

Management's Discussion and Analysis for the year ended December 31, 2015 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

World economic in 2015 was rebounded from last year since the economy of many countries increased but still lower than anticipated. US's economy continued to grow up with the declining rate of unemployment. EU's economic still showed the sign of growth but still have the high unemployment rate. Japan's economy grew slightly as a result of the increase of the VAT rate. Unfortunately, the Chinese and ASEAN economic were in the slowdown stage.

However, Thai's economy had signaled the recession since the second and third quarter of 2015, in the fourth quarter, Thai's economic was recovered by the domestic spending from both domestic consumption and private investment which partly as a result of the economic measures the government has taken continuously. Moreover, the cost of government, especially the capital expenditure, has continued to expand at a high level which was a key factor supporting the economy resulting from the growing tourism sector from Chinese, South Korea and the United States tourists. The growth has been continued, even in the fourth quarter, the growth slightly slowed down as a result of the explosion at the Ratchaprasong intersection since August 2015. However, exports sector continued to shrink, which continued to reflex economic trading partner of Thailand which consisted of China, Japan, the US and ASEAN -5.

According to data from the International Air Transport Association (IATA), the passenger traffic and passenger production indicated the continued growth in which increased by 6.5% and 5.6% respectively resulting average cabin factor was 80.3%. However, Chinese economy slowdown reflecting the slowing down particularly in the export sector of the other economic partners made the decreasing freight load factor, the steady drop of crude oil prices, 47.2% falling from the previous year and fierce competition affecting the ticket price dropped both were beneficial to increase travel demand. In 2015, the world's aviation industry continued to face many challenges from economic and political uncertainty, the global economy recession which mainly from the over-anticipated Chinese economy slowdown weakening travel demand, especially in major markets including Europe, the US, harsh competition from the heavy expansion of low cost airlines and the Middle East airlines, and exchange rates fluctuations.

For the aviation industry of Thailand, the inspection results from the Federal Aviation Administration- FAA officially revealed that the safety oversight of civil aviation of the country did not meet international standards of the Convention on International Civil Aviation about the safety oversight of civil aviation which resulted in a downgrade of Thailand from Category 1 to Category 2. It did not affect the THAI flight to the United States since THAI had canceled flights to the city of Los Angeles since October 25, 2015. On December 10, 2015, European Commission announced that "No air carriers from Thailand, namely THAI, were added to the Air Safety List at this time". Moreover, THAI has passed safety standards audit by European Aviation safety Agency and allowed THAI as the airline's non-EU countries that could be flying into EU airspace following the effective date of December 15, 2015 onwards.

An overview of the aviation industry of Thailand was in line with the aviation industry in the region of Southeast Asia and the world which was expanding and corresponded to the number of 38.3 million flying passengers via Suvarnabhumi airport, an increase of 15.2% over

last year. However, there were still risk factors from intensified competition, oversupply, the jet fuel price, and exchange rates fluctuations.

In 2015, THAI has implemented the Transformation Plans approved by State Enterprise Policy Committee on January 26, 2015 then, has started since the first quarter of 2015. The Transformation Plans in the first phase aimed to stop the bleeding by reducing flight frequency and/or discontinuing the non-profitable routes, cut unnecessary cost items, and generate revenue by adjusting selling strategy, increasing ancillary revenues, and enhancing product and services competitiveness as the following details

- Discontinuing these routes: Bangkok - Johannesburg, Bangkok- Moscow, Bangkok - Madrid, and Bangkok - Los Angeles.
- Adjusting flight frequency and/or adjusting in aircraft type was made to suit market demand. For instance, in order to suit the high passenger volume in the main routes, THAI changed current aircraft to A380-800 aircraft which are Bangkok-London, Bangkok-Frankfurt, Bangkok- Hong Kong, and Bangkok-Tokyo at Narita international airport. Moreover, THAI enhanced its product competition by using Boeing B787-8 in Bangkok-Haneda route. To deal with the low reason period, THAI reduced the day flight during the low season in Bangkok-Frankfurt and Bangkok-London routes.
- Increasing the domestic operation by ThaiSmile in the core domestic routes which were Bangkok-Chiang Mai and Bangkok-Phuket as well as replacing THAI operation in Bangkok-Chaing Rai and Bangkok - Hat Yai.
- Selling and delivering 8 aircraft including 7 Airbus A300-600R and 1 Boeing B747-400 aircraft while 16 aircraft were approved to sell by the Board of Directors and currently on processes of agreement and contract preparation. Other 12 aircraft were in the process of selling and 2 aircraft were negotiating to lease.
- Launching the Mutual Separation Plan (MSP) for general employees and Golden Handshake scheme for flight attendants to manage manpower affected by the reduction of flights and routes in order to improve the personnel and cost structure and reduce overall costs in the long term. The total staff joining the program were 1,401 staff, 1,277 staff was affective in 2015 and 124 staff in March 2016.
- Developing product and services such as business class service upgrading project, modern onboard communications systems and so forth. In 2015, THAI has been awarded in many areas. For example, THAI recently recognized by Smart Travel Asia 2015, for placement in three categories. THAI ranked the Third Best Cabin Service, Fifth Best Business Class, and Sixth Best Airline Overall Worldwide. THAI received the “Best International Airline of the Year 2015” from Today’s Traveller Award as well.

