

## **Management's Discussion and Analysis for the year ended December 31, 2016 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

The world economy in 2016 was insubstantially recovered. However, the US economy continued to regain, the European economy was still uncertain after the Brexit. The Japanese economy tended to improve in the export sector while its Government decided to delay the increasing in the value-added tax, there was still the weakness in domestic consumption which made the economy vulnerable; meanwhile, the overall economy China and Asia remained sluggish. Oil prices also remained low, although it began to rise in late 2016 because OPEC's oil production capacity remains at a high level.

The Thai economy in 2016 improved due to the sponsorship from private consumption and Government's investing activities of small investment disbursement and transport infrastructure. The tourism sector still well expanded from foreign tourists, primarily Chinese and the CLMV tourists, who continued to visit Thailand steadily. However, it was temporarily affected by cracking down on zero-dollars tourism and the impact of the bombings in the Southern part of Thailand. Export sector recovered from the favorable economy of major trading partners: ASEAN and CLMV countries which have a progressive economic direction.

According to IATA (International Air Transport Association) 2016 data, the passenger traffic and passenger production indicated the continued growth in which increased by 6.3% and 6.2% respectively resulting average cabin factor was 80.5%. Airlines in the Middle East and the Asia-Pacific region had the highest growth rate at 11.8% and 8.3% respectively due to the global economic upturn. Oil prices were still in the low level which caused the fare decreased. However, the global aviation industry continued to face economic and political improbability while various terrorist incidents occurred during the first half i.e. bombings in Jakarta, Indonesia, bombing the airport in Brussels, Belgium, terrorism event in Nice, France, and the attack at the Istanbul's Atatürk international airport, Turkey, etc. Fortunately, the degree of terrorist activities was eased during the second half of 2016. The export sector also continued to recess due to the slowdown of world trade volume but began to improve in the second half of 2016, resulting in the freight load factor went down from 44.1% last year to 43.0% this year.

Overview of Thailand's aviation industry was likely to grow in a better direction by the affirmative factors from more demand in emerging markets and the emergence of low cost carriers, including the readiness of infrastructure to support the expansion. The number of inbound foreign passengers visiting Thailand in 2016 proved by 32.6 million passengers, 8.9% increasing from last year which indicated the expansion of Thai aviation industry was in line with the growth of both South East Asia and the world aviation industries.

In 2016, THAI entered into the second phase of the transformation plan "Strength Building" by embarking on 4 main strategies: 1) generating aggressive revenue 2) reducing cost and increasing efficiencies 3) building capabilities for sustainable growth; 4) creating excellent quality of service. This year, THAI had implemented these main tasks by

- Using information technology to enhance revenue management effectiveness and other services such as Automated Fare Management System to rapidly establish more competitive fares, Customer Relationship Management (CRM) including the Service Ring to integrate all touch points for service excellence, and Route Network Management System for better route connectivity.

- Network expansion: in 2016, THAI inaugurated these following routes: Bangkok- Tehran, Iran on October 1, 2016, Phuket – Frankfurt on November 16, 2016 while resuming Bangkok-Moscow on December 15, 2016. Moreover, THAI added flight frequencies in European routes such as London, Brussels, and Oslo on October 30, 2016 while enlarging regional routes: ASEAN, China, and India via ThaiSmile as the efficient instrument for carry connecting passengers of THAI via the base at Suvarnabhumi airport.

- Increasing the fleet capacity by taking delivery of 2 Airbus 350-900XWB which were planned to operate in mainly intercontinental route such as Bangkok - Rome, Bangkok - Milan.

- Sales of aircraft and delivering them to buyers totaled 5 aircraft which consisted of 2 ATR72, 2 Airbus A330-300, and 1 Airbus A340-500 aircraft.

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

- Continuing the Mutual Separation Plan (MSP) from last year for general employees (excluded cockpit personnel and flight attendants). The total staff joining the program were 280 staff, 11 and 269 staff were effective on June 1, 2016 and July 1, 2016, respectively.

