

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

1. Executive summary

The overall world economy had expanded well due to the continued recovery of private consumption and expansionary monetary policy. The economy expansion of USA was still rise; meanwhile, the economy growth of EURO zone, Japan and China began to slow down. Crude oil prices in the world market remained high. In the third quarter of 2018, average crude oil price was USD 74.2 per barrel, 46.9% higher than last year.

Thai economy in the third quarter was likely to continue to grow resulting from expansion of consumption and investment which mainly came from both the public and private sectors. The expansion was also supported by the growth of export sector from the major trading partners and world trade but in September the figures showed the first contraction in the 19th consecutive month resulting from the economy weakness of Chinese and Australia market. In addition, the tourism sector expanded dramatically due to the growth of foreign tourists. The number of international tourists arriving in Thailand in the third quarter of 2018 was 9.1 million, an increase of 3.4% over the previous year. This was despite a slight decrease in the number of arrivals from the first half of the 2018 due to the boat tragedy in Phuket, the number of Chinese tourists, which accounted for 29.3% of total foreign tourists diminished in September 2018 by -14.9% comparing to the previous year. The continuous reduction of Chinese tourists had indicated the obvious figures since July and August by -0.9% and -11.8%, respectively. However, the Ministry of Tourism and Sports predicted that this would be temporary and would rebound in the next quarter.

In the third quarter of 2018, the global aviation industry continued to expand as well as passenger demand continued to increase. However, the trend of expansion had decreased compared to last year. According to the International Air Transport Association (IATA), passenger traffic growth in the 9 months of this year was 6.7%, down from 7.7% in the same period last year. Ticket prices had escalated from last year due to higher costs due to increasing jet fuel prices resulting the drop of travelling demand. Asia-Pacific airlines have the highest passenger volume growth while India's domestic passenger traffic growth rate was double-digit for the 49th. consecutive month. The passenger production increased 6.0% from the previous year, and the average cabin factor was 82.3% higher than 81.7% of last year, while overall freight growth continued to be driven by increased global trade but slow down trend since mid-2017. The growth of freight traffic during the 9 months of 2018 increased by 3.7%, less than last year's growth of 10.1% while the freight load factor for the 9 months of 2018 was 44.1%, slightly less than the previous year at 44.4%.

Thai aviation industry in the third quarter of 2018 continued to expand supported by various factors include: growth of Thai economy, the continued increase in tourist arrivals despite some of the Chinese tourists decreased, the release of ICAO's red flag which was successfully completed in October 2017. The return to FAA's Category 1 which was in preparation for the Pre Audit process in January 2019, and the development of airport capacity in Thailand which entered the 2nd. Phase of Suvarnabhumi Airport Development, the 3rd. phase of Don Muang Airport Development, and U-Tapao Development Project. However, fuel prices have risen this year, resulting in higher operating costs for the airline.

In the third 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 aimed to increase all types of revenues throughout THAI such as passenger revenue via the Revenue Management System (RMS), ancillary revenue via online/digitalization channel, and etc..

- The development of operation with ThaiSmile to be more efficient and profitable. The Performance Monitoring Board of Thai Smile Airways Co., Ltd. has established guidelines for operation improvement, such as improving flight planning to increase the utilization, reducing frequency of unprofitable flights, increasing profitable flights, and etc..

- THAI, Royal Thai Navy, and Eastern Economic Corridor Office Sign Memorandum of Understanding (MOU) on August 10, 2018 that granted THAI, a pioneer project of The TG MRO Campus, the rights to operate at U-Tapao International Airport in the Eastern Special Development Zone. This MOU was the outcome of the feasibility study and analysis report which would be used as part of approval in principle from the Eastern Economic Corridor Policy Committee. The result of successful cooperative efforts between THAI and the government sector which led to establishment of TG MRO Campus, a pioneer project in the EEC area of vital importance to Thailand.

