

Management's Discussion and Analysis for three months ended March 31, 2018 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

The first quarter of 2018 global economy landscape had continued to recover on the back of export sector and robust private sector. The average crude oil price in the first quarter of 2018 was USD 63.9 per barrel, an increase of 20.3% over the same period last year.

The economy of Thailand in the first quarter of 2018, also improved steadily especially in the export sector that noticeably expanded with major trading partners such as Japan, ASIAN-5, CLMV, European union, India, and USA. The private consumption also well expand while the number of tourists continued to rise and broke the record high in February 2018. Particularly, the tourists from China, Russia, South Korea, Lao and India were the top tourists coming to Thailand. This has brought the number of tourists visited Thailand reaching 10.6 million people in 1Q18, increased by 15.2% from last year.

In the first quarter of 2018, the world's aviation industry continued to expand due to the increasing demand from recovering world economy. Cabin factor in March 2018 broke the record high except the Middle-East region. The cabin factor for domestic India exceeded 90% for the first time in February 2018. The data from the International Air Transport Association (IATA) showed a continuing growth in both of passenger traffic and production which increased by 7.2% and 6.0%, respectively with average cabin factor of 80.9%. In any case, the aviation industry continued to face challenge from rising crude oil prices together with intense competition. Conversely, the freight business started to show signs of improvement from the previous year but with slow down trend since mid-2017 resulting freight load factor was 44.5% closed to last year's 44.3%.

The aviation industry in Thailand showed improvement particularly during the Chinese New Year which was indicated by the considerable increasing number of Chinese tourists. Furthermore, many airlines had considered expanding their businesses by acquiring more planes, introducing new routes and adding more frequencies after the International Civil Aviation Organization (ICAO) announced the lift of red flag in Thailand in last October. Moreover, Thai authority still continued to resolve and made the milestone progress for Thailand aviation standard issues. The U-Tapao International Airport development project showed strong momentum in the development of aircraft Maintenance, Repair, and Overhaul center (THAI MRO Campus) and aircraft parts, and equipment industry. Unfortunately, the higher fuel prices added more operating cost to airlines.

With government directive, THAI has established a business transformation plan for 2018 with the objective to ensure continuous and sustainable operating results and to increase the efficiency and to improve quality of service to comparable to the global standards. The goal in 2018 is to have a profitable operation, to improve the quality of service to gain more customer satisfaction and to continuously maintain international safety standards. The plan consisted of 5 core strategies including 1) creating profits from increasing revenues, controlling cost structure by adopting low-cost business models, 2) transforming business units to profit centers by seeking new business opportunities and increasing efficiency in asset management, 3) improving and integrating service ring to better customer engagement, 4) implementing digital applications to increase performance and to create a competitive, and 5) developing human resources focused on organizational structure and culture, leadership, and human resource development.

In this quarter, significant actions were:

- The development of revenue efficiency by concentrating on proactive ticket agent management, more revenue from agent, upgrading internet sales system, corporate sale management, and increase efficiency of revenue and fare management which can be used to manage in order to be active pricing and consistent with revenue management.

- Route expansion by introducing codeshare flights with Shenzhen Airlines for the summer schedule of 2018 to China such as Bangkok - Guangzhou, Bangkok - Shenzhen, and Shenzhen - Phuket, etc. Moreover, THAI signed codeshare agreement to operate in Don Muang - Mae Hong Son route with Nok Airlines PCL and ThaiSmile to accommodate passengers from all over the world to make more comfortable and convenient to connect flights. It also strengthens the route network and increases its sales potential.

- Considered and reviewed work processes in the organization. Considered adopting LCC cost operating model into THAI full service model in controlling cost of operations especially on maintenance & repair cost and flight crew cost. Such changes will be late adopted when the process and operations model being finalized.

