

Management's Discussion and Analysis for the second quarter ended June 30, 2018 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

The world economy had continued to grow with diminishing signs of growth in some regions. However, economic growth in key regions around the world remains high, especially in the US and China while EURO zone and Japan indicated slight recovery signs. However, overall, the world economy still had a robust economic fundamental due to the global trade expansion. Crude oil prices in the market of the second quarter of 2018 were average USD 72.1 per barrel, about 44.8% higher than last year.

The Thai economy has continued to expand since the first quarter of 2018, supported by the growth of export sector which in June the figures showed the 16th consecutive month of expansion, especially in USA, where the export broke the record high, Japan, EU countries, and China. Private investment has recovered while the tourism sector was also expanding especially from China, Hong Kong, India and Laos, etc. The number of foreign tourists arriving in Thailand in the second quarter of 2018 was 8.9 million, up from the previous year 9.9%

In the second quarter of 2018, the global aviation industry continued to expand. Travel demand continued to grow. However, the trend of expansion started to decrease compared to last year. According to the International Air Transport Association (IATA), passenger traffic growth in the first six months of this year was 7.0%, down from 7.9% in the same period last year. Fare prices have increased from last year due to higher airline costs, especially the price of jet fuel rising above USD 90 per Barrel which had been the highest price since 2014, resulting the drop of travelling demand. The Asia Pacific region had the highest growth in passenger traffic. India's domestic passenger traffic growth rate was double-digit for the 46th consecutive month. The passenger production increased 6.1% from the previous year, and the average cabin factor was 81.3% compared to 80.7% of last year, while overall freight growth continued to be driven by increased global trade but slow down trend since mid-2017 resulting the freight load factor for the first half of 2018 was 44.7%, closed to the previous year at 44.8%

In the second quarter of 2018, THAI followed the guideline of 2018 transformation plan which 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 organization structure and from last year organizational 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.

- THAI signed an agreement on establishing a new joint venture maintenance and overhaul (MRO) facility at U-Tapao on June 22, 2018, which aimed to develop one of the most advanced and efficient aircraft maintenance centers anywhere in the world. Moreover, on June 29, 2018 THAI signed the agreement to develop the THAI's existing MRO becoming Authorized Maintenance Centers for engines. With this implementation, THAI would increase the capability to service engine maintenance for THAI's fleet and also for customer airline.

- Implementing the 2018 -2022 aircraft acquisition plan to acquire new 23 aircraft for replacement the aging aircraft, more than 20 years old, of which to be decommissioned. The plan was approved by the Ministry of Transportation and in the process of consideration from the Office of the National Economics and Social Development Board and the Cabinet.

- Fleet efficiency improvement by adding new 1 Airbus A350-900 aircraft under finance lease to the fleet mainly plans to be operated 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 July 2018.

- Selling unusable properties and shares in Associated that do not support the main business had the progress as the following detail:

- Successfully transferred ownership of properties sold in the first quarter of 2018 consisted of unused assets Mae Hong Son province and foreign property in Sydney, Australia which completed in April 2018 while unused property in Copenhagen, Denmark which completed in June 2018. THAI recognized gain of sale on assets totaled THB 632 million.

- Successfully transferred ownership of shares of Royal Orchid Hotel (Thailand) PCL which sold in the first quarter of 2018. THAI recognized gain on sale of investment amounted to THB 655 million.

Resulting from the accomplishment of services development, THAI has received three prestigious awards from Skytrax 2018: World's Best Economy Class and Best Economy Class Onboard Catering which both areas were awarded for the second successive year, World's Best Airline Lounge Spa for the fourth consecutive year. In addition, THAI ranked as one of the top 10 World's Best Airlines 2018. THAISmile also received major awards from Trip Advisor for the second year in the row: Best Airline in Thailand and Best Regional Airline in Asia.

