

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

## **1. Executive summary**

The third quarter 2016 world economy was still slowly recovered. While the US economy continued to grow, other countries were still sluggish, especially the European countries impacted by BREXIT resulted in volatility in the financial markets and lack of investors' confidence. The Japanese economy was likely to expand at a slower pace from decreased domestic spending and export. The Asian economy was still sluggish, as the Chinese economy slowed down in past quarters. The export value shrank while oil prices have increased from the first six months of 2016.

Thai's economy in the third quarter of 2016 improved from the previous quarters on the back of Government's spending particularly on public investments while private consumption only marginally improved from the economic slowdown since the second quarter of 2016. Thai export sector has rebounded positively since August 2016 and prominently expanded in all major markets such as Australia, China, USA and the EU. The tourism sector still well expanded from foreign tourists, primarily from China and CLMV. As a result, Bangkok was ranked as the World's Most Visited City in 2016 according to the Mastercard Global Destination Cities Index, which contributed positively to the tourism sector despite adversely impacted by the bombings in seven southern provinces in August 2016.

World's airline industry continued to grow steadily based on the data from International Air Transport Association (IATA) indicated that the volume of passengers' traffic and production during the nine months of 2016 increased 5.9% and 6.1% from previous year respectively with the average cabin factor of 80.6%. The aviation industry still has more challenges not only the uncertainties from economic and political, terrorism, and natural disasters but also the remain-low crude oil prices together with intense competition affecting the ticket prices to suppress. The export sector has improved from early this year but the slowdown in world trade volume has continued to drop freight load factor which was down by 43.6% from last year to 42.2% this year.

Overview of Thailand's aviation industry was likely to grow in a better direction by from various factors including more demand in emerging markets and the emergence of low cost carriers as well as the readiness of infrastructure to support the expansion. However, risk factors such as political unrest in various regions, terrorism, and other aviation threats were the great challenges to confront. The number of passengers traveling into and out of Thailand at Suvarnabhumi Airport during the third quarter of 2016 was 9.75 million, an increase of 8.5% from the same period last year indicated that the expansion of Thai aviation industry was in line with the growth of both South East Asia and the world aviation industries. Nevertheless, the bomb explosion in Southern Thailand in August triggered foreign embassies announced the warning to their citizens to be vigilant. Thus, it impacted the number of visitors in September dropped.

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 cost reduction through 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, Business Units' reprocess for better efficiency, more use of information technology which mainly emphasized on enhancing the effectiveness of revenue management and other services e.g. (a) Fare Management System to rapidly establish more

competitive fares, (b) Route Network Management System for better network connectivity, and (c) Service Ring to integrate all touch points for service excellence. All of them share one common purpose to prepare for the next stage of transformation plan which is the “Sustainable Growth” in 2017.

THAI’s continuing product and services improvement made THAI awarded by TTG travel as Best South-East Asian Airline 2016 for 10 consecutive years. This news came after previous quarter Skytrax Award 2016 as the World’s Most Improved Airline reflecting airline’s overall quality and performance improvements.

In the third quarter of 2016, the traffic production (ASK) increased 4.8% from last year to support industrial growth while passenger traffic increased 3.4% resulting the cabin factor was 73.5% compared to 74.4% last year. In this quarter, THAI took delivery of 1 Airbus A350-900WXB on August 29, 2016; simultaneously, decommissioned 1 operating lease aircraft: Boeing B777-200 resulting unchanged total active aircraft of 94, 1 aircraft less than September 30, 2015. Aircraft utilization increased from 10.8 hours last year to 11.6 hours this year with 5.50 million passengers carried representing a 7.6% increase from last year.

THAI and its subsidiaries’ financial performance for the third quarter of 2016 showed an operating loss of THB 836 million, a decreased of THB 3,403 million (80.3%) from last year since the fuel expenses decreased by THB 5,504 million (33.6%) resulting from the falling jet fuel prices by 15.3% and better fuel risk management. Non-fuel operating expense increased by 6.7% due to the increase of traffic production. Maintenance and overhaul expenses increased due to the higher engine maintenance rate and number of repaired engine spare parts. The decreasing fuel surcharge caused reduction of passenger and excess baggage revenue by THB 919 million (2.5%). Freight and mail revenue increased by THB 189 million (4.3%) and all business units had more revenue than last year.