- Fleet efficiency improvement by adding new 4 aircrafts to the fleet: Airbus A350-900, which comprised of 1 aircraft under finance lease and 3 operating lease aircraft which were planned to operate in Intercontinental and Regional routes. THAI also instated crew rest and in-flight connectivity equipment to Boeing 787-8 aircraft at which 2 aircrafts were completed in 1Q2018.

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

- Successfully sold and delivered 1 Boeing B737-400 aircraft

- Successfully sold unused assets Mae Hong Son province and foreign property in Sydney, Australia. The transfer of ownership was completed in April 2018 while in the process of transferring the right of long unused house in Copenhagen which would be expected to be completed by the second quarter of 2018.

- Successfully sold 22.5 million shares or 24% of Royal Orchid Hotel (Thailand) PCL at THB 41 per share which was approved by The Board of Directors Meeting held on January 24, 2018. The total proceed was THB 922.5 million whereas shares were successfully transferred on April 23, 2018.

In this quarter, THAI and its subsidiaries had total 104 active aircrafts, 9 aircraft higher than the same period last year resulting from taken delivery of 4 Airbus A350-900. The aircraft utilization was 11.9 hours, lower than 12.4 hours in the same period last year. Production traffic (ASK) increased by 4.9% while passenger traffic (RPK) increased by 2.2%. Average cabin factor was 80.6% almost matching 80.9% of industry average but lower than last year's 82.8% with 6.25 million passengers carried representing a 4.1% less than last year.

THAI and its subsidiaries' total revenue was THB 53,466 million, increased by THB 3,662 million or 7.4% when comparing to the same period last year. This was due to the increase of passenger and excess baggage revenue by 6.4% resulting from 2.2% increase in the transportation volume while passenger yield increased by 4.5%, the increase of freight and mail revenue was 9.9%, and the increase of revenues from other activities was 16.4%. Total expenses of THB 49,630 million, increased by THB 2,393 million (5.1%) on the back of the increase in fuel expenses by THB 1,189 million (9.3%) resulting from 22.8% increase in jet fuel price. Non-fuel operating expense increased by THB 1,280 million (3.9%) from last year mainly from increase in aircraft repair and maintenance cost together with lease of aircraft and spare parts due to higher number of leased aircrafts.

One-time expense in this quarter was mainly from impairment loss of assets and aircraft, amount of THB 2,473 million resulting from significant decrease in fair value of aircrafts held for sale, assessed by standard appraisers. THAI had THB 583 million gain on foreign currency exchange which mainly from balance sheet revaluation. Consequently, THAI and its subsidiaries reported the net profit of THB 2,737 million, THB 432 million (13.6%) lower than last year's. Profit attributable to owners of the parent was THB 2,717 million. Profit per share was THB 1.24, THB 0.21 or 14.5% lower than last year's.

EBITDA was THB 8,971 million, which increased by THB 1,121 million (14.3%) from the same period last year. EBITDA margin was 16.8% as compared to 15.8% last year.

