

## **Management's Discussion and Analysis for the year ended December 31, 2018 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

Global economic in the year 2018 continued to grow with the expansion of the US while EU, Japanese and China economies began to see slight growth signs. The overall world economy still had a strong economic foundation due to the expanding global trade; however, it started to slow down a bit. Crude oil prices in the global market in 2018 averaged USD 69.4 per barrel, 30.5% higher than the previous year.

Thai economy in 2018 continued to expand from both consumption and investment of both public and private sectors along with the acceleration of investment in various government projects. The overall export sector continued to expand due to the economic growth of the main trading partners and world trade but began to shrink at the end of the third and fourth quarter of this year in key markets such as China, the European Union, and Australia. For the tourism sector, it continued to well develop following the growth of foreign tourists. The number of foreign tourists traveling to Thailand in 2018 amounted to 38.3 million, an increase of 7.6% from the previous year, although the increase declined from the previous year by 8.9% due to the impact of the boat accident in Phuket, resulting in the number of Chinese tourists, which accounts for 27.5% of all foreign tourists decreased in the second half of the year by 9.6% compared to the previous year, which increased 32.0% from the year 2016, which was continued to decrease from July to November 2018, but slightly recovered in December 2018

The global aviation industry continued to grow in 2018. The passenger demand continued to increase but the growth trend began to somewhat decrease compared to the previous year. According to IATA (International Air Transport Association) 2018's data, the growth of passenger traffic was 6.5%, lower than 7.6% in 2017 due to 1) economic recession in the second half of 2018 and 2) rising airfare to alleviate the enlarged fuel expense which increased in line with higher fuel prices resulting the shrinking passenger demand. Asia-Pacific airlines had the outstanding growth in passenger traffic at 8.6% while domestic India indicated the highest growth in 4 consecutive years. Total production traffic increased by 6.1% from last year with average cabin factor was 81.9%, higher than 81.4% in 2017. Overall freight transport still in good shape since the volume of world trade continued to grow but unluckily there had been the indicators that have showed the recession sign. The growth of freight traffic was 3.5% lower than 9.0% in 2017 while freight load factor increased to 49.1% from last year's 45.5%.

The overall picture of the Thai aviation industry continued to expand from supporting factors including 1) the expansion of the Thai economy, 2) the increase in the number of tourists, although there were some impacts from Chinese tourists in the second half of the year, 3) airlines business plans by adding more aircraft, expanding new routes, and increasing flight frequencies, resulting from the removal red flag from ICAO in October 2017, 4) the progress of returning to Category 1 by the grant from Federal Aviation Administration (FAA), 5) the capabilities development of airports in Thailand including the 2<sup>nd</sup> phase of Suvarnabhumi Airport Development Plan, the 3<sup>rd</sup> phase of Don Muang Airport Development plan, and U-Tapao Airport Development Project. However, intense competition and the highest adjustment in 4 years of average oil prices this year caused the increase in operating expenses.

In 2018, THAI has implemented its 2018 transformation plan whose objectives to ensure continuous and sustainable profit performance and to increase efficiency and service quality comparable to world-class standards with guidelines for the implementation of the 5 main 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 2018, there were other significant implications. Details as follows:

- The development of revenue efficiency aimed to increase all types of revenues throughout THAI such as passenger revenue via the Revenue Management System (RMS).
- Network Expansion by introducing codeshare flights with Shenzhen Airlines to China such as Bangkok - Guangzhou, Bangkok - Shenzhen, and Shenzhen - Phuket, etc. Moreover, THAI signed codeshare agreement with Bangkok Airways for 10 domestic and 6 international routes, with Nok Airlines PCL for Secondary route: Don-Muang - Mae Hong Son for supporting the Government's tourism economies policy to promote secondary destinations and, with ThaiSmile for replacing the operation of THAI and adding more flight in the appropriate destinations including expanding routes to cover ASEAN, China and India in order to accommodate passengers from all over the world for better connectivity, more alternatives, and better convenience, strengthen the network, and increase sales potential and support the expansion of the market in the future.
- Sold unusable properties by selling both domestic and international properties which were Mae Hong Son province and foreign property in Sydney, Australia, Copenhagen, Denmark, and Madrid, Spain. THAI recognized gain on sale of assets totaled THB 763 million.
- Successfully sold 22.5 million shares or 24% of Royal Orchid Hotel (Thailand) PCL at THB 41 per share. The total proceed was THB 922.5 million. THAI recognized gain on sale of investment amounted to THB 657million. It should be noted that THAI had the guiding principle to sell the shares in associates that are not in compliance with or supporting the operations of the strategies of THAI as well as the unsatisfied operating results or less dividends.
- THAI revised its 2018-2022 fleet development plan by using the name of THAI's aircraft procurement project 2019 - 2024, which acquired for replacing older aircraft aging over 20 years by hiring the consultant company to advice about route network and fleet in accordance with the market situation and actual usage. The plan was approved by Board of Directors on January 8, 2019 and in the process of further approval.
- Fleet capacity enhancement by adding 5 new aircraft to the fleet comprising of 2 Airbus A350-900 aircraft under finance lease, and 3 A350-900 operating lease aircraft served on intercontinental routes and regional routes. In addition, THAI finished the installation of the Crew Rest and In-flight Connectivity (IFC) program on 4 Boeing 787-8 aircraft.
- 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 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.
- THAI and Rolls-Royce inaugurated the first Rolls-Royce Trent XWB Engine Research and Development Testing Program, the first collaboration of this kind in the world on September 6, 2018. 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 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 2 aircraft held for sale which were 1 Airbus A330-300 and 1 Boeing B737-400 aircraft.

