

## **Management's Discussion and Analysis for the second quarter ended June 30, 2016 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

The world economy in the second quarter of 2016 was gradually recovered by the US economy while European economy was slowly recovering. Japanese economy started to improve due to the stimulus package in late April and the delay of increasing in the value-added tax. Asia's overall economy remained sluggish, as the value of exports also shrank. The price of oil has increased from the first quarter of 2016.

Thai's economy in the second quarter of 2016 improved from the first quarter. Particularly, domestic spending has been driven by government economic measures and accelerating government investment which was grown at a high level. Although the export sector shrank, the supply side had better adjustment from the positive growth of many sectors. The growth was mainly from the support of the tourism sector resulting from the expansion of Chinese, Hong Kong, South Korea, India, Russia, the CLMV, and the American tourists. Thai baht depreciated steadily in line with most currencies in Asia. However, the results of the referendum to the UK from the EU or Brexit (British Exist) on June 23, 2016 is expected to affect the economy of the United Kingdom and Europe and the currencies of GBP and EUR trended to be fluctuated.

World's airline industry continued to grow steadily based on the data from International Air Transport Association (IATA) indicated the volume of passengers' traffic and production during the first six months of 2016 increased from previous year 6.0% and 6.2%, respectively. The averaged cabin factor was 79.2%. Not only more challenges of uncertainty, both economic and political, terrorism, and natural disasters but the steady drop of crude oil prices which fell and the deteriorating competition also affecting the price of the ticket dropped were beneficial to the increase of travel demand. However, the slowdown of the Chinese economy made the high impact in the economics of partner countries to slow down, particularly the export sector resulting in dropping freight load factor which was down by 44.6% from last year to 42.5% this year.

Overview of Thailand's aviation industry was likely to grow in a better direction by these some example indicators such as opening of new routes, fleet expansion, and so on resulting from Thailand's political stability, the tourism stimulating program and building confidence in tourism. These expansions were in line with the growth of both South East Asia and the world aviation industries made the industry to expand which corresponds to the number of passengers traveling in-out Thailand at Suvarnabhumi Airport during the second quarter of 2016 proved by 9.74 million, an increase of 4.0% from the previous year.

In 2016, THAI entered into the second phase of transformation plan "Strength building" by embarking on 4 main strategies: 1) generating uplifting revenue through which focuses on all possible channels 2) managing reducing cost by cost management program, cash and balance sheet management 3) improving capabilities such as Network Management and Optimization, Fleet plan concentrates on simplifying THAI's fleet and enhancing revenue management; 4) building the service excellence in continuing from last year initiatives such as business class service upgrade. In this quarter, THAI took further steps by establishing the 10 years plan and implementing the ROP "MyWallet" which was the latest Digital Pass service and Digital Mobile Marketing Platform designed to integrate ROP's online services and information for better convenience of ROP members, process redesign to enhance efficiency among Business Units such as Catering, Ground Customer service, and so on, and 2016's Mutual Separation Plan(MSP) that there were 280 staff joining the package which effective on June 1 and July 1, 2016, respectively.

According to the State Enterprise Policy Committee (SEPO) meeting No. 3/2559 held on July 11, 2016 stated that THAI's transformation Plan has well progressed which was consistent with the latest rating by Skytrax (Skytrax Awards) in 2016 that THAI was awarded the first World's Most Improved Airline. The award reflects an airline's quality and performance improvements in many categories: product quality, ground services, and in-flight services. Moreover, THAI was voted the World's Best Airline Lounge Spa.

Normally, the second quarter is the low season period combining with the fierce competition, especially in Asia-Pacific area caused by the enlargement of low cost airlines and Middle East carriers and the terrorism in Europe where is the leading market of THAI. These caused the 0.6% decrease of passenger traffic (RPK) while production traffic (ASK) reduced by 0.2%. Average cabin factor was 69.0% which was slightly dropped from last year. In June 2016, THAI decommissioned 1 operating lease aircraft: Boeing B777-200 which made the total 94 active aircrafts as of June 30, 2016, which was 1 less aircraft from the previous quarter. Aircraft utilization increased from 10.9 hours last year to 11.0 hours this year with 5.11 million passengers carried representing a 0.8% increase from last year.