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

Financial Performance

The consolidated financial statements for the first quarter of 2018 consists of THAI and 5 subsidiaries including 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			
	2018	2017	Variance	
			MTHB	%
Total operating revenues	53,466	49,804	+3,662	+7.4
- Passenger and excess baggage revenue	44,115	41,463	+2,652	+6.4
- Freight and mail revenue	5,336	4,857	+479	+9.9
- Revenue from other activities	3,457	2,969	+488	+16.4
- Other income	558	515	+43	+8.3
Total operating expenses	49,630	47,237	+2,393	+5.1
- Fuel expense	14,034	12,845	+1,189	+9.3
- Non-fuel operating expenses	34,442	33,162	+1,280	+3.9
- Net finance cost	1,154	1,230	-76	-6.2
Operating profit	3,836	2,567	+1,269	+49.4
<u>Less</u> Maintenance provision for operating lease aircraft	-	183	-183	-100.0
<u>Less</u> Impairment loss of assets and aircraft	2,473	1,017	+1,456	+143.2
<u>Add</u> Gain on foreign currency exchange	583	1,560	-977	-62.6
Profit before tax	1,946	2,927	-981	-33.5
Net Profit	2,737	3,169	-432	-13.6
Profit attribute to owners of the parent	2,717	3,157	-440	-13.9
Net Profit per share (THB)	1.24	1.45	-0.21	-14.5
<u>Significant operating data</u>				
EBITDA (MTHB)	8,971	7,850	+1,121	+14.3
Number of passengers (Million)	6.25	6.52	-0.27	-4.1
Available Seat-Kilometers (Million)	23,535	22,428	+1,107	+4.9
Revenue Passenger-Kilometers (Million)	18,969	18,564	+405	+2.2
Cabin factor (%)	80.6	82.8	-2.2	-2.2
Passenger yield (THB/RPK)	2.30	2.20	+0.10	+4.5
Available Dead Load Ton-Kilometers (Million)	1,005	955	+50	+5.2
Revenue Freight Ton-Kilometers (Million)	612	563	+49	+8.7
Freight load factor (%)	60.9	58.9	+2.0	+2.0
Freight carried (Ton)	167,908	155,449	+12,459	+8.0
Freight Yield (THB/RFTK)	8.14	8.08	+0.06	+0.7
Number of aircraft(As of March 31) (Aircraft)	104	95	+9	+9.5
Flight hours (Hours)	106,153	102,676	+3,477	+3.4
Aircraft utilization (Hours/Aircraft/Day)	11.9	12.4	-0.5	-4.0
Average foreign currency exchange rate				
1 USD : THB	31.5411	35.1151	-3.5740	-10.2
1 EUR : THB	38.7808	37.4139	+1.3669	+3.7
100 JPY : THB	29.1289	30.9182	-1.7893	-5.8
Average jet fuel price (USD/BBL)	85.72	69.80	+15.92	+22.8

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

Total revenues for the first quarter of 2018 was THB 53,466 million, increased by THB 3,662 million (7.4%). Details are as follows:

- Passenger and excess baggage revenue

Passenger and excess baggage revenue were THB 44,115 million, increased by THB 2,652 million (6.4%) from last year as follow:

- Average passenger yield (including fuel and insurance surcharge) increased by 0.10 THB/RPK (4.5%) or approximately THB 1,900 million. There were some impacts, however, from the strengthened Thai Baht against Japanese Yen, US Dollar, and Australia Dollar but with slightly depreciation against EURO Dollar resulting in slightly lower passenger yield of approximately by 0.07 THB/RPK (3.2%) or around THB 1,235 million. When exclude foreign exchange impact, the average passenger yield increased by 7.7% or THB 3,225 million due to the more efficient revenue management as well as the updating rates of fuel surcharge.

- Passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 2.2%, or approximately THB 890 million mainly from Europe and Australia routes but saw some decrease in domestic and almost all regional routes except the Northern route and those operated by ThaiSmile. Production traffic (Available Seat-Kilometers:ASK) increased by 4.9%. Average cabin factor was 80.6%, almost matching 80.9% of industry average, but lower than 82.8% in last year.

- Freight and mail revenue

Freight and mail revenue were THB 5,336 million, increased by THB 479 million (9.9%) due to the increase of freight traffic (Revenue Freight Ton-Kilometers: RFTK) which increased by 8.7% or around THB 395 million resulting from the recovery in export sector. The major contributing market were Japan, ASIAN-5, CLMV countries, European Union, India, and USA. while average freight yield (including fuel and insurance surcharge) was 8.14 THB/RFTK, an increase of 0.06 THB/RFTK (0.7%) or approximately THB 40 million over last year. Average freight load factor was 60.9% higher than last year's 58.9% and industry average of 44.5%.