In 2015, THAI received new 8 aircraft consisted of 3 Boeing B777-300ER, 2 Boeing B787-8, and 3 Airbus A320-200 aircraft and decommissioned total 15 aircraft including 5 Airbus A330-300, 6 Airbus A340-600, 2 Boeing B747-400, and 2 Boeing B747F(Freighter) aircraft based on Fleet strategy. These made the number of aircraft as of December 31, 2015 equaled to 95 aircraft which decreased from last year’s where the fleet size was 102 aircraft. Nevertheless, adjusting the flight frequency and change of aircraft to match the passenger demand caused more effectiveness on aircraft utilization resulting the increase of passenger production by 0.6% while passenger traffic increased by 6.5%. Cabin factor was 72.9% higher than last year’s 68.9%. The numbers of passengers carried were 21.25 million passengers, an increase of 11.3% from last year.

According to the strategic and Transformation plan which were closely monitored by the Management and Board of Director, THAI and its subsidiaries' financial performance for 2015 showed an operating loss of THB 1,304 million - a THB 21,715 million (94.3%) improving from the same period last year due mainly to total expense decreased by 11.2% primarily from decrease of fuel expense by 20.2% and non-fuel expense by 6.0% resulting from rigid cost controlling and management program. Total revenue declined THB 2,239 million(1.2%) from last year mainly from 1.5% reduction in passenger revenue and 21.0% reduction in cargo revenue. The main reasons were from the reduction of fuel surcharge, the strengthen value in Baht compared to the major currencies which made lower revenue when translated to the Baht term, and the high competition.

This year THAI had THB 3,512 million gain on foreign currency exchange, THB 4,167 million one-time cost occurred from the Transformation plan and THB 12,157 million aircraft and assets impairment. Including all these items, the total net loss for the 2015 was THB 13,047 million. Loss attributable to owners of the parent amounted to THB 13,068 million. Loss per share was THB 5.99 which was less loss by THB 1.16(16.2%).

EBITDA was THB 19,560 million, THB 15,971 million (445.0%) higher than last year. EBITDA margin was 10.4%, as compared to last year's reported 1.9%.

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

In 2015, THAI changed in Accounting treatments as follows:

- The change in accounting policy regarding the valuation of the land from cost basis to revaluation basis, starting from accounting period year 2015 onward. It made the value of assets increased approximately THB 8,647 million. Liabilities (deferred tax liability) increased approximately THB 1,729 million while Shareholders' equity increased approximately THB 6,918 million.

- THAI has started to implement revenue hedging since April 1, 2015 using foreign currency borrowings to manage the variability in future cash flows on forecasted foreign currency revenue. Gains or losses on exchange differences arising from the translation, as a resulting from the different from rate at designate date (April 1, 2015) or drawdown rate (which one occur later) until the reporting date rate (December 31, 2015), arising on the effective portion of the hedges are deferred in other component of equity in equity and reclassified to profit or loss in the same period or periods during the hedged item affects profit or loss. Therefore as of December 31, 2015, there was loss on exchange differences transferred to Shareholders 'equity net of income tax amount of THB 1,878 million.