- THAI Issued the 2<sup>nd</sup> series of new debentures amount of THB 13,000 million on February 28, 2018 and August 16, 2018 respectively with maturity between 1-15 years. The main purposes were to repay the maturing debentures, and/or repay the loan with higher financial costs and/or invest in assets, and/or 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 after winning the Best South East Asian Airline Award at the TTG Travel Award for 10 consecutive years which has continued for the 3<sup>rd</sup> consecutive year. THAI also 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 2018, THAI took delivery of 5 aircraft while decommissioned 2 aircraft: Boeing B737-400, resulting total number of 103 active aircraft in THAI's fleet as of December 31, 2018 which was 3 aircraft higher than as of December 31, 2017. Aircraft utilization was 12.0 hours equaled to last year's. Production traffic (ASK) increased by 2.9% while passenger traffic (RPK) increased by 1.0%. Average cabin factor was 77.6% lower than last year's 79.2% with 24.3 million passengers carried representing 1.0% decreasing from last year.

It should be noted that the turbine blades of Rolls-Royce's TRENT1000 engines were installed on 8 Boeing 787-8 and Boeing 787-9 aircraft and TRENT 900 engines were installed on 6 Airbus A380-800 were cracks and breakage which might affect the safety of flight operations. This trouble have been continuing since 2017 not only THAI confronted this difficulty but all airlines throughout the globe used the engine faced the same problem as well. Hence, to continue the operation by using Boeing 787-8, 787-9 and airbus A380-800 aircraft, THAI had to gradually switch the engines to repair. THAI solved the problems by adjusting the flight

schedule and frequencies in line with the available operative aircraft, especially in the 2018's Winter Schedule (October 28, 2018 – March 30, 2019). As a result of this incident, the service had caused the delays in flight and impacting flight schedule. This resulted in the increasing cost and revenue loss from plans. Finally, as of December 31, 2018, the situation was relieved after Boeing 787-9 and Airbus A380-800 were back into the serviceable condition; however, 4 Boeing B787-8 aircraft have been inoperative and waiting for repair.

In 2018, THAI and its subsidiaries's have been encountering the fierce competition, the unpredictable high fuel prices which is the highest prices in the past 4 years, the decreasing adjustment of estimated residual value of aircraft and spare engines from 10% to 6% of initial value, high operating expenses resulting THAI and its subsidiaries's performance for the year 2018 had operating loss of THB 9,058 million compared to THB 2,856 million profit of last year. Total revenues were THB 199,500 million, increased by THB 7,554 million (3.9%) from all sorts of revenue including passenger and excess baggage revenue, freight and mail revenue, revenue from other activities, and other income. Total expenses was THB 208,558 million, increased by THB 19,468 million (10.3%) resulting from the increase of fuel expenses by THB 9,881 million (19.7%) from the rising average fuel price which increased significantly by 30.1% even though better fuel hedging performance than last year. Non-fuel operating expense enlarged by THB 9,802 million (7.3%) due to the increase of aircraft maintenance and overhaul costs, lease of aircraft and spare parts, depreciation and amortization expenses. Moreover, both of production and passenger traffic increased. Finance cost decreased by THB 215 million (4.7%) from cash management and ongoing financial restructure from previous year.

This year THAI and its subsidiaries had impairment loss of assets and aircraft, amount of THB 3,459 million but had gains on foreign currency exchange was THB 911 million mainly from loan revaluation. Consequently, THAI and its subsidiaries reported the net loss of THB 11,569 million. Loss attributable to owners of the parent amounted to THB 11,625 million. Loss per share was THB 5.33 while last year's loss per share of THB 0.97.

EBITDA was THB 14,494 million, THB 9,551 million (39.7%) lower than last year. EBITDA Margin was 7.3%, as compared to last year's reported 12.5%.

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

In 2018, THAI has changed in accounting treatments as follows:

- Reviewed the residual value of aircraft and spare engines in accordance with TAS 16 (revised 2017) Property, plant and equipment and has changed the estimated residual value of aircraft and spare engines from 10 percent to 6 percent of the initial cost, based on historical aircraft selling price data, expert information on aircraft appraisals that have been recognized in the aviation industry and aviation technology changes. As a result, the depreciation of aircraft and spare engines in 2018 increased by approximately THB 3,129 million (details in the notes to financial statements no.6.9)

- Review of passenger revenue recognition period, whose air ticket has been sold but not yet utilized, from over 24 to 15 months from the date of issue, causing the passenger revenue for the year 2018 increased by THB 1,028 million baht (details in the notes to financial statements no. 6.37)

The consolidated financial statements for 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 Eurmg Luang Co., Ltd., and 5) ThaiSmile Airways Co., Ltd.

## Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Dec			
	2018	2017	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>199,500</b>	<b>191,946</b>	<b>+7,554</b>	<b>+3.9</b>
- Passenger and excess baggage revenue	160,255	157,475	+2,780	+1.8
- Freight and mail revenue	22,340	20,272	+2,068	+10.2
- Revenue from other activities	13,370	12,111	+1,259	+10.4
- Other income	3,535	2,088	+1,447	+69.3
<b>Total operating expenses</b>	<b>208,558</b>	<b>189,090</b>	<b>+19,468</b>	<b>+10.3</b>
- Fuel and oil	60,096	50,215	+9,881	+19.7
- Non-fuel operating expenses	144,130	134,328	+9,802	+7.3
- Net finance cost	4,332	4,547	-215	-4.7
<b>Operating profit (loss)</b>	<b>(9,058)</b>	<b>2,856</b>	<b>-11,914</b>	<b>-417.2</b>
<u>Less</u> Maintenance provision for operating lease aircraft	-	550	-550	-100.0
<u>Less</u> Loss from change in ownership interest	-	429	-429	-100.0
<u>Less</u> Impairment loss of assets and aircraft	3,459	3,191	+268	+8.4
<u>Add</u> Gain (Loss) on foreign currency exchange	911	(1,581)	+2,492	+157.6
Loss before income tax	(11,606)	(2,895)	-8,711	-300.9
Net loss	(11,569)	(2,072)	-9,497	-458.3
<b>Loss attribute to owners of the parent</b>	<b>(11,625)</b>	<b>(2,107)</b>	<b>-9,518</b>	<b>-451.7</b>
Net loss per share (THB)	(5.33)	(0.97)	-4.36	-449.5
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	14,494	24,045	-9,551	-39.7
Number of passengers (Million)	24.32	24.56	-0.24	-1.0
Available Seat-Kilometers (Million)	93,131	90,498	+2,633	+2.9
Revenue Passenger-Kilometers (Million)	72,315	71,634	+681	+1.0
Cabin factor (%)	77.6	79.2	-1.6	-1.6
Passenger yield (THB/RPK)	2.19	2.17	+0.02	+0.9
Available Dead Load Ton-Kilometers (Million)	4,054	3,832	+222	+5.8
Revenue Freight Ton-Kilometers (Million)	2,465	2,377	+88	+3.7
Freight load factor (%)	60.8	62.0	-1.2	-1.2
Freight carried (Ton)	685,244	654,915	+30,329	+4.6
Freight Yield (THB/RFTK)	8.51	7.98	+0.53	+6.6
Number of aircraft (As of December 31) (Aircraft)	103	100	+3	+3.0
Flight hours (Hours)	423,209	409,024	+14,185	+3.5
Aircraft utilization (Hours/Aircraft/Day)	12.0	12.0	-	-
Average foreign currency exchange rate				
1 USD : THB	32.3107	33.9380	-1.6273	-4.8
1 EUR : THB	38.1513	38.2778	-0.1265	-0.3
100 JPY : THB	29.2571	30.2696	-1.0125	-3.3
Average jet fuel price (USD/BBL)	91.72	70.48	+21.24	+30.1

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

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

For the year 2018, total revenues increased by THB 7,554 million (3.9%) from the same period last year with details as follows:

- **Passenger and excess baggage revenue**

Passenger and excess baggage revenue were THB 160,255 million, increased by THB 2,780 million (1.8%) since

- Passenger traffic (Revenue Passenger-Kilometers - RPK) increased by 1.0% or approximately THB 1,480 million since the traffic increased in Intercontinental, Southern and Western routes, including routes operated by ThaiSmile but decreased in Northern, Indochina, Middle-east and domestic routes. Production traffic (Available Seat-Kilometers:ASK) increased by 2.9% resulting average cabin factor was 77.6% compared to last year's 79.2%.

- Average passenger yield (including fuel and insurance surcharge) was 2.19 THB/RPK, increased by 0.02 THB/RPK(0.9%) resulting the developed passenger revenues by THB 1,450 million; whereas, the strengthen Thai Baht against the major revenue currencies: Japanese Yen, US Dollar, Euro Dollar, and Australian Dollar, partially affected less revenue by 0.06 THB/RPK or roughly THB 4,685 million. When excluding such effect, the approximate passenger yield increased by 3.7% or approximately THB 5,785 million due to the increase of fuel surcharge in line the rising fuel price..