In this quarter, THAI and its subsidiaries had total 105 active aircrafts as of June 30, 2018, 8 more aircraft than the same period last year which THAI taking delivery of 1 Airbus A350-900 in May, 2018. The aircraft utilization was 11.5 hours, equal to last year's. Production traffic (ASK) increased by 5.3% while passenger traffic (RPK) increased by 1.6%. Average cabin factor was 75.8% lower than 78.5% of last year with 5.90 million passengers carried closed to last year's as well.

The second quarter of 2018 which was normally a low-season period, competition in the aviation industry was still intense with the rising world oil prices. THAI and its subsidiaries's performance for the second quarter of 2018 had operating loss of THB 2,807 million, loss higher than last year of THB 965 million or 52.4%. Total revenue was THB 47,239 million, an increase of THB 2,057 million or 4.6% from the same quarter of last year due to an increase of passenger and excess baggage revenue: THB 244 million(0.7%) from the 1.6% increase in passenger traffic, despite a drop of 0.9% in average passenger yield. Freight and mail revenues increased by THB 665 million(13.9%). Other revenues also increased by THB 1,280 million because THAI recognized gain from sale of shares in Royal Orchid Hotel (Thailand) PCL amounted to THB 655 million and gain from sale of both domestic and international properties approximately totaled THB 632 million. Total expenses amounted to THB 50,046 million, an increase of THB 3,022 million (6.4%) due to an increase in fuel expenses of THB 1,873 million (15.3%) resulting from an increase of 36.5% in average jet fuel price. Non-fuel operating expense increased by THB 1,158 million (3.4%) from last year mainly from the increase in maintenance and overhaul expense as well as the increase in lease of aircraft and spare parts.

This quarter THAI and its subsidiaries had one-time expenses consisted of impairment loss of assets and aircraft, amount of THB 257 million and the loss on foreign currency exchange was THB 431 million mainly from balance sheet revaluation which the loss went down THB 2,000 million from last year. Consequently, THAI and its subsidiaries reported the net loss of THB 3,086 million which was less loss by THB 2,122 million (40.7%) of last year. Loss attributable to owners of the parent amounted to THB 3,098 million. Loss per share was THB 1.42 per share, THB 0.97 or 40.6% less loss than last year.

EBITDA was THB 2,270 million, which decreased THB 941 million (29.3%) over last year. EBITDA margin was 4.8%, as compared to last year's reported 7.1%.

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

The consolidated financial statements for the second quarter of 2018 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			
	2018	2017	Variance	
			MTHB	%
Total operating revenues	47,239	45,182	+2,057	+4.6
- Passenger and excess baggage revenue	36,845	36,601	+244	+0.7
- Freight and mail revenue	5,437	4,772	+665	+13.9
- Revenue from other activities	2,977	3,109	-132	-4.2
- Other income	1,980	700	+1,280	+182.9
Total operating expenses	50,046	47,024	+3,022	+6.4
- Fuel expense	14,152	12,279	+1,873	+15.3
- Non-fuel operating expenses	34,841	33,683	+1,158	+3.4
- Net finance cost	1,053	1,062	-9	-0.8
Operating loss	(2,807)	(1,842)	-965	-52.4
<u>Less</u> Maintenance provision for operating lease aircraft	-	275	-275	-100.0
<u>Less</u> Loss on change in ownership interest	-	428	-428	-100.0
<u>Less</u> Impairment loss of assets and aircraft	257	390	-133	-34.1
<u>Add</u> Gain (loss) on foreign currency exchange	(431)	(2,431)	+2,000	+82.3
Loss before income tax	(3,495)	(5,366)	+1,871	+34.9
Net Loss	(3,086)	(5,208)	+2,122	+40.7
Loss attributable to owners of the parent	(3,098)	(5,211)	+2,113	+40.5
Net Loss per share (THB)	(1.42)	(2.39)	+0.97	+40.6
Significant operating data				
EBITDA (MTHB)	2,270	3,211	-941	-29.3
Number of passengers (Million)	5.90	5.87	+0.03	+0.5
Available Seat-Kilometers (Million)	22,804	21,666	+1,138	+5.3
Revenue Passenger-Kilometers (Million)	17,282	17,004	+278	+1.6
Cabin factor (%)	75.8	78.5	-2.7	-2.7
Passenger yield (THB/RPK)	2.10	2.12	-0.02	-0.9
Available Dead Load Ton-Kilometers (Million)	992	934	+58	+6.2
Revenue Freight Ton-Kilometers (Million)	603	559	+44	+7.9
Freight load factor (%)	60.7	59.8	+0.9	+0.9
Freight carried (Ton)	169,193	154,175	+15,018	+9.7
Freight Yield (THB/RFTK)	8.47	8.00	+0.47	+5.9
Number of aircraft(As of June 30) (Aircraft)	105	97	+8	+8.2
Flight hours (Hours)	103,423	97,457	+5,966	+6.1
Aircraft utilization (Hours/Aircraft/Day)	11.5	11.5	-	-
Average foreign currency exchange rate				
1 USD : THB	31.9167	34.3013	-2.3846	-7.0
1 EUR : THB	38.0517	37.7230	+0.3287	+0.9
100 JPY : THB	29.2525	30.8862	-1.6337	-5.3
Average jet fuel price (USD/BBL)	92.30	67.60	+24.70	+36.5

