

# Management's Discussion and Analysis for the second quarter ended June 30, 2019 for Thai Airways International Public Company Limited and Its Subsidiaries

## 1. Executive summary

Overview of the global economy in the second quarter of 2019 slowed down due to the impact of the US-China trade war affecting the export situation continuously. The Chinese economy was growing at a slower pace and is the lowest growth in 27 years, together with increased political uncertainty in many regions, especially in the Euro zone, due to the prolonged Brexit issue affecting the economy in developed countries slowing down. Crude oil prices in the world market in the second quarter of 2019 averaged at 68.2 U.S. Dollars per barrel, lower than the same quarter of the previous year around 6 percent.

The Thai economy in the second quarter of 2019 was stable which was supported by private consumption while private investment slowed down. However, exports contracted following global trade trends and demand for major trading countries. Besides, the Baht appreciation greatly affected the Thai tourism situation. The expansion of the tourism sector had decreased considerably. The number of foreign tourists traveling to Thailand in the second quarter of 2019 amounted to 9.0 million, an increase of 1.1% from the previous year. Chinese tourists, which accounted for 28.2 % of all foreign tourists, fell 8.2 % compared to the same quarter of 2018, which increased from 21.3% in 2017. However, the government sector still used aggressive tourism stimulus measures continuously by extending measure to waive the visa-on-arrival fees for visitors until October 31, 2019 to motivate more attraction from foreign tourists to travel in Thailand, especially during the low season period (May – Oct) every year.

In the second quarter of 2019, the global aviation industry expanded in reduced rate. According to the International Air Transport Association (IATA), passenger traffic and passenger production in the first half of 2019 increased 4.7% and 4.1%, respectively. The average cabin factor was 81.9% while overall freight growth continued to decrease resulting freight traffic was lower than last year by 3.6% but freight production increased by 2.7%. The freight load factor was 46.3%, higher than the previous year's 44.7%.

Thai aviation industry in the second quarter of 2019 showed a slight growth rate in line with the global and Thai economic conditions as well as the Baht appreciation outstandingly affected resulting in deceleration both demand for travel of foreign tourists traveling to Thailand and Thai people traveling to foreign countries. On the contrary, the supply of aviation services magnified due to increasing flights after the red flag removal from International Civil Aviation Organization (ICAO) causing more serious in price competition. Therefore, it would benefit travelers from low-priced fare including the increasing variety of routes which were beneficial to the aviation industry.

In the second quarter of 2019, THAI has continued to implement its transformation plan whose objectives to concentrate on ancillary revenues under the “Mantra” project which is an urgent reconstruction program as well as operational strategies. Other jobs which has already been implemented since the beginning of the year with the ultimate goal is to allow THAI to escape from the cycle of problem traps to ensure the stability through future which still has a guideline for operating in accordance with the 5 strategic including 1) aggressive revenue and compatible cost structure, 2) efficiency development and seeking out for new opportunity, 3) building pleasure experience for customer, 4) working with innovation and digital applications , and 5) effective human resource management.

In this quarter, the significant actions included:

- Integration of THAI and ThaiSmile by using management principles “Brother-Sister” with the merger of plans in all sectors, especially in the sales and flight planning, which focuses on THAI as more sales expertise step into and with more supports. THAI changed its role to be the policy maker in both direction and selling strategy on all flights of THAISmile which began in March 2019 onward under “Block space concept” which is expected to get better performance.

- Commercial management with promotions for sales promotion in various methods during the low-season period to boost sales volume, ancillary revenue, and increasing income in non-aviation related businesses such as increasing the income from catering, online marketing by cooperating with business partners in the online marketplace, and promoting sales through digital marketing, etc. In addition, there were plans to manage cost effectively along with increasing revenue.

- Sold 3 decommissioned aircraft: Airbus A330-300

As a result of the success of continuous service improvement causing THAI to continue to receive two Skytrax Awards for the World's Best Airline Lounge Spa for five consecutive years and the Best Airline Staff in Asia that recognizes the combined customer experience of airline staff service on ground at airports and on board flights. In addition, THAI ranked among one of the World's Top 10 Airlines of 2019. In addition, Thai Smile Airlines also received the grand prize from Trip Advisor for 3 consecutive years, including Best Airline in Thailand and Travelers' Choice Regional Airlines in Asia.