This quarter THAI and its subsidiaries had THB 624 million impairment loss on assets and aircraft expenses but had THB 120 million gain on foreign currency exchange. Consequently, THAI and its subsidiaries reported the net loss of THB 1,591 million, a decrease of THB 8,303 million (83.9%) from last year. Loss attributable to owners of the parent amounted to THB 1,601 million. Loss per share was THB 0.73 compared to 4.54 last year.

EBITDA was THB 4,970 million, THB 3,007 million (153.2%) better than last year. EBITDA margin was 11.3%, as compared to last year’s reported 4.4%.

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

The consolidated financial statements for the third 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	Jul - Sep			
	2016	2015	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>44,126</b>	<b>44,342</b>	<b>-216</b>	<b>-0.5</b>
- Passenger and excess baggage revenue	35,720	36,639	-919	-2.5
- Freight and mail revenue	4,560	4,371	+189	+4.3
- Revenue from other activities	2,990	2,824	+166	+5.9
- Other income	856	508	+348	+68.5
<b>Total operating expenses</b>	<b>44,962</b>	<b>48,581</b>	<b>-3,619</b>	<b>-7.4</b>
- Fuel and oil	10,860	16,364	-5,504	-33.6
- Non-fuel operating expenses	32,813	30,764	+2,049	+6.7
- Net finance cost	1,289	1,453	-164	-11.3
<b>Operating loss</b>	<b>(836)</b>	<b>(4,239)</b>	<b>+3,403</b>	<b>+80.3</b>
<u>Less</u> Impairment loss of assets and aircraft	624	99	+525	+530.3
<u>Add</u> Gain (Loss) on foreign currency exchange	120	(4,532)	+4,652	+102.6
Loss before income tax	(1,340)	(8,870)	+7,530	+84.9
Net Loss	(1,591)	(9,894)	+8,303	+83.9
<b>Loss attribute to owners of the parent</b>	<b>(1,601)</b>	<b>(9,901)</b>	<b>+8,300</b>	<b>+83.8</b>
Net Loss per share (THB)	(0.73)	(4.54)	+3.81	+83.9
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	4,970	1,963	+3,007	+153.2
Number of passengers (Million)	5.50	5.11	+0.39	+7.6
Available Seat-Kilometers (Million)	21,244	20,275	+969	+4.8
Revenue Passenger-Kilometers (Million)	15,604	15,089	+515	+3.4
Cabin factor (%)	73.5	74.4	-0.9	-0.9
Passenger yield (THB/RPK)	2.27	2.39	-0.12	-5.0
Available Dead Load Ton-Kilometers (Million)	910	827	+83	+10.0
Revenue Freight Ton-Kilometers (Million)	515	476	+39	+8.2
Freight load factor (%)	56.6	57.5	-0.9	-0.9
Freight carried (Ton)	144,621	130,859	+13,762	+10.5
Freight Yield (THB/RFTK)	8.33	8.75	-0.42	-4.8
Number of aircraft(As of Sep 30) (Aircraft)	94	95	-1	-1.1
Flight hours (Hours)	96,670	90,538	+6,132	+6.8
Aircraft utilization (Hours/Aircraft/Day)	11.6	10.8	+0.8	+7.4
Average foreign currency exchange rate				
1 USD : THB	34.8295	35.2551	-0.4256	-1.2
1 EUR : THB	38.8755	39.2336	-0.3581	-0.9
100 JPY : THB	34.0770	28.8868	+5.1902	+18.0
Average jet fuel price (USD/BBL)	59.68	70.45	-10.77	-15.3

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 PLC. and its subsidiaries

For the third quarter of 2016, total revenues were THB 44,126 million which was proximate to last year's as the following details:

### - Passenger and excess baggage revenue

Passenger and excess baggage revenue decreased by THB 919 million (2.5%) as:

- Average passenger yield (including fuel and insurance surcharge) was 2.27 THB/RPK, 0.12 THB/RPK(5.0%) lower than the previous year; whereas, the weakening Thai Baht against the major revenue currencies partially benefited more revenue, resulting the lower revenue by THB 1,870 million. When excluding such effect, the average passenger yield was 2.23 THB/RPK which decreased by 0.16 THB/RPK (6.7%) or roughly THB 2,500 million due to the reduction of fuel surcharge in line with the falling fuel prices.

