under finance lease.

- The increase in the aircraft spare part, totaled THB 687 million due to the delivery of spare engines: TRENT 900 and TRENT 700 engines.

Other non-current assets totaled THB 18,961 million or represented 6.2% of total assets, which increased THB 1,810 million or 10.6% from as of December 31, 2013 resulting from

- Deferred tax assets totaled THB 7,009 million, an increased by THB 1,268 million mainly due to the recording of deferred tax assets from the increase of allowance for impairment of aircraft,

- The increase of deferred charges, amount of THB 679 million, from loan guarantee premium for purchasing of aircraft: 3 Boeing B777-300ER and 2 Airbus A320-200 aircraft, and

- The intangible assets increased THB 402 million due to delivery of computer software.

Return on assets of 2014 was -3.47% lower than last year's -2.25% due to net loss which was higher than last year.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of December 31, 2014 totaled THB 265,971 million, which was an increase of THB 15,805 million or 6.3% from as of December 31, 2013. These comprise of:

	Consolidated			
	Dec 31, 2014		Dec 31, 2013	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities
Current liabilities (including current portion of long-term liabilities)	102,109	38.4	82,369	32.9
Long-term liabilities				
Debentures	41,600	15.6	37,400	15.0
Liabilities under financial leases	61,389	23.1	63,319	25.3
Long term borrowings	43,886	16.5	50,831	20.3
Total long-term liabilities	146,875	55.2	151,550	60.6
Other non-current liabilities	16,987	6.4	16,247	6.5
Total Liabilities	265,971	100.0	250,166	100.0

Current liabilities (excluding current portion of long term liabilities' amount of THB 21,677 million) totaled THB 80,432 million or represented 30.2 % of total liabilities, the increase of THB 22,863 million or 39.7% from last year. Details as follows:

- Short-term loan, an increase of THB 23,300 million, amount of THB 10,000 million, consisted of loan from the Government Saving Bank and Krungthai Bank, and other financial institution, amount of THB 13,300 million, as working capital and repayment of short-term maturity.
- Trade account payable, a decrease of THB 1,311 million, was principally from the decrease of traffic production and demand.

Long-term liabilities as of December 31, 2014 (including current portion of long term liabilities' totaled THB 21,677 million) totaled THB 168,552 million represented 63.4% of total liabilities, which was a decrease of THB 7,798 million or 4.4% from December 31, 2013 primarily due to the strengthening value of the Baht as of December 31, 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 11,169 million, long-term liabilities increased THB 3,371 million mainly due to

- acquiring the additional long-term financing totaled THB 26,408 million to pay for aircraft purchases, 3 Boeing B777-300ER and 2 Airbus A320-200 aircraft, approximately THB 17,208 million, long-term loan from domestic financial institution, THB 2,000 million, and debentures issuance, amount of THB 7,200 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 23,086 million, which consisted of long-term repayment and liabilities under financial leases totaled THB 19,366 million and debentures repayment totaled THB 3,720 million.

At the end of the 2014, interest bearing debt to equity was 4.7 times when compared to the end of 2013's 3.1 times.

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

As of December 31, 2014, shareholders' equity totaled THB 41,296 million, a decrease of THB 15,623 million from December 31, 2013 due to loss from operations. Consequently, return on equity for 2014 decreased from -19.0% last year to -31.7% this year.

4. Factors affecting future operations

The 2015 outlook of aviation industry trends to be better than this year due to the improvement of global economy, the higher demand of tourist, and the lower fuel prices. For the aviation industry of Thailand should adapt in the same direction as world aviation industry. Moreover, the alleviate political situation will assist and strengthen tourism industry along with the supported factor: ASEAN Single Aviation Market or ASAM, which seems to be the advocate aspect to increase the quantity of air travel. However, the competition is intensifying from new low cost carriers and foreign airlines penetrating Thai aviation market continuously.

For the guidelines for action in 2015, THAI will proceed according to reformed plan which was approved by State Enterprise Policy Commission(Superboard) on January 26, 2015 with the goal to strengthen net profit, improve liquidity, and enable to make sustainable profit. Moreover, THAI was aimed to return proudly as the national flag carrier for the pride of Thai citizen. The plan consists of 3 main steps which are stop the bleeding, strength building, and sustainable profit Growth.

The reform plan will strictly follow such roadmap by driving the main 6 strategies.

1. The network strategy aims to cancel the ineffective and unprofitable flights which will be evaluated every 3 months for appropriate route adjustment.
2. The fleet strategy aims to streamline type of aircraft in order to reduce the maintenance cost, the spare parts expense and personnel expenses. Simultaneously, the processes of sales on 22 retired aircraft must be accelerated which is set to sale them in July 2015. However, the additional aircraft in 2015 will be delivered as planed totaled 5 aircraft which are 3 Boeing B777-300ER and 2 Boeing B787-8 aircraft.
3. The commercial strategy aims to enhance the efficiency for increasing revenue by expand the distribution channels such as increasing number of THAI's ticket on agent sale, increasing the proportion of sales via the Internet, and increasing market share via corporate sales.
4. The operation and cost strategy aim to enhance the efficiency and quality according to international standards and the cost controlling policy.
5. The organization strategy to make a quick decision.
6. The systematic portfolio strategy to establish the clear boundary between Core Business and business support.

5. Financial Ratios

		Jan - Dec	
		2014	2013
Liquidity Ratio			
Current Ratio	(times)	1.11	1.58
Profitability Ratio			
Profit (loss) Margin (before Gain on foreign currency exchange Tax and Impairment)	%	(12.03)	(1.71)
Net Profit (loss) Margin	%	(8.14)	(5.67)
Return on Equity	%	(31.71)	(19.04)
Efficiency Ratio			
Return on Total Assets	%	(3.47)	(2.25)
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	4.65	3.10
Interest Coverage Ratio	(times)	0.59	3.71

GLOSSARY

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

Profit (loss) Margin (before Gain on foreign currency exchange Tax and Impairment)
= Profit (loss) before Gain on foreign currency exchange Tax and Impairment / Total Revenue (excluded gain on foreign currency exchange)

Net Profit(Loss) Margin = Net Profit(Loss) / Total Revenue (excluded gain on foreign currency exchange)

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

Return on Total Assets = 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