- THAI and Rolls-Royce held an opening ceremony to launch the THAI and Rolls-Royce Trent XWB Engine Research and Development Testing Program, the first collaboration of this kind in the world on September 6, 2018. The project would take place over a two year period at THAI's Engine Test Cell and was initiated with the main objective to conduct research and further develop Trent XWB-97 engines, which powers the Airbus A350-1000 aircraft. Rolls-Royce has chosen to conduct tests on its engines at THAI's Engine Test Cell, located at THAI's Technical Department, Don Mueang Airport, where is the first aircraft maintenance center that has received trust, confidence, and cooperation from Rolls-Royce for engine research and development testing that is conducted outside of the United Kingdom. This program is part of the strategic plan for 2018-2019 and is a revenue generating in the future, collaborative project for the Company, whereby technology and skills gained will further strengthen Thailand's aviation industry.

- THAI had a 2019-2024 fleet development plan, which acquired for replacing older aircraft aging over 20 years. Currently, the plan is being revised and updated to match the market situation and actual usage resulting from the recommendations of the Office of the National Economic and Social Development Board (NESDB) to present to the Board of Directors for approval before the Ministry of Transport.

- THAI announced that it would form the alliance with 3 state enterprises comprised with Tourism Authority of Thailand (TAT), Airports of Thailand Public Company Limited (AOT), and Krungthai Bank Public Company Limited, to boost Thailand's economy for Thailand's sustainable growth. The three state enterprises will cooperate with THAI as follows:

- Tourism creates the greatest revenue for the country, especially the strategy support tourism Thailand's secondary destinations that will boost aviation business, create jobs and revenue in all sectors throughout Thailand. THAI will bring tourists to all secondary destinations, whereby the Tourism Authority of Thailand will provide support through advertising and public relations.

- With regard to THAI's part in the Thai aviation industry, as the national carrier of Thailand, THAI operates the most roundtrip flights to and from Suvarnabhumi Airport and joining forces with the Airports of Thailand Public Company Limited will boost Thailand as the regional aviation hub.

- In support of the Thailand 4.0 strategy and in the digital media, the leading state enterprises must support each other in the area of "Big Data." THAI, TAT, AOT, and Krungthai Bank will develop tourist segment information and make "Payment Gateway" development making it easy and convenient to make purchases with THAI.

- THAI decommissioned 2 Boeing 737-400 aircraft and successfully sold 1 aircraft held for sale which was Airbus A330-300 aircraft.
- THAI Issued the 2nd. series of new debentures amount of THB 7,000 million on August 16, 2018 their maturity between 1-15 years. The main purposes were to repay the maturing debentures, repay the debentures with higher financial costs and invest in assets, and use as working capital.

Moreover, the board of director appointed Mr. Sumeth Damrongchaitham as a new President being effective since September 1, 2018.

Resulting from the accomplishment of services development, THAI was honored the TTG Travel Hall of Fame for the 3 consecutive times after winning the Best South East Asian Airline Award at the TTG Travel Award for 10 consecutive years.

In this quarter, THAI and its subsidiaries had total 103 active aircrafts as of September 30, 2018, 4 more aircraft than the same period last year. THAI decommissioned 2 Boeing B737-400 aircraft. The aircraft utilization was 12.1 hours, equal to last year's. Production traffic (ASK) increased by 2.0% while passenger traffic (RPK) increased by 1.0%. Average cabin factor was 77.5% lower than 78.2% of last year with 6.0 million passengers carried closed to last year's as well.

The third quarter of 2018 was normally a low-season period; however, competition in the aviation industry was still intense with the rising world oil prices causing the reduction of traveling demand while operating cost increased. Unfortunately, THAI confronted various natural disasters during September 2018 which included Typhoon Jebi stroke Japan forced Kansai International Airport to shut down the operation since its runways were damaged and flooded, Hokkaido earthquake, Typhoon Mangkhut stroke Hong Kong, and the decrease of Chinese tourists mainly from the boat tragedy in Phuket significantly impacted the tourism sector mentioned early.

