

## **Management's Discussion and Analysis for the second quarter ended June 30, 2017 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

The overall global economy continued to expand. There was an increase in private consumption in the US following a slowdown in the first quarter. There was also some recovery in Europe and Japan from sluggish monetary policies and political instability, coupled with improved exports following the recovery of world trade. There was growth in the Asian exports sector, especially from electronic products, although this has been impacted by a slowdown in its main trading partner, China's, economic growth. While crude oil prices in the second quarter of 2017 weakened due to increased production mainly from The US, Libya and Nigeria, prices are likely to rise slowly from the overall recovery of the global economy and the reduction of production capacity in other oil producing countries.

The Thai economy showed signs of continued expansion in the second quarter of 2017, Exports were the main drivers with support from government spending and investment. Private consumption also improved. The number of foreign tourists in the second quarter grew by 6.6% year-on-year, mainly from Indochina (CLMV), Malaysia, India and Korea. There was growth in the number of tourists from China as well.

In the second quarter of 2017, the global aviation industry expanded due to the recovery of the global economy and lower fare prices. These two factors were the main drivers to an increase in passenger demand. In almost all regions, passenger traffic increased significantly. However, competition has also intensified. As a result, passenger yield decreased. The International Air Transport Association (IATA) data has been shown a 7.9% and 6.1% increase in both passenger traffic and production for the first half of 2017, with an average cabin factor of 80.7%. Meanwhile, freight continued to show signs of improvement from last year, specifically within Asia and between Asia and Europe. Recovery in emerging markets such as India, China and ASEAN-5 meant an increase in the freight load factor from last year 42.5% to 44.8%.

The aviation industry in Thailand grew in this quarter. This has been assisted by government policies such as the Eastern Economic Corridor (EEC), the Eastern Airport City and the development of the U-Tapao Airport, together with policies aimed at domestic and foreign investment in aviation related businesses. Among these are the five main activities are the Passenger Terminal and Trade, Aerospace industry, Air Transport Business Group, Aircraft Maintenance Business and the training center for airline staff and business. The red flag issue of ICAO that has started to unwind. There is continued progress in the business plans of airline and airport aviation agencies, including progress continue in aviation technology in air traffic management. These are all indications of the growing demand for air travel. Every sector of the Thai aviation industry must be prepared to accommodate the expansion that will take place in the near future.

THAI has implemented the third phase of its transformation plan; "Sustainable Growth." This continues from the previous quarter and consists of 6 strategies in operation:

- 1) Develop a competitive flight network, increase profitability and reduce complexity of the fleet;
- 2) Increase competitiveness and revenue;
- 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.

In the second quarter of 2017, there were significant actions as follows:

- Managing fare price, create more revenues and manage distribution channel for better performance in order to compete with competitors in time.
- Completed the Network Management Systems (NMS) and use it to schedule flights, analyze, review and plan routes faster and more accurately and also completed the first phase of System Integration and implemented using a new system and process for Check-in service, crew service and maintenance service since April 2017, and has continued for the next phase by connecting system to improve the inflight catering service.
- The New Web Platform is being provided to meet the customers' need in various transactions through the website.
- Provide process and personnel development to support new systems, such as Revenue Management System (RMS) and Network Management Systems (NMS), in order to see the results quickly and prepare for other systems to be implemented in the future.
- THAI was able to complete its operation and received a new Air Operator's Certificate on May 8, 2017 in accordance with the International Civil Aviation Organization (ICAO)'s standards, which is operated by the Civil Aviation Authority of Thailand. THAISmile also received a new Air Operator's Certificate on July 20, 2017.
- Nok Airline Public Co.,Ltd. (NOK Air) which THAI holds 39.20% of it's shares, has allocated 625 million new ordinary shares to the existing shareholders in proportion to their shareholding (Rights Offering). At the par value of THB 1 per share at the offering price of THB 2.40 per share, together with the warrants to purchase ordinary shares (NOK-W1) which offered to existing shareholders who subscribe and allotment of new shares during May 16-19, 2017 and May 22, 2017 and has registered the paid-up share capital with the Department of Business Development, The Ministry of Commerce on May 31, 2017. However, THAI did not exercise the right to purchase such newly issued shares. Considering the readiness of THAI and NOK Air under the current circumstances, THAI should focus on the implementation of the transformation plan which there are still some issues to be addressed , as a result the proportion of THAI's shareholding in Nok Air was reduced from 39.20% to 21.57%.
- THAI signed a Memorandum of Understanding on cooperation in the development of the Air Cargo and Logistics Center Phase 1 with the Royal Thai Navy on April 5, 2017. In this quarter, the working group gathering barriers to free zone development at Suvarnabhumi Airport with related parties both inside and outside which will be used as a guideline for the development of the air cargo and logistics center at U-Tapao International Airport. This project is part of the Special Eastern Economic Corridor to drive Thailand into an air and logistics hub equipped with innovation, modern digital technology with international quality standards.