In this quarter, THAI and its subsidiaries had total 103 active aircrafts as of June 30, 2019, 2 aircraft lower than the same period last year which THAI decommissioned 2 Boeing B737-400 in the third quarter 2018. There were 90 serviceable aircraft lower than last year's 95 aircraft partly due to the impact of the Rolls-Royce Trent 1000 engine from the previous year and the grounding of the aircraft for maintenance according to the normal maintenance schedule. At the end of this quarter, there was a remaining grounded Boeing B787-8 aircraft whose engine was under maintenance. The aircraft utilization was 11.5 hours, closed to last year's. Production traffic (ASK) decreased by 4.0% since THAI reduced flights on Australia routes, including round-trip route Bangkok - Sydney and Bangkok - Brisbane while stopped flying in the round-trip route Bangkok - Lahore and Bangkok-Islamabad from the closure of the Pakistan airspace on February 27, 2019. It should be noted that Pakistan reopened its airspace resulting THAI had be able to operate its flights normally since August 1, 2019. Passenger traffic (RPK) decreased by 5.4%. Average cabin factor was 74.7 % lower than last year's 75.8%. The numbers of passengers carried were 5.72 million, 3.1% lower than last year. Available Dead Load Ton-Kilometers (ADTK) and Revenue Freight Ton-Kilometers (RFTK) were 3.4% and 16.3% lower than last year, respectively resulting average freight load factor was 52.8%, lower than last year's 60.7%.

In the second quarter of 2019, THAI and its subsidiaries' total revenue was THB 42,509 million, decreased by THB 4,730 million or 10.0% when comparing to the same period last year resulting from 1) decrease of production traffic which was mainly caused by impact from engine that affect the use of aircraft as well as negative factors that affected travel and intense competition resulting reduction of passenger and freight revenue, THB 3,270 million (7.7%). However, revenue from other activities increased by THB 180 million (6.0%) mainly from the increase in external service from Technical department. Total expenses were THB 49,621 million, a decrease of THB 425 million (0.8%). The significant decrease in expenses consisted of dropping fuel expense, THB 288 million (2.0%) since fuel prices decreased by 5.4%. Non-fuel operating expense somewhat decreased. Consequently, THAI and its subsidiaries confronted the operating loss of THB 7,112 million, THB 4,305 million (153.4%) greater losses than last year.

This quarter THAI and its subsidiaries had one-time expenses consisted of impairment loss of assets and aircraft, amount of THB 172 million and the gain on foreign currency exchange was THB 522 million mainly from balance sheet revaluation. Consequently, THAI and its subsidiaries reported the net loss of THB 6,878 million which was greater loss by THB 3,792 million (122.9%) of last year. Loss attributable to owners of the parent amounted to THB 6,884 million. Loss per share was THB 3.15 per share, THB 1.73 or 121.8% more loss than last year.

EBITDA was THB -1,821 million, which decreased THB 4,091 million (-180.2%) over last year. EBITDA margin was -4.3%, as compared to last year's reported 4.8%.

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

According to the announcement of the Thai Financial Reporting Standard No. 15, subject to revenue from contracts with customers effective for the financial statements that have a reporting period beginning on or after January 1, 2019 onwards, resulting in revenue recognition in passenger patents and mileage rights which must be measured and recognized, changes in the probability that passengers who do not exercise rights and estimate fair value valuation of individual sale affecting the recognition of items in the past until December 31, 2018 affected the recognition of the past transactions which THAI adjusted these obligations indicated in current liability as unearned transportation revenue in the total amount of THB 2,159 million matched with recognition of the beginning retained earnings and the impact in the second quarter and the first six months of 2019. The details indicated in Note 5 in Financial Statement.