- New business class service improvement including the service of cabin crew, meals and beverage aimed to create services differentiate with the appropriate cost structure, and meet customer's needs. The program had begun since September 17, 2016 in Bangkok – Narita route. It is currently operated on European, Japan, Middle East, Australia and New Zealand route.

According to these development programs which were proven their successes indicated by better financial status and in other areas resulting the improving customer satisfactions. THAI has been awarded in many areas. For example, THAI was awarded by 2 institutions: Skytrax(Skytrax Awards) in 2016 in 2 categories which were the first World's Most Improved Airline in service quality and the World's Best Airline Lounge Spa. THAI also received the Best South-East Asian Airline 2016 Award at the TTG Travel Awards for 10 consecutive years.

In 2016, the Group took delivery of 2 Airbus A350-900XWB; simultaneously, decommissioned 2 operating lease aircraft: Boeing B777-200 resulting unchanged in total number of 95 active aircraft in THAI's fleet as of December 31, 2016 which was equal to December 31, 2015. Aircraft utilization increased from 10.9 hours last year to 11.5 hours this year. Production traffic (ASK) increased by 1.9% while passenger traffic (RPK) increased by 2.5%. Average cabin factor was 73.4% higher than last year's 72.9% with 22.3 million passengers carried representing 4.8% increasing from last year.

THAI and its subsidiaries' financial performance of 2016 showed an operating profit of THB 4,071 million while last year was a loss of THB 1,304 million or 412.2% a leap of improvement from last year mainly because total expense decreased by THB 13,565 million (7.1%) resulting from the decrease of fuel expense by THB 17,907 million (28.3%) resulting from the falling jet fuel prices by 21.6% and better fuel risk management. Net finance cost reduced by THB 431 million (7.7%) because of the efficient cash management and financial restructure engagement but non-fuel operating expense increased by THB 4,773 million (3.9%) mostly due to increase in maintenance and overhaul expenses. Total revenues decreased by THB 8,190 million (4.3%). Passenger and excess baggage revenue reduced by THB 4,428 million (2.9%) due to the fuel surcharge adjustment while other revenues reduced by THB 3,775 million since last year THAI received the insurance compensation from the delay delivery of economy class seats, the amount of THB 3,968 million.

This year THAI and its subsidiaries had one-time cost item occurred from maintenance provision based on actual conditions of aircraft and maintenance contractual obligations, amount of THB 1,317 million, then expense from Transformation plan, the amount of THB 1,228 million, and impairment loss of assets and aircraft, amount of THB 3,628 million but had THB 685 million gain on foreign currency exchange. Consequently, THAI and its subsidiaries reported the net profit of THB 47 million. Profit attributable to owners of the parent amounted to THB 15 million. Profit per share was THB 0.01 or 100.2% higher than last year's loss per share of THB 5.99.

EBITDA was THB 24,856 million, THB 5,296 million (27.1%) higher than last year. EBITDA margin was 13.8%, as compared to last year's reported 10.3%.

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

The consolidated financial statements for 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) ThaiSmile Airways Co., Ltd.

### Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Dec			
	2016	2015	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>180,557</b>	<b>188,747</b>	<b>-8,190</b>	<b>-4.3</b>
- Passenger and excess baggage revenue	148,060	152,488	-4,428	-2.9
- Freight and mail revenue	18,578	18,651	-73	-0.4
- Revenue from other activities	11,674	11,588	+86	+0.7
- Other income	2,245	6,020	-3,775	-62.7
<b>Total operating expenses</b>	<b>176,486</b>	<b>190,051</b>	<b>-13,565</b>	<b>-7.1</b>
- Fuel and oil	45,336	63,243	-17,907	-28.3
- Non-fuel operating expenses	126,015	121,242	+4,773	+3.9
- Net finance cost	5,135	5,566	-431	-7.7
<b>Operating profit (loss)</b>	<b>4,071</b>	<b>(1,304)</b>	<b>+5,375</b>	<b>+412.2</b>
<u>Less</u> Maintenance provision for operating lease aircraft	1,317	-	+1,317	-
<u>Less</u> Expense from Transformation plan	1,228	4,167	-2,939	-70.5
<u>Less</u> Impairment loss of assets and aircraft	3,628	12,157	-8,529	-70.2
<u>Add</u> Gain (Loss) on foreign currency exchange	685	3,512	-2,827	-80.5
Loss before income tax	(1,417)	(14,116)	+12,699	+90.0
Net Profit (Loss)	47	(13,047)	+13,094	+100.4
<b>Profit (Loss) attribute to owners of the parent</b>	<b>15</b>	<b>(13,068)</b>	<b>+13,083</b>	<b>+100.1</b>
Net Profit (Loss) per share (THB)	0.01	(5.99)	+6.00	+100.2
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	24,856	19,560	+5,296	+27.1
Number of passengers (Million)	22.26	21.25	+1.01	+4.8
Available Seat-Kilometers (Million)	85,042	83,479	+1,563	+1.9
Revenue Passenger-Kilometers (Million)	62,442	60,893	+1,549	+2.5
Cabin factor (%)	73.4	72.9		+0.5
Passenger yield (THB/RPK)	2.35	2.46	-0.11	-4.5
Available Dead Load Ton-Kilometers (Million)	3,591	3,514	+77	+2.2
Revenue Freight Ton-Kilometers (Million)	2,132	2,091	+41	+2.0
Freight load factor (%)	59.4	59.5		-0.1
Freight carried (Ton)	589,829	559,283	+30,546	+5.5
Freight Yield (THB/RFTK)	8.18	8.45	-0.27	-3.2
Number of aircraft(As of December 31) (Aircraft)	95	95	-	-
Flight hours (Hours)	388,727	374,831	+13,896	+3.7
Aircraft utilization (Hours/Aircraft/Day)	11.5	10.9	+0.6	+5.5
Average foreign currency exchange rate				
1 USD : THB	35.2897	34.2861	+1.0036	+2.9
1 EUR : THB	39.0348	38.0611	+0.9737	+2.6
100 JPY : THB	32.5435	28.3389	+4.2046	+14.8
Average jet fuel price (USD/BBL)	56.73	72.37	-15.64	-21.6

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)

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

For the year 2016, total revenues decreased by THB 8,190 million (4.3%) from the same period last year with details as follows:

- **Passenger and excess baggage revenue**

Passenger and excess baggage revenue decreased by THB 4,428 million(2.9%) since

- Average passenger yield (including fuel and insurance surcharge) was 2.35 THB/RPK, decreased by 0.11 THB/RPK(4.5%) resulting the lower passenger revenues by THB 6,870 million; whereas, the weakening Thai Baht against the major revenue currencies partially benefited more revenue. When excluding such effect, the approximate passenger yield was 2.31 THB/RPK which decreased by 0.15 THB/RPK (6.1%) or approximately THB 9,366 million due to the reduction of fuel surcharge in line with the falling fuel prices and the heavier competition.

- Passenger traffic (Revenue Passenger-Kilometers - RPK) increased by 2.5% or approximately THB 3,810 million since the traffic increased in almost all routes, especially intercontinental routes: Australia and Europe, including the domestic routes by ThaiSmile. Production traffic (Available Seat-Kilometers:ASK) increased by 1.9% resulting average cabin factor was 73.4% compared to last year's 72.9%.

### Passenger operation performance classified by region: THAI and its subsidiaries

	Variance (%)		Cabin Factor (%)	
	ASK	RPK	2016	2015
Regional	+4.2	+0.4	71.8	74.5
Intercontinental	-1.3	+3.7	75.4	71.8
Domestic	+11.7	+13.6	71.8	70.7

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

Unit : Million Baht	2016	2015	Variance	
			MTHB	%
<b>Passenger and excess baggage revenue</b>				
Regional	79,350	82,118	-2,768	-3.4
Intercontinental	55,916	58,644	-2,728	-4.7
Domestic	12,427	11,095	+1,332	+12.0
Non-schedule flight	367	631	-264	-41.8
<b>Total Passenger and excess baggage revenue</b>	<b>148,060</b>	<b>152,488</b>	<b>-4,428</b>	<b>-2.9</b>

