

Management's Discussion and Analysis for the year ended December 31, 2017 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

Global economic in the year 2017 continued to grow with the expansion of the US, EU and Japanese economies at a faster pace as the economic fundamentals improved. Labor market recovering and consumer confidence were also in good atmosphere resulting from the increase of world trade volume while the emerging economies in Asia continued to improve due to improved exports following global demand. Private consumption has also improved in better direction. Meanwhile, the Chinese economy was likely to slow down due to the reform of economic structure; simultaneously, 2017's crude oil prices were higher than the previous year as the production of oil producing countries reduced their production capacity

Thai economy in 2017 improved significantly, driven by the continued strong export growth following the global economic recovery, especially the trade partner countries such as India, China, Indochina known as (CLMV), the United States and Japan, etc., Private consumption also expanded well. Tourism continued to expand due to higher amount of main foreign tourists from China, Russia, India, Cambodia, Laos and South Korea. The number of foreign tourists arriving in Thailand in 2017 was 35.4 million, an increase of 8.9% from the previous year.

The global aviation industry continued to grow in 2017 due to a stronger global economy. Combined with intense competition, fare prices had declined, especially at the beginning of the year which supported for increased travel demand. Overall passenger traffic had grown significantly over the past 10 years, especially in Asia Pacific and Europe. Average cabin factor remains in the high figure. According to IATA (International Air Transport Association) 2017's data, the passenger traffic and passenger production indicated the continued growth in which increased by 7.6% and 6.3% respectively resulting average cabin factor was 81.4%. Cargo business had grown the most since 2010 in all regions since the volume of world trade continued to grow. Freight load factor increased to 45.5% from last year's 43.0%.

Overview of Thai aviation industry continues to grow. After the International Civil Aviation Organization (ICAO) announced the release of red flag on October 6, 2017, it would benefit a positive impact on confidence to both the Thai aviation authorities and tourists in choosing a Thai-flag airline. Other key contributing factors included the demand for air transport in emerging markets and the emergence of low-cost airlines including the readiness of relevant infrastructures to support the economic expansion. However, other risk factors that might cause negative impacts on the Thai aviation industry, such as the price of jet fuel increased from last year, fierce competition, terrorism both inside and outside the country, and the threat to aviation. These were the challenge facing the aviation industry.

In 2017, THAI has implemented the third phase of its transformation plan; "Sustainable Growth." consisted 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 2017, there were other significant implications. Details as follows:

- Network Expansion with direct flight to Vienna since November 16, 2017. In addition, adding more frequencies on potential routes, such as Brussels, Oslo and Auckland, have been increased. Moreover, THAI expanded its routes in the ASEAN region operated under the tail of ThaiSmile as an important tool in the strategic plan to expand the route and connect the airline network with THAI by opening several route from Bangkok to Kaohsiung, main port of Taiwan, Zhengzhou, China, and Phuket - Guangzhou. ThaiSmile also had canceled all flights operated at Don Mueang Airport since January 16, 2017, and operated only at Suvarnabhumi Airport for better connecting passengers from THAI more comfortably. THAI also signed a codeshare agreement with Bangkok Airways to strengthen the network.

- Fleet capacity enhancement by adding 7 new aircraft to the fleet comprising of 2 Airbus A350-900 XWB aircraft under finance lease, and 3 A350-900 XWB aircraft and 2 Boeing B787-9 aircraft which were operating lease aircraft. These aircraft would served on intercontinental routes and regional routes such as Bangkok - Rome, Bangkok - Brussels. Bangkok – Auckland, and Bangkok-Singapore. In addition, THAI started to install the Crew Rest and In-flight Connectivity (IFC) program on the Boeing 787-8 aircraft. 2 of them were completed in 2017.

- Sales of aircraft and delivering them to buyers totaled 4 aircraft which consisted of 1 Airbus A330-300, 2 Boeing B747-400, and 1 Boeing B737-400 aircraft.

- New flight attendants (TQV 2017), totaling more than 200 positions were enlisted to support the future growth.

- Continuing Implementation of Automated Fare Management System aimed to manage fare prices and revenue more concretely which would be fully utilized in late 2016. The system would be able to set price effectively and to compete with competitors at the same level in time to generate revenue.

- Network Management Systems implementation aimed to schedule, analyze, review and plan routes faster and more accurately and integrate with other services system for the best performance. After finishing the first phase, the new system started to use new procedures for check-in service of the crew, maintenance since April 2017. In addition, Thai Smile had introduced the Amadeus Alta on August 1, 2017. The system, in addition, to make the connection between THAI and ThaiSmile more comfortable. It could also be connected with travel agents and airlines around the world. This enabled THAI to offer a wide range of passenger services and other services as well as to enhance our employees' performance. In addition, it would expand the customer base to buy tickets online, codeshare to expand its customer service network around the world.