Note : 1) EBITDA = Total Revenue (Exclude gain/loss on foreign currency) - Total Expenses (exclude finance cost, tax, depreciation and amortization, loss on 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 2018 totaled THB 47,239 million, an increase of THB 2,057 million (4.6%). Details are as follows:

- Passenger and excess baggage revenue

Passenger and excess baggage revenue totaled THB 36,845 million, an increase of THB 244 million (0.7%) over last year as:

- Average passenger yield (including fuel and insurance surcharge) decreased by 0.02 THB/RPK(0.9%) or approximately THB 346 million partially since Thai Baht appreciated against major currencies including Japanese Yen, US Dollar, and Australian Dollar resulting passenger yield decreased approximated by 0.07 THB/RPK (3.3%) or THB 1,240 million. When exclude foreign exchange impact, the average passenger yield increased approximately by 2.4% or THB 865 due to the updating rates of fuel surcharge in line with the rising fuel prices.

- Passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 1.6% or approximately THB 590 million, in almost routes excepted the Domestic, Indochina, and Middle-East routes. Production traffic (Available Seat-Kilometers:ASK) increased by 5.3%. Average cabin factor was 75.8% lower than 78.5% of last year.

- Freight and mail revenue

Freight and mail revenue amounted of THB 5,437 million, an increase of THB 665 million (13.9%) due to an increase of freight traffic (Revenue Freight Ton-Kilometers: RFTK) which increased by 7.9 % or around THB 350 million resulting from the recovery in export sector. The major expanding market were USA, Japan, EU countries, and China while average freight yield (including fuel and insurance surcharge) was 8.47 THB/RFTK, an increase of 0.47 THB/RFTK (5.9%) or around THB 280 million over last year. Average freight load factor was 60.7% higher than 59.8% of last year and 44.7% of industry average.

- 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 totalled THB 2,977 million, a decrease of THB 132 million (4.2%) over last year mainly due to the lower income from Maintenance. Revenue from Ground and Catering services increased from the greater number of customer airlines' flight while revenue of Cargo handling services also increased due to the increase freight traffic.

- Other income

Other income was THB 1,980 million, increased by THB 1,280 million (182.9%) mainly due to gain from sale of shares in Royal Orchid Hotel (Thailand) PCL , the amount of THB 655 million, and gain from sale of both domestic in Mae Hong Son province and international properties in Sydney, Australia and in Copenhagen, Denmark which approximately totalled THB 632 million.

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses of the second quarter of 2018 amounted to THB 50,046 million, an increase of THB 3,022 million (6.4%). A summary of the operating expenses was as follows:

- Fuel and oil expense, amount of THB 14,152 million or represented 28.3% of total expenses, increased by THB 1,873 million (15.3%) due to an increase in average jet fuel price by 36.5% compared to the same period last year and the growth of traffic production resulting the increase in fuel consumption. However, the depreciation of the US dollars to Thai Baht somewhat caused the lower expense in Baht term. Moreover, fuel hedging gain mitigated lower fuel expense nearby THB 1,034 million.