- Regional passenger and excess baggage revenue amounted to THB 79,350 million, a decrease of THB 2,768 million (3.4%). In 2016, THAI increased traffic production for supporting the growth in Asia region by launching the new route, Bangkok- Tehran, Iran on October 1, 2016 and expanding the new routes operated by ThaiSmile throughout ASEAN, China, and India regions resulting the traffic production increased by 4.2% while passenger traffic increased only by 0.4% since the impact from zero-tourist dollar and the fierce competition in Japan and Middle East routes caused the lower passengers than last year's but increased in ThaiSmile instead. Cabin factor decreased from 74.5% last year to 71.8% this

year. The fuel surcharge adjustment and the strong competition from the increase of low cost carriers, especially long-haul operation, caused the lower yield by 2.8%.

- Intercontinental passenger and excess baggage revenue amounted to THB 55,916 million, a decrease of THB 2,728 million (4.7%) since THAI decreased traffic production by 1.3% according to the termination of many routes due to the first phase of transformation plan during 2015. In 2016, THAI adjusted flight schedule by increase the traffic production in Australia and Europe including Phuket – Frankfurt on November 16, 2016 while resuming Bangkok-Moscow on December 15, 2016 due to the recovery of Russian economy resulting overall passenger traffic increased by 3.7%. Cabin factor increased from last year's 71.8% to 75.4% this year but passenger yield decreased by 7.5%.

- Domestic passenger and excess baggage revenue amounted to THB 12,427 million, an increase of THB 1,332 million (12.0%) since the passenger traffic increased by 13.6% while yield decreased by 1.2% 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 such as Bangkok- Surat Thani, Chiang Mai-Phuket, and so forth. As a result, Production traffic increased by 11.7% while cabin factor was 71.8% higher than last year's 70.7%.

- **Freight and mail revenue**

Freight and mail revenue decreased by THB 73 million (0.4%) because average freight yield was 8.18 THB/RFTK, a decrease of 0.27 THB/RFTK(3.2%) or around THB 575 million over last year mainly due to the reduction of fuel surcharge . Freight traffic (Revenue Freight Ton-Kilometers: RFTK) increased by 2.0 % or around THB 345 million because of the recovery of export sector, especially the second half of 2016. Average freight load factor was 59.4%, slightly changed from last year's 59.5%.

- **Other income**

Other income decreased from last year, the amount of THB 3,775 million(62.7%) 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 2016 was THB 13,565 million (7.1%) lower than the same period last year. A summary of operating expenses is as follows:

- **Fuel and oil** expense was THB 17,907 million (28.3%) lower than last year due to a decrease in average jet fuel price by 21.6%. Depreciating THB against USD caused expense in THB increased. The fuel hedging fee of THB 6,604 million or 63.6% was lower than last year.

- **Non-fuel operating expense** was THB 4,773 million (3.9%) higher than last year. Details as follows:

Unit : Million Baht	Jan - Dec					
	2016	% of Total Expense	2015	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses	28,767	22.8	29,892	24.6	-1,125	-3.8
Flight service expenses	20,818	16.5	20,474	16.9	+344	+1.7
Crew expenses	5,353	4.2	5,313	4.4	+40	+0.8
Aircraft maintenance and overhaul costs	15,670	12.4	10,311	8.5	+5,359	+52.0
Depreciation and amortization expenses	17,991	14.3	19,133	15.8	-1,142	-6.0
Lease of aircraft and spare parts	9,871	7.8	8,950	7.4	+921	+10.3
Inventories and supplies	8,151	6.5	7,829	6.5	+322	+4.1
Selling and advertising expenses	9,404	7.5	9,499	7.8	-95	-1.0
Insurance expense	570	0.5	614	0.5	-44	-7.2
Other expenses	8,841	7.0	9,359	7.7	-518	-5.5
Share of losses (profits) of associates	579	0.5	(132)	(0.1)	+711	+538.6
<b>Non-fuel Operating Expense</b>	<b>126,015</b>	<b>100.0</b>	<b>121,242</b>	<b>100.0</b>	<b>+4,773</b>	<b>+3.9</b>