- Revenue from other activities

Revenues from other activities consists of revenues from business units which are Ground services, Catering, Cargo handling services, and other supporting activities revenue, were THB 3,457 million, increased by THB 488 million (16.4%) over last year. The increase of these revenues was from the greater number of customer airlines' flight, higher revenue of Cargo handling services due to greater freight traffic, and more revenue from Maintenance services.

Expenses

Total expenses of the first quarter of 2018 was THB 49,630 million, increased by THB 2,393 million (5.1%) than last year. A summary of operating expenses is as follows:

- Fuel expense was THB 14,034 million representing 28.3% of total expenses, increased by THB 1,189 million (9.3%) due to 22.8% increase in average jet fuel price compared to the same period last year together with growth of traffic production. However, the weakening US dollars slightly cause the lower expense in Baht term. Moreover, the fuel hedging gain helped lower fuel expense by approximately THB 463 million.

- Non-fuel operating expense was THB 34,442 million or THB 1,280 million (3.9%) higher than last year. Details as follows:

Unit : Million Baht	Jan - Mar					
	2018	% of Total Expense	2017	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	7,418	21.5	7,558	22.8	-140	-1.9
Flight service expenses	5,598	16.3	5,603	16.9	-5	-0.1
Crew expenses	1,413	4.1	1,403	4.2	+10	+0.7
Aircraft repair and maintenance costs	5,568	16.2	4,306	13.0	+1,262	+29.3
Depreciation and amortization expenses	3,941	11.4	4,207	12.7	-266	-6.3
Lease of aircraft and spare parts	3,434	10.0	2,703	8.1	+731	+27.0
Inventories and supplies	2,309	6.7	2,311	7.0	-2	-0.1
Selling and advertising expenses	2,415	7.0	2,764	8.3	-349	-12.6
Insurance expense	145	0.4	122	0.4	+23	+18.9
Other expenses	2,333	6.8	2,212	6.7	+121	+5.5
Share of profits of associates	(132)	(0.4)	(27)	(0.1)	-105	-388.9
Non-fuel Operating Expense	34,442	100.0	32,162	100.0	+1,280	+3.9

The summary of expenses that significantly changed consisted of

- Aircraft repair and maintenance cost increased by THB 1,262 million (29.3%) mainly from the higher overhaul cost of GE90 engines used in Boeing B777-300ER due to earlier-than-schedule overhaul period resulting from actual usage condition.

- Lease of aircraft and spare parts increased by THB 731 million (27.0%) due to additional 8 operating lease aircrafts 5 aircraft of which were delivered during 2Q17 – 4Q17(3 Airbus A350-900 and 2 Boeing B787-9). Also, there were 3 Airbus A350-900 aircraft delivered in 1Q18 but the return of 2 Airbus A330-300 operating lease aircrafts. The appreciation of Thai Baht against US dollar slightly benefited and contributed to the lower the expense.

- Depreciation and amortization decreased by THB 266 million (6.3%) mainly from fully depreciated aircrafts, aircraft seats, and other assets. However, there were 3 new delivery of aircrafts under finance lease (2 Airbus A350-900 in the second quarter of 2017 and 1 Airbus A350-900 in the first quarter of 2018).

- Selling and advertising expenses decreased by THB 349 million (12.6%) resulting from lower reservation expense from Altea System usage resulting from the negotiation to alter the method of calculation.

- Share of profits of associates increased by THB 105 million (388.9%) mainly from the better performance of Nok Airlines PCL. Details as follow:

- Nok Airlines PCL.'s loss of THB 0.3 million, a loss decreased by THB 115 million,
- Bangkok Aviation Fuel Services PCL's profit of THB 78 million, an increase of THB 1 million,
- Donmuang International Airport Hotel Ltd.'s profit of THB 7 million, same as last year's,
- Royal Orchid Hotel (Thailand) PCL's profit of THB 12 million, an increase of THB 1 million,
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 14 million, same as last year's, and
- Phuket Air Catering Ltd.'s profit of THB 22 million, a decrease of THB 12 million.