- Non-fuel operating expense was THB 34,841 million, or THB 1,158 million (3.4%) higher than last year. Details as follows:

Unit : Million Baht	Apr - Jun					
	2018	% of Total Expense	2017	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	7,621	21.9	7,845	23.3	-224	-2.9
Flight service expenses	5,338	15.3	5,255	15.6	+83	+1.6
Crew expenses	1,395	4.0	1,377	4.1	+18	+1.3
Aircraft repair and maintenance costs	4,914	14.1	4,544	13.5	+370	+8.1
Depreciation and amortization expenses	3,971	11.4	4,222	12.5	-251	-5.9
Lease of aircraft and spare parts	3,696	10.6	2,673	7.9	+1,023	+38.3
Inventories and supplies	2,125	6.1	2,172	6.4	-47	-2.2
Selling and advertising expenses	2,842	8.2	2,712	8.1	+130	+4.8
Insurance expense	145	0.4	124	0.4	+21	+16.9
Other expenses	2,599	7.5	2,579	7.7	+20	+0.8
Share of losses of associates	195	0.5	180	0.5	+15	+8.3
Non-fuel Operating Expense	34,841	100.0	33,683	100.0	+1,158	+3.4

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased THB by 224 million (2.9%). The main reason was last year the special incentive provision for employees as a reward for collaborating to change due to transformation plan of THB 300 million, while this year, THAI had a special reserve of THB 50 million.

- Aircraft repair and maintenance cost increased by THB 370 million (8.1%) 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 1,023 million (38.3%) due to additional 8 operating lease aircrafts which consisted of 5 aircraft were delivered during 3Q17 – 4Q17(3 Airbus A350-900 and 2 Boeing B787-9). Also, THAI had 3 Airbus A350-900 aircraft delivered in 1Q18 but returned 2 Airbus A330-300 operating lease aircraft, The appreciation of Thai Baht to US dollar slightly benefited and contributed to the lower the expense.

- Depreciation and amortization expenses decreased by THB 251 million (5.9%) mainly from fully depreciated aircrafts, aircraft seats, and other assets. However, there were 2 new Airbus A350-900 aircraft under finance lease (1 in the first quarter of 2018 and 1 in this quarter of 2018).

- Share of losses of associates amounted of THB 195 million, a more loss of THB 15 million than last year's. Details as follow:

- Nok Airlines PCL.'s loss of THB 266 million, a loss increased by THB 5 million.

- Bangkok Aviation Fuel Services PCL's profit of THB 59 million, an increase of THB 3 million.
- Donmuang International Airport Hotel Ltd.'s profit of THB 5 million, equal to last year's.
- Royal Orchid Hotel (Thailand) PCL's profit of THB 3 million, a decrease of THB 1 million.
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 5 million, equal to last year's.
- Phuket Air Catering Ltd.'s loss of THB 1 million, while last year's reported profit of THB 11 million.

Impairment loss of assets and aircraft totaled THB 257 million, a decrease of THB 133 million (34.1%) as the following details:

- Impairment loss of aircraft amounted to THB 173 million, THB 170 million lower than last year, comprised of impairment loss of 2 aircraft including 1 Airbus A300-600 and 1 Boeing 737-400 aircraft, amount of THB 99 million. In addition provision for impairment of engines totaled THB 74 million.
- Impairment loss of assets totaled THB 84 million, THB 37 million higher than last year, due to higher reserve for damaged rotatable spare parts and could not be repaired from last year.

Loss on foreign currency exchange was THB 431 million consisted of realized gain of THB 368 million and THB 799 million unrealized loss resulting from revaluation of foreign currency loans for assets and liabilities, especially the weak of Thai Baht against the US Dollar, Japanese Yen Euro as of June 30, 2018 compared to March 31, 2018.

