

Management's Discussion and Analysis for three months ended March 31, 2017 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

Overview of the global economy in the first quarter of 2017 had continued to recover, especially the US economy indicated by the strong recovery of labor market and positive signs of more investment. Eurozone economy and the Japanese economy were recovering even gradually while the Asian economy was likely to recover from export sector. However, the Chinese economy was likely to slow down in line with the economic restructuring plan. Crude oil prices in the world market had been revised up after reaching an agreement with OPEC to cut production in order to lift global oil prices. The average crude oil price in the first quarter of 2017 was 53.10 USD per barrel, an increase of 74.7% over the previous year.

The economy of Thailand in the first quarter of 2017, improved better than the situation in the same period last year resulting from the positive growth of export and other sectors that saw a noticeable recovery, especially private consumption. However, there were threats from uncertainties trade policies from trading partner countries, especially the United States. The tourism sector continues to rise which indicated by the number of tourists grew by 1.7 percent compared to the same period last year, particularly, the Russian, CLMV, and South Korea tourists, although the number of Chinese tourists to the mainstream tourism market in Thailand is slowing down from the suppression of the zero dollar tourist.

In the first quarter of 2017, the world's aviation industry was likely to expand due to the increasing demand from lower fare prices and the better recovery of world economy over last year's. According to data from the International Air Transport Association-IATA, they presented a continued growth in both of passenger traffic and production which increased by 7.0% and 5.5%, respectively. Averaged cabin factor was 80.1%. Unfortunately, crude oil prices had begun to rise once again while the competition was more severe resulting the lessening in passenger yield and the outcome of passenger transport. Meanwhile, freight continued to show signs of improvement from the previous year, specifically within Asia and between Asia and Europe resulting from the recovery of emerging markets such as India, China and ASEAN-5, the freight load factor increased from 41.9% to 44.3%.

The aviation industry in Thailand is likely to expand which corresponds to the global aviation trend. This year, not only many new routes were introduced by existing airlines but there were many new emerging airlines, especially from Chinese, Indian and Japanese airlines such as Peach Aviation that introduced Okinawa – Bangkok route, Beijing Capital Airlines that launched 2 routes: Haikou - Chiang Mai and Haikou - Chiang Rai, and so forth. In the first quarter of 2017, the number of passengers traveling in-out Thailand at Suvarnabhumi Airport was 11.33 million passengers or 2.7% increasing from the previous year. However, there were negative factors affecting Thai aviation business in this quarter which were the increase in excise tax on jet fuel for domestic flights from 0.20 Baht per liter to 3.00 Baht per liter which resulted in an increase in airline costs.

In 2017, THAI proceeded the third phase of transformation plan, “Sustainable Growth”, which consists of 6 strategies as follows: 1) Profitable and competitive advantage route development and aircraft type simplification strategy 2) Competitive capability increase and revenue generating strategy 3) Excellent service ring building strategy 4) Competitive cost and efficient operation strategy 5) Corporate culture building to sustainability and human resources development to excellence strategy 6) Portfolio management and new business development for sustainability strategy. Also, there are significant action plans as follows.

- Terminating operation of ThaiSmile at Don Muang international airport and combining the operation between ThaiSmile and THAI at Suvarnabhumi airport as a single home-base airport since January 16, 2017 onward. This is one of the strategic plans for the forthcoming expansion to the new markets which emphasis on the new international destinations in India, China, and ASEAN. This plan will make more convenient for better connecting passengers.

- Managing fare price and revenue continuously and more steadily after implementing the Automated Fare Management System in full scale in late 2016 to effectively set price in order to compete with competitors at the same level in time to maximize revenue.

- Begin the renovation project by installing Crew Rest and In-flight Connectivity equipment to 6 Boeing 787-8 aircraft.

- THAI signed a Memorandum of Understanding (MOU) with Airbus Industries on March 8, 2017 to be conducted about the development of the Maintenance, Repair, and Overhaul(MRO) facilities at U-Tapao International Airport and also signed 2 Memorandum of Understanding (MOU) with The Royal Thai Navy on April 5, 2017 for the 1st phase of developments which consisted of 1) new aircraft maintenance center and 2) air cargo and logistics center. These projects are the integral part of the Special Eastern Economic Corridor to drive Thailand as a center of aviation industry and logistics in this region. This is a phenomenal milestone for THAI to reinvent U-Tapao International Airport as aircraft Maintenance, Repair, and Overhaul center and air cargo and logistics hub to replete with innovations, modern digital technology with the international quality standards.