### Passenger operation performance classified by region: THAI and its subsidiaries

	Variance (%)		Cabin Factor (%)	
	ASK	RPK	2018	2017
Regional	+3.5	+1.2	75.2	76.9
Intercontinental	+4.0	+1.6	80.6	82.5
Domestic	-8.7	-7.5	75.3	74.2

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

Unit : Million Baht	2018	2017	Variance	
			MTHB	%
<b>Passenger and excess baggage revenue</b>				
Regional	88,430	86,322	+2,108	+2.4
Intercontinental	61,221	59,263	+1,958	+3.3
Domestic	9,854	11,633	-1,779	-15.3
Non-schedule flight	750	257	+493	+191.8
<b>Total Passenger and excess baggage revenue</b>	<b>160,255</b>	<b>157,475</b>	<b>+2,780</b>	<b>+1.8</b>

- Regional passenger and excess baggage revenue amounted to THB 88,430 million, an increase of THB 2,108 million (2.4%). In 2018, THAI increased traffic production for supporting the growth in Asia region by adding more flight and frequency in high density demand routes such as Bangkok-Tokyo, Bangkok-Sapporo, Bangkok-Busan, etc. However, THAI stopped flying to Tehran, Iran on March 1, 2018 onward. ThaiSmile had canceled Phuket - Guangzhou flight since June 30, 2018 by changing flight routes to Bangkok-Guangzhou since July 1, 2018, added a new flight to Hong Kong, by replacing the operation of THAI in the route Phuket - Hong Kong since October 28, 2018 resulting traffic production increased by 3.5%. However, THAI was impacted prominently by the foremost recession from Chinese tourists since July causing the passenger traffic increased slightly by 1.2%. Cabin factor decreased from 76.9% last year to 75.2% this year. Average passenger yield increased trivially by 1.2% since, the increasing of fuel surcharge.

- Intercontinental passenger and excess baggage revenue amounted to THB 61,221 million, an increase of THB 1,958 million (3.3%) since THAI increased traffic production by 4.0% due to the expansion of European routes to Vienna, Austria, since November 16, 2017. However, THAI decreased flights frequencies in Australia routes which were Bangkok-Sydney and Bangkok - Brisbane. Passenger traffic increased merely by 1.6% resulting cabin factor fell from 82.5% in 2017 to 80.6% this year while average yield rose by 1.7% from last year due to the increasing of fuel surcharged this year.

- Domestic passenger and excess baggage revenue amounted to THB 9,854 million, a decrease of THB 1,779 million (15.3%) since production traffic decreased by 8.7%. The passenger traffic decreased by 7.5% while yield decreased by 8.6% resulting from high market penetration from Low Cost Carriers using the discount fare as the strategy to expand their market shares. This year, THAI had canceled its operation in Bangkok - Samui route since September 3, 2018. However, THAI continued to serve the demand of this route by signing the code share agreement with Bangkok Airways on all flights of this route. As a result, cabin factor was 75.3 % higher than last year's 74.2%.

- **Freight and mail revenue**

Freight and mail revenue were THB 22,340 million, increased by THB 2,068 million (10.2%) because average freight yield was 8.51 THB/RFTK, an increase of 0.53THB/RFTK(6.6%) or around THB 1,310 million as long as freight traffic (Revenue Freight Ton-Kilometers: RFTK) increased by 3.7% or around THB 702 million from the export sector which has continued to improve from the previous year, even though it started to slow down. As the result, average freight load factor was 60.8%, fell from 62.0% of the previous year, but higher than the industry average of 49.1%.

- **Revenue from other activities**

Revenues from other activities consists of revenues from business units which are Ground services, Catering, Cargo handling services, and other activities were THB 13,370 million, increased by THB 1,259 million (10.4%) from last year's mainly due to more revenue from all business units. Revenue from Ground services and catering service were from higher customer airlines' flight and cargo handling services from greater freight traffic. The income from maintenance service was also higher than last year.

- **Other income**

Other income was THB 3,535 million, increased by THB 1,447 million (69.3%) mainly due to gain from sale of shares in Royal Orchid Hotel (Thailand) PCL , the amount of THB 657 million, and gain from sale of both international properties in Sydney, Australia, Copenhagen, Denmark, and Madrid, Spain, and domestic property in Mae Hong Son province totaled THB 763 million.

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

Total expenses for 2018 was THB 208,558 million, increased by THB 19,468 million (10.3%) from the same period last year. A summary of operating expenses is as follows:

- Fuel and oil expense, amount of THB 60,096 million or represented 28.8% of total expenses compared to 26.6% of last year, increased by THB 9,881 million (19.7%) due to 30.1% 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 1,899 million, higher than last year amount of THB 1,596 million.