In addition, THAI has received three prestigious awards at the Skytrax 2017 World Airline Awards Ceremony as the World's Best Economy Class, World's Best Airline Lounge Spa - for the third consecutive year, and Best Economy Class Onboard Catering. THAI also gained recognition under the categories: one of three airlines with the World's Best Airport Services 2017 and one of three airlines with the Best Economy Class Airline Seats. These awards are in recognition for excellent products and services as a premium and international safety standards.

In the second quarter, which was normally a low-season period, passenger traffic (RPK) increased by 21.9% from the same quarter of last year, with an increase in production traffic (ASK) of 7.1%. The Cabin Factor averaged 78.5%, up from 69.0% in the previous year, the highest in 10 years, with 97 aircraft in operation two more aircraft than at the end of 2016 from the delivery of the Airbus A350-900XWB. Aircraft Utilization has increased by 4.5% with 5.87 million passengers carried representing a 14.9% increase from last year.

THAI and its subsidiaries' operating loss was down 13.5% from the previous year. Total revenue was THB 45,182 million, an increase of 9.6% from the same quarter of last year due to an increase of passenger and excess baggage revenue from the 21.9% increase in passenger traffic, despite a drop in average passenger yield due to intense price competition. Freight and mail revenues increased from the recovery in the export sector. Revenues from other activities increased from the higher aircraft maintenance service. While total expenses amounted to THB 46,724 million, an increase of 8.6% due to an increase in fuel expenses of THB 527 million (4.5%) resulting from an increase of 20.1% in average jet fuel price. Non-fuel operating expense increased by THB 3,390 million (11.3%) from last year mainly from the 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 consisted of maintenance provision for aircraft return condition of operating lease aircraft, amount of THB 275 million, provision for collaborating to change due to the transformation plan, amount of THB 300 million, a loss from changes in ownership interest, amount of THB 428 million resulting from the dilution of THAI's shareholding in Nok Air then Impairment loss of assets and aircraft, amount of THB 390 million. In addition, the loss on foreign currency exchange was THB 2,431 million. Consequently, THAI and its subsidiaries reported the net loss of THB 5,208 million. Loss attributable to owners of the parent amounted to THB 5,211 million. Loss per share was THB 2.39 per share, 1.05 THB or 78.4% higher loss than last year.

EBITDA was THB 3,211 million, which decreased THB 451 million (12.3%) over last year. EBITDA margin was 7.1%, as compared to last year's reported 8.9%.

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

### **Financial Performance**

The consolidated financial statements for the second 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) THAISmile Airways Co., Ltd.