- According to the ongoing financial management focusing on enhancing the efficiency, fuel hedging efficiency with flexibility in line with world oil price, cash management and restructuring of loans since the end of last year, THAI was awarded by Adam Smith Awards Asia 2017 Award for Best Risk Management Solution organized by Treasury Today Asia Magazine.

- THAI signed a Memorandum of Understanding(MOU) with Airbus Industries on March 8, 2017 for the feasibility study of the Maintenance, Repair, and Overhaul (MRO) Center project at U-Tapao International Airport and signed a Memorandum of Understanding(MOU) to development the 1st Phase of the Air Cargo and Logistics Center on April 5, 2017 with Royal Thai Navy. Also, these projects are parts 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 furnish with innovations, modern digital technology with the international quality standards.

- THAI had been passed an Air Operator Certificate (AOC) by the International Civil Aviation Organization (ICAO), which is operated by the Civil Aviation Authority of Thailand. On May 8, 2017, ThaiSmile was also re-certified to be the new air operator on July 20, 2017.

- Nok Airline Public Co.,Ltd. (NOK Air) allocated new ordinary shares to the existing shareholders in proportion to their shareholding (Rights Offering) in May 2017. However, THAI did not exercise the right to purchase such newly issued shares resulting the proportion of THAI's shareholding in Nok Air was reduced from 39.20% as at December 31, 2016 to 21.57%. In October 2017, THAI exercised the right to purchase 250.39 million shares or equivalent to THB 375.59 million resulting the increase proportion of shares from 21.57% to 21.80%.

- THAI finished the revision of the enterprise plan 2017-2021 whose objectives were to support the twelfth national economic and social development plan and to establish the framework for good performance in aviation business operation. THAI had full confident that this enterprise plan would be seriously deployed and directed to the future accomplishment including the competitiveness that could handle the changes in world aviation business both in present and future with efficiency.

In 2017, 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. In addition, THAI's continuing product and services improvement made THAI awarded by TIG travel as Best South-East Asian Airline for 10 consecutive years. THAI also won the Best Inflight Food 2017 from IFSA Compass Awards which was based on votes submitted by International Flight Service Association (IFSA). These awards are in recognition for excellent products and services as a premium and overall customer satisfaction.

In addition, ThaiSmile Airways Ltd. received world-class award from TripAdvisor, 3 prizes including Best Airline in Thailand, Best Regional airline in Asia Pacific, and World's Best airline - Top 10. The awards came from the reviews from passengers around the world for the year 2017. According to these awards, they indicated that ThaiSmile airline is the "Good value for the money" airline which provides full service regional airline and reflects the satisfaction of the passengers in the services of ThaiSmile.

In 2017, the Group took delivery of 7 aircraft while decommissioned 2 operating lease aircraft: Airbus A330-300, resulting total number of 100 active aircraft in THAI's fleet as of December 31, 2017 which was 5 aircraft higher than as of December 31, 2016. Aircraft utilization increased from 11.5 hours last year to 12.0 hours this year. Production traffic (ASK) increased by 6.4% while passenger traffic (RPK) increased by 14.7%. Average cabin factor was 79.2% higher than last year's 73.4% which was the highest level in the last 10 years with 24.6 million passengers carried representing 10.3% increasing from last year.

The Rolls-Royce's TRENT1000 engines were installed on 6 Boeing 787-8 aircraft, the first aircraft was delivered in 2014. Their turbo blades were cracks and breakage which might affect the safety of flight operations. Not only did THAI faced this difficulty but all airlines throughout the globe used the engine encountered the same problem as well. Hence, to continue the operation by using Boeing 787-8, THAI had to gradually switch the engines to repair. THAI solved both short and long term problems by taking into account the impact on passengers was important. As a result of this incident, the service had caused the delays in flight and impacting flight schedule. This resulted in the increasing cost and revenue loss from plans.

In 2017 THAI and its subsidiaries had the total revenue of THB 191,946 million, increased by THB 11,389 million (6.3%) resulting from the increase in passenger and excess baggage revenue, freight and mail revenue, and revenue from other activities. The total expense of THB 189,090 million showed an increase of THB 12,604 million (7.1%) resulting from the increase in fuel expense by THB 4,879 million (10.8%) affected by the 24.2% rising jet fuel prices and increase of traffic production. However, fuel risk management performed better than last year. Non-fuel operating expense increased by THB 8,313 million (6.6%) due to the increase of traffic production and passenger traffic. Maintenance and overhaul expenses also increased. Net financial cost decreased by THB 588 million (11.5%) resulting from cash management and financial restructure started from last year. Consequently, THAI and its subsidiaries' had an operating profit of THB 2,856 million, THB 1,215 million(29.8%) lower than last year.