The consolidated financial statements for the second quarter of 2019 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			
	2019	2018	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>42,509</b>	<b>47,239</b>	<b>-4,730</b>	<b>-10.0</b>
- Passenger and excess baggage revenue	34,598	36,845	-2,247	-6.1
- Freight and mail revenue	4,414	5,437	-1,023	-18.8
- Revenue from other activities	3,157	2,977	+180	+6.0
- Other income	340	1,980	-1,640	-82.8
<b>Total operating expenses</b>	<b>49,621</b>	<b>50,046</b>	<b>-425</b>	<b>-0.8</b>
- Fuel expense	13,864	14,152	-288	-2.0
- Non-fuel operating expenses	34,714	34,841	-127	-0.4
- Net finance cost	1,043	1,053	-10	-0.9
<b>Operating loss</b>	<b>(7,112)</b>	<b>(2,807)</b>	<b>-4,305</b>	<b>-153.4</b>
<u>Less</u> Impairment loss of assets and aircraft	172	257	-85	-33.1
<u>Add</u> Gain (loss) on foreign currency exchange	522	(431)	+953	+221.1
Loss before income tax	(6,762)	(3,495)	-3,267	-93.5
Net Loss	(6,878)	(3,086)	-3,792	-122.9
<b>Loss attributable to owners of the parent</b>	<b>(6,884)</b>	<b>(3,098)</b>	<b>-3,786</b>	<b>-122.2</b>
Net Loss per share (THB)	(3.15)	(1.42)	-1.73	-121.8
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	(1,821)	2,270	-4,091	-180.2
Number of passengers (Million)	5.72	5.90	-0.18	-3.1
Available Seat-Kilometers (Million)	21,897	22,804	-907	-4.0
Revenue Passenger-Kilometers (Million)	16,353	17,282	-929	-5.4
Cabin factor (%)	74.7	75.8	-1.1	-1.1
Passenger yield (THB/RPK)	2.07	2.10	-0.03	-1.4
Available Dead Load Ton-Kilometers (Million)	958	992	-34	-3.4
Revenue Freight Ton-Kilometers (Million)	505	603	-98	-16.3
Freight load factor (%)	52.8	60.7	-7.9	-7.9
Freight carried (Ton)	139,979	169,193	-29,214	-17.3
Freight Yield (THB/RFTK)	8.21	8.47	-0.26	-3.1
Number of aircraft(As of June 30) (Aircraft)	103	105	-2	-1.9
Flight hours (Hours)	101,737	103,423	-1,686	-1.6
Aircraft utilization (Hours/Aircraft/Day)	11.5	11.5	-	-
Average foreign currency exchange rate				
1 USD : THB	31.5890	31.9167	-0.3277	-1.0
1 EUR : THB	35.4815	38.0517	-2.5701	-6.8
100 JPY : THB	28.7468	29.2525	-0.5057	-1.7
Average jet fuel price (USD/BBL)	87.11	92.11	-5.00	-5.4

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

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

Total revenues for the second quarter of 2019 totaled THB 42,509 million, a decrease of THB 4,730 million (10.0%). Details are as follows:

### **- Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 34,598 million, a decrease of THB 2,247 million (6.1%) over last year as:

- Passenger traffic (Revenue Passenger-Kilometers:RPK) decreased by 5.4% or approximately THB 1,950 million. Production traffic (Available Seat-Kilometers:ASK) decreased by 4.0%. Average cabin factor was 74.7% lower than last year's 75.8% and industry average's 81.9%. The significant impact was from the intense competition both in Regional route from low cost carriers in terms of more flight frequencies and destinations and Intercontinental routes which were directly impact from Middle-East airlines.

- Average passenger yield (including fuel and insurance surcharge) decreased by 0.03 THB/RPK(1.4%) or approximately THB 490 million resulting from appreciation of Thai Baht which is the most appreciated in the last 6 years. This appreciation of Baht term against major currencies including Japanese Yen, EURO Dollar, Australian Dollar, and US Dollar resulting revenue after translation to Baht term decreased approximated by 0.06 THB/RPK (2.9%) or THB 1,000 million. When exclude foreign exchange impact, the average passenger yield increased approximately by 1.4% or THB 490 million.

### **- Freight and mail revenue**

Freight and mail revenue amounted of THB 4,414 million, a decrease of THB 1,023 million (18.8%) due to a decrease of freight traffic (Revenue Freight Ton-Kilometers: RFTK) which decreased by 16.3 % or around THB 830 million resulting from the slowdown of world economic, trade war between U.S. and China, and The impact of the cancellation of flights from the closure of the Pakistan airspace caused the need to change the route by having to fly indirectly from normal flight routes and THAI had to reserve more fuel on each flight which affected the ability to receive cargo weight. Aaverage freight yield (including fuel and insurance surcharge) was 8.21 THB/RFTK, a decrease of 0.26 THB/RFTK (3.1%) or around THB 130 million over last year. Average freight load factor was 52.8% lower than 60.7 % of last year but higher than 46.3% 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 3,157 million, an increase of THB 180 million (6.0%) over last year mainly due to the higher income from Maintenance service.