## Financial Performance : THAI and its subsidiaries

Unit : Million Baht	Apr - Jun			
	2017	2016	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>45,182</b>	<b>41,243</b>	<b>+3,939</b>	<b>+9.6</b>
- Passenger and excess baggage revenue	36,601	33,508	+3,093	+9.2
- Freight and mail revenue	4,772	4,392	+380	+8.7
- Revenue from other activities	3,109	2,842	+267	+9.4
- Other income	700	501	+199	+39.7
<b>Total operating expenses</b>	<b>46,724</b>	<b>43,025</b>	<b>+3,699</b>	<b>+8.6</b>
- Fuel and oil	12,279	11,752	+527	+4.5
- Non-fuel operating expenses	33,383	29,993	+3,390	+11.3
- Net finance cost	1,062	1,280	-218	-17.0
<b>Operating loss</b>	<b>(1,542)</b>	<b>(1,782)</b>	<b>+240</b>	<b>+13.5</b>
<u>Less</u> Maintenance provision for operating lease aircraft	275	-	+275	-
<u>Less</u> Provision for collaborating to change due to the Transformation plan	300	427	-127	-29.7
<u>Less</u> Loss from change in ownership interest	428	-	+428	-
<u>Less</u> Impairment loss of assets and aircraft	390	1,873	-1,483	-79.2
<u>Add</u> Gain (Loss) on foreign currency exchange	(2,431)	595	-3,026	-508.6
Loss before income tax	(5,366)	(3,487)	-1,879	-53.9
Net Loss	(5,208)	(2,915)	-2,293	-78.7
<b>Loss attribute to owners of the parent</b>	<b>(5,211)</b>	<b>(2,921)</b>	<b>-2,290</b>	<b>-78.4</b>
Net Loss per share (THB)	(2.39)	(1.34)	-1.05	-78.4
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	3,211	3,662	-451	-12.3
Number of passengers (Million)	5.87	5.11	+0.76	+14.9
Available Seat-Kilometers (Million)	21,666	20,237	+1,429	+7.1
Revenue Passenger-Kilometers (Million)	17,004	13,953	+3,051	+21.9
Cabin factor (%)	78.5	69.0	+9.5	+9.5
Passenger yield (THB/RPK)	2.12	2.38	-0.26	-10.9
Available Dead Load Ton-Kilometers (Million)	934	848	+86	+10.1
Revenue Freight Ton-Kilometers (Million)	559	498	+61	+12.2
Freight load factor (%)	59.8	58.7	+1.1	+1.1
Freight carried (Ton)	154,175	138,385	+15,790	+11.4
Freight Yield (THB/RFTK)	8.00	8.32	-0.32	-3.8
Number of aircraft (As of June 30) (Aircraft)	97	94	+3	+3.2
Flight hours (Hours)	97,457	92,398	+5,059	+5.5
Aircraft utilization (Hours/Aircraft/Day)	11.5	11.0	+0.5	+4.5
Average foreign currency exchange rate				
1 USD : THB	34.3013	35.2865	-0.9852	-2.8
1 EUR : THB	37.7230	39.8184	-2.0954	-5.3
100 JPY : THB	30.8862	32.7293	-1.8431	-5.6
Average jet fuel price (USD/BBL)	67.49	56.21	+11.28	+20.1

Note : 1) EBITDA = Total Revenue (Exclude gain/loss on foreign currency) - Total Expenses (exclude finance cost, tax, depreciation and amortization, loss from change in ownership interest and impairment loss of assets and aircraft)

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

Total revenues for the second quarter of 2017 increased THB 3,939 million (9.6%). Details are as follows:

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

Passenger and excess baggage revenue increase THB 3,093 million (9.2%) over last year as:

- Passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 21.9%, approximately THB 7,260 million in all routes, particularly in Europe and Northern routes. Production traffic (Available Seat-Kilometers:ASK) increased by 7.1%. Average cabin factor was 78.5% higher than last year's 69.0%.

- Average passenger yield (including fuel and insurance surcharge) decreased by 0.26 THB/RPK(10.9%) or approximately THB 4,420 million partially due to the strength of the Thai Baht against EURO and Japanese Yen which resulting the lower passenger yield, approximately decreased by 0.05 THB/RPK or around THB 800 million. When excluding such effect, average passenger yield decreased by 8.8% or THB 3,570 million due to the intense competition and reduction of fuel surcharge.

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

Freight and mail revenue increased by THB 380 million (8.7%) due to the increase of freight traffic (Revenue Freight Ton-Kilometers: RFTK) which increased by 12.2 % or around THB 510 million resulting from the recovery in export sector. The major expanding market were ASIAN-5, China, Japan, CLMV countries, and the US while average freight yield (including fuel and insurance surcharge) was 8.00 THB/RFTK, a decrease of 0.32 THB/RFTK (3.8%) over last year. Average freight load factor was 59.8% higher than last year's 58.7%.

### **- Revenue from other activities**

Revenues from other activities consisted of revenues from business units which were Ground services, Catering, Cargo handling services, and other activities revenue increased by THB 267 million (9.4%) over last year mainly due to the increase of income from Maintenance and Cargo handling services resulting a from greater freight traffic. While revenue from Ground services decreased from the lower number of customer airlines' flight.

### **- Other income**

Other income increased by THB 199 million (39.7%) mainly due to income from compensation for the delay delivery of two Airbus A350-900XWB amounted of THB 355 million.

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

Total expenses of the second quarter of 2017 increased by THB 3,699 million (8.6%). A summary of the operating expenses was as follows:

- Fuel and oil expense increased by THB 527 million (4.5%) due to the increase in average jet fuel price by 20.1% compared to the same period last year and the growth of traffic production resulting the increase in fuel consumption. However, fuel hedging expenses was lower than last year by 94.4% and the strength of Thai Baht against the US dollars caused the lower expense in Baht term.