This year THAI and its subsidiaries had one-time cost item occurred from maintenance provision based on the additional recognition of maintenance for aircraft return condition, amount of THB 550 million, then expense from loss on changes in Ownership interest, the amount of THB 429 million, which occurred from THAI reduced proportion of shares in NOK Airlines PCL., impairment loss of assets and aircraft, amount of THB 3,191 million, and loss on foreign currency exchange, amount of THB 1,581 million. Consequently, THAI and its subsidiaries reported the net loss of THB 2,072 million. Loss attributable to owners of the parent amounted to THB 2,107 million. Loss per share was THB 0.97 while last year's profit per share of THB 0.01.

EBITDA was THB 24,045 million, THB 811 million (3.3%) lower than last year. EBITDA margin was 12.5%, as compared to last year's reported 13.8%.

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

The consolidated financial statements for 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	Jan - Dec			
	2017	2016	Variance	
			MTHB	%
Total operating revenues	191,946	180,557	+11,389	+6.3
- Passenger and excess baggage revenue	157,475	148,060	+9,415	+6.4
- Freight and mail revenue	20,272	18,578	+1,694	+9.1
- Revenue from other activities	12,111	11,674	+437	+3.7
- Other income	2,088	2,245	-157	-7.0
Total operating expenses	189,090	176,486	+12,604	+7.1
- Fuel and oil	50,215	45,336	+4,879	+10.8
- Non-fuel operating expenses	134,328	126,015	+8,313	+6.6
- Net finance cost	4,547	5,135	-588	-11.5
Operating profit	2,856	4,071	-1,215	-29.8
<u>Less</u> Maintenance provision for operating lease aircraft	550	1,317	-767	-58.2
<u>Less</u> Expense from Transformation plan	-	1,228	-1,228	-100.0
<u>Less</u> Loss from change in ownership interest	429	-	+429	-
<u>Less</u> Impairment loss of assets and aircraft	3,191	3,628	-437	-12.0
<u>Add</u> Gain (Loss) on foreign currency exchange	(1,581)	685	-2,266	-330.8
Loss before income tax	(2,895)	(1,417)	-1,478	-104.3
Net Profit (Loss)	(2,072)	47	-2,119	-
Profit (Loss) attribute to owners of the parent	(2,107)	15	-2,122	-
Net Profit (Loss) per share (THB)	(0.97)	0.01	-0.98	-
<u>Significant operating data</u>				
EBITDA (MTHB)	24,045	24,856	-811	-3.3
Number of passengers (Million)	24.56	22.26	+2.30	+10.3
Available Seat-Kilometers (Million)	90,498	85,042	+5,456	+6.4
Revenue Passenger-Kilometers (Million)	71,634	62,442	+9,192	+14.7
Cabin factor (%)	79.2	73.4		+5.8
Passenger yield (THB/RPK)	2.17	2.35	-0.18	-7.7
Available Dead Load Ton-Kilometers (Million)	3,832	3,591	+241	+6.7
Revenue Freight Ton-Kilometers (Million)	2,377	2,132	+245	+11.5
Freight load factor (%)	62.0	59.4		+2.6
Freight carried (Ton)	654,915	589,829	+65,086	+11.0
Freight Yield (THB/RFTK)	7.98	8.18	-0.20	-2.4
Number of aircraft (As of December 31) (Aircraft)	100	95	+5	+5.3
Flight hours (Hours)	409,024	388,727	+20,297	+5.2
Aircraft utilization (Hours/Aircraft/Day)	12.0	11.5	+0.5	+4.3
Average foreign currency exchange rate				
1 USD : THB	33.9380	35.2897	-1.3517	-3.8
1 EUR : THB	38.2778	39.0348	-0.7570	-1.9
100 JPY : THB	30.2696	32.5435	-2.2739	-7.0
Average jet fuel price (USD/BBL)	70.48	56.73	+13.75	+24.2

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

Revenues of Thai Airways International PCL. and its subsidiaries

For the year 2017, total revenues increased by THB 11,389 million (6.3%) from the same period last year with details as follows:

- **Passenger and excess baggage revenue**

Passenger and excess baggage revenue increased by THB 9,415 million (6.4%) since

- Passenger traffic (Revenue Passenger-Kilometers - RPK) increased by 14.7% or approximately THB 21,600 million since the traffic increased in Intercontinental and Regional routes including routes operated by ThaiSmile but decreased in the domestic route operated by ThaiSmile. Production traffic (Available Seat-Kilometers:ASK) increased by 6.4% resulting average cabin factor was 79.2% compared to last year's 73.4%.