In addition, ThaiSmile Airways Co.,Ltd., a 100% shares held by THAI, won the following awards from TripAdvisor, Travelers' Choice for Airlines based on worldwide passenger reviews, which were 1) Best Airline in Thailand, 2) Best Regional airline in Asia Pacific, and 3) World's Best airline - Top 10. Winning these awards clearly showed that ThaiSmile is a quality, full service regional airline with reasonable price.

In this quarter, THAI had total 95 active aircrafts, equal to the number of aircraft in the same period last year. With adjustment in flight frequencies and aircraft types to suit market demand caused more efficient aircraft utilization to increase from 11.5 hours last year to 12.4 hours this year. Production traffic (ASK) increased by 4.4% while passenger traffic (RPK) increased dramatically by 11.6%. Average cabin factor was 82.8% comparing to 77.5% last year and 80.1% of industry average with 6.52 million passengers carried representing a 10.1% increase from last year.

THAI and its subsidiaries' total revenue, the amount of THB 49,804 million, slightly decreased by 0.8% when comparing to the same period last year due to the reduction of passenger and excess baggage revenue on the back of decreasing fuel surcharge as well as higher competition; however, number of passenger carried was 10.1% higher than last year. Revenues from other activities decreased from the lower number of customer airlines' flight; nevertheless, freight and mail revenue increased from the recovery in export sector. Total expenses, the amount of THB 46,937 million, increased by THB 3,934 million (9.1%) since the fuel expenses increased by THB 2,002 million (18.5%) resulting from the escalating in jet fuel prices by 45.8%. Non-fuel operating expense increased by THB 2,041 million (6.6%) from last year mainly from increase in production and traffic as well as the increase in maintenance and overhaul expense.

This quarter THAI and its subsidiaries had one-time expenses, amount of THB 483 million, then impairment loss of assets and aircraft, amount of THB 1,017 million but had THB 1,560 million gain on foreign currency exchange. Consequently, THAI and its subsidiaries reported the net profit of THB 3,169 million. Profit attributable to owners of the parent amounted to THB 3,157 million. Profit per share was THB 1.45 per share, 1.30 THB or 47.3% lower than last year's.

EBITDA was THB 7,850 million, which decreased THB 4,199 million (34.8%) over last year. EBITDA margin was 15.8%, as compared to last year's reported 24.0%.

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

Financial Performance

The consolidated financial statements for the first quarter of 2017 consists of THAI's financial statement and 5 subsidiary companies which are 1) THAI-Amadeus Southeast Asia Co.,Ltd., 2)Wingspan Services Co., Ltd., 3) THAI Flight Training Co., Ltd, 4) Tour Eurng Luang Co., Ltd., and 5) THAI Smile Airways Co., Ltd.

Financial Performance : THAI and its subsidiaries

Unit : Million Baht	Jan - Mar			
	2017	2016	Variance	
			MTHB	%
Total operating revenues	49,804	50,183	-379	-0.8
- Passenger and excess baggage revenue	41,463	42,045	-582	-1.4
- Freight and mail revenue	4,857	4,412	+445	+10.1
- Revenue from other activities	2,969	3,283	-314	-9.6
- Other income	515	443	+72	+16.3
Total operating expenses	46,937	43,003	+3,934	+9.1
- Fuel and oil	12,845	10,843	+2,002	+18.5
- Non-fuel operating expenses	32,862	30,821	+2,041	+6.6
- Net finance cost	1,230	1,339	-109	-8.1
Operating profit (loss)	2,867	7,180	-4,313	-60.1
<u>Less</u> Maintenance provision for operating lease aircraft	183	1,153	-970	-84.1
<u>Less</u> Provision for collaborating to change due to the Transformation plan	300	-	+300	-
<u>Less</u> Impairment loss of assets and aircraft	1,017	174	+843	+484.5
<u>Add</u> Gain (Loss) on foreign currency exchange	1,560	(681)	+2,241	+329.1
Profit before income tax	2,927	5,172	-2,245	-43.4
Net Profit	3,169	6,011	-2,842	-47.3
Profit attribute to owners of the parent	3,157	5,999	-2,842	-47.4
Net Profit per share (THB)	1.45	2.75	-1.30	-47.3
Significant operating data				
EBITDA (MTHB)	7,850	12,049	-4,199	-34.8
Number of passengers (Million)	6.52	5.92	+0.60	+10.1
Available Seat-Kilometers (Million)	22,428	21,476	+952	+4.4
Revenue Passenger-Kilometers (Million)	18,564	16,637	+1,927	+11.6
Cabin factor (%)	82.8	77.5	+5.3	+5.3
Passenger yield (THB/RPK)	2.20	2.50	-0.30	-12.0
Available Dead Load Ton-Kilometers (Million)	955	890	+65	+7.3
Revenue Freight Ton-Kilometers (Million)	563	508	+55	+10.8
Freight load factor (%)	58.9	57.1	+1.8	+1.8
Freight carried (Ton)	155,449	140,626	+14,823	+10.5
Freight Yield (THB/RFTK)	8.08	8.18	-0.10	-1.2
Number of aircraft (As of March 31) (Aircraft)	95	95	-	-
Flight hours (Hours)	102,698	97,869	+4,829	+4.9
Aircraft utilization (Hours/Aircraft/Day)	12.4	11.5	+0.9	+7.8
Average foreign currency exchange rate				
1 USD : THB	35.1151	35.6470	-0.5319	-1.5
1 EUR : THB	37.4139	39.3163	-1.9024	-4.8
100 JPY : THB	30.9182	30.9407	-0.0225	-0.1
Average jet fuel price (USD/BBL)	69.77	47.84	+21.93	+45.8