- Non-fuel operating expense was THB 3,390 million (11.3%) higher than last year. Details as follows:

Unit : Million Baht	Apr - Jun					
	2017	% of Total Expense	2016	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses	7,545	22.6	7,125	23.7	+420	+5.9
Flight service expenses	5,255	15.8	4,704	15.7	+551	+11.7
Crew expenses	1,377	4.1	1,311	4.4	+66	+5.0
Aircraft maintenance and overhaul costs	4,544	13.6	3,270	10.9	+1,274	+39.0
Depreciation and amortization expenses	4,222	12.7	4,528	15.1	-306	-6.8
Lease of aircraft and spare parts	2,673	8.0	2,506	8.4	+167	+6.7
Inventories and supplies	2,172	6.5	1,872	6.2	+300	+16.0
Selling and advertising expenses	2,712	8.1	2,159	7.2	+553	+25.6
Insurance expense	124	0.4	146	0.5	-22	-15.1
Other expenses	2,579	7.7	2,174	7.2	+405	+18.6
Share of losses (profits) of associates	180	0.5	198	0.7	-18	-9.1
<b>Non-fuel Operating Expense</b>	<b>33,383</b>	<b>100.0</b>	<b>29,993</b>	<b>100.0</b>	<b>+3,390</b>	<b>+11.3</b>

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits increased THB by 420 million (5.9%) due to last year there was the reduction of employee benefit obligation including the 2015 and 2016 Mutual Separated Plan or MSP and Golden handshake (effective March 1, June 1 and July 1, 2016 respectively). If those items were excluded, the employee benefit expenses were closed to last year.

- Flight expenses consisted of flight service expenses, crew expenses, and inventories and supplies expenses increased by THB 917 million (11.6%) due to higher production and traffic of this year.

- Maintenance and overhaul increased by THB 1,274 million (39.0%) 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 306 million (6.8%) because of aircraft, seats and other assets were fully depreciated.

- Lease of aircraft and spare parts increased by THB 167 million (6.7%) due to the increase of two operating lease aircraft in 2016; two Airbus A350-900XWB aircraft while two Boeing B777-200 operating lease aircraft were returned in December 2016, and January 2017, respectively.

- Selling and advertising expenses increased by THB 553 million (25.6%) resulting from greater reservation expense which increased from the higher number of reservation transactions and reservation service rate.

- Other expenses increased by THB 405 million (18.6%) resulting from an increase in outsource the out job hiring expenses.

- Share of losses of associates decreased by THB 18 million (9.1%). Details as follow:
  - Bangkok Aviation Fuel Services PCL's profit of THB 56 million, an increase of THB 12 million.
  - Donmuang International Airport Hotel Ltd.'s profit of THB 5 million, a decrease of THB 1 million.
  - Royal Orchid Hotel (Thailand) PCL's profit of THB 4 million, a decrease of THB 5 million.
  - Suvarnabhumi Airport Hotel Ltd.'s profit of THB 5 million, an increase of THB 5 million.
  - Phuket Air Catering Ltd.'s profit of THB 11 million, a decrease of THB 2 million.
  - Nok Airlines PCL.'s loss of THB 261 million, a decrease of THB 9 million.

**Net finance cost** decreased THB 218 million (17.0%) since average short-term and long-term loans were lower than last year. Moreover, the strength of the Thai Baht compared to EURO 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 275 million based on the additional recognition of maintenance provision for aircraft return conditions of two 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.

**Loss from change in ownership interest** totaled THB 428 million, resulting from the dilution of THAI's shareholding in Nok Airlines PCL. from 39.20% to 21.57%. (Please see Notes to the Financial Statement No.6.27.2)

**Impairment loss of assets and aircraft** totaled THB 390 million, a decrease of THB 1,483 million (79.2%) as the following details:

- Impairment loss of aircraft amounted to THB 343 million, THB 1,412 million lower than last year, comprised of impairment loss of eleven aircraft including six Airbus A340-600, two Airbus A340-500, two Boeing B747-400 (Freighter) and one Boeing 737-400 aircraft, amount of THB 136 million, while last year's provision for impairment loss of fourteen aircraft, amount of THB 1,430 million. In addition provision for impairment of engines for Airbus A340-500 and A340-600 aircraft lower than last year, amount of THB 118 million.
- Impairment loss of assets totaled THB 47 million, THB 71 million lower than last year, due to lower reserved for damaged rotatable spare parts and could not be repaired from last year.

**Loss on foreign currency exchange** was THB 2,431 million consisted of THB 2,531 million unrealized loss resulting from revaluation of foreign currency loans, especially the weak of Thai Baht against the Euro as of June 30, 2017 compared to March 31, 2017 and revaluation of assets and liabilities as of June 30, 2017, and realized gain of THB 100 million.