- Average passenger yield (including fuel and insurance surcharge) was 2.17 THB/RPK, decreased by 0.18 THB/RPK(7.7%) resulting the lower passenger revenues by THB 12,895 million; whereas, the strengthen Thai Baht against the major revenue currencies partially harmed less revenue. When excluding such effect, the approximate passenger yield was 2.23 THB/RPK which decreased by 0.12 THB/RPK (5.1%) or approximately THB 8,595 million due to the heavier competition and the average fuel surcharge which had decreased since last year.

Passenger operation performance classified by region: THAI and its subsidiaries

	Variance (%)		Cabin Factor (%)	
	ASK	RPK	2017	2016
Regional	+8.8	+16.3	76.9	71.8
Intercontinental	+5.4	+15.3	82.5	75.4
Domestic	-4.9	-1.8	74.2	71.8

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

Unit : Million Baht	2017	2016	Variance	
			MTHB	%
Passenger and excess baggage revenue				
Regional	86,322	79,350	+ 6,972	+ 8.8
Intercontinental	59,263	55,916	+ 3,347	+ 6.0
Domestic	11,633	12,427	- 794	- 6.4
Non-schedule flight	257	367	- 110	- 30.0
Total Passenger and excess baggage revenue	157,475	148,060	+ 9,415	+ 6.4

- Regional passenger and excess baggage revenue amounted to THB 86,322 million, an increase of THB 6,972 million (8.8%). In 2017, THAI increased traffic production for supporting the growth in Asia region by launching the new routes operated by ThaiSmile starting with Bangkok- Zhengzhou, People's Republic of China inaugurated on January 27, 2017 and Bangkok-Kaohsiung, Taiwan launching on October 1, 2017 while adding more flights from Phuket – Guangzhou on October 29; simultaneously, adding more flight frequency in high density demand resulting traffic production increased by 8.8% while the passenger traffic increased by 16.3%. Cabin factor increased from 71.8% last year to 76.9% this year. Average passenger yield decreased by 7.2% since the fierce competition, especially from low-cost carriers with adaptation and development of new service strategy from point-to-point strategy to network strategy by developing a network between airlines within the group which served longer distance as well as upgrading the products and services to the nearest full service airline. Therefore, the reduction of fuel surcharge and the strength Thai Baht reflexed the reducing revenue when translated into Baht term.

- Intercontinental passenger and excess baggage revenue amounted to THB 59,263 million, an increase of THB 3,347 million (6.0%) since THAI increased traffic production by 5.4% due to the expansion of European routes. In 2017, THAI launched the direct flight to Vienna on November 16. Passenger traffic increased by 15.3%. Cabin factor increased from last year's 75.4 % to 82.5% this year. Average yield reduced by 8.3% from last year due to the reduction of fuel surcharge since last year, the appreciation of Baht affecting the decrease revenue in Baht term, and the fierce competition.

- Domestic passenger and excess baggage revenue amounted to THB 11,633 million, a decrease of THB 794 million (6.4%) since production traffic decreased by 4.9%. The passenger traffic decreased by 1.8% while yield decreased by 4.6% resulting from high competition from Low Cost Carriers using the discount fare as the strategy to expand their market shares. This year, THAI increased flight frequency by using ThaiSmile for more replacement flights in these routes from Bangkok which were Bangkok- Chiang Rai, Bangkok - Surat Thani, Bangkok - Hat Yai, Bangkok - Khon kaen, Bangkok - Udon thani, Bangkok - Ubon Ratchathani, and Bangkok - Narathiwat and other routes such as Chiang Mai-Phuket and so forth. As a result, cabin factor was 74.2% higher than last year's 71.8%.

- **Freight and mail revenue**

Freight and mail revenue increased by THB 1,694 million (9.1%) because freight traffic (Revenue Freight Ton-Kilometers: RFTK) increased by 11.5% or around THB 2,005 million from the recovering export sector, according to the recovery of the world economy. Average freight load factor was 62.0%, increased from last year's 59.4%. Average freight yield was 7.98 THB/RFTK, a decrease of 0.20 THB/RFTK(2.4%) or around THB 475 million.

- **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 increased by THB 437 million (3.7%) from last year's mainly due to more revenue from maintenance service, catering service from higher number of passenger and cargo handling services from greater freight traffic. However, income from Ground services was lower than last year due to the decreasing number of customer airlines' flight.