THAI and its subsidiaries's performance for the third quarter of 2018 had operating loss of THB 3,934 million compared to THB 300 million profit of last year since the increased operating expenses were increased more than the increase revenues. Total expenses from last year enlarged by THB 5,259 million (11.3%) due to an increase in fuel expenses of THB 3,499 million (29.4%) from the rising fuel price which increased significantly by 41.0% compared to the same period last year. Non-fuel operating expense enlarged by THB 1,862 million (5.5%) from last year mainly from the upsurge in maintenance and overhaul expense as well as the increase in lease of aircraft and spare parts. Total revenue increased by THB 1,025 million or 2.2% due to an increase of passenger and excess baggage revenue: THB 304 million(0.8%) from the increase in passenger traffic. Freight and mail revenues increased by THB 561 million (10.9%). Other revenues also increased by THB 360 million (12.3%).

This quarter THAI had one-time expenses consisted of impairment loss of assets and aircraft, amount of THB 371 million, gains on foreign currency exchange was THB 299 million mainly from balance sheet revaluation.

Consequently, THAI and its subsidiaries reported the net loss of THB 3,686 million which was more loss by THB 1,872 million (103.2%) of last year. Loss attributable to owners of the parent amounted to THB 3,701 million. Loss per share was THB 1.70 per share, THB 0.86 or 102.4% more loss than last year.

EBITDA was THB 1,198 million, which decreased THB 4,638 million (79.5%) over last year. EBITDA margin was 2.5%, as compared to last year's reported 12.4%.

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

The consolidated financial statements for the third 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	Jul - Sep			
	2018	2017	Variance	
			MTHB	%
Total operating revenues	47,953	46,928	+1,025	+2.2
- Passenger and excess baggage revenue	38,494	38,190	+304	+0.8
- Freight and mail revenue	5,698	5,137	+561	+10.9
- Revenue from other activities	3,296	2,936	+360	+12.3
- Other income	465	665	-200	-30.1
Total operating expenses	51,887	46,628	+5,259	+11.3
- Fuel expense	15,391	11,892	+3,499	+29.4
- Non-fuel operating expenses	35,421	33,559	+1,862	+5.5
- Net finance cost	1,075	1,177	-102	-8.7
Operating profit (loss)	(3,934)	300	-4,234	-
<u>Less</u> Maintenance provision for operating lease aircraft	-	92	-92	-100.0
<u>Less</u> Loss from change in ownership interest	-	5	-5	-100.0
<u>Less</u> Impairment loss of assets and aircraft	371	1,503	-1,132	-75.3
<u>Add</u> Gain (Loss) on foreign currency exchange	299	(829)	+1,128	+136.1
Loss before tax	(4,006)	(2,129)	-1,877	-88.2
Net Loss	(3,686)	(1,814)	-1,872	-103.2
Loss attribute to owners of the parent	(3,701)	(1,825)	-1,876	-102.8
Net Loss per share (THB)	(1.70)	(0.84)	-0.86	-102.4
<u>Significant operating data</u>				
EBITDA (MTHB)	1,198	5,836	-4,638	-79.5
Number of passengers (Million)	6.01	5.99	+0.02	+0.3
Available Seat-Kilometers (Million)	23,391	22,931	+460	+2.0
Revenue Passenger-Kilometers (Million)	18,121	17,936	+185	+1.0
Cabin factor (%)	77.5	78.2		-0.7
Passenger yield (THB/RPK)	2.09	2.10	-0.01	-0.5
Available Dead Load Ton-Kilometers (Million)	1,035	959	+76	+7.9
Revenue Freight Ton-Kilometers (Million)	612	609	+3	+0.5
Freight load factor (%)	59.2	63.5		-4.3
Freight carried (Ton)	173,528	168,547	+4,981	+3.0
Freight Yield (THB/RFTK)	8.76	7.90	+0.86	+10.9
Number of aircraft(As of September 30) (Aircraft)	103	99	+4	+4.0
Flight hours (Hours)	106,119	102,329	+3,790	+3.7
Aircraft utilization (Hours/Aircraft/Day)	12.1	12.1	-	-
Average foreign currency exchange rate				
1 USD : THB	32.9732	33.3875	-0.4143	-1.2
1 EUR : THB	38.3502	39.1969	-0.8467	-2.2
100 JPY : THB	29.5740	30.0863	-0.5123	-1.7
Average jet fuel price (USD/BBL)	94.33	66.89	+27.44	+41.0