**Operating results of Thai Airways International PCL. and its subsidiaries of the first six months of 2017 (January - June 2017) are as follows:**

**Financial Performance: THAI and its subsidiaries**

Unit : Million Baht	Jan - Jun			
	2017	2016	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>94,985</b>	<b>91,426</b>	<b>+3,559</b>	<b>+3.9</b>
- Passenger and excess baggage revenue	78,064	75,553	+2,511	+3.3
- Freight and mail revenue	9,629	8,804	+825	+9.4
- Revenue from other activities	6,078	6,124	-46	-0.8
- Other income	1,214	945	+269	+28.5
<b>Total operating expenses</b>	<b>93,660</b>	<b>86,029</b>	<b>+7,631</b>	<b>+8.9</b>
- Fuel and oil	25,124	22,593	+2,531	+11.2
- Non-fuel operating expenses	66,245	60,816	+5,429	+8.9
- Net finance cost	2,291	2,620	-329	-12.6
<b>Operating profit</b>	<b>1,325</b>	<b>5,397</b>	<b>-4,072</b>	<b>-75.4</b>
<u>Less</u> Maintenance provision for operating lease aircraft	458	1,153	-695	-60.3
<u>Less</u> Provision for collaborating to change due to the Transformation plan	600	427	+173	+40.5
<u>Less</u> Loss from change in ownership interest	428	-	+428	-
<u>Less</u> Impairment loss of assets and aircraft	1,407	2,047	-640	-31.3
<u>Add</u> Gain (Loss) on foreign currency exchange	(870)	(86)	-784	-911.6
Profit (Loss) before income tax	(2,438)	1,684	-4,122	-244.8
Net Profit(Loss)	(2,039)	3,095	-5,134	-165.9
<b>Profit (Loss) attribute to owners of the parent</b>	<b>(2,054)</b>	<b>3,078</b>	<b>-5,132</b>	<b>-166.7</b>
Net Profit (Loss) per share (THB)	(0.94)	1.41	-2.35	-166.7
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	11,061	15,711	-4,650	-29.6
Number of passengers (Million)	12.39	11.02	+1.37	+12.4
Available Seat-Kilometers (Million)	44,094	41,713	+2,381	+5.7
Revenue Passenger-Kilometers (Million)	35,568	30,590	+4,978	+16.3
Cabin factor (%)	80.7	73.3		+7.4
Passenger yield (THB/RPK)	2.17	2.45	-0.28	-11.4
Available Dead Load Ton-Kilometers (Million)	1,889	1,738	+151	+8.7
Revenue Freight Ton-Kilometers (Million)	1,121	1,006	+115	+11.4
Freight load factor (%)	59.4	57.9		+1.5
Freight carried (Ton)	309,624	279,011	+30,613	+11.0
Freight yield (THB/RFTK)	8.04	8.25	-0.21	-2.5
Number of aircraft (As of June 30) (Aircraft)	97	94	+3	+3.2
Flight hours (Hours)	200,155	190,267	+9,888	+5.2
Aircraft utilization (Hours/Aircraft/Day)	11.9	11.2	+0.7	+6.3
Average foreign currency exchange rate				
1 USD : THB	34.7082	35.4758	-0.7676	-2.2
1 EUR : THB	37.5685	39.5548	-1.9863	-5.0
100 JPY : THB	30.9022	31.7903	-0.8881	-2.8
Average jet fuel price (USD/BBL)	68.65	51.80	+16.85	+32.5

Note : 1) EBITDA = Total Revenue (Exclude gain/loss on foreign currency) - Total Expenses (exclude finance cost, tax, depreciation and amortization, loss from change in ownership interest and impairment loss of assets and aircraft)

THAI and its subsidiaries' reported operating profit for the first half-year 2017 of THB 1,325 million, a decrease of THB 4,072 million (75.4%) from the previous year.

Total revenue increased by THB 3,559 million (3.9%), mainly due to an increase in transportation revenue of THB 3,336 million (4.0%). Revenue from passenger and excess baggage increased 3.3% from passenger traffic increasing by 16.3% despite average passenger yield (including fuel and insurance surcharge) were 11.4% lower than last year due to fierce competition in the aviation industry and the reduction of fuel surcharge in line with the falling fuel prices. Freight and mail revenues increased by 9.4%, mainly due to the increase in freight traffic (Revenue Freight Ton-Kilometers : RFTK) from the export sector, which improved from the previous year. However, revenue from other activities decreased from the previous year. The main reason was from the lower ground handling revenue due to the lower number of customer airlines' flights. Nevertheless, cargo handling services was higher than last year due to greater freight traffic. In addition, other income increased from compensation for delay delivery of two Airbus A350-900XWB.