**Non-fuel operating expense** was THB 144,130 million, increased by THB 9,802 million (7.3%) as the following details:

Unit : Million Baht	Jan - Dec					
	2018	% of Total Expense	2017	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses	30,875	21.4	29,702	22.1	+1,173	+3.9
Flight service expenses	22,165	15.4	22,354	16.6	-189	-0.8
Crew expenses	5,630	3.9	5,604	4.2	+26	+0.5
Aircraft maintenance and overhaul costs	20,088	14.0	17,247	12.8	+2,841	+16.5
Depreciation and amortization expenses	19,045	13.2	17,022	12.7	+2,023	+11.9
Lease of aircraft and spare parts	15,017	10.4	11,282	8.4	+3,735	+33.1
Inventories and supplies	9,111	6.3	9,009	6.7	+102	+1.1
Selling and advertising expenses	10,843	7.5	11,215	8.4	-372	-3.3
Insurance expense	590	0.4	512	0.4	+78	+15.2
Other expenses	10,243	7.1	10,219	7.6	+24	+0.2
Share of loss of associates	523	0.4	162	0.1	+361	+222.8
<b>Non-fuel Expense</b>	<b>144,130</b>	<b>100.0</b>	<b>134,328</b>	<b>100.0</b>	<b>+9,802</b>	<b>+7.3</b>

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits were THB 30,875 million, increased by THB 1,173 million (3.9%) due to the increments of annual salary, increase in overtime and accrued expenses for vacation compensation.

- Flight related expenses consisted of flight service expenses, crew expenses, and inventories and supplies totaled THB 36,906 million, decreased by THB 61 million (0.2%) due to the appreciation of Thai against the major currencies especially US Dollar, Euro Dollar, Japanese Yen, and Australian Dollar benefited the lower expenses around THB 810 million (impacted THAI only). When excluded such F/X effect, flight related expenses would increase by THB 749 million due to the increase of both production traffic and passenger traffic in Regional and Intercontinental routes.

- Aircraft maintenance and overhaul costs amounted to THB 20,088 million, increased by THB 2,841 million (16.5%) 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. However, the appreciation of Thai Baht benefited the lower such cost.

- Depreciation and amortization totaled THB 19,045 million, increased by THB 2,023 million (11.9%) due to the new residual value of aircraft and spare engine stated previously which caused such expense in 2018 increased approximate THB 3,129 million. When excludes those items, depreciation and amortization would decrease by THB 1,106 million due to the fully depreciated aircraft, aircraft seat and assets. Despite there were new 2 aircraft under finance leases: Airbus A350-900 aircraft, 1 added to THAI's fleet in the first and another one in the second quarter respectively.

- Lease of aircraft and spare parts totaled THB 15,017 million, increased by THB 3,735 million (33.1%) due to the increase in 8 operating lease aircraft which 5 of them comprised of 3 Airbus A350-900, 2 Boeing B787-9 were delivered in in third and fourth quarter of 2017 and the



rests of them were Airbus A350-900 delivered in the first quarter of 2018. However, the return of 2 Airbus A330-300 aircraft and the appreciation of Thai Baht benefited the partially lower cost.

- Selling and advertising expenses totaled THB 10,843 million, a decrease of THB 372 million (3.3%) which consisted of

- Selling expense amounted to THB 9,825 million decreased by THB 370 million (3.6%) resulting from lower reservation expense which decreased from the lower number of reservation in line with the lower number of passenger. Next, the appreciation of Thai Baht against US Dollar mitigated these expenses. In addition, the result was from the negotiation to change the method of charge collection in the Altea System Usage section from the original amount collected in excess of the amount specified in the billing to the lump sum payment making it possible to reduce the cost of reservation.

- Advertising expense amounted to THB 1,018 million, decrease by THB 2 million (0.2%)

**Share of loss of associates** were THB 523 million increased by THB 361 million (222.8%) from last year. The details as follow:

- Phuket Air Catering Co. Ltd.'s amount of THB 19 million profit, a decrease of THB 45 million,

- Royal Orchid Hotel (Thailand) PCL's amount of THB 14 million profit, a decrease of THB 17 million from the sale of the whole amount of shares and transferred the ownership's rights to buyer on April 23, 2018 ,

- Suvarnabhumi Airport Hotel Co. Ltd.'s amount of THB 37 million profit, a decrease of THB 8 million,

- Donmuang International Airport Hotel Co. Ltd.'s amount of THB 24 million profit, an increase of THB 11 million

- Bangkok Aviation Fuel Services PCL's amount of THB 251 million profit, an increase of THB 16 million, and

- Nok Airlines PCL.'s amount of THB 868 million loss, increase in loss of THB 318 million.

**Net finance cost** amounted to THB 4,332 million, a decrease of THB 215 million (4.7%) mainly due to the restructuring of loans by continually using financial instruments such as the Interest Rate Swap (IRS) resulting cost of fund decreased by 0.6%. The average loan decreased by 5% from THB 166 billion in 2017 to THB 157 billion in 2018. In addition, the result of the baht appreciation against the major currencies of long-term debt, including Euro Dollar, Japanese yen and US dollar causing less interest expenses when translate to Baht term. However, net financial costs decreased by only 4.5% due to some loans had floating rate that had been continued to rise throughout the year 2018. As of December 31, 2018 39% of loan after the financial instruments were floating rate.