Operating results of Thai Airways International PCL. and its subsidiaries of the first six months of 2018 (January - June 2018). Details as follows:

Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Jun			
	2018	2017	Variance	
			MTHB	%
Total operating revenues	100,705	94,985	+5,720	+6.0
- Passenger and excess baggage revenue	80,960	78,064	+2,896	+3.7
- Freight and mail revenue	10,773	9,629	+1,144	+11.9
- Revenue from other activities	6,434	6,078	+356	+5.9
- Other income	2,538	1,214	+1,324	+109.1
Total operating expenses	99,677	94,260	+5,417	+5.7
- Fuel expense	28,186	25,124	+3,062	+12.2
- Non-fuel operating expenses	69,284	66,845	+2,439	+3.6
- Net finance cost	2,207	2,291	-84	-3.7
Operating profit	1,028	725	+303	+41.8
<u>Less</u> Maintenance provision for operating lease aircraft	-	458	-458	-100.0
<u>Less</u> Loss on change in ownership interest	-	428	-428	-100.0
<u>Less</u> Impairment loss of assets and aircraft	2,729	1,407	+1,322	+94.0
<u>Add</u> Gain(Loss) on foreign currency exchange	152	(870)	+1,022	+117.5
Loss before income tax	(1,549)	(2,438)	+889	+36.5
Net Loss	(349)	(2,039)	+1,690	+82.9
Loss attributable to owners of the parent	(382)	(2,054)	+1,672	+81.4
Net Loss per share (THB)	(0.17)	(0.94)	+0.77	+81.9
<u>Significant operating data</u>				
EBITDA (MTHB)	11,241	11,061	+180	+1.6
Number of passengers (Million)	12.16	12.39	-0.23	-1.9
Available Seat-Kilometers (Million)	46,338	44,094	+2,244	+5.1
Revenue Passenger-Kilometers (Million)	36,251	35,568	+683	+1.9
Cabin factor (%)	78.2	80.7	-2.5	-2.5
Passenger yield (THB/RPK)	2.20	2.17	+0.03	+1.4
Available Dead Load Ton-Kilometers (Million)	1,997	1,889	+108	+5.7
Revenue Freight Ton-Kilometers (Million)	1,215	1,121	+94	+8.4
Freight load factor (%)	60.8	59.4	+1.4	+1.4
Freight carried (Ton)	337,101	309,624	+27,477	+8.9
Freight Yield (THB/RFTK)	8.31	8.04	+0.27	+3.4
Number of aircraft(As of June 30) (Aircraft)	105	97	+8	+8.2
Flight hours (Hours)	209,576	200,133	+9,443	+4.7
Aircraft utilization (Hours/Aircraft/Day)	11.7	11.9	-0.2	-1.7
Average foreign currency exchange rate				
1 USD : THB	31.7289	34.7082	-2.9793	-8.6
1 EUR : THB	38.4162	37.5685	+0.8477	+2.3
100 JPY : THB	29.1907	30.9022	-1.7115	-5.5
Average jet fuel price (USD/BBL)	88.96	68.72	+20.24	+29.5

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

THAI and its subsidiaries' had operating profit for the first half-year 2018 of THB 1,028 million, an increase of THB 303 million (41.8%) from the previous year.

Total revenue was THB 100,705 million, increased by THB 5,720 million (6.0%), mainly due to an increase in transportation revenue of THB 4,040 million (4.6%). Revenue from passenger and excess baggage increased 3.7% from passenger traffic increasing by 1.9% and average passenger yield (including fuel and insurance surcharge) were 1.4% higher than last year. Freight and mail revenues increased by 11.9%, mainly due to the 8.4% increase in freight traffic (Revenue Freight Ton-Kilometers : RFTK) from the export sector, which improved from the previous year. Average freight yield increased by 3.4%. Revenue from other activities increased from the previous year. The main reason was from all BU's higher revenue due to the greater number of customer airlines' flights and greater freight traffic. However, maintenance service had lower revenue. In addition, other income increased from sale of shares in Royal Orchid Hotel (Thailand) PCL and gain from selling properties both domestic and abroad mentioned before.

Total expenses were THB 99,677 million, increased by THB 5,417 million (5.7%) 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 and lease of aircraft and spare parts.