Total expenses increased by THB 7,631 million (8.9%) due to an increase in fuel expenses in line with fuel price. Non-fuel operating expense increased from an increase in production and traffic as well as an increase in maintenance and overhaul expense.

THAI and its subsidiaries reported operating profit of THB 1,325 million, while last year's operating profit was THB 5,397 million. In addition, THAI and its subsidiaries had one-time expenses as follows :

- Maintenance provision for operating lease aircraft totaled THB 458 million based on the additional maintenance provision for aircraft return conditions of two Airbus A330-300 aircraft due to the premature return of the aircraft operating lease, while last year represented the maintenance provision of major overhaul of Engine for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations.
- Provision for collaborating to change due to the Transformation plan totaled THB 600 million, which mainly was special incentive provision to employees as a reward for collaborating to changes according to the transformation plan.
- Loss from change in ownership interest totaled THB 428 million, resulting from the dilution of THAI's shareholding in Nok Airlines PCL. from 39.20% to 21.57%. (Please see Notes to the Financial Statement No.6.27.2)
- Impairment loss of assets and aircraft decreased by THB 640 million (31.3%). This was mainly due to the additional provision of fourteen decommissioned aircraft which held for sales, amount of THB 995 million and engines for Airbus A340-500 and A340-600 aircraft, amount of THB 207 million while last year's provision for impairment loss of fifteen grounded aircraft, amount of THB 1,512 million and engines of THB 325 million.
- Loss on foreign currency exchange of THB 870 million mainly due to depreciation of Baht, especially in Euro as of June 30, 2017, as compared with December 31, 2016, while last year had loss on foreign currency exchange of THB 86 million.

THAI and its subsidiaries reported a net loss of THB 2,039 million while last year's net profit was THB 3,095 THB. Loss attributable to owners the parent amounted to THB 2,054 million. Loss per share was 0.94 THB, compared to last year where THAI reported a profit per share of 1.41 THB.

First half-year results 2017: EBITDA decreased by THB 4,650 million (29.6%) from last year. EBITDA margin was 11.6% which decreased from last year's where reported 17.2%

### 3. Financial Position and Liquidity

#### Capital Expenditures

Unit : Million Baht	Jan - Jun	
	2017	2016
Aircraft and aircraft spare parts	8,527	1,970
Non-Aircraft	157	106
<b>Total</b>	<b>8,684</b>	<b>2,076</b>

Capital expenditures for the second quarter of 2017 totaled THB 7,822 million, an increase of THB 6,702 million from last year due to the delivery of two Airbus A350-900XWB in this quarter while there was no new aircraft delivered in the same quarter last year. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts totaled THB 7,715 million which was mainly from the delivery of two Airbus A350-900XWB under financial lease, approximately of THB 6,243 million and the prepayment for acquisition of Airbus A350-900XWB aircraft and TrentXWB engine for the A350-900XWB, total amount of THB 1,128 million.

- Investments in other fixed assets amounted to THB 107 million.

When combining with the first quarter of 2017, amounted to THB 862 million, THAI and its subsidiaries had total investment expenditure of THB 8,684 million for the first six months of 2017

#### Financing

In the first six months of 2017, THAI financed in the total amount of THB 22,443 million, as the following details.

- 1) 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.

- 2) Acquired long-term financing through financial lease for two Airbus A350-900XWB using the aircraft as collateral, totaled THB 8,177 million.

- 3) Issued THB 8,000 million new debentures in June 2017 to repay the debentures at maturity, repay loan with higher financial cost, and/or use as an investment, and/or working capital.

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

Unit : Million Baht	Jan - Jun	
	2017	2016
Net cash from operating activities	14,887	13,025
Net cash used in investing activities	(1,931)	(1,746)
Net cash used in financing activities	(4,498)	(16,612)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(49)	(43)
<b>Increase(decreases) in cash and cash equivalents</b>	<b>8,409</b>	<b>(5,376)</b>

In the first six months of 2017, THAI had net cash from operating activities, the amount of THB 14,887 million, THB 1,862 million higher than last year. Net cash used in financing activities was THB 4,498 million, THB 12,114 million, lower than last year, due to the repayment of both short and long term loans were lower than last year. Despite, net cash used in investing activities was higher than last year. As a result, cash and cash equivalents as of June 30, 2017 increased from December 31, 2016 of THB 8,409 million.