The consolidated financial statements for the year 2015 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	Jan - Dec			
	2015	2014	Variance	
			MTHB	%
Total operating revenues	188,747	190,986	-2,239	-1.2
- Passenger and excess baggage revenue	152,488	154,881	-2,393	-1.5
- Freight and mail revenue	18,651	23,601	-4,950	-21.0
- Revenue from other activities	11,588	9,885	+1,703	+17.2
- Other income	6,020	2,619	+3,401	+129.9
Total operating expenses	190,051	214,005	-23,954	-11.2
- Fuel and oil	63,243	79,231	-15,988	-20.2
- Non-fuel operating expenses	121,242	128,981	-7,739	-6.0
- Net finance cost	5,566	5,793	-227	-3.9
Operating Profit (Loss)	(1,304)	(23,019)	+21,715	+94.3
<u>Less</u> Expense from Transformation plan	4,167	-	+4,167	-
<u>Less</u> Impairment loss of assets and aircraft	12,157	6,342	+5,815	+91.7
<u>Add</u> Gain (Loss) on foreign currency exchange	3,512	12,623	-9,111	-72.2
Profit (Loss) before tax	(14,116)	(16,738)	+2,622	+15.7
Net Profit(Loss)	(13,047)	(15,573)	+2,526	+16.2
Profit (Loss) attribute to owners of the parent	(13,068)	(15,612)	+2,544	+16.3
Net Profit (Loss) per share (THB)	(5.99)	(7.15)	+1.16	+16.2
<u>Significant operating data</u>				
EBITDA (MTHB)	19,560	3,589	+15,971	+445.0
Number of passengers (Million)	21.25	19.10	+2.15	+11.3
Available Seat-Kilometers (Million)	83,479	82,969	+510	+0.6
Revenue Passenger-Kilometers (Million)	60,893	57,194	+3,699	+6.5
Cabin factor (%)	72.9	68.9		+4.0
Passenger yield (THB/RPK)	2.46	2.66	-0.20	-7.4
Available Dead Load Ton-Kilometers (Million)	3,514	3,812	-298	-7.8
Revenue Freight Ton-Kilometers (Million)	2,091	2,458	-367	-14.9
Freight load factor (%)	59.5	64.5		-5.0
Freight carried (Ton)	559,283	613,915	-54,632	-8.9
Freight yield (THB/RFTK)	8.45	9.22	-0.77	-8.3
Number of active aircraft/as at Dec31 (Aircraft)	95	102	-7	-6.9
Flight hours (Hours)	374,831	370,309	+4,522	+1.2
Aircraft utilization (Hours/Aircraft/Day)	10.9	10.4	+0.5	+4.8
Average foreign currency exchange rate				
1 USD : THB	34.2861	32.4808	+1.8053	+5.6
1 EUR : THB	38.0611	43.1386	-5.0775	-11.8
100 JPY : THB	28.3389	30.7590	-2.4201	-7.9
Average jet fuel price (USD/BBL)	72.37	121.63	-49.26	-40.5

Note : 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 expenses)

: In 2015, THAI changed standard weight (statistical calculation for average weight of passenger and free baggage allowance) from 90 kilograms per passenger to 100 kilograms per passenger for comparison purpose both to the industry and restate standard weight in 2014 to be the same basis of this year.

Revenues of Thai Airways International PCL. and its subsidiaries

For the year 2015, total revenues decreased by THB 2,239 million (1.2%) from the same period last year with details as follows:

- Passenger and excess baggage revenue

Passenger and excess baggage revenue decreased by THB 2,393 million(1.5%) since passenger traffic (Revenue Passenger-Kilometers - RPK) increased by 6.5% or approximately THB 9,800 million but average passenger yield (including fuel and insurance surcharge) was 2.46 THB/RPK, reduced by 0.20 THB/RPK(7.4%), approximately THB 12,180 million. The heavy drop of passenger yield was from strengthening Thai Baht when comparing to average rate of exchange of major currencies which lowered the yield by 0.10 THB/RPK or approximately THB 6,090 million. If excluded FX, average passenger yield decreased 0.10 THB or 3.8%, roughly THB 6,090 million resulting from the fierce competition and a reduction in fuel surcharge along with the dropping fuel price.

Passenger operation performance classified by region: THAI and its subsidiaries

	Variance (%)		Cabin Factor (%)	
	ASK	RPK	2015	2014
Regional	+5.2	+13.2	74.5	69.3
Intercontinental	-4.8	-0.6	71.8	68.7
Domestic	+11.0	+14.2	70.7	68.7

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

Unit : Million Baht	2015	2014	Variance	
			MTHB	%
Passenger and excess baggage revenue				
Regional	82,118	78,297	+3,821	+4.9
Intercontinental	58,644	64,843	-6,199	-9.6
Domestic	11,095	11,370	-275	-2.4
Non-schedule flight	631	371	+260	+70.1
Total Passenger and excess baggage revenue	152,488	154,881	-2,393	-1.5

- Regional passenger and excess baggage revenue amounted to THB 82,118 million, an increase of THB 3,821 million(4.9%). In 2015, THAI increased traffic production by 5.2% for supporting the growth in Asia region. Passenger traffic by 13.2%, especially in Western and Northern routes. Cabin factor increased from 69.3% last year to 74.5% this year. However, the impacts from foreign currencies exchange fluctuation and the strong competition from the increase of low cost carriers caused the lower yield by 7.3%.

- Intercontinental passenger and excess baggage revenue amounted to THB 58,644 million, a decrease of THB 6,199 million(9.6%). In 2015, THAI cancelled these following routes: Bangkok- Johannesburg in January, Bangkok-Moscow and Phuket-Seoul in March,

Bangkok-Madrid in September, and Bangkok-Los Angeles in October. Moreover, THAI reduced flight frequencies in some routes such as 1 flight for Bangkok - Frankfurt in May and 1 flight for Bangkok - London in July which both of them resumed to normal in October resulting the production decreased by 4.8% while passenger traffic reduced merely 0.6%. Cabin factor increased from last year's 68.7% to 71.8% this year but passenger yield decreased by 9.0%.