THAI and its subsidiaries had one-time expenses as follows:

- Impairment loss of assets and aircraft was THB 2,729 million, increased by THB 1,322 million (94.0%). This was mainly due to the additional provision of seventeen decommissioned aircraft which held for sales, amount of THB 2,549 million and engines aircraft, amount of THB 73 million while last year's provision for impairment loss of fourteen grounded aircraft, amount of THB 995 million and engines of THB 207 million.

- Gain on foreign currency exchange of THB 152 million which consisted of realized gain, the amount of THB 311 million, and unrealized loss, the amount of THB 159 million, while last year had loss on foreign currency exchange of THB 870 million.

For the first half-year of 2018, THAI and its subsidiaries reported a net loss of THB 349 million while last year's net loss of THB 2,039 million. Loss attributable to owners the parent amounted to THB 382 million. Loss per share was THB 0.17, compared to last year's loss per share of THB 0.94.

For the first half-year results 2018, EBITDA was THB 11,241 million, increased by THB 180 million (1.6%) from last year. EBITDA margin was 11.2% which decreased from last year's where reported 11.6%

3. Financial Position and Liquidity

Capital Expenditures

Unit : Million Baht	Apr -Jun		Jan -Jun	
	2018	2017	2018	2017
Aircraft and aircraft spare parts	4,094	7,746	8,311	8,611
Non-Aircraft	138	107	340	192
Total	4,232	7,853	8,651	8,803

Capital expenditures for the second quarter of 2018 totaled THB 4,232 million, a decrease of THB 3,621 million from last year due to the delivery of two Airbus A350-900 in the second quarter last year while there was a new aircraft delivered this year. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts totaled THB 4,094 million which was mainly from the delivery of an Airbus A350-900 aircraft and the prepayment for acquisition of an TrentXWB-84 engine for the A350-900.

- Investments in other fixed assets amounted to THB 138 million which were the investment in equipment used for Ground service and technical tools for Maintenance services.

When combining with the first quarter of 2018, amounted to THB 4,419 million, THAI and its subsidiaries had total investment expenditure of THB 8,651 million for the first six months of 2018

Financing

In the first six months of 2018, THAI financed in the total amount of THB 19,803 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 7,803 million long-term financing through hire purchase in funding of 2 A350-900 aircraft,

3) Acquiring long-term financing from Islamic Bank of Thailand THB 2,000 million to use as an investment,

4) Drawing down of its committed revolving credit line from domestic financial institution to roll over the loan at maturity and used as working capital, amount of THB 4,000 million.

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

Unit : Million Baht	Jan – Jun	
	2018	2017
Net cash from operating activities	10,964	14,887
Net cash used in investing activities	(299)	(1,931)
Net cash used in financing activities	(11,917)	(4,498)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	123	(49)
Increase(Decrease) in cash and cash equivalents	(1,129)	8,409

In the first six months of 2018, THAI had net cash from operating activities, the amount of THB 10,964 million, THB 3,923 million lower than last year. Net cash used in financing activities was THB 11,917 million, THB 7,419 million, higher than last year, due to the repayment of both short term, long term loans and debentures. Despite, net cash used in investing activities was THB 299 million, THB 1,632 million lower than last year. As a result, cash and cash equivalents as of June 30, 2018, amounted to THB 14,101 million decreased from December 31, 2017 of THB 1,129 million.

Fleet

In the second quarter of 2018, THAI delivered an finance lease Airbus A350-900 aircraft, combined with four delivered aircraft in the first quarter which made the additional new aircraft delivered this year to be 5 aircraft resulting the total active aircraft as of June 30, 2018 was 105 aircraft (including 20 Airbus A320-200 aircraft for THAISmile's operation) which was 5 more aircraft than at the end of 2017 and 8 more aircraft than at the end of the second quarter of 2017. In addition, in this quarter THAI had the aircraft held for sale as of June 30, 2018 total 20 aircraft.