## Fleet

In the second quarter of 2017, THAI delivered two Airbus A350-900XWB, while no additional aircraft was decommissioned. Thus, the total active aircraft as of June 30, 2017 was 97 aircraft (including 20 Airbus A320-200 aircraft for THAISmile's operation) which was two more aircraft than at the end of 2016. In addition, in this quarter THAI sold two Boeing B747-400 aircraft, leaving the aircraft held for sale as of June 30, 2017 total 22 aircraft

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

As of June 30, 2017, total assets increased by THB 8,676 million (3.1%) from December 31, 2016.

	Consolidated					
	Jun 30, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	21,799	7.5	13,390	4.7	+8,409	+62.8
Other current assets	33,993	11.6	33,662	11.9	+331	+1.0
<b>Current Assets</b>	<b>55,792</b>	<b>19.1</b>	<b>47,052</b>	<b>16.6</b>	<b>+8,740</b>	<b>+18.6</b>
Property, plant and equipment						
Prepaid aircraft and spare engine	7,084	2.4	9,647	3.4	-2,563	-26.6
Aircraft	42,106	14.4	44,686	15.8	-2,580	-5.8
Aircraft under finance leases	119,750	41.0	112,917	39.9	+6,833	+6.1
Aircraft spare parts	9,834	3.4	10,228	3.6	-394	-3.9
Work in process	255	0.1	371	0.1	-116	-31.3
Land, building and improvements	13,695	4.7	13,872	4.9	-177	-1.3
Other plant and equipment	2,860	1.0	3,170	1.1	-310	-9.8
<b>Property, plant and equipment-net</b>	<b>195,584</b>	<b>67.0</b>	<b>194,891</b>	<b>68.8</b>	<b>+693</b>	<b>+0.4</b>
Non-current assets classified as						
held for sale	10,379	3.6	12,322	4.4	-1,943	-15.8
Other non-current assets	30,045	10.3	28,859	10.2	+1,186	+4.1
<b>Total Assets</b>	<b>291,800</b>	<b>100.0</b>	<b>283,124</b>	<b>100.0</b>	<b>+8,676</b>	<b>+3.1</b>

Current assets were THB 55,792 million or represented 19.1% of total assets, an increase of THB 8,740 million (18.6%) as of December 31, 2016 mainly from the increase in cash and cash equivalents the amount of THB 8,409 million (62.8%) from the issuance of debentures THB 8,000 million on June 23, 2017.

Property, plant and equipment-net totaled THB 195,584 million or represented 67.0% of total assets, an increase of THB 693 million (0.4%) from December 31, 2016 due to the delivery of two new Airbus A350-900XWB aircraft in this quarter. Although the normal depreciation has caused the asset to decline.

Non-current assets classified as held for sale totaled THB 10,379 million or account for 3.6% of total assets a decrease of THB 1,943 million (15.8%) mainly due to the additional provision of aircraft impairment and sale of one Airbus A330-300 aircraft, two Boeing B747-400 aircraft and one spare engine of Airbus A340-500 aircraft.

Other non-current assets totaled THB 30,045 million or represented 10.3% of total assets, which increased by THB 1,186 million (4.1%) as of December 31, 2016 resulting from

- Investment in associated companies decreased by THB 825 million mainly from investment in Nok Airline Public Co.,Ltd. decreased by THB 805 million (43.3%) due to the decrease in ownership interest, combined with the operation loss in the first six months of 2017.

- Deferred expenses increased by THB 620 million, mainly due to the cost of the renovation project by installing Crew Rest and In-flight Connectivity equipment to six Boeing 787-8 aircraft.

- An increase, approximately THB 1,072 million, in maintenance reserve corresponded to an increase in maintenance provision to aircraft maintenance plan according to its utilization and maintenance condition. Once after THAI perform the maintenance according to the criteria under lease agreement, THAI can reimburse from the lessors under the maintenance reserves deposit.

Return on assets for the first six months of 2017 was -0.03% lower than last year's 1.49%.