- Domestic passenger and excess baggage revenue amounted to THB 11,095 million, a decrease of THB 275 million(2.4%) mainly due to decrease of yield by 14.1%. The passenger traffic increased by 14.2% resulting from the penetration from Low Cost Carriers using the discount fare as the strategy to expand their market shares. This year, THAI increased flight frequency in the high traffic demand by using THAISmile for additional flights and replacement flights in some routes including Bangkok- Chaing Rai in March, Bangkok - Khon Kaen and Bangkok - Hat Yai in May, respectively. As a result, Production traffic increased by 11.0% while cabin factor was 70.7% higher than last year's 68.7%.

- **Freight and mail revenue**

Freight and mail revenue decreased by THB 4,950 million (21.0%) due to the, 14.9% or THB 3,380 million, decrease of freight traffic (Revenue Freight Ton-Kilometers – RFTK) while average freight yield (including fuel and insurance surcharge) was 8.45 THB/RFTK, a decreased by 0.77 THB/RFTK (8.3%) equivalent to THB 1,610 million over last year, mainly due to the reduction of fuel surcharge. Also affected by the export decline due to the slowdown of partner countries' economy such as China and ASEAN and impacted directly on Thailand's exports in conjunction with Generalized System of Preferences (GSP) cut for all products to EU. Freight production (Available Dead-load Ton-Kilometers – ADTK), both belly and freighter services, was 7.8% lower than last year due to decommissioning of 2 Boeing B747F (freighter aircraft) in March 2015 resulting decrease in average freight load factor at 59.5% compare with 64.5% last year.

- **Revenue from other activities**

Consisted of Ground services, Catering, Cargo handling services, and other activities revenue increased by THB 1,703 million (17.2%) from last year. The increased revenues were mainly from Ground services and Catering due to increasing number of other customer airlines flights and number of passengers as well as an increase of income from maintenance services but revenue from cargo handling was decreased by the lower volume of cargo traffic compared to last year.

- **Other income**

Other income increased from last year, the amount of THB 3,401 million(129.9%) from last year due to the recognition of compensation from KI Holdings Co., Ltd. (Koito) for the delay delivery of economy class seats , an approximate amount of THB 3,968 million.

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses for 2015 was THB 23,954 million (11.2%) lower than the same period last year. A summary of operating expenses is as follows:

- **Fuel and oil** expense was THB 15,988 million (20.2%) lower than last year due to a decrease in average jet fuel price by 40.5%. However, depreciating THB against USD caused expense in THB to increase with the fuel hedging fee caused the company's expense with THB 18,154 million.

- **Non-fuel operating expense** was THB 7,739 million (6.0%) lower than last year. Details as follows:

Unit : Million Baht	Jan - Dec					
	2015	% of Total Expense	2014	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	29,892	24.6	31,274	24.3	-1,382	-4.4
Flight service expenses	20,474	16.9	21,625	16.8	-1,151	-5.3
Crew expenses	5,313	4.4	5,832	4.5	-519	-8.9
Aircraft maintenance and overhaul costs	10,311	8.5	14,684	11.4	-4,373	-29.8
Depreciation and amortization expenses	19,133	15.8	20,535	15.9	-1,402	-6.8
Lease of aircraft and spare part	8,950	7.4	6,593	5.1	+2,357	+35.8
Inventories and supplies	7,829	6.5	8,257	6.4	-428	-5.2
Selling and advertising expenses	9,499	7.8	8,920	6.9	+579	+6.5
Insurance expense	614	0.5	492	0.4	+122	+24.8
Other expenses	9,359	7.7	10,846	8.4	-1,487	-13.7
Share of losses (profits) of associates	(132)	(0.1)	(77)	(0.1)	-55	-71.4
Non-fuel Operating Expense	121,242	100.0	128,981	100.0	-7,739	-6.0

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased by THB 1,382 million (4.4%) due to the lower number of employees - both retired staff and employees with health issue participating in Mutual Separation Plan (MSP) in 2014. THAI also provided the Mutual Separation Plan - MSP for general employees and Golden Handshake scheme for flight attendants to manage manpower based upon THAI's transformation plan. The group of participants joining these programs this year, totaled 1,277 staff.

- Flight related expenses consisted of flight service expenses, crew expenses, aircraft maintenance and overhaul costs, and inventories and supplies decreased by THB 2,098 million (5.9%) due to the strengthen value of Baht compared to major currencies which consisted of EURO, Japanese Yen, and Australian dollar as well as the cost reduction policy.