THAI and its subsidiaries' financial performance for the second quarter of 2016 showed an operating loss of THB 1,782 million – a decrease of THB 2,931 million (62.2%) since the fuel expenses decreased by THB 3,182 million (21.3%) resulting from the falling jet fuel prices by 27.9%. Non-fuel operating expense decreased by THB 184 million (0.6%) from last year. Surprisingly, the decreasing fuel surcharge caused reduction of passenger and excess baggage revenue only by THB 536 million(1.6%) due to the better revenue management which made the better coverage of revenue over fuel cost.

THAI and its subsidiaries had THB 427 million of Mutual Separation plan THB 1,873 million, loss of impairment on assets and aircraft expenses but had THB 595 million gain of foreign currency exchange. Consequently, THAI and its subsidiaries reported the net loss of THB 2,915 million, a decrease of THB 9,839 million loss from last year. Loss attributable to owners of the parent amounted to THB 2,921 million. Loss per share was THB 1.34 compared to last year of 5.85.

EBITDA was THB 3,662 million while last year's result reported THB -2,304 million. EBITDA margin was 8.9%, as compared to last year's reported -5.5%.

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

The consolidated financial statements for the second quarter of 2016 consists of THAI's financial statement and 5 subsidiary companies which are 1) THAI-Amadeus Southeast Asia Co.,Ltd., 2)Wingspan Services Co., Ltd., 3) THAI Flight Training Co., Ltd, 4) Tour Eurng Luang Co., Ltd., and 5) THAI Smile Airways Co., Ltd.

### Financial Performance : THAI and its subsidiaries

Unit : Million Baht	Apr - Jun			
	2016	2015	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>41,243</b>	<b>41,807</b>	<b>-564</b>	<b>-1.3</b>
- Passenger and excess baggage revenue	33,508	34,044	-536	-1.6
- Freight and mail revenue	4,392	4,469	-77	-1.7
- Revenue from other activities	2,842	2,850	-8	-0.3
- Other income	501	444	+57	+12.8
<b>Total operating expenses</b>	<b>43,025</b>	<b>46,520</b>	<b>-3,495</b>	<b>-7.5</b>
- Fuel and oil	11,752	14,934	-3,182	-21.3
- Non-fuel operating expenses	29,993	30,177	-184	-0.6
- Net finance cost	1,280	1,409	-129	-9.2
<b>Operating loss</b>	<b>(1,782)</b>	<b>(4,713)</b>	<b>+2,931</b>	<b>+62.2</b>
<u>Less</u> Termination benefit from mutual separation plan	427	3,722	-3,295	-88.5
<u>Less</u> Impairment loss of assets and aircraft	1,873	426	+1,447	+339.7
<u>Add</u> Gain (Loss) on foreign currency exchange	595	(3,679)	+4,274	+116.2
Loss before income tax	(3,487)	(12,540)	+9,053	+72.2
Net Loss	(2,915)	(12,754)	+9,839	+77.1
<b>Loss attribute to owners of the parent</b>	<b>(2,921)</b>	<b>(12,759)</b>	<b>+9,838</b>	<b>+77.1</b>
Net Loss per share (THB)	(1.34)	(5.85)	+4.51	+77.1
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	3,662	(2,304)	+5,966	+258.9
Number of passengers (Million)	5.11	5.07	+0.04	+0.8
Available Seat-Kilometers (Million)	20,237	20,278	-41	-0.2
Revenue Passenger-Kilometers (Million)	13,953	14,042	-89	-0.6
Cabin factor (%)	69.0	69.2		-0.2
Passenger yield (THB/RPK)	2.38	2.38	-	-
Available Dead Load Ton-Kilometers (Million)	848	830	+18	+2.2
Revenue Freight Ton-Kilometers (Million)	498	483	+15	+3.1
Freight load factor (%)	58.7	58.3		+0.4
Freight carried (Ton)	138,385	130,366	+8,019	+6.2
Freight Yield (THB/RFTK)	8.32	8.76	-0.44	-5.0
Number of aircraft (As of June 30) (Aircraft)	94	94	-	-
Flight hours (Hours)	92,398	90,456	+1,942	+2.1
Aircraft utilization (Hours/Aircraft/Day)	11.0	10.9	+0.1	+0.9
Average foreign currency exchange rate				
1 USD : THB	35.2865	33.2874	+1.9991	+6.0
1 EUR : THB	39.8184	36.8733	+2.9451	+8.0
100 JPY : THB	32.7293	27.4230	+5.3063	+19.3
Average jet fuel price (USD/BBL)	56.81	78.79	-21.98	-27.9