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses for 2017 was THB 12,604 million (7.1%) higher than the same period last year. A summary of operating expenses is as follows:

- **Fuel and oil** expense was THB 4,879 million (10.8%) higher than last year due to the rise of the average jet fuel price by 24.2%. Appreciating THB against USD caused decreased expense in Baht term. The fuel hedging revenue of THB 303 million indicated more efficiency and flexibility while last year's hedging fee was THB 6,604 million.

- **Non-fuel operating expense** was THB 8,313 million (6.6%) higher than last year. Details as follows:

Unit : Million Baht	Jan - Dec					
	2017	% of Total Expense	2016	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	29,702	22.1	28,767	22.8	+935	+3.3
Flight service expenses	22,354	16.6	20,818	16.5	+1,536	+7.4
Crew expenses	5,604	4.2	5,353	4.2	+251	+4.7
Aircraft maintenance and overhaul costs	17,247	12.8	15,670	12.4	+1,577	+10.1
Depreciation and amortization expenses	17,022	12.7	17,991	14.3	-969	-5.4
Lease of aircraft and spare parts	11,282	8.4	9,871	7.8	+1,411	+14.3
Inventories and supplies	9,009	6.7	8,151	6.5	+858	+10.5
Selling and advertising expenses	11,215	8.4	9,404	7.5	+1,811	+19.3
Insurance expense	512	0.4	570	0.5	-58	-10.2
Other expenses	10,219	7.6	8,841	7.0	+1,378	+15.6
Share of loss of associates	162	0.1	579	0.5	-417	-72.0
Non-fuel Operating Expense	134,328	100.0	126,015	100.0	+8,313	+6.6

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits increased by THB 935 million (3.3%) due to the number of employees and annual salary increase.
- Flight related expenses consisted of flight service expenses, crew expenses, and Inventories and supplies increased by THB 2,645 million (7.7%) due to the increase of traffic production and passenger traffic while the appreciation of Baht compared to major currencies which consisted of EURO and Japanese Yen recovered some expense amounts.
- Maintenance and overhaul increased by THB 1,577 million (10.1%), mainly due to the increase of traffic production and maintenance provision for aircraft and engine based on actual maintenance condition and the higher engine maintenance rate.
- Depreciation and amortization decreased by THB 969 million (5.4%) due to fully depreciated aircraft and assets. Despite there were new 2 aircraft under finance leases: Airbus A350-900XWB aircraft, added to THAI's fleet this year.
- Lease of aircraft and spare parts increased by THB 1,411 million (14.3%) due to the net increase in 3 operating lease aircraft from the new delivery of 5 operating lease aircraft comprises of 3 Airbus A350-900XWB aircraft and 2 Boeing B787-9 while 2 operating lease aircraft: Airbus A330-300 aircraft, had been returned.
- Selling and advertising expenses increased by THB 1,811 million (19.3%) resulting from greater reservation expense which increased from the higher number of passenger and reservation service rate.

- Other expenses increased by THB 1,378 million (15.6%) due to the increase of outsourcing wages, the subsidiary from Fund for Empowerment of Persons with Disabilities, and related expenses to the difficulty from Trent1000 mentioned above i.e. passenger compensation, hotel accommodations and food refreshment.

Share of loss of associates decreased by THB 417 million (72.0%) from last year. The details as follow:

- Nok Airlines PCL.'s amount of THB 549 million loss, decrease in loss of THB 502 million,
- Suvarnabhumi Airport Hotel Co. Ltd.'s amount of THB 45 million profit, an increase of THB 18 million,
- Phuket Air Catering Co. Ltd.'s amount of THB 64 million profit, an increase of THB 1 million,
- Royal Orchid Hotel (Thailand) PCL's amount of THB 30 million profit, equal to last year's profit,
- Donmuang International Airport Hotel Co. Ltd.'s amount of THB 13 million profit, a decrease of THB 20 million , and
- Bangkok Aviation Fuel Services PCL's amount of THB 235 million profit, a decrease of THB 84 million.

Net finance cost decreased by THB 588 million (11.5%) since average short-term and long-term loans were lower than last year and resulting from cash management and financial restructure since last year. Moreover, the strengthen Thai Baht compared to EURO, Japanese Yen, and US dollar benefited the lower financial cost.

Maintenance provision for operating lease aircraft totaled THB 550 million based on the additional maintenance for aircraft return conditions of two Airbus A330-300 aircraft due to the premature return of the aircraft operating lease.