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 third quarter of 2018 totaled THB 47,953 million, an increase of THB 1,025 million (2.2%). Details are as follows:

- Passenger and excess baggage revenue

Passenger and excess baggage revenue totaled THB 38,494 million, an increase of THB 304 million (0.8%) over last year as:

- Average passenger yield (including fuel surcharge) decreased by 0.01 THB/RPK(0.5%) or approximately THB 99 million. Thai Baht appreciated against major currencies including Japanese Yen, US Dollar, EURO dollar, and Australian Dollar resulting passenger yield decreased by 0.06 THB/RPK or THB 1,045 million. When exclude foreign exchange, the average passenger yield increased approximately by 2.4% or THB 906 due to the updating rates of fuel surcharge in line with the rising fuel prices.

- Passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 1.0% or approximately THB 390 million, in intercontinental routes including Europe, Australia and New Zealand, and Regional routes where increased in Western, Southern routes and routes operated by ThaiSmile but slightly decreased in Northern routes due to the natural disaster in Japan and paling number of Chinese tourists. Production traffic (Available Seat-Kilometers:ASK) increased by 2.0%. Average cabin factor was 77.5% lower than 78.2% of last year.

- Freight and mail revenue

Freight and mail revenue amounted of THB 5,698 million, an increase of THB 561 million (10.9%) because average freight yield (including fuel surcharge) was in very good price level, 8.76 THB/RFTK, an increase of 0.86 THB/RFTK(10.9%) or around THB 526 million. Freight traffic (Revenue Freight Ton-Kilometers: RFTK) increased by 0.5% or around THB 24 million over last year due to the recovery in export sector but started to slow down. Average freight load factor was 59.2% lower than 63.5% of last year but higher than 44.1% 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 3,296 million, an increase of THB 360 million (12.3%) over last year mainly due to the higher incomes. 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. Also, the revenue of maintenance services was higher than last year's.

- Other income

Other income was THB 465 million, decreased by THB 200 million (30.1%) mainly due to compensation from delay delivery of aircraft, was lower than last year's by THB 92 million and lower income from spare parts lending to other airlines by THB 38 million.

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses of the third quarter of 2018 amounted to THB 51,887 million, an increase of THB 5,259 million (11.3%). A summary of the operating expenses was as follows:

- Fuel and oil expense, amount of THB 15,391 million or represented 29.7% of total expenses, increased by THB 3,499 million (29.4%) due to 41.0% increasing of average jet fuel price compared to the same period last year. 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 702 million.

- Non-fuel operating expense was THB 35,421 million, or THB 1,862 million (5.5%) higher than last year. Details as follows:

Unit : Million Baht	Jul - Sep					
	2018	% of Total Expense	2017	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	7,513	21.2	7,447	22.2	+66	+0.9
Flight service expenses	5,687	16.1	5,673	16.9	+14	+0.2
Crew expenses	1,424	4.0	1,410	4.2	+14	+1.0
Aircraft repair and maintenance costs	4,954	14.0	4,259	12.7	+695	+16.3
Depreciation and amortization expenses	4,017	11.3	4,399	13.1	-382	-8.7
Lease of aircraft and spare parts	3,881	11.0	2,764	8.3	+1,117	+40.4
Inventories and supplies	2,333	6.6	2,182	6.5	+151	+6.9
Selling and advertising expenses	2,781	7.9	2,798	8.3	-17	-0.6
Insurance expense	147	0.4	130	0.4	+17	+13.1
Other expenses	2,532	7.1	2,449	7.3	+83	+3.4
Share of loss of associates	152	0.4	48	0.1	+104	+216.7
Non-fuel Operating Expense	35,421	100.0	33,559	100.0	+1,862	+5.5

The significant items consisted of :

- Aircraft repair and maintenance cost increased by THB 695 million (16.3%) 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 as well as the higher average rate of maintenance expense.