Note : 1) 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)

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

For the second quarter of 2016, total revenues decreased by THB 564 million (1.3%) from the same period last year with details as follows:

### **- Passenger and excess baggage revenue**

Passenger and excess baggage revenue decreased by THB 536 million (1.6%) as:

- Average passenger yield (including fuel and insurance surcharge) was 2.38 THB/RPK equivalent to the previous year. Also, the weakening Thai Baht against the major revenue currencies partially benefited more revenue. When excluding such effect, the average passenger yield was 2.30 THB/RPK which decreased by 0.08 THB/RPK (3.4%) or THB 1,100 million due to the fierce competition and reduction of fuel surcharge in line with the falling fuel prices.

- Passenger traffic (Revenue Passenger-Kilometers - RPK) decreased by 0.6%, or approximately THB 210 million since the traffic in Asian region decreased but the domestic routes by ThaiSmile and intercontinental routes, especially Europe and Australia, increased. Production traffic (Available Seat-Kilometers:ASK) reduced by 0.2% due to the discontinued routes which were Bangkok-Madrid, and Bangkok – Los Angeles since last year resulting average cabin factor was 69.0% closed to last year's 69.2%.

### **- Freight and mail revenue**

Freight and mail revenue decreased THB 77 million (1.7%) because average freight yield (including fuel and insurance surcharge) was 8.32 THB/RFTK, a decrease of 0.44 THB/RFTK(5.0%) or around THB 220 million over last year. Freight traffic (Revenue Freight Ton-Kilometers: RFTK) increased by 3.1 % or around THB 130 million.

### **- Other income**

Other income increased by THB 57 million (12.8%) from last year mainly due to the compensation from lawsuits amounting to THB 45 million.

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

Total expenses for second quarter of 2016 was THB 3,495 million (7.5%) lower than last year. A summary of operating expenses is as follows:

- Fuel and oil expense decreased by THB 3,182 million (21.3%) due to decrease in average jet fuel price by 27.9% and lower fuel hedging, THB 976 million, compared to the same period last year; however, the depreciating THB against USD cause the higher expense in Baht term.

- Non-Fuel operating expense was THB 184 million (0.6%) lower than last year. Details as follows:

Unit : Million Baht	Apr - Jun					
	2016	% of Total Expense	2015	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses*	7,125	23.7	7,591	25.2	-466	-6.1
Flight service expenses	4,704	15.7	4,766	15.8	-62	-1.3
Crew expenses	1,311	4.4	1,290	4.3	+21	+1.6
Aircraft maintenance and overhaul costs	3,270	10.9	3,424	11.3	-154	-4.5
Depreciation and amortization expenses	4,528	15.1	4,632	15.3	-104	-2.2
Lease of aircraft and spare parts	2,506	8.4	2,132	7.1	+374	+17.5
Inventories and supplies	1,872	6.2	1,786	5.9	+86	+4.8
Selling and advertising expenses	2,159	7.2	2,274	7.5	-115	-5.1
Insurance expense	146	0.5	158	0.5	-12	-7.6
Other expenses	2,174	7.2	2,159	7.2	+15	+0.7
Share of losses (profits) of associates	198	0.7	(35)	(0.1)	+233	+665.7
<b>Non-fuel Operating Expense</b>	<b>29,993</b>	<b>100.0</b>	<b>30,177</b>	<b>100.0</b>	<b>-184</b>	<b>-0.6</b>