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)

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues for the first quarter of 2017 decreased THB 379 million (0.8%). Details are as follows:

- Passenger and excess baggage revenue

Passenger and excess baggage revenue decrease THB 582 million (1.4%) over last year as:

- Average passenger yield (including fuel and insurance surcharge) decreased by 0.30 THB/RPK(12.0%) or approximately THB 5,570 million partially due to the strengthen Thai Baht against EURO Dollar and Japanese Yen which resulting the lower passenger yield, approximately decreased by 0.03 THB/RPK or around THB 565 million. When excluding such effect, average passenger yield decreased by 10.8% or THB 5,010 million due to the fierce completion and reduction of fuel surcharge.

- Passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 11.6%, approximately THB 4,820 million in all routes, particularly in Europe and Northern routes. Production traffic (Available Seat-Kilometers:ASK) increased by 4.4%. Average cabin factor increased from 77.5% last year to 82.8% this year which was higher than industry's average: 80.1%.

- Freight and mail revenue

Freight and mail revenue increased by THB 445 million(10.1%) due to the increase of freight traffic (Revenue Freight Ton-Kilometers: RFTK) which increased by 10.8 % or around THB 450 million resulting from the recovery in export sector. The major expanding market were China, CLMV countries, Japan, and European Union while average freight yield (including fuel and insurance surcharge) was 8.08 THB/RFTK, a decrease of 0.10 THB/RFTK(1.2%) over last year. Average freight load factor was 58.9% higher than last year's 57.1%.

- Revenue from other activities

Revenues from other activities consists of revenues from business units which are Ground services, Catering, Cargo handling services, and other activities revenue decreased by THB 314 million(9.6%) over last year mainly due to decrease of income from Ground services. The decrease of these revenues was from the lower number of customer airlines' flight. Maintenance services had less revenue than last year as well. However, revenue of Cargo handling services was higher than last year due to greater freight traffic.

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses of the first quarter of 2017 increased by THB 3,934 million (9.1%). A summary of operating expenses is as follows:

- Fuel and oil expense increased by THB 2,002 million (18.5%) due to the increase in average jet fuel price by 45.8% compared to the same period last year and the growth of traffic production resulting the increase in fuel consumption ; however, the strengthen US dollars cause the lower expense in Baht term. Moreover, the fuel hedging caused the lower company's expense by THB 6 million while last year's fuel hedging was considered as the expense by THB 2,540 million.

- Non-fuel operating expense was THB 2,041 million (6.6%) higher than last year. Details as follows:

Unit : Million Baht	Jan - Mar					
	2017	% of Total Expense	2016	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	7,258	22.1	7,387	24.0	-129	-1.7
Flight service expenses	5,603	17.1	5,243	17.0	+360	+6.9
Crew expenses	1,403	4.3	1,345	4.4	+58	+4.3
Aircraft maintenance and overhaul costs	4,306	13.1	3,330	10.8	+976	+29.3
Depreciation and amortization expenses	4,207	12.8	4,628	15.0	-421	-9.1
Lease of aircraft and spare parts	2,703	8.2	2,477	8.0	+226	+9.1
Inventories and supplies	2,311	7.0	1,997	6.5	+314	+15.7
Selling and advertising expenses	2,764	8.4	2,262	7.3	+502	+22.2
Insurance expense	122	0.4	146	0.5	-24	-16.4
Other expenses	2,212	6.7	2,084	6.8	+128	+6.1
Share of losses (profits) of associates	(27)	(0.1)	(78)	(0.3)	+51	+65.4
Non-fuel Operating Expense	32,862	100.0	30,821	100.0	+2,041	+6.6

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased THB by 129 million (1.7%) due to the lower number of employees consisted of retired staff and employees who joined the Mutual Separation Plan (MSP) based on Transformation plan.