- Maintenance and overhaul dropped THB 4,373 million (29.8%), mainly due to a decrease of THB 600 million in aircraft return condition provision under aircraft lease agreement and a decrease of THB 3,330 million for engine restoration maintenance reserve expense under Maintenance Reserve clause of aircraft lease agreements. The said engine restoration maintenance reserve expense amount is covered by another engine-manufacturers' maintenance agreement, a kind of Flight Hour Service Agreement, and is then classified as reclaimable money when maintenance activities meet the reimbursement condition, specified by aircraft lease agreement, which refer to standard scheduled engine maintenance program. As a result the Maintenance Reserve under lease agreement is no longer required under Maintenance Expense like what the treatment in 2014. In addition to the earlier mentioned causes, the decrease was driven by decommissioned aircrafts both aircrafts grounded in 2014 and additionally grounded in 2015.

- Depreciation and amortization decreased by THB 1,402 million (6.8%) due to decommissioning 6 Airbus A340-600 aircraft which still had useful life and aircraft that have already fully depreciated. Despite there were new aircraft under finance leases added to the fleet.

- Lease of aircraft and spare parts increased by THB 2,357 million (35.8%) due to increase of 11 operating lease aircraft since 2014 comprises of 6 Boeing B787-8 and 5 Airbus A320-200 aircraft while 3 operating lease aircraft had been returned.

- Selling and advertising expenses increased by THB 579 million (6.5%) due to increase in reservation expenses from the higher rate and weakening Thai Baht against US dollar.

Moreover, the implementation of new cargo revenue accounting system in August 2014 made changes in revenue recognition of freight and mail revenues which enabled to isolate commission expense while the old system recognized it as a net revenue. Thus, the commission expense for this period, roughly THB 413 million, THB 211 million higher than last year, was booked as part of the freight and mail revenues account, the same amount was booked in the selling and advertising expenses account. The simultaneous booking in the revenue and expense accounts bears no overall effect to THAI's profit and loss statement.

- Other expenses decreased by THB 1,487 million (13.7%) since loss of selling aircraft was THB 595 million lower than last year and from rigid cost management program based on transformation plan.

- Share of profits of associates increased by THB 55 million(71.4%) YoY. The details as follow:

- Royal Orchid Hotel (Thailand) PCL's gain of THB 7 million while last year's loss of THB 42 million,

- Bangkok Aviation Fuel Services PCL's gain of THB 193 million, an increase of THB 38 million,

- Nok Airlines PCL.'s amount of THB 143 million loss, decrease in loss of THB 18 million,

- Suvarnabhumi Airport Hotel Ltd.'s amount of THB 20 million profit, a decrease of THB 5 million,

- Donmuang International Airport Hotel Ltd.'s amount of THB 18 million profit, a decrease of THB 6 million , and

- Phuket Air Catering Ltd.'s amount of THB 37 million profit, a decrease of THB 39 million

- **Net finance cost** decreased by THB 227 million (3.9%) due to lower average interest rates this year and the strengthened THB against EUR and JPY also helped lower expense in Baht term.

Expense from Transformation plan totaled of THB 4,167 million, which mainly consisted of the compensation of Mutual Separation plan and Golden Handshake following the transformation plan.

Impairment loss of assets and aircraft increased by THB 5,815 million(91.7%) with the following details:

- Impairment loss of aircraft increased by THB 5,680 million, due to the provision for impairment loss of 26 aircraft which consisted of 6 Airbus A340-600, 4 Airbus A340-500, 2 Boeing B747-400, 2 Boeing B747F(freighter), 6 Airbus A330-300, 4 Boeing B737-400, and 2 ATR72 aircraft whose amount totaled THB 11,488 million combining with provision of spare

engines of Airbus A340-600, amount of THB 388 million while last year there was the recognition of impairment loss of 19 aircraft which were 4 Airbus A340-500, 8 Airbus A300-600, 4 Boeing B737-400, 1 Boeing B747-400, and 2 ATR72 aircraft amount of THB 6,196 million.

- Impairment loss of assets increased by THB 135 million due to higher reserve for damaged rotatable spare parts which were unrepairable.

Gain on foreign currency exchange

Gain on foreign currency exchange was THB 3,512 million consisted of THB 1,740 million unrealized gain resulting from revaluation of foreign currency loans, assets and liabilities as of December 31, 2015 with realized gain of THB 1,772 million.