Loss from change in ownership interest totaled THB 429 million, resulting from the dilution of THAI's shareholding in Nok Airlines PCL. from 39.20% to 21.80%. (Please see Notes to the Financial Statement No.6.36.2)

Impairment loss of assets and aircraft was THB 3,191 million, a decrease of THB 437 million (12.0%) with the following details:

- Impairment loss of aircraft totaled THB 2,721 million, THB 497 million lower than last year. This year impairment loss comprised of 16 aircraft which were of 6 Airbus A340-600, 3 Airbus A340-500, 2 Boeing B747-400, 2 Boeing B747-400F(freighter), 1 Boeing B737-400 and 2 Airbus A330-300 aircraft, totaled THB 2,514 million and the provision for impairment loss for 5 engines of these aircraft: Airbus A340-500 and A340-600 aircraft, totaled THB 207 million.
- Impairment loss of assets totaled THB 470 million, increased by THB 60 million due to higher reserve for damaged rotatable spare parts which were unrepairable from last year.

Loss on foreign currency exchange was THB 1,581 million consisted of THB 1,316 million unrealized loss resulting from revaluation of foreign currency loans, assets and liabilities as of December 31, 2017 with realized loss of THB 265 million.

3. Financial Position and Liquidity

Capital Expenditures - The Group

Unit : Million Baht	Jan - Dec	
	2017	2016
Aircraft and aircraft spare parts	9,317	6,607
Non-Aircraft	672	303
Total	9,989	6,910

Capital expenditures for 2017 was THB 9,989 million, an increase of THB 3,079 million from last year since there is none of financial lease aircraft added to the fleet last year while there were 2 Airbus A350-900XWB aircraft during this year. Capital expenditures in this year were

- Investment in aircraft and aircraft spare parts totalled THB 9,317 million which mainly was from the delivery of 2 Airbus A350-900XWB aircraft under finance lease and the prepayment for acquisition of Airbus A350-900XWB aircraft and TRENT XWB-84 spare engines used for Airbus A350-900XWB aircraft.

- Investments in other fixed assets amounted to THB 672 million mainly from the investment in ground service equipment.

Financing

In 2017, THAI financed in the total amount of THB 29,771 million as the following details

- 1) Rolling over the financing loan from Ministry of Finance by issuing Euro Commercial Paper (ECP) in foreign currency, a total of THB 9,594 million,

- 2) Withdrawing the short-term loan in the form of promissory note totaled THB 4,000 million,

- 3) Acquiring long-term financing through hire purchase which used the aircraft as collateral for payment of 2 A350-900XWB aircraft totaling approximately THB 8,177 million, and

- 4) Issuing THB 8,000 million new domestic debentures in June, 2017, to repay the debentures at maturity, to repay loan with higher financial costs, 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 – Dec	
	2017	2016
Net cash from operating activities	23,692	24,559
Net cash used in investing activities	(3,106)	(3,826)
Net cash used in financing activities	(18,677)	(28,171)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(69)	47
Increase(decreases) in cash and cash equivalents	1,840	(7,391)

In 2017, THAI's net cash used in financing activities amounted to THB 18,677 million due to short-term repayments which were lower than last year as well as net cash used in investing activities, amount of THB 3,106 million which decreased from last year due to less investment in property, plant and equipment. However, THAI's net cash from operating activities totaled THB 23,692 million, which decreased from last year. Consequently, cash and cash equivalents as of December 31, 2017 increased from the end of last year, THB 1,840 million.

Fleet

In 2017, THAI's consolidated had 7 new aircraft, consisted of 2 aircraft under finance lease which were Airbus A350-900XWB aircraft and 5 operating lease aircraft: 3 Airbus A350-900XWB and 2 Boeing 787-9 aircraft, but returned 2 operating lease aircraft: Airbus A330-300 aircraft resulting, as of December 31, 2017, THAI's net active aircraft fleet was 100 aircraft (including 20 Airbus A320-200 aircraft operated under ThaiSmile) which were more 5 aircraft than last year's. Decommissioned aircraft and held for sale as of December 31, 2017 totaled 21 aircraft.

Assets of Thai Airways International PCL. and its subsidiaries

As of December 31, 2017, total assets decreased by THB 2,349 million (0.8%) from as at December 31, 2016.