- Passenger traffic (Revenue Passenger-Kilometers - RPK) increased by 3.4%, or approximately THB 1,230 million since the traffic in all routes both regional and intercontinental routes including the domestic routes by ThaiSmile. Production traffic (Available Seat-Kilometers:ASK) increased by 4.8% resulting average cabin factor was 73.5% compared to last year's 74.4%.

### - Freight and mail revenue

Freight and mail revenue increased by THB 189 million (4.3%) because freight traffic (Revenue Freight Ton-Kilometers: RFTK) increased by 8.2 % or around THB 340 million while average freight yield (including fuel and insurance surcharge) was 8.33 THB/RFTK, a decrease of 0.42 THB/RFTK(4.8%) or around THB 215 million over last year.

### - 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. All of them had more revenue, THB 166 million (5.9%) than last year's mainly due to higher number of customer airlines' flight and number of passenger.

### - Other income

Other income increased by THB 348 million (68.5%) from last year mainly due to the insurance compensation from the "Bird Strike" case in 2012, the amount of THB 325 million.

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

Total expenses for third quarter of 2016 was THB 3,619 million (7.4%) lower than last year. A summary of operating expenses is as follows:

- Fuel and oil expense decreased by THB 5,504 million (33.6%) due to decrease in average jet fuel price by 15.3% and lower fuel hedging, THB 4,551 million, compared to the same period last year. In addition, the strengthen THB against USD cause the lower expense in Baht term.

- Non-Fuel operating expense was THB 2,049 million (6.7%) higher than last year. Details as follows:

Unit : Million Baht	Jul - Sep					
	2016	% of Total Expense	2015	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses	7,222	22.0	7,167	23.3	+55	+0.8
Flight service expenses	5,420	16.5	5,075	16.5	+345	+6.8
Crew expenses	1,329	4.0	1,310	4.3	+19	+1.5
Aircraft maintenance and overhaul costs	4,359	13.3	3,130	10.2	+1,229	+39.3
Depreciation and amortization expenses	4,480	13.7	4,672	15.2	-192	-4.1
Lease of aircraft and spare parts	2,602	7.9	2,436	7.9	+166	+6.8
Inventories and supplies	2,127	6.5	1,831	6.0	+296	+16.2
Selling and advertising expenses	2,438	7.4	2,466	8.0	-28	-1.1
Insurance expense	136	0.4	158	0.5	-22	-13.9
Other expenses	2,414	7.4	2,442	7.9	-28	-1.1
Share of losses of associates	286	0.9	77	0.2	+209	+271.4
<b>Non-fuel Expense</b>	<b>32,813</b>	<b>100.0</b>	<b>30,764</b>	<b>100.0</b>	<b>+2,049</b>	<b>+6.7</b>

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits increased by THB 55 million (0.8%) due to the higher overtime impacting from the inadequate number of employees resulting from retired staff and employees who joined the Mutual Separation Plan (MSP). The decrease in number of employees included 280 staff joining the MSP program: 10 and 270 staffs effective on June 1 and July 1, 2016, respectively, caused partially lower expense.

- Flight related expenses consisted of flight service expenses, crew expenses, and inventories and supplies increased by THB 660 million (8.0%) due to the greater production compared to that of last year.

- Maintenance and overhaul increased by THB 1,229 million (39.3%), mainly due to the higher engine maintenance rate and number of repaired engine spare parts.

- Depreciation and amortization decreased by THB 192 million (4.1%) 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 166 million (6.8%) due to increase of 2 operating lease aircraft in since the third quarter of 2015: 1 Boeing B787-8 and 1 Airbus A350-900XWB.