3. Financial Position and Liquidity

Capital Expenditures - The Company

Unit : Million Baht	Jan - Dec	
	2015	2014
Aircraft and aircraft spare parts	16,097	14,313
Non-Aircraft	522	1,404
Total	16,619	15,717

Capital expenditures for 2015 totaled THB 16,619 million as the following details

- Investment in aircraft and aircraft spare parts totaled THB 16,097 million included payment for 6 aircraft delivered, which were 3 Boeing B777-300ER and 3 Airbus A320-200 aircraft and related expenses of existing aircraft, total amount was THB 12,800 million. Prepayment for acquisition of aircraft and engines in which delivery will be taken in 2016-2018 totaled THB 2,785 million and THB 512 million for rotatable aircraft spare part and spare engine. The additional in aircraft increased by THB 1,784 million mainly due to aircraft deliveries this year over last year 1 aircraft.

- Investments in other fixed assets amounted to THB 522 million, a decrease of THB 882 million over last year. Most of them were invested in the Technical and Ground Support Equipment activities lower than last year.

Financing

In 2015, THAI financed in the total amount of THB 61,989 million as the following details

1) acquired long-term financing through financial lease using the aircraft as collateral which were 3 Boeing B777-300ER and 3 Airbus A320-200 aircraft, totaled THB 20,124 million.

2) issued THB 15,000 million new debentures: THB 7,000 million in April 2015 and THB 8,000 million in September 2015, divided into four series of bonds would pay interest every six month throughout the life. The objective is to repay loan with higher financial costs, repay the debentures at maturity, and / or use as an investment and / or working capital and supporting fund for transformation plan.

3) draw down of its committed revolving credit line from domestic financial institution, foreign borrowings via the Ministry of Finance, and Bill of Exchange (B/E) to repay the loan at maturity and used as working capital, amount of THB 26,865 million.

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

Unit : Million Baht	Jan – Dec	
	2015	2014
Net cash from operating activities	18,567	6,019
Net cash used in investing activities	(721)	(6,122)
Net cash from (used in) financing activities	(20,838)	12,199
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	427	(507)
Increase(decreases) in cash and cash equivalents	(2,565)	11,589

In 2015, THAI's net cash used in financing activities amounted to THB 20,838 million due to both short-term and long-term repayment which were higher than last year. THAI's net cash from operating activities totaled THB 18,567 million, an increase of THB 12,548 million from last year because THAI's operating result showed the operating loss which was less loss than last year. Net cash used in investing activities, amount of THB 721 million this year, was reduced from last year. Consequently, cash and cash equivalents as of December 31, 2015 decreased from the end of last year, THB 2,565 million.

Fleet

According to the fleet development strategy which has been implementing since last year along with the fleet strategy aimed to streamline the number of aircraft and types of aircraft for improving efficiency and operation cost reduction, it is one of THAI's transformation plan.

In 2015, THAI's consolidated took delivery of total 8 new aircraft which consisted of 6 aircraft under finance lease: 3 Boeing B777-300ER and 3 Airbus A320-200 and 2 operating lease aircraft: Boeing B787-8. THAI also decommissioned 15 aircraft which were 6 Airbus A340-600, 5 Airbus A330-300, 2 Boeing B747-400, 2 Boeing B747F which were converted to freighter aircraft. When combined with 102 active aircraft as of December 31, 2014, these put THAI's net active aircraft fleet at 95 aircraft (including 5 Airbus A320-200 aircraft subleased and 10 Airbus A320-200 aircraft transferred the leasehold right to ThaiSmile.).

In 2015, THAI sold totally 8 grounded aircraft: 1 Boeing B747-400 and 7 Airbus A300-600R aircraft, and return 3 Boeing B737-400, operating lease aircraft, which were decommissioned in the previous years.

Assets of Thai Airways International PCL. and its subsidiaries

As of December 31, 2015, total assets decreased by THB 4,796 million (1.6%) from as at December 31, 2014.

	Consolidated					
	Dec 31, 2015		Dec 31, 2014		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	20,781	6.9	23,346	7.6	-2,565	-11.0
Non-current assets classified as held for sale	15,099	5.0	4,826	1.6	+10,273	+212.9
Other current assets	34,596	11.4	36,113	11.7	-1,517	-4.2
Current Assets	70,476	23.3	64,285	20.9	+6,191	+9.6
Property, plant and equipment						
Prepaid aircraft and spare engine	5,491	1.8	12,368	4.0	-6,877	-55.6
Aircraft	44,979	14.9	51,322	16.7	-6,343	-12.4
Aircraft under finance leases	126,251	41.8	134,611	43.8	-8,360	-6.2
Aircraft spare parts	12,465	4.1	13,191	4.3	-726	-5.5
Work in process	61	-	1,274	0.4	-1,213	-95.2
Land, building and improvements	14,733	4.9	6,449	2.1	+8,284	+128.5
Other plant and equipment	4,305	1.4	4,806	1.6	-501	-10.4
Property, plant and equipment-net	208,285	68.9	224,021	72.9	-15,736	-7.0
Other non-current assets	23,710	7.8	18,961	6.2	+4,749	+25.0
Total Assets	302,471	100.0	307,267	100.0	-4,796	-1.6

Current assets were THB 70,476 million or accounted for 23.3% of total assets, an increase of THB 6,191 million (9.6 %) from as of December 31, 2014. The significant items consisted of

- A decrease in cash and cash equivalents of THB 2,565 million (11.0%), mainly from net cash used in financial activities, amount of THB 20,838 million, which increased from last year due to short-term loans and long-term loans repayment.