**Impairment loss of assets and aircraft** was THB 3,459 million, an increase of THB 268 million (8.4%) with the following details:

- Impairment loss of aircraft totaled THB 3,150 million, THB 429 million higher than last year. This year impairment loss comprised of 19 aircraft which were of 1 Airbus A300-600, 3 Airbus A330-300, 3 Airbus A340-500, 6 Airbus A340-600, 2 Boeing B747-400, and 4 Boeing B737-400 aircraft, totaled THB 3,064 million which should be noted that the reference price from the standard appraiser of Airbus A340-500 and A340-600 aircraft had been greatly reduced causing higher impairment setting and the provision for impairment loss for 10 engines totaled THB 86 million.

- Impairment loss of assets totaled THB 309 million, decreased by THB 161 million due to lower reserve for damaged rotatable spare parts which were unrepairable from last year.

**Gain on foreign currency exchange** was THB 911 million consisted of THB 816 million unrealized gain resulting from revaluation foreign currency loans, assets and liabilities especially the appreciation of Thai Baht against the US Dollar and Euro dollar, as of December 31, 2018 when compared to the end of year 2017 where THAI had the Euro loan represented 28.4% of total loan and realized gain of THB 95 million.

### 3. Financial Position and Liquidity

#### Capital Expenditures - The Group

Unit : Million Baht	Jan - Dec	
	2018	2017
Aircraft and aircraft spare parts	9,213	9,317
Non-Aircraft	908	673
<b>Total</b>	<b>10,121</b>	<b>9,990</b>

Capital expenditures for 2018 was THB 10,121 million, an increase of THB 131 million from last year. Capital expenditures in this year were

- Investment in aircraft and aircraft spare parts totalled THB 9,213 million which mainly was from the delivery of 2 Airbus A350-900 aircraft under finance lease and 3 engines which were 2 TRENT XWB-84 spare engines used for Airbus A350-900 aircraft and 1 GE90-115B engine used for Boeing B777-300ER aircraft.

- Investments in other fixed assets amounted to THB 908 million mainly from the investment in ground service equipment and technical tools for Maintenance services.

#### Financing

In 2018, THAI financed in the total amount of THB 30,302 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/or invest in assets, and/or 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 7,802 million,

- 3) Acquiring long-term financing from domestic financial institute of THB 2,500 million to use as annually long-term investment and repay the maturity loan.

- 4) Drawing down of its committed revolving credit line from domestic financial institution to repay the maturing debentures and used as working capital, amount of THB 7,000 million.

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

Unit : Million Baht	Jan – Dec	
	2018	2017
Net cash from operating activities	17,400	23,692
Net cash used in investing activities	(2,099)	(3,106)
Net cash used in financing activities	(16,846)	(18,677)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	7	(69)
<b>Increase(decreases) in cash and cash equivalents</b>	<b>(1,538)</b>	<b>1,840</b>

In 2018, THAI had net cash from operating activities, the amount of THB 17,400 million, THB 6,292 million lower than last year. Net cash used in financing activities was THB 16,846 million, THB 1,831 million, less than last year, due to the less repayment of both short term, long term loans. Despite, net cash used in investing activities was THB 2,099 million, THB 1,007 million lower than last year since this year THAI sold all shares of Royal Orchid Hotel (Thailand) PCL, the amount of THB 923 million . As a result, cash and cash equivalents as of December 31, 2018 decreased from December 31, 2017 of THB 1,538 million.

#### **Fleet**

In 2018, THAI's consolidated had 5 new aircraft and decommissioned 2 Boeing B737-400 aircraft resulting, as of December 31, 2018, THAI's net active aircraft fleet was 103 aircraft (including 20 Airbus A320-200 aircraft operated under ThaiSmile) which were more 3 aircraft than last year's. Aircraft held for sale as of December 31, 2018 totaled 21 aircraft.

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

As of December 31, 2018, total assets totaled THB 268,721 million, a decrease of THB 12,054 million (4.3%) from December 31, 2017.

	Consolidated					
	Dec 31, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,692	5.1	15,230	5.4	-1,538	-10.1
Non-current assets held for sale	490	0.2	201	0.1	+289	+143.8
Other current assets	35,366	13.1	36,085	12.8	-719	-2.0
<b>Current Assets</b>	<b>49,548</b>	<b>18.4</b>	<b>51,516</b>	<b>18.3</b>	<b>-1,968</b>	<b>-3.8</b>
Property, plant and equipment						
Prepaid aircraft and spare engine	-	-	6,124	2.2	-6,124	-100.0
Aircraft	45,946	17.1	42,186	15.0	+3,760	+8.9
Aircraft under finance leases	105,600	39.3	113,220	40.3	-7,620	-6.7
Aircraft spare parts	11,708	4.4	9,592	3.4	+2,116	+22.1
Work in process	341	0.1	599	0.2	-258	-43.1
Land, building and improvements	13,311	5.0	13,554	4.9	-243	-1.8
Other plant and equipment	2,692	1.0	2,828	1.0	-136	-4.8
<b>Property, plant and equipment-net</b>	<b>179,598</b>	<b>66.9</b>	<b>188,103</b>	<b>67.0</b>	<b>-8,505</b>	<b>-4.5</b>
Other non-current assets	39,575	14.7	41,156	14.7	-1,581	-3.8
<b>Total Assets</b>	<b>268,721</b>	<b>100.0</b>	<b>280,775</b>	<b>100.0</b>	<b>-12,054</b>	<b>-4.3</b>

Current assets were THB 49,548 million or accounted for 18.4% of total assets, a decrease of THB 1,968 million (3.8%) from as of December 31, 2017. The significant items consisted of

- cash and cash equivalents amounted to THB 13,692 million, decreased by THB 1,538 million (10.1%), mainly from net cash from operating activities was lower than net cash used in financial and investing activities.