- Share of losses of associates increased by THB 209 million (271.4%). The major reason was from the loss of Nok Airline PCL. Details as follow:

- Nok Airlines PLC.'s loss of THB 373 million, an increase of THB 236 million loss from last year,

- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 6 million, a decrease of THB 1 million,
  - Donmuang International Airport Hotel Ltd.'s profit of THB 7 million, no significant change from last year's
  - Bangkok Aviation Fuel Services PLC's profit of THB 63 million, an increase of THB 5 million,
  - Phuket Air Catering Ltd.'s profit of THB 8 million, while last year reported the loss of THB 4 million, and
  - Royal Orchid Hotel (Thailand) PLC's profit of THB 3 million, while last year reported the loss of THB 8 million.
- **Net finance cost** decreased THB 164 million (11.3%) because, in the previous year, amortization charges of loan guarantee premiums to purchase 5 Airbus A340-600 aircraft, amount of THB 113 million, which repaid the full amount of loan. Moreover, net repayment was higher while interest rate was lower than last year. However, the appreciation of Thai Baht against EUR decreased the expense when translated to the Baht term.
- **Impairment loss of assets and aircraft** increased THB 525 million(530.3%) as the following details:
- Impairment loss of aircraft amounted to THB 451 million due to the additional provision for 15 decommissioned aircraft which were held for sales which are 3 A340-500, 6 A340-600, 4 B747-400 and 2 B737-400 while last year there was no such provision for impairment loss.
  - Impairment loss of assets increased THB 74 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 120 million consisted of THB 95 million unrealized gain resulting from revaluation of foreign currency loans assets and liabilities as of September 30, 2016 with realized gain of THB 25 million.

**Operating results of Thai Airways International PLC. and its subsidiaries of the first nine months of 2016 (January - September 2016)** are as follows:

**Financial Performance: THAI and its subsidiaries**

Unit : Million Baht	Jan - Sep			
	2016	2015	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>135,553</b>	<b>137,715</b>	<b>-2,162</b>	<b>-1.6</b>
- Passenger and excess baggage revenue	111,274	114,205	-2,931	-2.6
- Freight and mail revenue	13,364	13,746	-382	-2.8
- Revenue from other activities	9,114	8,461	+653	+7.7
- Other income	1,801	1,303	+498	+38.2
<b>Total operating expenses</b>	<b>130,993</b>	<b>142,251</b>	<b>-11,258</b>	<b>-7.9</b>
- Fuel and oil	33,454	45,778	-12,324	-26.9
- Non-fuel operating expenses	93,630	92,285	+1,345	+1.5
- Net finance cost	3,909	4,188	-279	-6.7
<b>Operating profit (loss)</b>	<b>4,560</b>	<b>(4,536)</b>	<b>+9,096</b>	<b>+200.5</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	2,670	12,330	-9,660	-78.3
<u>Add</u> Gain (Loss) on foreign currency exchange	34	1,443	-1,409	-97.6
Profit (Loss) before income tax	344	(19,145)	+19,489	+101.8
Net Profit(Loss)	1,504	(18,100)	+19,604	+108.3
<b>Profit (Loss) attribute to owners of the parent</b>	<b>1,476</b>	<b>(18,119)</b>	<b>+19,595</b>	<b>+108.1</b>
Net Profit (Loss) per share (THB)	0.68	(8.30)	+8.98	+108.2
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	20,680	10,575	+10,105	+95.6
Number of passengers (Million)	16.52	15.80	+0.72	+4.5
Available Seat-Kilometers (Million)	62,957	62,422	+535	+0.9
Revenue Passenger-Kilometers (Million)	46,195	45,619	+576	+1.3
Cabin factor (%)	73.4	73.1		+0.3
Passenger yield (THB/RPK)	2.38	2.46	-0.08	-3.3
Available Dead Load Ton-Kilometers (Million)	2,649	2,645	+4	+0.1
Revenue Freight Ton-Kilometers (Million)	1,521	1,555	-34	-2.2
Freight load factor (%)	57.4	58.8		-1.4
Freight carried (Ton)	423,632	412,993	+10,639	+2.6
Freight yield (THB/RFTK)	8.28	8.39	-0.11	-1.3
Number of aircraft(As of Sep 30) (Aircraft)	94	95	-1	-1.1
Flight hours (Hours)	286,937	279,557	+7,380	+2.6
Aircraft utilization (Hours/Aircraft/Day)	11.4	10.8	+0.6	+5.6
Average foreign currency exchange rate				
1 USD : THB	35.2556	33.7562	+1.4994	+4.4
1 EUR : THB	39.3234	37.6548	+1.6686	+4.4
100 JPY : THB	32.5693	27.9331	+4.6362	+16.6
Average jet fuel price (USD/BBL)	54.76	75.50	-20.74	-27.5