- **Net finance cost** was THB 1,154 million, decreased by THB 76 million (6.2%) resulting from a.) balance sheet restructuring through series of interest rate swap, b.) THB 1,200 million decrease in average loan balance year-on-year, and c.) appreciation of Thai Baht against currencies of liabilities which lowered interest expense in Baht term.

Impairment loss of assets and aircraft were THB 2,473 million, an increase of THB 1,456 million (143.2%) with the following details:

- Impairment loss of aircraft were THB 2,449 million, THB 1,590 million higher than last year, comprised of impairment loss of 15 aircraft including 3 Airbus A330-300, 6 Airbus A340-600, 3 Airbus A340-500, 2 Boeing B747-400 (Freighter) and 1 Boeing B737-400 aircraft. Significant reduction in market value of A340 from reputable standard appraisers used as reference was the main reason for large impairment expense.

- Impairment loss of assets was THB 24 million, THB 134 million less than last year due to lower reserved for damaged rotatable spare parts and could not be repaired from last year.

Gain on foreign currency exchange was THB 583 million consisted of THB 640 million unrealized gain resulting from revaluation of foreign currency loans, assets and liabilities, especially the strengthen Thai Baht against Euro and US dollar as of March 31, 2018 when compared to December 31, 2017, and realized loss of THB 57 million.

3. Financial Position and Liquidity

Capital Expenditures - The Group

Unit : Million Baht	Jan - Mar	
	2018	2017
Aircraft and aircraft spare parts	4,217	865
Non-Aircraft	202	85
Total	4,419	950

Capital expenditures for the first quarter of 2018 was THB 4,419 million, an increase of THB 3,469 million from last year. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts was THB 4,217 million which mostly were the delivery of aircraft under finance lease: 1 Airbus A350-900 aircraft and 2 spare engines.

- Investments in other fixed assets amounted to THB 202 million which mostly were the investment in ground services' equipment and technical service's tools.

Financing

In the first quarter of 2018, THAI financed in the total amount of THB 12,174 million as the following details

- 1) Issuing THB 6,000 million new debentures, their maturity between 5 – 15 years in February, 2018, to repay the maturing debentures
- 2) Acquiring approximately THB 4,174 million long-term financing through hire purchase in funding of an A350-900 aircraft, and
- 3) Acquiring long-term financing from Islamic Bank of Thailand THB 2,000 million to use as an investment.

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

Unit : Million Baht	Jan – Mar	
	2018	2017
Net cash from operating activities	3,738	7,221
Net cash used in investing activities	(1,122)	(767)
Net cash used in financing activities	(883)	(6,051)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	9	(180)
Increase in cash and cash equivalents	1,742	223

In the first quarter of 2018, THAI had net cash from operating activities, the amount of THB 3,738 million, THB 3,483 million lower than last year but net cash used in investing activities was THB 1,122 million, THB 355 million higher than last year. Net cash used in financing activities was THB 883 million, THB 5,168 million, lower than last year. As a result, cash and cash equivalents as at March 31, 2018 amounted to THB 16,972 million, an increase of THB 1,742 million from December 31, 2017.

Fleets

In the first quarter of 2018, THAI took the deliveries of 4 Airbus A350-900 consisted of 1 finance lease and 3 operating lease aircraft. Thus, the total active aircraft was 104 aircrafts (including 20 Airbus A320-200 under ThaiSmile's operations). This represented a 4 and 9 aircrafts more than December 31, 2017 and March 31, 2017 respectively. Total decommission aircraft and held for sale were 20 aircraft as of March 31, 2018.