- Non-current assets held for sale increased by THB 289 million due to the non-performing assets was reclassified to non-current assets held for sale, totaled THB 734 million, comprised of 5 aircraft: 2 Airbus A330-300, 2 Boeing B747-400, and 1 Boeing B737-400, amount of THB 694 million, abroad land and other assets amount of THB 40 million. During the period, THAI sold 2 aircraft: 1 Boeing B737-400 and 1 Airbus A330-300 aircraft, and properties both domestic and abroad. As of December 31, 2018 non-current assets held for sale consisted of 3 aircraft: 1 Airbus A300-300 and 2 Boeing B747-400 aircraft, had the total amount of THB 490 million.

- Other current assets totaled THB 35,366 million, decreased by THB 719 million (2.0%) mainly from trade receivables amounted to THB 10,394 million, decreased by THB 1,311 million due to the less amount of sell volume in December 2018 which was lower than the same period last year. It should be noted that this year THAI has been able to better manage faster collection period by speeding up from 23 days in 2017 to 22 days this year which was lower than THAI's normal collecting period.

Property, plant and equipment-net totaled THB 179,598 million or represented 66.9 % of total assets, which saw a decrease of THB 8,505 million (4.5%) from December 31, 2017 resulting from the normal calculation of aircraft depreciation and the change of the residual value of aircraft and spare engines from 10 percent to 6 percent of the initial cost and THAI decommissioned 2 Boeing B737-400 aircraft as well ; however, there were deliveries of 2 new aircraft under finance lease: Airbus A350-900 and 3 engines.

Other non-current assets totaled THB 39,575 million or represented 14.7% of total assets, which decreased by THB 1,581 million (3.8%) from as of December 31, 2017 resulting from

- Non-performing assets totaled THB 4,891 million, decreased by THB 3,734 (43.3%) million since the provision impairment loss of aircraft increased by THB 3,150 million and transferred to non-current assets held for sale amounted to THB 734 million.(Also see Non-current assets held for sale mentioned previously)

- Investment in associates totaled THB 2,300 million, decreased by THB 1,095 million (32.3%), was from sale of shares in Royal Orchid Hotel (Thailand) PCL which impacted less investment by THB 278 million and the investment in Nok Airlines PCL reduced THB 868 million due to the loss from operation in 2018

- Maintenance Reserve totaled THB 13,539 million, increased by THB 3,150 million (30.3%) in maintenance reserve corresponds to an increase in maintenance provision to aircraft maintenance plan according to its utilization and maintenance condition. Once after THAI will perform the maintenance according to criteria under lease agreement, THAI can reimburse from lessors under the maintenance reserves deposit.

- Deferred buyer furnish equipment for operating lease aircraft totaled THB 4,539 million, increased THB 399 million (9.6%) by installing buyer-furnished equipment for 3 Airbus A350-900 and installing crew rest and in-flight connectivity for 4 Boeing B787-8 aircraft.

Return on assets of 2018 was -2.58% compared to last year's 0.65%.

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

Total liabilities as of December 31, 2018 were THB 248,265 million decreased by THB 497 million (0.2%) from December 31, 2017. These comprised of:

	Consolidated					
	Dec 31, 2018		Dec 31, 2017		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	66,046	26.6	68,031	27.4	-1,985	-2.9
<b>Long-term liabilities</b>						
Debentures	64,850	26.1	62,100	25.0	+2,750	+4.4
Liabilities under financial leases	58,982	23.8	62,517	25.1	-3,535	-5.7
Long term borrowings	24,444	9.8	27,480	11.0	-3,036	-11.0
<b>Total long-term liabilities</b>	<b>148,276</b>	<b>59.7</b>	<b>152,097</b>	<b>61.1</b>	<b>-3,821</b>	<b>-2.5</b>
Other non-current liabilities	33,943	13.7	28,634	11.5	+5,309	+18.5
<b>Total Liabilities</b>	<b>248,265</b>	<b>100.0</b>	<b>248,762</b>	<b>100.0</b>	<b>-497</b>	<b>-0.2</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 22,863 million) represented 26.6% of total liabilities, a decrease of THB 1,985 million (2.9%) from December 31, 2017 since

- the short-term loan totaled THB 3,000 million, decreased by THB 4,270 million mainly from repayment of the short-term loan and

- Accrued expenses amounted to THB 18,130 million, an increase of THB 1,517 million due to increased accrued fuel expense and accrued vacation compensation.