\*Excluded Mutual Separation Plan(MSP) expense

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased by THB 466 million (6.1%) due to the lower number of employees consisted of retired staff and employees who joined the Mutual Separation Plan(MSP) and Golden Handshake for crews based on Transformation plan and the employees who were impacted from the closure station.

- Flight related expenses consisted of flight service expenses, crew expenses, aircraft maintenance and overhaul costs, and inventories and supplies decreased by THB 109 million (1.0%) due to the lower production compared to that of last year.

- Depreciation and amortization decreased by THB 104 million (2.2%) resulting from decommissioning engines for Airbus A340-500 and Airbus A340-600 aircraft held for sales and aircraft and asset 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 374 million (17.5%) due to increase of 2 operating lease aircraft in 2015: Boeing B787-8 while the weakening Thai Baht against the US dollar caused the higher expense translating into Baht term.

- Share of profits of associates decreased by THB 233 million (665.7%). The major reason was from the loss of Nok Airline PCL. Details as follow:

- Nok Airlines PCL.'s loss of THB 270 million, an increase of THB 249 million loss from last year,

- Bangkok Aviation Fuel Services PCL's profit of THB 43 million, an increase of THB 4 million,
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 0.2 million while last year reported loss of THB 1 million,
- Phuket Air Catering Ltd.'s profit of THB 13 million, an increase of THB 12 million,
- Donmuang International Airport Hotel Ltd.'s profit of THB 6 million, no significant change from last year's, and
- Royal Orchid Hotel (Thailand) PCL's profit of THB 9 million, a decrease of THB 1 million.
- **Net finance cost** decreased THB 129 million (9.2%) because there were borrowing fees from the Ministry of finance last year while there was no such cost this year. Also, interest rate from short-term and long-term loans were lower than last year while net repayment was higher. However, interest payment from debentures was higher because THAI issued new debentures, amount of THB 15,000 million in 2015.
- **Termination benefit-Mutual Separation Plan expenses** totaled of THB 427 million, which consisted of the compensation of Mutual Separation plan following the transformation plan which has been continuing since last year. This year the total number of staff joined the program was 280 staff the first group amount of 10 people was effective on June 1, 2016 and the rest of them was effective in July 1, 2016.
- **Impairment loss of assets and aircraft** totaled THB 1,873 million, an increase of THB 1,447 million(339.7%) as the following details:
  - Impairment loss of aircraft amounted to THB 1,755 million, an increase of THB 1,442 million, due to the additional provision for decommissioned aircraft which were held for sales, amount of THB 1,430 million, and engines of Airbus A340-500, A340-600 aircraft, amount of THB 325 million while last year's provision for impairment loss of 1 Airbus A330-300 aircraft, amount of THB 313 million.
  - Impairment loss of assets totaled THB 118 million due to higher reserved for damaged rotatable spare parts and could not be repaired from last year.

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

Gain on foreign currency exchange was THB 595 million consisted of THB 740 million unrealized gain resulting from revaluation of foreign currency loans assets and liabilities as of June 30, 2016 with realized loss of THB 145 million.