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased by THB 1,125 million (3.8%) due to the lower number of employees - both retired staff, 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 totalled 1,277 in 2015 and 404 staff in 2016, respectively.
- Flight related expenses consisted of flight service expenses, crew expenses, and Inventories and supplies increased by THB 706 million (2.1%) due to the depreciation of Baht compared to major currencies which consisted of EURO, Japanese Yen, and Australian dollar and additional number of flights.
- Maintenance and overhaul increased by THB 5,359 million (52.0%), mainly due to a decrease of THB 3,330 million for engine restoration maintenance reserve expense under Maintenance Reserve clause of aircraft lease agreements in 2015. 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, if excluded this item maintenance and overhaul would increase by THB 2,029 million which mainly from maintenance provision for operating aircraft based on actual conditions of aircraft and maintenance contractual of obligation and aircraft return conditions provision under aircraft lease agreement and the higher engine maintenance rate.

- Depreciation and amortization decreased by THB 1,142 million (6.0%) due to the decrease in average number of active aircraft and engines and fully depreciated aircraft. Despite there were new aircraft under finance leases added to the fleet last year.

- Lease of aircraft and spare parts increased by THB 921 million (10.3%) due to increase in 4 operating lease aircraft during 2015 - 2016 comprises of 2 Boeing B787-8 and 2 Airbus A350-900XWB aircraft while 3 Boeing B737-400 operating lease aircraft had been returned in 2015 and 1 Boeing B777-200 in December 2016.

- Other expenses decreased by THB 518 million (5.5%) since this year provision of deteriorating aircraft spare parts was lower than last year and from continuing cost management program based on transformation plan.

**Share of loss of associates** increased by THB 711 million (538.6%) from last year. The details as follow:

- Nok Airlines PCL.'s amount of THB 1,051 million loss, increase in loss of THB 908 million,
- Bangkok Aviation Fuel Services PCL.'s amount of THB 320 million profit, an increase of THB 127 million,
- Phuket Air Catering Ltd.'s amount of THB 63 million profit, an increase of THB 26 million,
- Royal Orchid Hotel (Thailand) PCL.'s amount of THB 30 million profit, an increase of THB 23 million,
- Donmuang International Airport Hotel Ltd.'s amount of THB 33 million profit, an increase of THB 14 million , and
- Suvarnabhumi Airport Hotel Ltd.'s amount of THB 26 million profit, an increase of THB 7 million.

**Net finance cost** decreased by THB 431 million (7.7%) due to lower average interest rates this year, applying cash management policy to optimize cash balance, and financial restructuring while the weakening THB against EUR and JPY, major currencies of long-term liabilities, also increased higher expense in Baht term.

**Expense from Transformation plan** totaled THB 1,228 million, which mainly consisted of the compensation of Mutual Separation plan and special incentive provision to employees as a reward for collaborating to changes due to the transformation plan.

**Maintenance provision for operating lease aircraft** totaled THB 1,317 million mainly due to the maintenance provision based on the actual conditions of aircraft and maintenance contractual obligation.

**Impairment loss of assets and aircraft** was THB 3,628 million, a decrease of THB 8,529 million (70.2%) with the following details:

- Impairment loss of aircraft, consisted of 6 Airbus A340-600, 4 Airbus A340-500, 2 Boeing B747-400F(freighter), 2 Boeing B747-400 and 3 Boeing B737-400 aircraft, totaled THB 2,893 million and the provision for impairment loss for engines of these aircraft: Airbus A340-500 and A340-600 aircraft, were THB 325 million.
- Impairment loss of assets increased by THB 129 million due to higher reserve for damaged rotatable spare parts which were unrepairable from last year.