- Flight related expenses consisted of flight service expenses, crew expenses, and inventories and supplies increased by THB 732 million (8.5%) due to higher production and traffic this year.

- Maintenance and overhaul increased by THB 976 million (29.3%) in line with the increase in production traffic, aircraft maintenance provision, and return conditions under aircraft lease agreement. In addition, Life Limited Parts and the engine maintenance rate were higher than last year.

- Depreciation and amortization decreased by THB 421 million (9.1%) because of aircraft and assets which were fully depreciated.

- Lease of aircraft and spare parts increased by THB 226 million (9.1%) due to increase of 2 operating lease aircraft in 2016: 2 Airbus A350-900XWB aircraft while 2 Boeing B777-200 operating lease aircraft were returned in December 2016, and January 2017, respectively.

- Selling and advertising expenses increased by THB 502 million (22.2%) resulting from greater reservation expense which increased from the higher number of reservation transactions and reservation service rate.

- Share of profits of associates decreased by THB 51 million (65.4%). The major reason was from the lower performance of Bangkok Aviation Fuel Services PCL. Details as follow:

- Bangkok Aviation Fuel Services PCL's profit of THB 77 million, a decrease of THB 105 million,
- Donmuang International Airport Hotel Ltd.'s profit of THB 7 million, a decrease of THB 6 million,
- Royal Orchid Hotel (Thailand) PCL's profit of THB 11 million, equal to last year's,
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 14 million, an increase of THB 3 million,
- Phuket Air Catering Ltd.'s profit of THB 34 million, an increase of THB 7 million, and
- Nok Airlines PCL.'s loss of THB 115 million, a decrease of THB 50 million.

- **Net finance cost** decreased THB 109 million (8.1%) since short-term and long-term loans were lower than last year. Moreover, the strengthen Thai Baht compared to EURO Dollar which made the lower expense when translated to Baht term. Furthermore, the result of cash management and financial restructure also benefited the lower financial cost.

Maintenance provision for operating lease aircraft totaled THB 183 million based on the additional recognition of maintenance provision for aircraft return conditions of 2 Airbus A330-300 aircraft due to the premature return of the aircraft operating lease.

Provision for collaborating to change due to the Transformation plan totaled THB 300 million, which mainly was special incentive provision to employees as a reward for collaborating to changes due to the transformation plan.

Impairment loss of assets and aircraft totaled THB 1,017 million, an increase of THB 843 million(484.5%) as the following details:

- Impairment loss of aircraft amounted to THB 860 million, THB 777 million higher than last year, comprised of impairment loss of 14 aircraft including 6 Airbus A340-600, 3 Airbus A340-500, 2 Boeing B747-400, 2 Boeing B747-400 (Freighter) and 1 Boeing 737-400 aircraft.
- Impairment loss of assets totaled THB 157 million, THB 66 million higher than last year, due to higher reserved for damaged rotatable spare parts and could not be repaired from last year.

Gain on foreign currency exchange was THB 1,560 million consisted of THB 1,797 million unrealized gain resulting from revaluation of foreign currency loans, especially the strengthen Euro dollars and revaluation of assets and liabilities as of March 31, 2017, and realized loss of THB 237 million.

3. Financial Position and Liquidity

Capital Expenditures – The Company

Unit : Million Baht	Jan - Mar	
	2017	2016
Aircraft and aircraft spare parts	812	902
Non-Aircraft	50	54
Total	862	956

Capital expenditures for the first quarter of 2017 totaled THB 862 million, a decrease of THB 94 million from last year. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts totaled THB 812 million which was mostly the prepayment for acquisition of Airbus A350-900XWB aircraft.

- Investments in other fixed assets amounted to THB 50 million.

Financing

In the first quarter of 2017, THAI acquired short-term foreign borrowing via the Ministry of Finance and draw down of its committed revolving credit line from domestic financial institution to roll over the short-term loan repayment at maturity and used as working capital, amount of THB 6,266 million.