### **- Other income**

Other income was THB 340 million, decreased by THB 1,640 million (82.8%) mainly due to last year there was gain from sale of shares in Royal Orchid Hotel (Thailand) PCL , the amount of THB 655 million, and gain from sale of both international properties in Sydney, Australia and in Copenhagen, Denmark and domestic in Mae Hong Son province which approximately totaled THB 632 million.

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

Total expenses of the second quarter of 2019 amounted to THB 49,621 million, a decrease of THB 425 million (0.8%). A summary of the operating expenses was as follows:

- Fuel and oil expense, amount of THB 13,864 million or represented 27.9% of total expenses, decreased by THB 288 million (2.0%) due to a decrease in average jet fuel price by 5.4% and fuel consumption by 1.3%. moreover, the depreciation of the US dollars to Thai Baht somewhat caused the lower expense in Baht term but in this period, THAI had fuel hedging loss THB 81million while last year THAI gained THB 950 million.

- Non-fuel operating expense was THB 34,714 million, or THB 127 million (0.4%) lower than last year. Details as follows:

Unit : Million Baht	Apr - Jun					
	2019	% of Total Expense	2018	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses	7,623	22.0	7,621	21.9	+2	-
Flight service expenses	5,078	14.6	5,338	15.3	-260	-4.9
Crew expenses	1,539	4.4	1,395	4.0	+144	+10.3
Aircraft repair and maintenance costs	4,829	13.9	4,914	14.1	-85	-1.7
Depreciation and amortization expenses	4,199	12.1	3,971	11.4	+228	+5.7
Lease of aircraft and spare parts	3,804	11.0	3,696	10.6	+108	+2.9
Inventories and supplies	2,208	6.4	2,125	6.1	+83	+3.9
Selling and advertising expenses	2,513	7.2	2,842	8.2	-329	-11.6
Insurance expense	155	0.4	145	0.4	+10	+6.9
Other expenses	2,664	7.7	2,599	7.5	+65	+2.5
Share of losses of associates	102	0.3	195	0.5	-93	-47.7
<b>Non-fuel Operating Expense</b>	<b>34,714</b>	<b>100.0</b>	<b>34,841</b>	<b>100.0</b>	<b>-127</b>	<b>-0.4</b>

The summary of expenses that significantly changed which consisted of

- Lease of aircraft and spare parts and depreciation and amortization expenses totaled THB 8,003 million, an increase of THB 336 million(4.4%). Details as follows:

- Lease of aircraft and spare parts increased by THB 108 million (2.9%) from lease rates calculation based on the LIBOR which increased; simultaneously, the amortization of Crew Rest and In-flight Connectivity equipment renovation in 2 Boeing 787-8 operating lease aircraft increased.

- Depreciation and amortization expenses increased by THB 228 million (5.7%) mainly from changing in the estimate residual value of aircraft and spare engines resulting increase in depreciation by THB 383 million. When exclude such change, depreciation and amortization decreased by THB 155 million resulting from fully depreciated aircrafts, aircraft seats, and other assets.

- Crew expenses totaled THB 1,539 million, increased by THB 144 million (10.3%) due to the change of pilot's Per diem calculation effective since January 1, 2019 aimed to solve the problem of resigning pilots by improving the pilot compensation system to equal the industry and to allow the

pilots to arrange the flight schedule and to manage the pilots effectively which resulted in an increase in pilots' Per diem of THB 183 million, but reduced the pilot's overtime by THB 81 million.

- Selling and advertising expenses totaled THB 2,513 million, decreased by THB 329 million (11.6%) due to the decreasing sales.

- Flight related expenses consisted of flight service expenses and inventories and supplies totaled THB 7,286 million, decreased by THB 177 million (2.4%) due to the appreciation of Thai against the major currencies benefited the lower expenses around THB 214 million. When excluded such F/X effect, flight related expenses would increase by THB 37 million due to the increase of navigation fee expense partial from India–Pakistan border skirmishes led to airspace closure and the increasing cost of consumable aircraft spare parts from maintenance schedule.