**Gain on foreign currency exchange** was THB 685 million consisted of THB 613 million unrealized gain resulting from revaluation of foreign currency loans, assets and liabilities as of December 31, 2016 with realized gain of THB 72 million.

### 3. Financial Position and Liquidity

#### Capital Expenditures - The Group

Unit : Million Baht	Jan - Dec	
	2016	2015
Aircraft and aircraft spare parts	6,607	16,097
Non-Aircraft	303	522
<b>Total</b>	<b>6,910</b>	<b>16,619</b>

Capital expenditures for 2016 was THB 6,910 million, a decrease of THB 9,709 million from last year since there is none of financial lease aircraft added to the fleet this year while there were 6 aircraft consisted of 3 Boeing B777-300ER aircraft and 3 Airbus A320-200 aircraft during last year. Capital expenditures in this year were

- Investment in aircraft and aircraft spare parts totalled THB 6,607 million which was the prepayment for acquisition of 4 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 303 million.

#### Financing

In 2016, THAI financed in the total amount of THB 40,604 million as the following details

- 1) Issuing THB 7,000 million new domestic debentures on December 23, 2016, for offering placement to institutional investors and/or accredited investors. 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.

- 2) Acquiring long-term financing from EXIM bank totaled JPY 4,084 million, or approximate THB 1,386 million to use for refinance 2 Airbus A330-300 aircraft, and

- 3) Withdrawing the financing loan from Ministry of Finance by issuing Euro Commercial Paper (ECP) in foreign currency and drawing down of its committed revolving credit line from domestic financial institution to roll-over for short-term loan repayment at maturity and use as working capital, a total of 32,218 million baht.

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

Unit : Million Baht	Jan – Dec	
	2016	2015
Net cash from operating activities	24,559	18,567
Net cash used in investing activities	(3,826)	(721)
Net cash used in financing activities	(28,171)	(20,838)
Effect from changing in exchange rate on cash and cash equivalents increase	47	427
<b>Decreases in cash and cash equivalents</b>	<b>(7,391)</b>	<b>(2,565)</b>

In 2016, THAI's net cash used in financing activities amounted to THB 28,171 million due to both short-term and long-term repayments which were higher than last year due to the fewer financing this year. Net cash used in investing activities, amount of THB 3,826 million which increased from last year due to aircraft prepayment including 4 Airbus A350-900XWB and 3 spare engines, Trent XWB-84 used for A350-900XWB. THAI's net cash from operating activities totaled THB 24,559 million, an increase of THB 5,992 million from last year because THAI's operating result showed the operating profit while last year's loss. Consequently, cash and cash equivalents as of December 31, 2016 decreased from the end of last year, THB 7,391 million.

### **Fleet**

In 2016, THAI's consolidated had 2 new operating lease aircraft: Airbus A350-900XWB, but grounded 2 operating lease aircraft: Boeing B777-200 aircraft resulting, as of December 31, 2016, THAI's net active aircraft fleet was 95 aircraft which equaled to at the end of last year including 20 Airbus A320-200 aircraft operated under ThaiSmile.

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

As of December 31, 2016, total assets decreased by THB 19,347 million (6.4%) from as at December 31, 2015.

	Consolidated					
	Dec 31, 2016		Dec 31, 2015		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,390	4.7	20,781	6.9	-7,391	-35.6
Non-current assets classified as held for sale	12,322	4.4	15,099	5.0	-2,777	-18.4
Other current assets	33,662	11.9	34,596	11.4	-934	-2.7
<b>Current Assets</b>	<b>59,374</b>	<b>21.0</b>	<b>70,476</b>	<b>23.3</b>	<b>-11,102</b>	<b>-15.8</b>
Property, plant and equipment						
Prepaid aircraft and spare engine	9,647	3.4	5,491	1.8	+4,156	+75.7
Aircraft	44,686	15.8	44,979	14.9	-293	-0.7
Aircraft under finance leases	112,917	39.9	126,251	41.8	-13,334	-10.6
Aircraft spare parts	10,228	3.6	12,465	4.1	-2,237	-17.9
Work in process	371	0.1	61	-	+310	+508.2
Land, building and improvements	13,872	4.9	14,733	4.9	-861	-5.8
Other plant and equipment	3,170	1.1	4,305	1.4	-1,135	-26.4
<b>Property, plant and equipment-net</b>	<b>194,891</b>	<b>68.8</b>	<b>208,285</b>	<b>68.9</b>	<b>-13,394</b>	<b>-6.4</b>
Other non-current assets	28,859	10.2	23,710	7.8	+5,149	+21.7
<b>Total Assets</b>	<b>283,124</b>	<b>100.0</b>	<b>302,471</b>	<b>100.0</b>	<b>-19,347</b>	<b>-6.4</b>