- Lease of aircraft and spare parts increased by THB 1,117 million (40.4%) due to additional 4 operating lease aircrafts which consisted of 1 Boeing B787-9 aircraft, was delivered in 4Q17, and 3 Airbus A350-900 aircraft in 1Q18. However, the return of 2 Airbus A330-300 operating lease aircraft and the appreciation of Thai Baht to US dollar slightly benefited the lower the expense.

- Depreciation and amortization expenses decreased by THB 382 million (8.7%) 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 the second quarter of 2018).

- Share of losses of associates amounted of THB 152 million, a more loss of THB 104 million than last year's. Details as follow:

- Nok Airlines PCL. loss of THB 245 million, a greater loss of THB 117 million than last year's.
- Bangkok Aviation Fuel Services PCL profit of THB 73 million, an increase of THB 8 million profit.
- Donmuang International Airport Hotel Ltd.'s profit of THB 0 million, while last year's loss of THB 9 million.
- Royal Orchid Hotel (Thailand) PCL's loss of THB 2 million, while last year's profit of THB 4 million.
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 27 million, an increase of THB 15 million.
- Phuket Air Catering Ltd.'s loss of THB 5 million, while last year's profit of THB 8 million.

Impairment loss of assets and aircraft totaled THB 371 million, a decrease of THB 1,132 million (75.3%) as the following details:

- Impairment loss of aircraft amounted to THB 158 million, THB 1,247 million lower than last year, comprised of impairment loss of 10 aircraft, amount of THB 145 million. In addition provision for impairment of CF6-80C2A5 engines totaled THB 13 million.
- Impairment loss of assets totaled THB 213 million, THB 115 million higher than last year, due to higher reserve for damaged rotatable spare parts and could not be repaired from last year.

Gains on foreign currency exchange was THB 299 million consisted of realized loss of THB 198 million and THB 497 million unrealized gain resulting from revaluation of foreign currency loans for assets and liabilities, especially the appreciation of Thai Baht against the US Dollar, Japanese Yen and Euro as of September 30, 2018 compared to June 30, 2018.

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

Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Sep			
	2018	2017	Variance	
			MTHB	%
Total operating revenues	148,658	141,913	+6,745	+4.8
- Passenger and excess baggage revenue	119,454	116,254	+3,200	+2.8
- Freight and mail revenue	16,472	14,766	+1,706	+11.6
- Revenue from other activities	9,729	9,014	+715	+7.9
- Other income	3,003	1,879	+1,124	+59.8
Total operating expenses	151,565	140,888	+10,677	+7.6
- Fuel expense	43,577	37,016	+6,561	+17.7
- Non-fuel operating expenses	104,705	100,404	+4,301	+4.3
- Net finance cost	3,283	3,468	-185	-5.3
Operating profit(loss)	(2,907)	1,025	-3,932	-383.6
<u>Less</u> Maintenance provision for operating lease aircraft	-	550	-550	-100.0
<u>Less</u> Loss from change in ownership interest	-	433	-433	-100.0
<u>Less</u> Impairment loss of assets and aircraft	3,100	2,910	+190	+6.5
<u>Add</u> Gain (Loss) on foreign currency exchange	452	(1,699)	+2,151	+126.6
Loss before tax	(5,555)	(4,567)	-988	-21.6
Net Loss	(4,036)	(3,853)	-183	-4.7
Loss attribute to owners of the parent	(4,082)	(3,879)	-203	-5.2
Net Loss per share (THB)	(1.87)	(1.78)	-0.09	-5.1
Significant operating data				
EBITDA (MTHB)	12,437	16,897	-4,460	-26.4
Number of passengers (Million)	18.16	18.38	-0.22	-1.2
Available Seat-Kilometers (Million)	69,729	67,025	+2,704	+4.0
Revenue Passenger-Kilometers (Million)	54,372	53,504	+868	+1.6
Cabin factor (%)	78.0	79.8	-1.8	-1.8
Passenger yield (THB/RPK)	2.17	2.14	+0.03	+1.4
Available Dead Load Ton-Kilometers (Million)	3,032	2,848	+184	+6.5
Revenue Freight Ton-Kilometers (Million)	1,827	1,730	+97	+5.6
Freight load factor (%)	60.3	60.7	-0.4	-0.4
Freight carried (Ton)	510,629	478,171	+32,458	+6.8
Freight Yield (THB/RFTK)	8.46	7.99	+0.47	+5.9
Number of aircraft(As of September 30) (Aircraft)	103	99	+4	+4.0
Flight hours (Hours)	315,695	302,462	+13,233	+4.4
Aircraft utilization (Hours/Aircraft/Day)	11.8	12.0	-0.2	-1.7
Average foreign currency exchange rate				
1 USD : THB	32.1436	34.2680	-2.1244	-6.2
1 EUR : THB	38.3942	38.1113	+0.2829	+0.7
100 JPY : THB	29.3184	30.6302	-1.3118	-4.3
Average jet fuel price (USD/BBL)	90.70	68.10	+22.60	+33.2