**Operating results of Thai Airways International PCL. and its subsidiaries of the first six months of 2016 (January - June 2016) are as follows:**

**Financial Performance: THAI and its subsidiaries**

Unit : Million Baht	Jan - Jun			
	2016	2015	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>91,426</b>	<b>93,373</b>	<b>-1,947</b>	<b>-2.1</b>
- Passenger and excess baggage revenue	75,553	77,566	-2,013	-2.6
- Freight and mail revenue	8,804	9,374	-570	-6.1
- Revenue from other activities	6,124	5,638	+486	+8.6
- Other income	945	795	+150	+18.9
<b>Total operating expenses</b>	<b>86,029</b>	<b>93,670</b>	<b>-7,641</b>	<b>-8.2</b>
- Fuel and oil	22,593	29,414	-6,821	-23.2
- Non-fuel operating expenses	60,816	61,521	-705	-1.1
- Net finance cost	2,620	2,735	-115	-4.2
<b>Operating profit (Loss)</b>	<b>5,397</b>	<b>(297)</b>	<b>+5,694</b>	<b>-</b>
<u>Less</u> Maintenance provision for operating lease aircraft	1,153	-	+1,153	-
<u>Less</u> Termination benefit from mutual separation plan	427	3,722	-3,295	-88.5
<u>Less</u> Impairment loss of assets and aircraft	2,047	12,230	-10,183	-83.3
<u>Add</u> Gain (Loss) on foreign currency exchange	(86)	5,975	-6,061	-101.4
Profit (Loss) before income tax	1,684	(10,274)	+11,958	+116.4
Net Profit(Loss)	3,095	(8,205)	+11,300	+137.7
<b>Profit (Loss) attribute to owners of the parent</b>	<b>3,078</b>	<b>(8,218)</b>	<b>+11,296</b>	<b>+137.5</b>
Net Profit (Loss) per share (THB)	1.41	(3.76)	+5.17	+137.5
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	15,711	8,613	+7,098	+82.4
Number of passengers (Million)	11.02	10.69	+0.33	+3.1
Available Seat-Kilometers (Million)	41,713	42,147	-434	-1.0
Revenue Passenger-Kilometers (Million)	30,590	30,530	+60	+0.2
Cabin factor (%)	73.3	72.4	+0.9	+0.9
Passenger yield (THB/RPK)	2.45	2.50	-0.05	-2.0
Available Dead Load Ton-Kilometers (Million)	1,738	1,818	-80	-4.4
Revenue Freight Ton-Kilometers (Million)	1,006	1,079	-73	-6.8
Freight load factor (%)	57.9	59.3	-1.4	-1.4
Freight carried (Ton)	279,011	282,134	-3,123	-1.1
Freight yield (THB/RFTK)	8.25	8.23	+0.02	+0.2
Number of aircraft (As of June 30) (Aircraft)	94	94	-	-
Flight hours (Hours)	190,267	189,019	+1,248	+0.7
Aircraft utilization (Hours/Aircraft/Day)	11.2	10.8	+0.4	+3.7
Average foreign currency exchange rate				
1 USD : THB	35.4758	32.9559	+2.5199	+7.6
1 EUR : THB	39.5548	36.8118	+2.7430	+7.5
100 JPY : THB	31.7903	27.4238	+4.3665	+15.9
Average jet fuel price (USD/BBL)	52.32	77.88	-25.56	-32.8

Note : 1) 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' financial performance for the first half of 2016 showing an airlines business operating profit of THB 5,397 million compare to last year's loss of THB 297 million.

- Total revenue decreased by THB 1,947 million (2.1%) mainly due to the decrease of transportation revenue, a decrease of THB 2,583 million(3.0%). The 2.6% dropping revenue from passenger and excess baggage revenue was resulted by the fierce competition and reduction of fuel surcharge in line with the falling fuel prices. The average passenger yield (including fuel and insurance surcharge) was lower than last year while passenger traffic (Revenue Passenger-Kilometers:RPK) was similar to last year's.

Freight and mail revenue decreased by 6.1% due to the diminishing freight production(Available Dead-load Ton-Kilometers:ADTK). The decreasing production was caused by the decommission of 2 freighter aircraft: Boeing B747F in March 2015. The revenues from other activities increased in all Business units while revenue from other services of Technical department was higher than last year.