	Consolidated					
	Dec 31, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	15,230	5.4	13,390	4.7	+1,840	+13.7
Non-current assets held for sale	201	0.1	12,322	4.4	-12,121	-98.4
Other current assets	36,085	12.8	33,662	11.9	+2,423	+7.2
Current Assets	51,516	18.3	59,374	21.0	-7,858	-13.2
Property, plant and equipment						
Prepaid aircraft and spare engine	6,124	2.2	9,647	3.4	-3,523	-36.5
Aircraft	42,186	15.0	44,686	15.8	-2,500	-5.6
Aircraft under finance leases	113,220	40.3	112,917	39.9	+303	+0.3
Aircraft spare parts	9,592	3.4	10,228	3.6	-636	-6.2
Work in process	599	0.2	371	0.1	+228	+61.5
Land, building and improvements	13,554	4.9	13,872	4.9	-318	-2.3
Other plant and equipment	2,828	1.0	3,170	1.1	-342	-10.8
Property, plant and equipment-net	188,103	67.0	194,891	68.8	-6,788	-3.5
Other non-current assets	41,156	14.7	28,859	10.2	+12,297	+42.6
Total Assets	280,775	100.0	283,124	100.0	-2,349	-0.8

Current assets were THB 51,516 million or accounted for 18.3% of total assets, a decrease of THB 7,858 million (13.2 %) from as of December 31, 2016. The significant items consisted of

- The increase in cash and cash equivalents of THB 1,840 million (13.7%), mainly from net cash from operating activities higher than net cash used in financial and investing activities.

- Non-current assets held for sale decreased by THB 12,121 million (98.4%) since this year THAI classified new type of account by transferring current assets held for sale, the amount of THB 11,263 million, to other non-current assets under the tile of asset held for sale. These kinds of assets mainly consisted of grounded aircraft and engines held for sale, and other assets which were unused and holding for sale as well as there were 4 aircraft, engine spare parts, lands, and other assets, total of THB 882 million, were sold.

The ending balance as of December 31, 2017, totaled THB 201 million, were properties both domestic and foreign which were approved to trade by the Board of Director on January 30, 2018.

- Other current assets increased by THB 2,423 million (7.2%) mainly from trade receivables increased by THB 1,347 million due to the greater amount of trade volume in December 2017 which was higher than the same period last year. It should be noted that this year THAI has been able to better manage faster collection period by speeding up from 24 days in 2016 to 23 days this year which was lower than THAI's normal collecting period.

Property, plant and equipment-net totaled THB 188,103 million or represented 67.0 % of total assets, which saw a decrease of THB 6,788 million (3.5%) from December 31, 2016 resulting from the normal calculation of aircraft depreciation; however, there were deliveries of 2 aircraft under finance lease: Airbus A350-900XWB in 2017.

Other non-current assets totaled THB 41,156 million or represented 14.7% of total assets, which increased by THB 12,297 million (42.6%) from as of December 31, 2016 resulting from

- Assets held for sale increased by THB 8,626 million mainly from the new categorizing types of account that explained on the above as well as the increase of provision impairment loss of aircraft and engine spare parts this year.

Assets held for sale comprised of decommissioned aircraft and held for sale totaled 21 aircraft, engines and spare parts, lands unnecessary to hold both domestic and international based on new valuation in 2015 and insignificantly useful assets.

- Deferred refurbishment of operating lease aircraft increased THB 2,060 million from the retrofit operating lease project of 6 Boeing B787-8 by installing crew rest and in-flight connectivity, and installing buyer-furnished equipment for 3 Airbus A350-900XWB and 2 Boeing B787-9 aircraft.

- An increase, approximately THB 2,144 million, in maintenance reserve corresponds to an increase in maintenance provision to aircraft maintenance plan 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 under the maintenance reserves deposit.

- Investment in associate decreased by THB 496 million, was from the investment in Nok Airlines PCL reduced THB 603 million (32.5%) due to the decrease in ownership interest and the loss from operation in 2017.

Return on assets of 2017 was 0.65% compared to last year's 1.34%.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of December 31, 2017 decreased by THB 774 million (0.3%) from as of December 31, 2016. These comprise of:

	Consolidated					
	Dec 31, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	68,031	27.4	64,555	25.9	+3,476	+5.4
Long-term liabilities						
Debentures	62,100	25.0	59,300	23.8	+2,800	+4.7
Liabilities under financial leases	62,517	25.1	64,750	25.9	-2,233	-3.4
Long term borrowings	27,480	11.0	35,933	14.4	-8,453	-23.5
Total long-term liabilities	152,097	61.1	159,983	64.1	-7,886	-4.9
Other non-current liabilities	28,634	11.5	24,998	10.0	+3,636	+14.5
Total Liabilities	248,762	100.0	249,536	100.0	-774	-0.3

Current liabilities (excluding current portion of long term liabilities' amount of THB 24,825 million) or accounted for 27.4% of total liabilities, an increase of THB 3,476 million (5.4%) from last year since unearned revenue increased by THB 4,299 million in line with the increase of sale volume.