- Non-current assets classified as held for sale increased by THB 10,273 million (212.9%) mainly due to the transferring 15 decommissioned aircraft as aircraft held for sale which were 5 Airbus A330-300, 6 Airbus A340-600, and 4 Boeing B747-400 aircraft while 8 aircraft were transfer aircraft ownership's right to buyers, which were 7 Airbus A300-600R and 1 Boeing B747-400 aircraft, and spare engines of decommissioned aircraft increased.

- A decrease in other current assets of THB 1,517 million(4.2%) mainly from the decrease of trade receivables, amount of THB 997 million due to the decrease of sales and the better ability to manage faster collection period by speeding up from 28 days in 2014 to 26 days this year which was lower than THAI's normal collecting period. Moreover, inventories and supplies declined by THB 473 million

THAI's trade receivables as of December 31, 2015 and December 31, 2014 classified by aging period as the following details

Unit : Million Baht	DEC 31, 2015	DEC 31, 2014
Aging Periods:		
Not over 6 months	11,430	12,426
Over 6 months to 1 year	161	334
Over 1 year to 2 years	319	253
Over 2 years	941	849
Total	12,851	13,862
Less Allowance for doubtful account	(1,155)	(1,169)
Trade receivables - net	11,696	12,693

Property, plant and equipment-net totaled THB 208,285 million or represented 68.9 % of total assets, which saw a decrease of THB 15,736 million (7.0%) from December 31, 2014 resulting from

- The prepaid aircraft and spare engines decreased by THB 6,877 million (55.6%) due to the transfer from aircraft prepayment: 3 Boeing B777-300ER and 3 Airbus A320-200 aircraft to aircraft under finance lease however, there were additional aircraft prepayment of Airbus A350-900XWB aircraft this year.

- Aircraft decreased by THB 6,343 million (12.4%) due to the normal calculation of aircraft depreciation and transferring decommissioned aircraft to non-current assets classified as held for sales, totaling 9 aircraft: 5 Airbus A330-300 and 4 Boeing B747-400 aircraft which included 2 Boeing B747-400 Freighter aircraft.

- Aircraft under finance lease decreased by THB 8,360 million (6.2%) mainly due to transferring 6 decommissioned Airbus A340-600 aircraft to non-current assets classified as held for sales aircraft and the result of depreciation estimated. However, there were new aircraft delivered in 2015 which consisted of 3 Boeing B777-300ER and 3 Airbus A320-200 aircraft.

- Aircraft spare parts decreased by THB 726 million (5.5%) mainly due to transferring spare engines of grounded aircraft to non-current assets held for sell.

- Property, plant and improvements increased by THB 8,284 million (128.5%) mainly due to the change in accounting policy to measure the value of land from cost basis to the revaluation basis, effective for annual financial period of 2015, both in land and abroad where the new value increased THB 8,647 million.

Other non-current assets totaled THB 23,710 million or represented 7.8% of total assets, which increased by THB 4,749 million (25.0%) from as of December 31, 2014 resulting from

- increase of deferred tax assets THB 1,671 million due to the recording of deferred tax assets from the increase of allowance for impairment of aircraft and the effective portion of changes in fair value of cash flow hedges from application of hedge accounting to foreign currency borrowings and forecasted future revenue (Revenue Hedging)

- increase of maintenance reserve of aircraft under operating lease, approximately THB 3,330 million, which was able to claim from the lessor when actual maintenance occurred. (also see Maintenance and overhaul expense mentioned above)

Return on assets of 2015 was -2.7% compared to last year's -3.5% due to the less loss this year.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of December 31, 2015 increased by THB 3,574 million (1.3%) from as of December 31, 2014. These comprise of:

	Consolidated					
	Dec 31, 2015		Dec 31, 2014		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	73,592	27.3	80,432	30.2	-6,840	-8.5
Long-term liabilities						
Debentures	56,600	21.0	44,600	16.8	+12,000	+26.9
Liabilities under financial leases	77,551	28.8	72,027	27.1	+5,524	+7.7
Long term borrowings	43,627	16.2	51,925	19.5	-8,298	-16.0
Total long-term liabilities	177,778	66.0	168,552	63.4	+9,226	+5.5
Other non-current liabilities	18,175	6.7	16,987	6.4	+1,188	+7.0
Total Liabilities	269,545	100.0	265,971	100.0	+3,574	+1.3

Current liabilities (excluding current portion of long term liabilities' amount of THB 22,430 million) or accounted for 27.3% of total liabilities, a decrease of THB 6,840 million (8.5%) from last year since the short-term loan decreased by THB 8,675 million resulting from the repayment of the loan at maturity.