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 nine month of 2016 showing an airlines business operating profit of THB 4,560 million compare to last year's loss of THB 4,536 million.

- Total revenue decreased by THB 2,162 million (1.6%) mainly due to the decrease of transportation revenue, a decrease of THB 3,313 million (2.6%). 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 1.3% higher than last year's.

Freight and mail revenue decreased by 2.8% since the average freight yield decreased by 1.3% while freight traffic (Revenue Freight Ton-Kilometers) decreased by 2.2%. The revenues from other activities increased in all Business units.

- Total expenses decreased THB 11,258 million (7.9%) since the fuel prices were lower whereas lease of aircraft was increased resulting from delivery of new operating lease aircraft maintenance and overhaul increased and other operating expenses increased in line with the increase of production.

THAI and subsidiaries earned operating profit of THB 4,560 million while last year's result reported the loss of THB 4,536 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 9,660 million due to the additional provision of decommissioned aircraft which held for sales, amount of THB 1,963 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.

- Gain on foreign currency exchange was THB 34 million while last year's gain of THB 1,443 million.

Net profit was THB 1,504 million while last year's result was a loss of THB 18,100 million. Profit attributable to owners the parent amounted to THB 1,476 million. Profit per share was 0.68 THB, compared to last year where THAI reported a loss per share of 8.30 THB.

EBITDA increased by THB 10,105 million (95.6%) from last year. EBITDA margin was 15.2% which increased from last year's where reported 7.7%



## Financial Position and Liquidity

### Capital Expenditures – The Company

Unit : Million Baht	Jul - Sep		Jan - Sep	
	2016	2015	2016	2015
Aircraft and aircraft spare parts	2,501	4,215	4,474	13,006
Non-Aircraft	24	124	127	491
<b>Total</b>	<b>2,525</b>	<b>4,339</b>	<b>4,601</b>	<b>13,497</b>

Capital expenditures for the third quarter of 2016 was THB 2,525 million, a decrease of THB 1,814 million from last year since there was 1 Boeing B777-300ER aircraft added to the fleet during last year's. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts was THB 2,501 million which was mostly the prepayment for acquisition of 1 Airbus A350-900XWB aircraft and 3 TRENT XWB-84 spare engines used for Airbus A350-900XWB aircraft.
- Investments in other fixed assets amounted to THB 24 million.

Combined with the investment in the first half of 2016 amounted to THB 2,076 million, the accumulated investment for the nine months of 2016 totaled THB 4,601 million.

### Financing

In the nine 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 30,218 million. During this quarter, the revolving credit totaling THB 12,018 million was drawn down.

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

Unit : Million Baht	Jan – Sep	
	2016	2015
Net cash from operating activities	18,028	15,801
Net cash from (used in) investing activities	(3,214)	82
Net cash used in financing activities	(21,908)	(11,585)
Effect from changing in exchange rate on cash and cash equivalents increase	8	607
<b>Increase (decreases) in cash and cash equivalents</b>	<b>(7,086)</b>	<b>4,905</b>

In the nine months of 2016, THAI's net cash used in financing activities, the amount of THB 21,908 million which comprised of both short-term and long-term repayment and net cash used in investing activities, the amount of THB 3,214 million increased in the greater amount

when compared to last year was mostly the prepayment for acquisition aircraft and spare engines. Nevertheless, THAI's net cash from operating activities totaled THB 18,028 million, an increase of THB 2,227 million from last year. Consequently, cash and cash equivalents for the period ended September 30, 2016 decreased from the end of last year, THB 7,086 million