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

Total liabilities as of June 30, 2017 increased by THB 10,703 million (4.3%) from December 31, 2016. These comprised of:

	Consolidated					
	Jun 30, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	65,408	25.1	64,555	25.9	+853	+1.3
<b>Long-term liabilities</b>						
Debentures	66,100	25.4	59,300	23.8	+6,800	+11.5
Liabilities under financial leases	68,499	26.3	64,750	25.9	+3,749	+5.8
Long term borrowings	32,200	12.4	35,933	14.4	-3,733	-10.4
<b>Total long-term liabilities</b>	<b>166,799</b>	<b>64.1</b>	<b>159,983</b>	<b>64.1</b>	<b>+6,816</b>	<b>+4.3</b>
Other non-current liabilities	28,032	10.8	24,998	10.0	+3,034	+12.1
<b>Total Liabilities</b>	<b>260,239</b>	<b>100.0</b>	<b>249,536</b>	<b>100.0</b>	<b>+10,703</b>	<b>+4.3</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 29,730 million) represented 25.1% of total liabilities, an increase of THB 853 million (1.3%) from December 31, 2016.

Long-term liabilities (including current portion of long term liabilities' totaled THB 29,730 million) represented 64.1% of total liabilities, which was an increase of THB 6,816 million (4.3%) from December 31, 2016 primarily due to the depreciation of Thai baht against the Euro as of June 30, 2017 comparing to December 31, 2016. This affected the increase of long-term liabilities translated to Baht terms. When excluded the foreign currency adjustment, the amount of THB 1,066 million, long-term liabilities increased by THB 5,750 million from the issuance of debenture and the liabilities under financial leases increased from the delivery of two A350-900XWB aircraft this quarter. Although there were some repayment of long term loans.

- Other non-current liabilities as of June 30, 2017 represented 10.8% of total liabilities which increased by THB 3,034 million (12.1%) 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 the lessor when maintenance activities meet the reimbursement condition.

At the end of the second quarter 2017, the interest bearing debt to equity was 5.5 times, increased from the end of 2016's 5.0 times.

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

As of June 30, 2017, shareholders' equity totaled THB 31,561 million, a decrease of THB 2,027 million (6.0%) from December 31, 2016 due to loss of the operations from THAI and its subsidiaries. THAI's return on equity for the first six months of 2017 decreased from 9.1% last year's to -6.3% this year.

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

The trend of the global aviation industry is expected to continue to grow as the global economy is recovering in the US, Europe and Japan. Although the Chinese economy is growing, it shows signs of slowing down. Oil prices have risen from last year, and the average oil price for the second half of 2017 is expected to rise slightly from the first half and stay at around USD 50-57 per barrel. Other negative factors include potential and future terrorist events, incidents in the Korean Peninsula, disputes in the South China Sea, but it is not expected to have a significant effect. However, the recovery of the overall economy has led to a higher growth of freight traffic from the previous year. While the passenger demand has increased but the overall increase in production and intense competition will lead to a decline in the ticket prices.

Thailand's aviation industry in the second half of 2017 is likely to improve based on the number of foreign tourists entering Thailand in the first half of 2017 increasing by 4.2%, both domestically and internationally. Growth should be seen in the second half of the year as there will be the season of Chinese tourists during the school holidays and Chinese National Day.

With regards to the resolutions for the findings of Significant Safety Concern (SSC), the Civil Aviation Authority of Thailand has submitted a formal request to The International Civil Aviation Organization (ICAO) for the red flag to be lifted. It is expected that the ICAO will conduct a red-flag re-evaluation for the Thailand aviation system within September 2017.

For the second half of 2017, THAI has significant action plans as follows:

- THAI will begin operating four roundtrip flights per week from Bangkok-Vienna. The first flight will be departed on November 16, 2017.
- Taking delivery of 5 new aircraft which consists of three Airbus A350-900 XWB aircraft and two Boeing 787-9 aircraft.
- Decommissioning 2 operating lease aircraft Airbus A330-300.
- THAI continues to implement the government policies to promote the Eastern Economic Corridor (EEC) project in the U-Tapao Airport Development Project by setting up working groups and agencies directly responsible for such projects. It aims to be the most advanced aircraft maintenance center in Asia Pacific with innovation, modern digital technology.

## 5. Financial Ratios

		Jan – Jun	
		2017	2016
<b>Liquidity Ratio</b>			
Current Ratio	(times)	0.88	0.78
<b>Profitability Ratio</b>			
Operating Profit(loss) Margin	%	1.39	5.90
Net Profit (loss) Margin	%	(2.14)	3.38
Return on Equity	%	(6.26)	9.12
<b>Efficiency Ratio</b>			
Return on Total Assets	%	(0.03)	1.49
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	5.45	5.11
Total Debt to Equity	(times)	8.25	7.38
Interest Coverage Ratio	(times)	4.68	5.74

### 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