- Share of losses of associates amounted of THB 102 million, a less loss of THB 93 million (47.7%) than last year's since Nok Airlines PCL. had better performance. Details as follow:

- Nok Airlines PCL.'s loss of THB 148 million, a loss decreased by THB 118 million.
- Bangkok Aviation Fuel Services PCL's profit of THB 41 million, an decreased of THB 17 million.
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 3 million, decreased by THB 2 million.
- Donmuang International Airport Hotel Ltd.'s profit of THB 4 million, decreased by THB 1 million.
- Phuket Air Catering Ltd.'s loss of THB 2 million, the loss increased by THB 2 million.
- Royal Orchid Hotel (Thailand) PCL's profit decreased by THB 3 million from the sale of the whole amount of shares by transferring ownership to the buyer on April 23, 2018.

- **Net finance cost** was THB 1,043 million, decreased by THB 10 million (0.9%) resulting from the decrease in average loan balance year-on-year, and appreciation of Thai Baht against the EURO and Japanese and US dollar causing lowered interest expense in Baht term.

**Impairment loss of assets and aircraft** totaled THB 172 million, a decrease of THB 85 million (33.1%) as the following details:

- Impairment loss of aircraft amounted to THB 122 million, THB 51 million lower than last year, comprised of impairment loss of 8 aircraft including 1 Airbus A330-300, 2 Airbus A340-500, 2 Airbus A340-600, 2 Boeing B747-400 and 1 Boeing 737-400 aircraft, total amount of THB 122 million while last year there were provision impairment of 2 aircraft and 8 spare engines, totaled THB 172 million.

- Impairment loss of assets totaled THB 50 million, THB 34 million lower than last year, due to lower reserve for damaged rotatable spare parts and could not be repaired from last year.

**Gain on foreign currency exchange** was THB 522 million consisted of THB 546 million unrealized FX gain resulting from revaluation of foreign currency loans for assets and liabilities, especially the appreciation of Thai Baht against the Euro, Japanese Yen, and US Dollar as of June 30, 2019 when compared to March 31, 2019 and realized FX loss of THB 24 million.

**Operating results of Thai Airways International PCL. and its subsidiaries of the first six months of 2019 (January - June 2019).** Details as follows:

**Financial Performance: THAI and its subsidiaries**

Unit : Million Baht	Jan - Jun			
	2019	2018	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>92,300</b>	<b>100,705</b>	<b>-8,405</b>	<b>-8.3</b>
- Passenger and excess baggage revenue	75,622	80,960	-5,338	-6.6
- Freight and mail revenue	9,062	10,773	-1,711	-15.9
- Revenue from other activities	6,830	6,434	+396	+6.2
- Other income	786	2,538	-1,752	-69.0
<b>Total operating expenses</b>	<b>100,239</b>	<b>99,677</b>	<b>+562</b>	<b>+0.6</b>
- Fuel expense	27,908	28,186	-278	-1.0
- Non-fuel operating expenses	70,225	69,284	+941	+1.4
- Net finance cost	2,106	2,207	-101	-4.6
<b>Operating profit (loss)</b>	<b>(7,939)</b>	<b>1,028</b>	<b>-8,967</b>	<b>-872.3</b>
<u>Add</u> Gain on change in ownership interest	273	-	+273	-
<u>Less</u> Impairment loss of assets and aircraft	385	2,729	-2,344	-85.9
<u>Add</u> Gain on foreign currency exchange	1,888	152	+1,736	-
Loss before income tax	(6,163)	(1,549)	-4,614	-297.9
Net Loss	(6,422)	(349)	-6,073	-
<b>Loss attributable to owners of the parent</b>	<b>(6,438)</b>	<b>(382)</b>	<b>-6,056</b>	<b>-</b>
Net Loss per share (THB)	(2.95)	(0.17)	-2.78	-
<b>Significant operating data</b>				
EBITDA (MTHB)	2,683	11,241	-8,558	-76.1
Number of passengers (Million)	12.01	12.16	-0.15	-1.2
Available Seat-Kilometers (Million)	44,768	46,338	-1,570	-3.4
Revenue Passenger-Kilometers (Million)	34,715	36,251	-1,536	-4.2
Cabin factor (%)	77.5	78.2	-0.7	-0.7
Passenger yield (THB/RPK)	2.14	2.20	-0.06	-2.7
Available Dead Load Ton-Kilometers (Million)	1,953	1,997	-44	-2.2
Revenue Freight Ton-Kilometers (Million)	1,036	1,215	-179	-14.7
Freight load factor (%)	53.1	60.8	-7.7	-7.7
Freight carried (Ton)	286,848	337,101	-50,253	-14.9
Freight Yield (THB/RFTK)	8.19	8.31	-0.12	-1.4
Number of aircraft(As of June 30) (Aircraft)	103	105	-2	-1.9
Flight hours (Hours)	208,481	209,576	-1,095	-0.5
Aircraft utilization (Hours/Aircraft/Day)	12.0	11.7	+0.3	+2.6
Average foreign currency exchange rate				
1 USD : THB	31.6001	31.7289	-0.1288	-0.4
1 EUR : THB	35.6912	38.4162	-2.7250	-7.1
100 JPY : THB	28.7285	29.1907	-0.4622	-1.6
Average jet fuel price (USD/BBL)	84.02	88.66	-4.64	-5.2