Assets of Thai Airways International PCL. and its subsidiaries

As of June 30, 2018, total assets totaled THB 281,956 million, an increase of THB 1,181 million (0.4%) from December 31, 2017.

	Consolidated					
	Jun 30, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	14,101	5.0	15,230	5.4	-1,129	-7.4
Non-current assets held for sale	-	-	201	0.1	-201	-100.0
Other current assets	36,696	13.0	36,085	12.8	+611	+1.7
Current Assets	50,797	18.0	51,516	18.3	-719	-1.4
Property, plant and equipment						
Prepaid aircraft and spare engine	1,096	0.4	6,124	2.2	-5,028	-82.1
Aircraft	42,107	14.9	42,186	15.0	-79	-0.2
Aircraft under finance leases	117,968	41.8	113,220	40.3	+4,748	+4.2
Aircraft spare parts	11,217	4.0	9,592	3.4	+1,625	+16.9
Work in process	720	0.2	599	0.2	+121	+20.2
Land, building and improvements	13,434	4.8	13,554	4.9	-120	-0.9
Other plant and equipment	2,730	1.0	2,828	1.0	-98	-3.5
Property, plant and equipment-net	189,272	67.1	188,103	67.0	+1,169	+0.6
Other non-current assets	41,887	14.9	41,156	14.7	+731	+1.8
Total Assets	281,956	100.0	280,775	100.0	+1,181	+0.4

Current assets were THB 50,797 million or represented 18.0% of total assets, a decrease of THB 719 million (1.4%) from as of December 31, 2017. The significant items consisted of

- Cash and cash equivalents decreased by THB 1,129 million (7.4%) mainly from net cash from operating activities less than net cash used in investing activities and financing activities.
- An increase in other current assets of THB 611 million (1.7%) mainly from prepaid expense and deposit increased by THB 604 million from prepaid insurance premiums for the year 2017-2018 increased by THB 197 million and the security deposit for new 3 operating lease aircraft of 2018 amounted to THB 245 million.

Property, plant and equipment-net totaled THB 189,272 million or represented 67.1% of total assets, an increase of THB 1,169 million (0.6%) from December 31, 2017 due to the delivery of 2 new Airbus A350-900 aircraft and 2 new engines in 2018.

Other non-current assets totaled THB 41,887 million or represented 14.9% of total assets, which increased by THB 731 million (1.8%) from as of December 31, 2017 resulting from

- Deferred tax assets increased by THB 1,234 million, which was mainly from the tax for increasing provision of impairment of aircraft and estimated accrued expenses,
- Deferred refurbishment of operating lease aircraft increased THB 684 million (16.5%) from installing buyer-furnished equipment for 3 Airbus A350-900 and installing crew rest and in-flight connectivity for 2 Boeing B787-8 aircraft.
- An increase, approximately THB 1,961 million (19.0%), 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.

- Investment in associated companies decreased by THB 604 million mainly from sale of 22.5 million shares or 24% of Royal Orchid Hotel (Thailand) PCL resulting the investment decreased by THB 278 million while Nok Airlines PCL. reported loss in the period.

- Non-performing assets decreased by THB 2,665 million (30.9%) mainly from the increase of provision impairment loss of aircraft this year,

Return on assets of the first half of 2018 was 0.27% when compared to last year's -0.03%.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of June 30, 2018 were THB 250,635 million increased by THB 1,873 million (0.8%) from December 31, 2017. These comprised of:

	Consolidated					
	Jun 30, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	66,410	26.5	68,031	27.4	-1,621	-2.4
Long-term liabilities						
Debentures	60,100	24.0	62,100	25.0	-2,000	-3.2
Liabilities under financial leases	65,811	26.3	62,517	25.1	+3,294	+5.3
Long term borrowings	26,364	10.5	27,480	11.0	-1,116	-4.1
Total long-term liabilities	152,275	60.8	152,097	61.1	+178	+0.1
Other non-current liabilities	31,950	12.7	28,634	11.5	+3,316	+11.6
Total Liabilities	250,635	100.0	248,762	100.0	+1,873	+0.8

Current liabilities (excluding current portion of long term liabilities' amount of THB 22,332 million) represented 26.5% of total liabilities, a decrease of THB 1,621 million (2.4%) from December 31, 2017 since the short-term loan decreased by THB 3,270 million mainly from repayment of the short-term loan.