### Fleet

In the third quarter of 2016, THAI's consolidated had 1 new operating lease aircraft: Airbus A350-900XWB, but grounded 1 operating lease aircraft: Boeing B777-200 aircraft resulting, as of September 30, 2016, THAI's net active aircraft fleet was 94 aircraft (including 15 Airbus A320-200 aircraft transferred the leasehold right to ThaiSmile and 5 Airbus A320-200 aircraft subleased) which equaled to at the end of last quarter but 1 aircraft less than as of December 31, 2015 and the end of the same quarter last year.

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

As of September 30, 2016, total assets decreased THB 15,115 million (5.0%) from as at December 31, 2015.

	Consolidated					
	Sep 30, 2016		Dec 31, 2015		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,695	4.8	20,781	6.9	-7,086	-34.1
Non-current assets classified as held for sale	13,019	4.5	15,099	5.0	-2,080	-13.8
Other current assets	33,980	11.8	34,596	11.4	-616	-1.8
<b>Current Assets</b>	<b>60,694</b>	<b>21.1</b>	<b>70,476</b>	<b>23.3</b>	<b>-9,782</b>	<b>-13.9</b>
Property, plant and equipment						
Prepaid aircraft and spare engine	9,199	3.2	5,491	1.8	+3,708	+67.5
Aircraft	40,820	14.2	44,979	14.9	-4,159	-9.2
Aircraft under finance leases	120,108	41.8	126,251	41.8	-6,143	-4.9
Aircraft spare parts	10,427	3.6	12,465	4.1	-2,038	-16.3
Work in process	205	0.1	61	-	+144	+236.1
Land, building and improvements	14,459	5.0	14,733	4.9	-274	-1.9
Other plant and equipment	3,341	1.2	4,305	1.4	-964	-22.4
<b>Property, plant and equipment-net</b>	<b>198,559</b>	<b>69.1</b>	<b>208,285</b>	<b>68.9</b>	<b>-9,726</b>	<b>-4.7</b>
Other non-current assets	28,103	9.8	23,710	7.8	+4,393	+18.5
<b>Total Assets</b>	<b>287,356</b>	<b>100.0</b>	<b>302,471</b>	<b>100.0</b>	<b>-15,115</b>	<b>-5.0</b>

Current assets were THB 60,694 million or accounted for 21.1% of total assets, a decrease of THB 9,782 million (13.9%) from as of December 31, 2015. The significant items consisted of

- A decrease in cash and cash equivalents of THB 7,086 million (34.1%), mainly from financing and investing activities which was greater than cash flow from operations and also apply cash management policy to optimize cash balance.
- Non-current assets classified as held for sale decreased by THB 2,080 million (13.8%) because there were additional amount provision of impairment of aircraft and, during

the nine month period of 2016, 4 aircraft were traded. 2 of them were sold during this quarter which were 1 Airbus A330-300 and 1 Airbus A340-500 aircraft.

Property, plant and equipment-net was THB 198,559 million or represented 69.1 % of total assets, which saw a decrease of THB 9,726 million(4.7%) from December 31, 2015 due to the normal calculation of aircraft depreciation and the prepaid aircraft and spare engines which increased by THB 3,708 million resulting from aircraft prepayment of 4 Airbus A350-900XWB and spare engines prepayment of 3 TRENT XWB-84 used for A350-900XWB fleet.

Other non-current assets totaled THB 28,103 million or represented 9.8% of total assets, which increased THB 4,393 million (18.5%) from as of December 31, 2015 resulting from

- the increase of deferred tax assets, THB 1,419 million, was from the tax for increasing maintenance provision of operating lease aircraft.

- the increase, approximately THB 4,113 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 nine months of 2016 was 1.5% compared to last year's -4.8%.