- Total expenses decreased THB 7,641 million (8.2%) since the fuel prices were lower in line with the decrease of production and ongoing cost control measures whereas lease of aircraft was increased resulting from delivery of new operating lease aircraft.

THAI and subsidiaries earned operating profit of THB 5,397 million while last year's result reported the loss of THB 297 million. It should be noted that there were one-time expenses as follows:

- Maintenance provision for operating lease aircraft totaled THB 1,153 million based on the recognition of maintenance provision based on actual conditions of aircraft and maintenance contractual obligations.

- Termination benefits - Mutual Separation plan amounted to THB 427 million , THB 3,295 million lower than last year, which was the continuing program from Mutual Separation Plan following the transformation plan.

- Impairment loss of assets and aircraft decreased THB 10,183 million due to the additional provision of decommissioned aircraft which held for sales, amount of THB 1,512 million and engines for Airbus A340-500 and A340-600 aircraft, amount of THB 325 million while last year's provision for impairment loss of 9 grounded aircraft, amount of THB 12,117 million.

- Loss on foreign currency exchange was THB 86 million while last year's profit of THB 5,975 million.

Net profit was THB 3,095 million while last year's result was a loss of THB 8,205 THB. Profit attributable to owners the parent amounted to THB 3,078 million. Profit per share was 1.41 THB, compared to last year where THAI reported a loss per share of 3.76 THB.

EBITDA increased by THB 7,098 million (82.4%) from last year. EBITDA margin was 17.2% which increased from last year's where reported 9.2%



## Financial Position and Liquidity

### Capital Expenditures – The Company

Unit : Million Baht	Jan - Jun	
	2016	2015
Aircraft and aircraft spare parts	1,973	8,791
Non-Aircraft	103	367
<b>Total</b>	<b>2,076</b>	<b>9,158</b>

Capital expenditures for the second quarter of 2016 totaled THB 1,120 million, a decrease of THB 3,273 million from last year since there was no new aircraft added to the fleet during this quarter while last year's' such expenditure of 1 aircraft. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts totaled THB 1,071 million which was mostly the prepayment for acquisition of 2 Airbus A350-900XWB aircraft.
- Investments in other fixed assets amounted to THB 49 million.

Combined with the investment in the first quarter of 2016 amounted to THB 956 million, the accumulated investment for the first half of 2016 totaled THB 2,076 million.

### Financing

In the first six months of 2016, THAI financed consisted of acquiring short-term financing from international sources via Ministry of finance and drawing down of its committed revolving credit line from domestic financial institution to repay the loan at maturity and used as working capital totaled THB 18,200 million. During the second quarter, the revolving credit totaling THB 6,800 million was drawn down.

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

Unit : Million Baht	Jan – Jun	
	2016	2015
Net cash from operating activities	13,025	9,391
Net cash used in investing activities	(1,746)	(234)
Net cash used in financing activities	(16,612)	(10,402)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(43)	424
<b>Increase(decreases) in cash and cash equivalents</b>	<b>(5,376)</b>	<b>(821)</b>

In the first six months of 2016, THAI's net cash used in financing activities, the amount of THB 16,612 million due to both short-term and long-term repayment which were higher than last year while net cash used in investing activities also increased. Nevertheless,

THAI's net cash from operating activities totaled THB 13,025 million, an increase of THB 3,634 million from last year. Consequently, cash and cash equivalents for the period ended June 30, 2016 decreased from the end of last year, THB 5,376 million

### Fleet

In the second quarter of 2016, THAI's consolidated had no new aircraft but grounded 1 operating lease, Boeing B777-200, aircraft resulting, as of June 30, 2016, THAI's net active aircraft fleet at 94 aircraft (including 12 Airbus A320-200 aircraft transferred the leasehold right to ThaiSmile and 5 Airbus A320-200 aircraft subleased) which equaled to last year but 1 aircraft less than as of December 31, 2015 and the end of previous quarter.