Current assets were THB 59,374 million or accounted for 21.0% of total assets, a decrease of THB 11,102 million (15.8 %) from as of December 31, 2015. The significant items consisted of

- A decrease in cash and cash equivalents of THB 7,391 million (35.6%), mainly from net cash used in financial and investing activities which were higher than net cash from operating activities combined with the cash management policy to hold cash at the appropriate level.

- Non-current assets classified as held for sale decreased by THB 2,777 million (18.4%) mainly due to additional provision of aircraft impairment and sale of 5 aircraft: 2 ATR-72, 2 Airbus A330-300, and 1 Airbus A340-500 aircraft.

Property, plant and equipment-net totaled THB 194,891 million or represented 68.8 % of total assets, which saw a decrease of THB 13,394 million (6.4%) from December 31, 2015 resulting from the normal calculation of aircraft depreciation and the prepaid aircraft and spare engines which increased by THB 4,156 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 28,859 million or represented 10.2% of total assets, which increased by THB 5,149 million (21.7%) from as of December 31, 2015 resulting from

- increase of deferred tax assets, THB 1,335 million, was from the tax for increasing maintenance provision of operating lease aircraft, and
- increase, approximately THB 4,913 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 2016 was 1.3% compared to last year's -2.7%.

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

Total liabilities as of December 31, 2016 decreased by THB 20,009 million (7.4%) from as of December 31, 2015. These comprise of:

	Consolidated					
	Dec 31, 2016		Dec 31, 2015		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	64,555	25.9	73,592	27.3	-9,037	-12.3
<b>Long-term liabilities</b>						
Debentures	59,300	23.8	56,600	21.0	+2,700	+4.8
Liabilities under financial leases	64,750	25.9	77,551	28.8	-12,801	-16.5
Long term borrowings	35,933	14.4	43,627	16.2	-7,694	-17.6
<b>Total long-term liabilities</b>	<b>159,983</b>	<b>64.1</b>	<b>177,778</b>	<b>66.0</b>	<b>-17,795</b>	<b>-10.0</b>
Other non-current liabilities	24,998	10.0	18,175	6.7	+6,823	+37.5
<b>Total Liabilities</b>	<b>249,536</b>	<b>100.0</b>	<b>269,545</b>	<b>100.0</b>	<b>-20,009</b>	<b>-7.4</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 22,966 million) or accounted for 25.9% of total liabilities, a decrease of THB 9,037 million (12.3%) from last year since the short-term loan and accrued expense both decreased THB 7,225 million and THB 4,540 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 December 31, 2016 (including current portion of long term liabilities' totaled THB 22,966 million) or represented 64.1% of total liabilities, which was a decrease of THB 17,795 million (10.0%) from December 31, 2015 partially resulting from the strengthening against EUR and USD as of December 31, 2016 when compared to the end of 2015 but depreciation of Thai Baht against JPY affected the overall escalation of long-term liabilities translated to Baht terms. When excluded foreign currency adjustment at the end of the year, the amount of THB 1,770 million, long-term liabilities decreased by THB 16,025 million mainly due to long-term repayment and the debentures at maturity.