Total Assets

As of March 31, 2018 were THB 286,169 million, increased by THB 5,394 million (1.9%) from as at December 31, 2017. These comprise of :

	Consolidated					
	Mar 31, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	16,972	5.9	15,230	5.4	+1,742	+11.4
Non-current assets held for sale	240	0.1	201	0.1	+39	+19.4
Other current assets	38,966	13.6	36,085	12.8	+2,881	+8.0
Current Assets	56,178	19.6	51,516	18.3	+4,662	+9.0
Property, plant and equipment						
Prepaid aircraft and spare engine	2,855	1.0	6,124	2.2	-3,269	-53.4
Aircraft	40,905	14.3	42,186	15.0	-1,281	-3.0
Aircraft under finance leases	116,835	40.8	113,220	40.3	+3,615	+3.2
Aircraft spare parts	11,426	4.0	9,592	3.4	+1,834	+19.1
Work in process	686	0.3	599	0.2	+87	+14.5
Land, building and improvements	13,491	4.7	13,554	4.9	-63	-0.5
Other plant and equipment	2,790	1.0	2,828	1.0	-38	-1.3
Property, plant and equipment-net	188,988	66.1	188,103	67.0	+885	+0.5
Other non-current assets	41,003	14.3	41,156	14.7	-153	-0.4
Total Assets	286,169	100.0	280,775	100.0	+5,394	+1.9

Current assets were THB 56,178 million or accounted for 19.6% of total assets, an increase of THB 4,662 million (9.0%) from as of December 31, 2017. The significant items consisted of

- Cash and cash equivalents increased by THB 1,742 million (11.4%) mainly from net cash from operating activities greater than net cash used in investing activities and financing activities.

- An increase in other current assets of THB 2,881 million (8.0%) mainly from the increase of trade receivables, the amount of THB 1,982 million (16.9%) due to the higher sale volume. The collection period of THAI was closed to the previous quarter, 23 days, which was lower than THAI's normal collecting period.

Property, plant and equipment-net totaled THB 188,988 million or represented 66.1% of total assets, an increase of THB 885 million(0.5%) from December 31, 2017 due to the delivery of 1 aircraft under finance lease, Airbus A350-900, and 2 spare engines.

Other non-current assets totaled THB 41,003 million or represented 14.3% of total assets, which decreased by THB 153 million (0.4%) from as of December 31, 2017 resulting from

- Non-performing assets decreased by THB 2,491 million (28.9%) mainly from the increase of provision impairment loss of aircraft this year,

- Deferred tax assets increased by THB 790 million, which was mainly from the tax for increasing provision of impairment of aircraft,

- Deferred buyer furnished equipment of operating lease aircraft increased THB 642 million (15.5%) from installing buyer-furnished equipment for 3 operating lease of Airbus A350-900 and installing crew rest and in-flight connectivity for 2 Boeing B787-8 aircraft.

- An increase, approximately THB 346 million (3.3%) , 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 2018 was 1.1% when compared to last year's 1.5%.

Total Liabilities

Total liabilities as of March 31, 2018 were THB 251,413 million, increased by THB 2,651 million (1.1%) from as of December 31, 2017. These comprise of:

	Consolidated					
	Mar 31, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	61,443	24.5	68,031	27.4	-6,588	-9.7
Long-term liabilities						
Debentures	68,100	27.1	62,100	25.0	+6,000	+9.7
Liabilities under financial leases	63,195	25.1	62,517	25.1	+678	+1.1
Long term borrowings	28,194	11.2	27,480	11.0	+714	+2.6
Total long-term liabilities	159,489	63.4	152,097	61.1	+7,392	+4.9
Other non-current liabilities	30,481	12.1	28,634	11.5	+1,847	+6.5
Total Liabilities	251,413	100.0	248,762	100.0	+2,651	+1.1

Current liabilities (excluding current portion of long term liabilities' amount of THB 30,003 million) represented 24.5% of total liabilities, a decrease of THB 6,588 million (9.7%) from December 31, 2017 since short-term loan decreased by THB 5,270 million mainly from repayment of short-term loan.