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

Total liabilities as of September 30, 2016 decreased THB 15,667 million (5.8%) from as of December 31, 2015. These comprise of:

	Consolidated					
	Sep 30, 2016		Dec 31, 2015		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding						
Portion of long-term liabilities)	68,220	26.9	73,592	27.3	-5,372	-7.3
<b>Long-term liabilities</b>						
Debentures	54,300	21.4	56,600	21.0	-2,300	-4.1
Liabilities under financial leases	70,550	27.8	77,551	28.8	-7,001	-9.0
Long term borrowings	37,639	14.8	43,627	16.2	-5,988	-13.7
<b>Total long-term liabilities</b>	<b>162,489</b>	<b>64.0</b>	<b>177,778</b>	<b>66.0</b>	<b>-15,289</b>	<b>-8.6</b>
Other non-current liabilities	23,169	9.1	18,175	6.7	+4,994	+27.5
<b>Total Liabilities</b>	<b>253,878</b>	<b>100.0</b>	<b>269,545</b>	<b>100.0</b>	<b>-15,667</b>	<b>-5.8</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 21,338 million) totaled THB 68,220 million or accounted for 26.9% of total liabilities, a decrease of THB 5,372 million (7.3%) from last year. The short-term loan and accrued expense both decreased THB 2,594 million and THB 4,066 million, 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 at the end of last year.

Long-term liabilities as of September 30, 2016 (including current portion of long term liabilities' totaled THB 21,338 million) totaled THB 162,489 million represented 64.0 % of

total liabilities, which was a decrease of THB 15,289 million (8.6%) from December 31, 2015. The depreciation of Thai Baht against JPY but strengthening against EUR and USD as of September 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 488 million, long-term liabilities decreased by THB 15,777 million mainly due to long-term repayment and the debentures at maturity.

Other non-current liabilities totaled THB 23,169 million or represented for 9.1% of total liabilities, an increase of THB 4,994 million (27.5%) 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 third quarter 2016, interest bearing debt to equity was 5.2 times better than the end of 2015's 5.8 times.

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

As of September 30, 2016, shareholders' equity totaled THB 33,478 million, an increase of THB 552 million (1.7%) from December 31, 2015 due to profit from operations. Consequently, return on equity for the nine months of 2016 improved from -58.9% at the same period last year to 4.5%.

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

The future situation of the aviation industry for the last quarter of 2016 is forecasted 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 nine months of 2016.

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

- Network expansion by launching new route to Tehran, Iran since October 1, 2016 onwards. The flight frequency will be 4 flights, introducing the direct flight from Phuket to Frankfurt since November 16, 2016, and resumed operation to Moscow since December 15, 2016. Moreover, THAI plans to increase more frequency in Europe i.e. London, Brussels, and Oslo since October 30, 2016 while enlarge regional routes via ThaiSmile as the efficient instrument for carry connecting passengers of THAI to the base at Suvarnabhumi airport.

- Fleet strategy by receiving 2 Airbus A350-900XWB which the first aircraft arrived on August 29, 2016 and other 11 aircraft will gradually be delivered. 1 aircraft will join the fleet in the fourth quarter this year. These aircraft were planned to operate mainly in intercontinental route.

- New flight attendants (TQV 2016), totaling 565 positions, were enlisted to support the future growth and compensate for the absence of the receptionist, participating MSP and retirement. The first group will be ready to work in November 2016, which is expected to reach the full by the middle of next year.

- Commercial strategy by concentrating on selling processes enhancement. i.e. improvement in fare preparation process for network sales with star alliance airline, Fare management system, internet sales, and agent management. They are estimated to completely implement in the fourth quarter of 2016.

- Continue to improve services efficiency in Business and Economy class.

## 5. Financial Ratios

		Jan – Sep	
		2016	2015
<b>Liquidity Ratio</b>			
Current Ratio	(times)	0.76	0.85
<b>Profitability Ratio</b>			
Operating Profit(loss) Margin	%	3.36	(3.29)
Net Profit (loss) Margin	%	1.11	(13.12)
Return on Equity	%	4.53	(58.88)
<b>Efficiency Ratio</b>			
Return on Total Assets	%	1.49	(4.84)
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	5.21	9.97
Total Debt to Equity	(times)	7.58	13.88
Interest Coverage Ratio	(times)	5.09	2.38

### 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