Long-term liabilities as of December 31, 2015 (including current portion of long term liabilities' totaled THB 22,430 million) or represented 66.0 % of total liabilities, which was an increase of THB 9,226 million (5.5%) from December 31, 2014 primarily due to the weakening value of the Baht when compared to the end of 2014 affected from the escalation of long-term liabilities translated to Baht terms. When excluded foreign currency adjustment, the amount of THB 1,490 million, long-term liabilities increased by THB 7,736 million mainly due to

- acquiring the additional long-term financing increased by THB 20,124 million to pay for aircraft purchases, 3 Boeing B777-300ER and 3 Airbus A320-200 aircraft,
- issuing new debentures the amount of THB 15,000 million which segregated into 2 lots: THB 7,000 million in April 2015 and another THB 8,000 million in September 2015.
- long-term repayment, amount of THB 27,390 million, consisted of long-term repayment and the debentures at maturity.

At the end of 2015, interest bearing debt to equity was 5.8 times when compared to the end of 2014's 4.7 times.

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

As of December 31, 2015, shareholders' equity totaled THB 32,926 million, a decrease of THB 8,370 million(20.3%) from December 31, 2014 due to loss from operations. Even there was the surplus on revaluation of land to leverage the loss, THAI's return on equity of 2015 still decreased from -31.7% at the same period last year to -35.2% this year.

4. Factors affecting future operations

The forecast situation of the aviation industry in 2016 is expected to continue growing but lower than 2015 due to the slowdown of the Chinese economy which directly impacts trade partner countries, especially in Asia. The European economy is still recovering and beginning to confront immigrant resistance in many countries, including the issue of terrorism. Although oil prices are expected to decline from 2015 due to oversupply situation. Furthermore, the increase of interest rate from US Federal Reserve signaled the recovery of US economic. However, such measures affect the currency depreciates grow steadily.

For the aviation industry of Thailand in 2016, although Thailand was downgraded by the FAA aviation safety standards, the certified aviation safety standards from EASA also make the situation getting better and benefits the Thai airline industry which seems to grow. However, there is still a risk factors that will affect the aviation industry of Thailand, including terrorism, war, massive natural disasters, and global economic situation. However, the falling fuel price is considered to be the positive factor. The other critical factor that must continue to monitor is the issue of the safety oversight of civil aviation of the country, which is in the process of concrete editing by Committee of Civil Aviation which has been approved a security plan for National civil Aviation security Programme-NCASP, a plan states that the security system that is based on the framework and guidelines for the International Civil Aviation Organization -ICAO to set out and prepare for Universal security Audit Programme: USAP of the ICAO audit in 2017.

For the implementation of the reform plan, THAI proceeded the further steps as these summary below:

- More aggressive revenue generating by concentrating more on passenger, cargo and mail and all other revenues
- Effective non-fuel cash cost reduction program
- Capability for sustainability plan i.e. Network Management System enhancement, Agent Management System development, procurement process redesign, aircraft and engines maintenance reprocess, financial capability enhancement, and so on.
- Customer services excellency by improving customer's loyalty, the customer service excellency development and business class services improvement.

In addition, THAI has established a monitoring process closely to ensure that the transformation plans will be updated to reflect the change of circumstances promptly.

5. Financial Ratios

	Jan – Dec	
	2015	2014
Liquidity Ratio		
Current Ratio (times)	0.78	0.75
Profitability Ratio		
Profit (loss) before Gain on foreign currency exchange		
Tax and One-time Margin %	(0.69)	(12.03)
Net Profit (loss) Margin %	(6.90)	(8.14)
Return on Equity %	(35.16)	(31.71)
Efficiency Ratio		
Return on Total Assets %	(2.70)	(3.47)
Financial Policy Ratio		
Interest Bearing Debt to Equity (times)	5.84	4.65
Total Debt to Equity (times)	8.19	6.44
Interest Coverage Ratio (times)	3.32	0.59

GLOSSARY

Current Ratio = Current Assets (excluding non-current Assets classified as held for sale) / Current Liabilities
(Excluding Unearned Transportation Revenues)

Profit (loss) Margin (before gain on foreign currency exchange tax and one-time expense)
= Profit (loss) before gain on foreign currency exchange tax and one-time expense /
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

Total Debts to Equity = Total debts / Shareholders' Equity

Interest Coverage ratio = EBITDA / interest