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

Unit : Million Baht	Jan – Mar	
	2017	2016
Net cash from operating activities	7,221	7,110
Net cash used in investing activities	(767)	(843)
Net cash used in financing activities	(6,051)	(4,133)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(180)	7
Increase in cash and cash equivalents	223	2,141

In the first quarter of 2017, THAI had net cash from operating activities, the amount of THB 7,221 million, THB 111 million higher than last year but net cash used in investing activities was THB 767 million, THB 76 million lower than last year. Net cash used in financing activities was THB 6,051 million, THB 1,918 million, higher than last year, due to the repayment of both short and long term loans. As a result, cash and cash equivalents as at March 31, 2017 amounted to Baht 13,613 million, an increase of Baht 223 million from December 31, 2016, but decreased from March 31, 2016 by THB 9,309 million as a part of the cash management policy to keep cash at a more appropriate level.

Fleet

In the first quarter of 2017, THAI decommissioned 1 B737-400 aircraft; simultaneously, brought back 1 Boeing B737-400 aircraft which had been grounded since 2013 to the fleet. Thus, the total active aircraft remained 95 aircraft equivalent to the number of active aircraft as of the end of December 31, 2016 and as of March 31, 2017 (including 20 Airbus A320-200 aircraft for ThaiSmile's operation).

Assets of Thai Airways International PCL. and its subsidiaries

As of March 31, 2017, total assets decrease by THB 129 million (0.1%) from as at December 31, 2016.

	Consolidated					
	Mar 31, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,613	4.8	13,390	4.7	+223	+1.7
Non-current assets classified as held for sale	11,020	3.9	12,322	4.4	-1,302	-10.6
Other current assets	36,534	12.9	33,662	11.9	+2,872	+8.5
Current Assets	61,167	21.6	59,374	21.0	+1,793	+3.0
Property, plant and equipment						
Prepaid aircraft and spare engine	10,227	3.6	9,647	3.4	+580	+6.0
Aircraft	43,325	15.3	44,686	15.8	-1,361	-3.0
Aircraft under finance leases	110,973	39.2	112,917	39.9	-1,944	-1.7
Aircraft spare parts	9,924	3.5	10,228	3.6	-304	-3.0
Work in process	424	0.1	371	0.1	+53	+14.3
Land, building and improvements	13,758	4.9	13,872	4.9	-114	-0.8
Other plant and equipment	2,998	1.1	3,170	1.1	-172	-5.4
Property, plant and equipment-net	191,629	67.7	194,891	68.8	-3,262	-1.7
Other non-current assets	30,199	10.7	28,859	10.2	+1,340	+4.6
Total Assets	282,995	100.0	283,124	100.0	-129	-0.1

Current assets were THB 61,167 million or accounted for 21.6% of total assets, an increase of THB 1,793 million (3.0%) from as of December 31, 2016. The significant items consisted of

- An increase in other current assets of THB 2,872 million(8.5%) mainly from the increase of trade receivables, the amount of THB 2,565 million(24.8%) due to the higher sale volume in March 2017 than December 2016. The collection period of THAI was closed to the previous quarter, 23 days, which was lower than THAI's normal collecting period.

- Non-current assets classified as held for sale decreased by THB 1,302 million (10.6%) mainly due to additional provision of aircraft impairment and sale of 1 Airbus A330-300 aircraft and 1 spare engine of Airbus A340-500 aircraft.

Property, plant and equipment-net totaled THB 191,629 million or represented 67.7% of total assets, a decrease of THB 3,262 million(1.7%) from December 31, 2016 due to normal depreciation estimated while prepaid aircraft and spare engines increased by THB 580 million mainly resulting from aircraft prepayment of 1 Airbus A350-900XWB.

Other non-current assets totaled THB 30,199 million or represented 10.7% of total assets, which increased by THB 1,340 million(4.6%) from as of December 31, 2016 resulting from

- Deferred expenses increased by THB 508 million, mainly due to the cost of the renovation project by installing Crew Rest and In-flight Connectivity equipment to 6 Boeing 787-8 aircraft.