Long-term liabilities as of March 31, 2018 (including current portion of long term liabilities totaled THB 30,003 million) represented 63.4% of total liabilities, which was an increase of THB 7,392 million (4.9%) from December 31, 2017 primarily due to the long-term financing, debenture issuance, and liability under financial leases, 1 Airbus A350-900 aircraft, in the total amount of THB 12,174 million. However, the long-term repayment was THB 3,742 million while the strengthen value of the Baht to Euro and US dollars as of March 31, 2018 when compared to December 31, 2017 affected the decrease of long-term liabilities translated to Baht terms, the amount of THB 1,040 million.

- Other non-current liabilities as of March 31, 2018 represented 12.1% of total liabilities which increased by THB 1,847 million(6.5%) 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 2018, interest bearing debt to equity was 4.7 times, decreased from the end of 2017's 5.0 times. Debt to equity ratio was 7.2 times, lower than 7.8 times at the end of 2017.

Shareholders' Equity

As of March 31, 2018, shareholders' equity totaled THB 34,756 million, an increase of THB 2,743 million (8.6%) from December 31, 2017 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 9.0% to 8.2% this year.

4. Factors affecting future operations

The global aviation industry for the next 9 months of 2018 expected to continue to grow due to a strong global economy. From the better continued global trade, the export sector will support economic growth in many regions around the world. However, it is projected that the growth rate will be lower than 2017 for passenger and freight transport. Asia Pacific airlines are expected to see a net profit increase in 2018 with freight transport being a support factor in this part of the world. However, the competition will be more intensified while the rising oil prices is a challenge factor facing the aviation industry. In addition, if the war crisis in Syria is prolong and leading toward the confrontation of Russia and the West, it might cause the slowdown of global and Thai economy in the second quarter and may also impact oil prices to rise.

The trend of the Thai aviation industry in 2018 is likely to expand from the year 2017 in many sectors. The competition is expected to decline from the previous year because the country can be able to release the red flag that make airlines can liberally expand their route and add more flights. The progress of U-Tapao International Airport development program, according to the Eastern Economic Corridor (EEC) policy, it is now in the process of feasibility studying and developing a strategic plan to develop Eastern Acropolis to be an Eastern economic and social center. It is expected to be completed within 18 months and will be detailed in each project that will take place to upgrade the U-Tapao to become an aviation hub (Acropolis) by 2022. 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, the Civil Aviation Authority of Thailand is expected that the FAA will be invited to complete the review by June 2018.

In 2018, THAI will continue to implement the business transformation plan by concentrating on 5 strategies by establishing the closely monitoring procedures to ensure that THAI can enhance its performances which are reliable on the business situation as well as enhance the efficiency. Projected activities in 2018 are:

- Expanding the fleet by adding 1 aircraft under finance lease, Airbus A350-900 in 2Q18 and aim to operate in the intercontinental and regional routes.
- Increasing passenger revenue by using the Revenue management System (RMS) and selling more ticket via digitalization.
- Selling shares in both Associated and Subsidiaries that do not support the main business.
- Managing unusable properties such as land and office premises by selling them located in both domestic and foreign countries

5. Financial Ratios

		Jan – Mar	
		2018	2017
Liquidity Ratio			
Current Ratio	(times)	0.90	0.83
Profitability Ratio			
Operating profit Margin	%	7.17	5.15
Net Profit Margin	%	5.12	6.36
Return on Equity	%	8.20	8.98
Efficiency Ratio			
Return on Total Assets	%	1.11	1.48
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	4.65	4.33
Total Debt to Equity	(times)	7.23	6.64
Interest Coverage Ratio	(times)	7.51	6.23

GLOSSARY

Current Ratio = Current Assets (Excluding Non-Current Assets held for sale / Current Liabilities (Excluding Unearned Transportation Revenues)

Operating Profit Margin = Operating Profit / Total Revenue (excluded gain on foreign currency exchange)

Net Profit Margin = Net Profit / 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