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 loss for the nine months of 2018 of THB 2,907 million, while the previous year reported profit of THB 1,025 million.

Total revenue was THB 148,658 million, increased by THB 6,745 million (4.8%), mainly due to an increase in transportation revenue of THB 4,906 million (3.7%). Revenue from passenger and excess baggage increased 2.8% from passenger traffic increasing by 1.6% and average passenger yield (including fuel surcharge) were 1.4% higher than last year. Freight and mail revenues increased by 11.6%, mainly due to the 5.6% increase in freight traffic (Revenue Freight Ton-Kilometers : RFTK) from the export sector, which improved from the previous year. Average freight yield increased by 5.9%. 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, greater freight traffic, and more revenue from maintenance service. In addition, other income increased from sale of shares in Royal Orchid Hotel (Thailand) PCL and gain from selling properties both domestic and abroad in 2nd. quarter of 2018.

Total expenses were THB 151,565 million, increased by THB 10,677 million (7.6%) 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 3,100 million, increased by THB 190 million (6.5%). This was mainly due to the additional provision of impairment loss of 19 decommissioned aircraft which held for sales, amount of THB 2,694 million and engines aircraft, amount of THB 86 million while last year's provision for impairment loss of 16 grounded aircraft, amount of THB 2,401 million and engines of THB 207 million.

- Gain on foreign currency exchange of THB 452 million which consisted of realized gain, the amount of THB 113 million, and unrealized gain, the amount of THB 339 million, while last year had loss on foreign currency exchange of THB 1,699 million.

For the nine months of 2018, THAI and its subsidiaries reported a net loss of THB 4,036 million while last year's net loss of THB 3,853 million. Loss attributable to owners the parent amounted to THB 4,082 million. Loss per share was THB 1.87, compared to last year's loss per share of THB 1.78.

For the nine-month results of 2018, EBITDA was THB 12,437 million, decreased by THB 4,460 million (26.4%) from last year. EBITDA margin was 8.4% which decreased from last year's where reported 11.9%

3. Financial Position and Liquidity

Capital Expenditures

Unit : Million Baht	Jul -Sep		Jan -Sep	
	2018	2017	2018	2017
Aircraft and aircraft spare parts	467	338	8,778	8,949
Non-Aircraft	270	242	610	434
Total	737	580	9,388	9,383

Capital expenditures for the third quarter of 2018 totaled THB 737 million, closed to last year's. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts totaled THB 467 million which was mainly from the acquisition of rotatable aircraft spare parts.

- Investments in other fixed assets amounted to THB 270 million which were the investment in equipment used for Ground service and technical tools for Maintenance services.

When combining with the half-year amounts of 2018, THB 8,651 million, THAI and its subsidiaries had total investment expenditure of THB 9,388 million for the nine months of 2018

Financing

In the nine months of 2018, THAI financed in the total amount of THB 27,303 million, as the following details.

1) Issuing 2 series of new debentures, a total amount of THB 13,000 million, the first series in February, 2018, amount of THB 6,000 million their maturity between 5-15 years and the second series in August, 2018, amount of THB 7,000 million their maturity between 1-15 years. The main purposes were to repay the maturing debentures, repay loan with higher financial costs and invest in assets, and use as working capital.