Long-term liabilities (including current portion of long term liabilities' totaled THB 22,332 million) represented 60.8% of total liabilities, which was an increase of THB 178 million (0.1%) from December 31, 2017 primarily due to the increase of long-term financing, debenture issuance, and the liabilities under financial leases increased from the delivery of two Airbus A350-900 aircraft, the amount of THB 15,803 million, the repayment of long term loans and debentures, amount of THB 16,230 million, and the depreciation of Thai baht to US Dollar and Japanese Yen but slight appreciation to Euro as of June 30, 2018 and comparing to December 31, 2017. This affected long-term liabilities increased by THB 605 million.

Other non-current liabilities as of June 30, 2018 represented 12.7% of total liabilities which increased by THB 3,316 million (11.6%) 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 2018, the interest bearing debt to equity was 4.99 times, closed to the end of 2017's 4.98 times. Debt to equity ratio was 8.0 times, higher than 7.77 times of last year.

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

As of June 30, 2018, shareholders' equity totaled THB 31,321 million, a decrease of THB 692 million (2.2%) from December 31, 2017 due to loss of the operations from THAI and its subsidiaries. However, the loss of the first six months of this year decreased from the previous year. THAI's return on equity for the first six months of 2018 decreased from -6.3% last year's to -1.1% this year.

4. Factors affecting future operations

The global aviation industry in the second half of 2018 is likely to continue to grow as passenger and freight transport continues to expand from the continuing expansion of world economic. It is expected that the growth rate will be lower than the year 2017 due to higher operating costs, especially oil prices that have risen from the previous year. The average jet fuel price in 2018 is expected to be around USD 84 per barrel. However, the Asia Pacific region is expected to remain profitable but somewhat down from last year

The trend of the Thai aviation industry in 2018 is likely to expand from the year 2017, when Thailand was able to release the red flag. The signing of the joint venture agreement was made with the establishment of the U-Tapao Aircraft Maintenance, Repair and Overhaul Center. (MRO) to be an aviation hub (Acropolis) between THAI and its co-investors on June 22, 2018 will be a significant milestone of the aerospace industry development in Thailand. The EEC is a core part of the Thai government's Thailand 4.0 policy, designed to develop world class innovative technology-based manufacturing and services in the country. 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 upgrade the status to Category 1 by the end of 2018.

In the second half of 2018, THAI continued to implement the 5 core strategies of the business transformation plan described above by assigning the direct responsible departments with clear operation time frame, and supervisory Board. They will drive the plan with the collaboration from Management in order to be responsibility to guarantee the outcome and in timely manner. The focus is on the following.

- Increasing passenger revenue by using the Revenue management System (RMS) and selling more ticket via digitalization.
- Operating cost control
- Selling shares in Associated Companies 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 including aircraft held for sale.
- THAI issuing the 2/2018 debentures series and offering to Private Placement, Institution Investors, and High Net Worth Investors in August 2018.

5. Financial Ratios

		Jan – Jun	
		2018	2017
Liquidity Ratio			
Current Ratio	(times)	0.90	0.88
Current Ratio (Included Committed Credit Line)	(times)	1.14	1.12
Profitability Ratio			
Operating profit Margin	%	1.02	0.76
Net Profit (Loss) Margin	%	(0.35)	(2.14)
Return on Equity	%	(1.10)	(6.26)
Efficiency Ratio			
Return on Total Assets	%	0.27	(0.03)
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	4.99	5.45
Total Debt to Equity	(times)	8.00	8.25
Interest Coverage Ratio	(times)	4.89	4.68

GLOSSARY

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

Current Ratio(Included Committed Credit Line) = Current Assets (Excluding Non-Current Assets classified as held for sale) + committed credit line / Current Liabilities (Excluding Unearned Transportation Revenues)

Operating Profit Margin = Operating Profit / 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