- Other non-current liabilities totaled THB 24,998 million or represented for 10.0% of total liabilities, an increase of THB 6,823 million (37.5%) 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 2016, interest bearing debt to equity was 5.0 times when compared to the end of 2015's 5.8 times.

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

As of December 31, 2016, shareholders' equity totaled THB 33,588 million, an increase of THB 662 million (2.0%) from December 31, 2015 due to the gain from the change in fair value of the effective portion cash flow hedges and the positive results of THAI and its subsidiaries. Consequently, THAI's return on equity of 2016 increased from -35.2% at the same period last year to 0.1% this year.

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

The global aviation industry forecast 2017 is expected to grow by the third consecutive year since the global economy is recovering; however, the profit this year trends to a slight decrease from 2016 resulting from the rising oil prices and strong competition. In addition, the US economic policy is under fluctuating.

For the situation of Thailand's aviation industry in 2017 is continue to develop due to the expansion of the tourism industry and the policy of the Ministry of Tourism and Sport to promote Thailand as a hub to increase the flight path of the low-cost airlines. From this expansion would accelerate the higher degree of competition within the aviation industry. However, the ability to solve the safety standard concerns of Thailand's Civil Aviation is still a major obstruction to the growth of the aviation industry. About the accomplishment to solve Significant Safety Concern(SSC) issue of Thailand is the vital matter for Federal Aviation Administration (FAA) in term of elevating the standard of Thailand's aviation compliance organization back from Category 2 to Category 1 which will be positive to Thailand.

In 2017, THAI proceeded the third phase of transformation plan, "Sustainable Growth", which consists of 6 strategies as follows:

- Profitable and competitive advantage route development and aircraft type simplification strategy
- Competitive capability increase and revenue generating strategy
- Excellent service ring building strategy
- Competitive cost and efficient operation strategy
- Corporate culture building to sustainability and human resources development to excellence strategy
- Portfolio management and new business development for sustainability strategy

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.

Also, there are significant action plans as follows.

- ThaiSmile at Don Muang international airport will be terminated operation of since January 16, 2017 onward by combing the operation between HAI and ThaiSmile at Suvarnabhumi international airport as a single home-base airport. This is a part of the strategic plan for the forthcoming expansion to the new markets which focus on the fresh international destinations in India, China, and ASEAN. This plan will make more convenient for better connecting passengers between THAI and ThaiSmile.
- Increasing fleet efficiency by taking delivery of 7 new aircraft in 2017 which consists of 5 Airbus A350-900 XWB aircraft and 2 Boeing 787-9 aircraft. They are principally aim to fly in intercontinental routes.
- The New Web and Mobile Platform Projects are intend to focus on the new digital distribution channels to provide high performance at the same level with the world's leading airlines and meet customer expectation.
- Retrofitting of passenger seats and entertainment system mainly aim to achieve a consistency in design of seats and entertainment system across an entire passenger class to give satisfaction to the customer.
- Maintenance, Repair, and Overhaul(MRO) Center at the U-Tapao International Airport project is one of the development areas on the East coast which THAI has been entrusted by the Government to take action on this project because of the readiness and concrete expertise of staff. After project deployment not only supports the growth of the aviation industry in Asia-Pacific region but also benefits the development of applications to other services of THAI such as ground services, cargo handling and cargo transportation which will diversify the proportion revenue to be more balance without relying merely on specific revenue from passenger transportation.

## 5. Financial Ratios

	Jan – Dec	
	2016	2015
<b>Liquidity Ratio</b>		
Current Ratio (times)	0.78	0.78
<b>Profitability Ratio</b>		
Operating Profit(loss) Margin %	2.25	(0.69)
Net Profit (loss) Margin %	0.03	(6.90)
Return on Equity %	0.14	(35.16)
<b>Efficiency Ratio</b>		
Return on Total Assets %	1.34	(2.70)
<b>Financial Policy Ratio</b>		
Interest Bearing Debt to Equity (times)	4.98	5.84
Total Debt to Equity (times)	7.43	8.19
Interest Coverage Ratio (times)	4.66	3.32

**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