2) Long-term financing through hire purchase for 2 A350-900 aircraft by using them as collateral for payment of totaling about THB 7,803 million,

3) Acquiring long-term financing from Islamic Bank of Thailand THB 2,000 million to use as annually long-term investment and THB 500 million from ICBC Thai Public Company Limited for refinancing, and

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 – Sep	
	2018	2017
Net cash from operating activities	12,896	17,917
Net cash used in investing activities	(895)	(2,203)
Net cash used in financing activities	(14,191)	(10,437)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(13)	(42)
Increase (Decrease) in cash and cash equivalents	(2,203)	5,235

In the nine months of 2018, THAI had net cash from operating activities, the amount of THB 12,896 million, THB 5,021 million lower than last year. Net cash used in financing activities was THB 14,191 million, THB 3,754 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 895 million, THB 1,308 million lower than last year. As a result, cash and cash equivalents as of September 30, 2018, amounted to THB 13,027 million decreased from December 31, 2017 of THB 2,203 million.

Fleet

In the third quarter of 2018, THAI decommissioned 2 Boeing B737-400 aircraft. When combined with 5 Airbus A350-900 aircraft delivered during the first half of 2018, the total active aircraft as of September 30, 2018 was 103 aircraft (including 20 Airbus A320-200 aircraft for THAISmile's operation) which was 3 more aircraft than at the end of the year 2017 and 4 more aircraft than at the end of the third quarter of 2017. In addition, THAI had the aircraft held for sale as of September 30, 2018 total 21 aircraft.

Assets of Thai Airways International PCL. and its subsidiaries

As of September 30, 2018, total assets totaled THB 277,607 million, a decrease of THB 3,168 million (1.1%) from December 31, 2017.

	Consolidated					
	Sep 30, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,027	4.7	15,230	5.4	-2,203	-14.5
Non-current assets held for sale	-	-	201	0.1	-201	-100.0
Other current assets	36,887	13.3	36,085	12.8	+802	+2.2
Current Assets	49,914	18.0	51,516	18.3	-1,602	-3.1
Property, plant and equipment						
Prepaid aircraft and spare engine	1,124	0.4	6,124	2.2	-5,000	-81.6
Aircraft	41,209	14.8	42,186	15.0	-977	-2.3
Aircraft under finance leases	115,957	41.8	113,220	40.3	+2,737	+2.4
Aircraft spare parts	10,862	3.9	9,592	3.4	+1,270	+13.2
Work in process	336	0.1	599	0.2	-263	-43.9
Land, building and improvements	13,377	4.8	13,554	4.9	-177	-1.3
Other plant and equipment	2,730	1.0	2,828	1.0	-98	-3.5
Property, plant and equipment-net	185,595	66.8	188,103	67.0	-2,508	-1.3
Other non-current assets	42,098	15.2	41,156	14.7	+942	+2.3
Total Assets	277,607	100.0	280,775	100.0	-3,168	-1.1

Current assets were THB 49,914 million or represented 18.0% of total assets, a decrease of THB 1,602 million (3.1%) from as of December 31, 2017 mainly from the reduction of cash and cash equivalent which decreased by THB 2,203 million (14.5%) resulting from net cash from operating activities were less than net cash used in both investing and financing activities.

Property, plant and equipment-net totaled THB 185,595 million or represented 66.8% of total assets, a decrease of THB 2,508 million (1.3%) from December 31, 2017 due to the decommission of 2 Boeing B737-400 aircraft and the normal calculation of assets depreciation. However, there were 2 finance leased Airbus A350-900 and 2 engines adding to the fleet.

Other non-current assets totaled THB 42,098 million or represented 15.2% of total assets, which increased by THB 942 million (2.3%) from as of December 31, 2017 resulting from

- Deferred tax assets increased by THB 1,366 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 547 million (13.2%) from installing buyer-furnished equipment for 3 Airbus A350-900 and installing crew rest and in-flight connectivity for 4 Boeing B787-8 aircraft.