Long-term liabilities as of December 31, 2018 (including current portion of long term liabilities' totaled THB 22,863 million) or represented 59.7% of total liabilities, which was a decrease of THB 3,821 million (2.5%) from December 31, 2017 partially resulting from long-term loans, debentures Issuance, liabilities under the leased of the 2 Airbus A350-900 aircraft, totaling THB 23,302 million, and repayment of long-term loans and debentures totaling THB 25,772 million. The appreciation of Thai Baht against Euro Dollar and US dollars; however, it slightly depreciated compared with the Japanese Yen on December 31, 2018, compared to the end of the year 2017, resulting the decrease in the long-term liabilities when translated to Thai Baht by THB 1,351 million.

Other non-current liabilities as of December 31, 2018 represented 13.7% of total liabilities totaled THB 33,943 million which increased by THB 5,309 million (18.5%) mainly due to the increase of long-term provision by THB 4,398 million from 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 obligations increased by THB 981 million.

At the end of 2018, interest bearing debt to equity was 7.4 times was higher than last year's 5.0. Debt to equity ratio was 12.1 times, higher than last year's 7.8 times.

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

As of December 31, 2018, shareholders' equity totaled THB 20,456 million, a decrease of THB 11,557 million (36.1%) from December 31, 2017 due to the negative results of THAI and its subsidiaries. Consequently, THAI's return on equity of 2018 decreased from -6.3% at the same period last year to -44.1% this year.

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

The situation of the aviation industry in 2019 is expected to continue to grow as the growth rate of the global economy is expected to expand ; however, it seems to be lower than the growth rate in 2018. The major risks that may have a negative impact on economic growth include trade wars between the United States and China, political uncertainties such as BREXIT, etc. However, the predictions of such factors will not severe due to positive factors from expansionary fiscal policy and the developing business investments in major business countries. Cabin factor and passenger production in 2019 are expected to continue to grow despite the decline from 2018 but still higher than the average growth rate of the past 20 years. In addition, crude oil prices are expected to decline. In 2019, the estimated average jet fuel price is USD 81.3 per barrel, 7.2% lower than the year 2018.

The trend of the Thai aviation industry in 2019 is expected to continue to expand from 2018 in the same direction as the global aviation industry. In addition, restoring confidence in visitors from China from relevant agencies and temporary Visa on Arrival fee exemption scheme covering 21 countries, including China, will be a supporting factor for the Chinese tourist market to gradually and quickly recover. Furthermore, the progress of TG MRO Campus at U-Tapao aims 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) to level up aviation safety in Thailand from Category 2 to Category 1 for the expansion of Thai air carrier to fly to the US, it is expected that the FAA

will re-visit to perform the formal audit and the Civil Aviation Authority of Thailand targets that Thailand will be back to Category 1 again within 2019.

In 2019, THAI has the important operating plan as follows:

- Aircraft acquisition plan 2019- 2024 aims to replace the aging aircraft whose lives are over 20 years.
- Operational efficiency enhancement by focusing on accelerating more revenue resulting from aggressive profit policy with competitive cost. For instance, THAI aims to develop revenue enhancement program as well as increasing ancillary revenue such as digitalized ancillary marketing, to concentrate on aircraft management program which starts from planning, buying, operating, and end up at selling aircraft from the fleet, to better collaborate with ThaiSmile, to improve and develop for the completion of services ring wishing for customers' pleasure experience. In addition, THAI concentrates on the major operating expenses such as fuel management and Foreign currency exchange, etc.

In addition, in January 2019 there were important events as follows:

- In January 2019, Nok Airlines PCL. offers the capital increase and the allocation of the newly issued ordinary shares to the existing shareholders of 908.8 million shares with the subscription fee of the newly issued ordinary shares: 2.75 Baht per share. Nok Airlines PCL. did register the increase capital to Department of Business Development, Ministry of Commerce on February 13, 2019. THAI waived the right to subscribe the offering newly issuing shares from Nok Airlines PCL. resulting the decrease in shareholding of THAI from 21.80% to 15.94%.
- According to the Federation of Accounting Professions' announcement of Financial Reporting Standard No. 15 (TFRS15) regarding revenue from contracts with customers which is applicable to the financial statements for the period beginning on or after January 1, 2019 onwards. THAI has complied with the requirements of accounting standards.

## 5. Financial Ratios

		Jan – Dec	
		2018	2017
<b>Liquidity Ratio</b>			
Current Ratio	(times)	0.84	0.84
Current Ratio (Included Committed Credit Line)	(times)	0.99	1.01
<b>Profitability Ratio</b>			
Operating Profit (Loss) Margin	%	(4.54)	1.49
Net Profit (Loss) Margin	%	(5.79)	(1.08)
Return on Equity	%	(44.10)	(6.32)
<b>Efficiency Ratio</b>			
Return on Total Assets	%	(2.58)	0.65
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	7.40	4.98
Total Debt to Equity	(times)	12.14	7.77
Interest Coverage Ratio	(times)	3.22	5.10

**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