- An increase, approximately THB 485 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 quarter 2017 was 1.5% lower than last year's 2.2%.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of March 31, 2017 decreased by THB 3,560 million (1.4%) from as of December 31, 2016. These comprise of:

	Consolidated					
	Mar 31, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	65,184	26.5	64,555	25.9	+629	+1.0
Long-term liabilities						
Debentures	59,300	24.1	59,300	23.8	-	-
Liabilities under financial leases	60,830	24.7	64,750	25.9	-3,920	-6.1
Long term borrowings	33,922	13.8	35,933	14.4	-2,011	-5.6
Total long-term liabilities	154,052	62.6	159,983	64.1	-5,931	-3.7
Other non-current liabilities	26,740	10.9	24,998	10.0	+1,742	+7.0
Total Liabilities	245,976	100.0	249,536	100.0	-3,560	-1.4

Current liabilities (excluding current portion of long term liabilities' amount of THB 22,722 million) represented 26.5% of total liabilities, an increase of THB 629 million (1.0%) from December 31, 2016.

Long-term liabilities as of March 31, 2017 (including current portion of long term liabilities' totaled THB 22,722 million) represented 62.6% of total liabilities, which was a decrease of THB 5,931 million (3.7%) from December 31, 2016 primarily due to the strengthen value of the Baht to Euro and US dollars as of December 31, 2016 affected the decrease of long-term liabilities translated to Baht terms. When excluded foreign currency adjustment, the amount of THB 1,797 million, long-term liabilities decreased by THB 4,134 million due to long-term loans repayment.

- Other non-current liabilities as of March 31, 2017 represented 10.9% of total liabilities which increased by THB 1,742 million(7.0%) mainly 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 first quarter 2017, interest bearing debt to equity was 4.3 times, decreased from the end of 2016's 5.0 times.

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

As of March 31, 2017, shareholders' equity totaled THB 37,019 million, an increase of THB 3,431 million (10.2%) from December 31, 2016 due to profit from operations from THAI and its subsidiaries. However, net profit which decreased from last year caused decrease of the return on equity from last year's 16.8% to 9.0% this year.

4. Factors affecting future operations

The global aviation industry for the next 9 months of 2017 is expected to grow 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. For the cargo business in 2017, it tends to be better because of the recovery from the global trading. By the way, the various terrorism activities in many places in Europe and other parts of the world will affect the passenger demand while the North Korean crisis and the unexpected economic policy from the U.S. administration cause the uncertainty of the world economic. Airlines in the Asia-Pacific region are expected to generate a net profit in 2017 but down from 2016. Capacity offered by the region's carriers is forecast to grow ahead of a forecast growth in demand. The improved cargo performance is expected to offset rising fuel prices. For many of the region's airlines, the expansion of new aircraft model and progressive liberalization in the region is intensifying already strong competition.

For the aviation industry of Thailand in the second quarter is the low season period; however, during Songkran festival and the first week of May are expected to stimulate some travels, especially on routes to Japan where there is extra travel demand during the long weekend in the second quarter to reach. There are also significant supporting factors for the Thai aviation industry, especially the Government's policy to promote Thailand as the hub of Southeast Asia's aviation industry by linking Thailand's air network to Southeast Asian countries, preparing the readiness of basic aviation infrastructures, developing all airports throughout Thailand, and developing of U-Tapao Airport which is designed to be the most advanced aircraft maintenance center in Asia Pacific region. Also, the resolution of Thai civil aviation standards to have been outstandingly upgraded, which will unlock the issue of air safety confidence affect the confidence of airlines operators in Thailand to expand their business. In particular, the recertification program of the new Air Operator's (AOC) for 23 airlines under the circumstances of the International Civil Aviation Organization (ICAO) is in progress that the authority must be able to issue AOC re-certification to no less than 10 airlines. The Civil Aviation Authority of Thailand (CAAT) is expected to be able to issue a new AOC at least 12 carriers by June 30, 2017. However, airlines that have not received the new AOC must stop flying internationally from July 1, 2017 until receiving a new AOC or releasing the red flag from Thailand. THAI was able to complete its operation and received a new air operation's certificate on May 8, 2017.

In 2017, THAI proceeded the third phase of transformation plan. 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.

- Signing a codeshare agreement with Bangkok Airways PCL. (BA) to strengthen their respective route networks, facilitate commercial sales and to improve passengers' convenience in flight connections between two carriers.
- 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.

5. Financial Ratios

		Jan – Mar	
		2017	2016
Liquidity Ratio			
Current Ratio	(times)	0.83	0.85
Profitability Ratio			
Operating Profit (loss) Margin	%	5.75	14.29
Net Profit (loss) Margin	%	6.36	11.96
Return on Equity	%	8.98	16.84
Efficiency Ratio			
Return on Total Assets	%	1.48	2.17
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	4.33	4.95
Total Debt to Equity	(times)	6.64	6.90
Interest Coverage Ratio	(times)	6.23	8.64

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