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

As of June 30, 2016, total assets decreased THB 9,576 million (3.2%) from as at December 31, 2015.

	Consolidated					
	Jun 30, 2016		Dec 31, 2015		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	15,405	5.2	20,781	6.9	-5,376	-25.9
Non-current assets classified as held for sale	14,413	4.9	15,099	5.0	-686	-4.5
Other current assets	34,457	11.8	34,596	11.4	-139	-0.4
<b>Current Assets</b>	<b>64,275</b>	<b>21.9</b>	<b>70,476</b>	<b>23.3</b>	<b>-6,201</b>	<b>-8.8</b>
Property, plant and equipment						
Prepaid aircraft and spare engine	7,138	2.4	5,491	1.8	+1,647	+30.0
Aircraft	42,088	14.4	44,979	14.9	-2,891	-6.4
Aircraft under finance leases	122,205	41.7	126,251	41.8	-4,046	-3.2
Aircraft spare parts	10,630	3.6	12,465	4.1	-1,835	-14.7
Work in process	261	0.1	61	-	+200	+327.9
Land, building and improvements	14,535	5.0	14,733	4.9	-198	-1.3
Other plant and equipment	3,680	1.3	4,305	1.4	-625	-14.5
<b>Property, plant and equipment-net</b>	<b>200,537</b>	<b>68.5</b>	<b>208,285</b>	<b>68.9</b>	<b>-7,748</b>	<b>-3.7</b>
Other non-current assets	28,083	9.6	23,710	7.8	+4,373	+18.4
<b>Total Assets</b>	<b>292,895</b>	<b>100.0</b>	<b>302,471</b>	<b>100.0</b>	<b>-9,576</b>	<b>-3.2</b>

Current assets were THB 64,275 million or accounted for 21.9% of total assets, a decrease of THB 6,201 million (8.8%) from as of December 31, 2015. The significant items consisted of

- A decrease in cash and cash equivalents of THB 5,376 million (25.9%), mainly from financing activities which was greater than cash flow from operations.
- Non-current assets classified as held for sale decreased by THB 686 million (4.5%) due to additional amount provision of impairment of aircraft and, during this quarter, 2 ATR72 aircraft were traded.

Property, plant and equipment-net totaled THB 200,537 million or represented 68.5 % of total assets, which saw a decrease of THB 7,748 million (3.7%) from December 31, 2015 due to the normal calculation of aircraft depreciation and the prepaid aircraft and spare engines which increased by THB 1,647 million resulting from aircraft prepayment of Airbus A350-900XWB.

Other non-current assets totaled THB 28,083 million or represented 9.6% of total assets, which increased THB 4,373 million (18.4%) from as of December 31, 2015 resulting from

- the increase of deferred tax assets, THB 1,684 million, was from the tax for increasing maintenance provision of operating lease aircraft and allowance for impairment of assets this year.

- the increase, approximately THB 3,504 million, in maintenance reserve corresponds to an increase in maintenance provision to plan for aircraft maintenance according to its utilization and maintenance condition. Once after THAI will perform the maintenance according to criteria under lease agreement, THAI can reimburse from lessors the maintenance reserves deposit.

Return on assets of the first six months of 2016 was 1.5% compared to last year's -2.4%.

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

Total liabilities as of June 30, 2016 decreased THB 11,622 million (4.3%) from as of December 31, 2015. These comprise of:

	Consolidated					
	Jun 30, 2016		Dec 31, 2015		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	68,318	26.5	73,592	27.3	-5,274	-7.2
<b>Long-term liabilities</b>						
Debentures	54,300	21.1	56,600	21.0	-2,300	-4.1
Liabilities under financial leases	73,386	28.5	77,551	28.8	-4,165	-5.4
Long term borrowings	39,067	15.1	43,627	16.2	-4,560	-10.5
<b>Total long-term liabilities</b>	<b>166,753</b>	<b>64.7</b>	<b>177,778</b>	<b>66.0</b>	<b>-11,025</b>	<b>-6.2</b>
Other non-current liabilities	22,852	8.8	18,175	6.7	+4,677	+25.7
<b>Total Liabilities</b>	<b>257,923</b>	<b>100.0</b>	<b>269,545</b>	<b>100.0</b>	<b>-11,622</b>	<b>-4.3</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 21,160 million) totaled THB 68,318 million or accounted for 26.5% of total liabilities, a decrease of THB 5,274 million (7.2%) from last year. The short-term loan and accrued expense both decreased THB 2,523 million and THB 3,003, respectively. The main reason was from whose major amount in accrued expense was accrued fuel hedging and accrued compensation for staff joined the MSP program.

Long-term liabilities as of June 30, 2016 (including current portion of long term liabilities' totaled THB 21,160 million) totaled THB 166,753 million represented 64.7 % of total liabilities, which was a decrease of THB 11,025 million (6.2%) from December 31,

2015. The weakening value of the Baht as of June 30, 2016 when compared to the end of 2015 affected the escalation of long-term liabilities translated to Baht terms. When excluded foreign currency adjustment, the amount of THB 790 million, long-term liabilities decreased by THB 11,815 million mainly due to long-term repayment and the debentures at maturity.

Other non-current liabilities totaled THB 22,852 million or represented for 8.8% of total liabilities, an increase of THB 4,677 million (25.7%) due to the maintenance provision for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations. Such expense can be refunded from lessor when maintenance activities meet the reimbursement condition.

At the end of the second quarter 2016, interest bearing debt to equity was 5.1 times better than the end of 2015's 5.8 times.

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

As of June 30, 2016, shareholders' equity totaled THB 34,972 million, an increase of THB 2,046 million (6.2%) from December 31, 2015 due to profit from operations. Consequently, return on equity for the first six months of 2016 improved from -22.4% at the same period last year to 9.1%.

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

The forecast situation of the aviation industry in the next six months of 2016 is forecast to grow only slightly by the global economic recovery, but there are still factors that could affect the global economy, including China, with effect from Brexit ( British Exist) which will be expected to impact the economy and financial markets of the United Kingdom and Europe combining with the risk of terrorism which alters behavior of tourists to avoid traveling in the region are vulnerable to terrorism. On the other hands oil prices are expected to remain low but higher than in the first half of 2016 and forecast to remain at a level of 50-60 USD per barrel.

For the implementation of the reform plan, THAI proceeded the further steps as follows:

- Network strategy is working on network restructure and schedule optimization, and network management system. Those are expected to be finished in the third quarter this year.
- Fleet strategy by receiving 2 Airbus A350-900XWB.
- Commercial strategy by concentrating on selling processes enhancement. i.e. network sales enhancement, Fare management system, internet sales, and agent management.
- Selling 14 decommissioned aircraft
- Continue to improve services efficiency in Business and Economy class

## 5. Financial Ratios

	Jan – Jun	
	2016	2015
<b>Liquidity Ratio</b>		
Current Ratio (times)	0.78	0.73
<b>Profitability Ratio</b>		
Operating Profit(loss) Margin %	5.90	(0.32)
Net Profit (loss) Margin %	3.38	(8.77)
Return on Equity %	9.12	(22.42)
<b>Efficiency Ratio</b>		
Return on Total Assets %	1.49	(2.44)
<b>Financial Policy Ratio</b>		
Interest Bearing Debt to Equity (times)	5.11	5.92
Total Debt to Equity (times)	7.38	8.30
Interest Coverage Ratio (times)	5.74	2.96

### GLOSSARY

**Current Ratio** = Current Assets (Excluding Non-Current Assets classified as held for sale / Current Liabilities (Excluding Unearned Transportation Revenues)

**Operating profit(loss) Margin** = Operating profit (loss)/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 debt to equity ratio** = Total liabilities/Shareholders' Equity

**Interest Coverage ratio** = EBITDA/interest