Long-term liabilities as of December 31, 2017 (including current portion of long term liabilities' totaled THB 24,825 million) or represented 61.1% of total liabilities, which was a decrease of THB 7,886 million (4.9%) from December 31, 2016 partially resulting from the depreciation of EUR but slightly strengthening against JPY as of December 31, 2017 when compared to the end of 2016 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 444 million, long-term liabilities decreased by THB 8,330 million mainly due to long-term repayment.

Other non-current liabilities totaled THB 28,634 million or represented for 11.5% of total liabilities, an increase of THB 3,636 million (14.5%) due to the obligation under operating lease as to major overhaul of aircraft, engine and major component over the leasing period and the obligation to store aircraft condition at the end of the leased period which increased from last year's THB 2,489 million and employee benefits obligation which increased THB 674 million.

At the end of 2017, interest bearing debt to equity was 5.0 times equaled to last year's. Debt to equity ratio was 7.8 times, higher than last year's 7.4 times.

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

As of December 31, 2017, shareholders' equity totaled THB 32,013 million, a decrease of THB 1,575 million (4.7%) from December 31, 2016 due to the negative results of THAI and its subsidiaries. Consequently, THAI's return on equity of 2017 decreased from 0.1% at the same period last year to -6.3% this year.

4. Factors affecting future operations

The situation of the aviation industry in 2018 is projected to continue to grow as the world economy continues to expand. The global economy in 2018 is also driven by four key factors: 1) continued global trade volume, 2) rising wage and inflation both expect to increase in low rate, and 3) strong economic environment in emerging market countries and 4) Political uncertainty is expected not to be volatile. The oil price in 2018 is expected to increase, but still limited.

For the Thai aviation industry, after the International Civil Aviation Organization (ICAO) released the red flag on October 6, 2017, it would be beneficial for the aviation industry and tourism. It is expected that the aviation industry in Thailand in 2018 will expand from the tourism sector and promote tourism sector. The volume of tourists arriving to Thailand increased with the rapid expansion of low cost airlines. In particular, the expansion of the international market to potential and preferred destinations such as Japan, South Korea, China and India. However, the price competition between airlines is likely to intensify. In addition the Thai development plan leads Thailand to become the aviation hub (Aeropolis) and Maintenance, Repair and Overhaul (MRO) are likely to be more successful after the release of red flag helped build more confidence and attract foreign entrepreneurs to invest in both projects even more.

For the progress of solving the problem that the Federal Aviation Administration (FAA) reduced the level of aviation safety in Thailand from Category 1 to Category 2 since October 2015, the Civil Aviation Authority of Thailand is expected that the FAA will be invited to complete the review by mid-2018. If passed the inspection, all airlines under Thai flag would ask for the permission to open the routes into the United States in late 2018.

In 2018, THAI will implement the revised Company's 2017-2021 plan to continually drive from the third phase of its transformation plans. By establishing the direction of business operation in the same framework, practice which are reliable on the business situation as well as enhance the efficiency. There will be 5 strategies in 2018 as follows:

- Aggressive Profit - to accelerate profit generation for aggressive sale with competitive cost

- Business Portfolio - to pursue and improve new business opportunities
- Customer Experiences - to deliver good travel experience
- Digital Technology - to innovate and implicate digital technology
- Efficient Human Capital Management - to develop efficient human capital

Also, there are significant action plans as follows.

- Increasing fleet efficiency by taking delivery of 5 new Airbus A350-900 XWB aircraft in 2018 which consists of 3 operating lease aircraft and 2 aircraft under finance lease. They are principally aim to fly in Intercontinental and Regional routes.

- Preparation of aircraft acquisition plan as a part of THAI's long-term fleet plan.

- Sale of shares in Royal Orchid Hotel (Thailand) PCL. The Board of Directors Meeting held on January 24, 2018 had a consensus to sell of 22.5 million shares, representing 24% of registered capital at THB 41 per share, approximate THB 922.5 million. Moreover, there is a plan to sell more unexploited assets. These implementations are part of operation plan of THAI.

5. Financial Ratios

		Jan – Dec	
		2017	2016
Liquidity Ratio			
Current Ratio	(times)	0.84	0.78
Profitability Ratio			
Operating Profit(loss) Margin	%	1.49	2.25
Net Profit (loss) Margin	%	(1.08)	0.03
Return on Equity	%	(6.32)	0.14
Efficiency Ratio			
Return on Total Assets	%	0.65	1.34
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	4.98	4.98
Total Debt to Equity	(times)	7.77	7.43
Interest Coverage Ratio	(times)	5.10	4.66

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