- An increase, approximately THB 2,755 million (26.5%), 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 787 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 2,875 million (33.3%) mainly from the increase of provision impairment loss of aircraft this year.

Return on assets of the nine months of 2018 was -0.8 % when compared to last year's -0.3%.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of September 30, 2018 were THB 249,219 million increased by THB 457 million (0.2%) from December 31, 2017. These comprised of:

	Consolidated					
	Sep 30, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	62,895	25.2	68,031	27.4	-5,136	-7.5
Long-term liabilities						
Debentures	65,850	26.4	62,100	25.0	3,750	+6.0
Liabilities under financial leases	61,554	24.7	62,517	25.1	-963	-1.5
Long term borrowings	25,548	10.3	27,480	11.0	-1,932	-7.0
Total long-term liabilities	152,952	61.4	152,097	61.1	+855	+0.6
Other non-current liabilities	33,372	13.4	28,634	11.5	+4,738	+16.5
Total Liabilities	249,219	100.0	248,762	100.0	+457	+0.2

Current liabilities (excluding current portion of long term liabilities' amount of THB 20,775 million) represented 25.2% of total liabilities, a decrease of THB 5,136 million (7.5%) from December 31, 2017 since the short-term loan decreased by THB 7,270 million mainly from repayment of the short-term loan.

Long-term liabilities (including current portion of long term liabilities' totaled THB 20,775 million) represented 61.4% of total liabilities, which increased by THB 855 million (0.6%) 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 2 Airbus A350-900 aircraft, the amount of THB 23,303 million, the repayment of long term loans and debentures, amount of THB 21,203 million. The appreciation of Thai baht to US Dollar, Japanese Yen, and Euro as of September 30, 2018 and comparing to December 31, 2017. This affected long-term liabilities decreased by THB 1,245 million.

Other non-current liabilities as of September 30, 2018 represented 13.4% of total liabilities which increased by THB 4,738 million (16.5%) mainly due to the increase of provision for long-term liabilities by THB 3,930 million, the maintenance provision for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations which can be refunded from the lessor when maintenance activities meet the reimbursement condition, and provision for employee benefit increased by THB 739 million.

At the end of the third quarter 2018, the interest bearing debt to equity was 5.4 times, higher than the end of 2017's 5.0 times. Debt to equity ratio was 8.8 times, higher than 7.8 times of the end of 2017's.

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

As of September 30, 2018, shareholders' equity totaled THB 28,388 million, a decrease of THB 3,625 million (11.3%) from December 31, 2017 due to loss of the operations from THAI and its subsidiaries. THAI's return on equity for the nine months of 2018 decreased from -12.1% last year's to -13.4% this year.

4. Factors affecting future operations

The global aviation industry in the fourth quarter 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 87.8 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 had been able to release the red flag since last year. The progress of MRO Joint Venture aimed to be an aviation hub (Acropolis) with world-class technologies will be a significant milestone of the aerospace industry development in Thailand with good inspiration to the Eastern Economic Corridor-EEC based on the Thai government's Thailand 4.0 policy. The main purposes designed to develop innovative -based manufacturing and services in the country to elevate the country to world-class standard. 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 visit for pre audit the status to Category 1 again in January 2019.

According to the recommendations of the Office of the National Economic and Social Development Board (NESDB), THAI is under the reviewing and updating its aircraft acquisition plan to match the market situation and actual usage to present to the Board of Directors for approval before the Ministry of Transport in the 4th. quarter of 2018.

5. Financial Ratios

		Jan – Sep	
		2018	2017
Liquidity Ratio			
Current Ratio	(times)	0.98	0.85
Current Ratio (Included Committed Credit Line)	(times)	1.26	1.09
Profitability Ratio			
Operating Profit (Loss) Margin	%	(1.95)	0.72
Net Profit (Loss) Margin	%	(2.71)	(2.71)
Return on Equity	%	(13.36)	(12.13)
Efficiency Ratio			
Return on Total Assets	%	(0.77)	(0.34)
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	5.39	5.58
Total Debt to Equity	(times)	8.78	8.62
Interest Coverage Ratio	(times)	3.64	4.70

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 (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