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



THAI and its subsidiaries' had operating loss for the first half-year 2019 of THB 7,939 million while last year's profit of THB 1,028 million.

Total revenue was THB 92,300 million, decreased by THB 8,405 million (8.3%), mainly due to a decrease in transportation revenue of THB 7,049 million (7.7%). Revenue from passenger and excess baggage decreased by 6.6% from passenger traffic decreasing by 4.2% due to less traffic production and passenger yield (including fuel and insurance surcharge) were 2.7% lower than last year as well as impact from foreign currency exchange which caused less average passenger yield after translating to Baht term by 3.2%. Freight and mail revenues decreased by 15.9%, mainly due to the decrease by 14.7% in freight traffic (Revenue Freight Ton-Kilometers: RFTK) while average freight yield decreased by 1.4%. Other income also decreased by 69.0% from the previous year. The main reason was from sale of shares in Royal Orchid Hotel (Thailand) PCL and gain from selling properties both domestic and abroad. Besides, revenues from other activities increased since there were more revenues from Maintenance services.

Total expenses were THB 100,239 million, increased by THB 562 million (0.6%) since non-fuel operating expense increased by THB 941 million (1.4%). The increases were from 1) an increase in lease of aircraft and spare parts by THB 739 million (10.4%) resulting from adding operating lease aircraft to the fleet and 2) the THB 515 million (6.5%) increase in depreciation and amortization due to the change in the estimate residual value of aircraft and spare engines.

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

- Gain on change in ownership interest totaled THB 273 million due to gain on change in ownership interest resulting from the dilution of THAI's shareholding in Nok Airlines PCL. from 21.80 % to 15.94% since THAI did not exercise the right to purchase such newly issued shares in Nok Air in January 2019.

- Impairment loss of assets and aircraft was THB 385 million, decreased by THB 2,344 million (85.9%). This was mainly due to the additional provision of eleven decommissioned aircraft which held for sales, amount of THB 309 million and engines aircraft, amount of THB 6 million resulting total amount of THB 315 million while last year's provision for impairment loss of seventeen grounded aircraft, amount of THB 2,549 million and engines of THB 73 million resulting total amount of THB 2,622 million.

- Gain on foreign currency exchange of THB 1,888 million which consisted of realized gain, the amount of THB 196 million and unrealized gain, the amount of THB 1,692 million, while last year had gain on foreign currency exchange of THB 152 million.

For the first half-year of 2019, THAI and its subsidiaries reported a net loss of THB 6,422 million, more loss by THB 6,073 million. Loss attributable to owners of the parent amounted to THB 6,438 million. Loss per share was THB 2.95, higher than last year by THB 2.78.

For the first half-year results 2019, EBITDA was THB 2,683 million, decreased by THB 8,558 million (76.1%) from last year. EBITDA margin was 2.9% which decreased from last year's where reported 11.2%

### 3. Financial Position and Liquidity

#### Capital Expenditures

Unit : Million Baht	Apr - Jun		Jan - Jun	
	2019	2018	2019	2018
Aircraft and aircraft spare parts	279	4,094	573	8,311
Non-Aircraft	324	138	625	340
<b>Total</b>	<b>603</b>	<b>4,232</b>	<b>1,198</b>	<b>8,651</b>

Capital expenditures for the second quarter of 2019 totaled THB 603 million, a decrease of THB 3,629 million from last year. Capital expenditures in this quarter were

- Investment in aircraft totaled THB 279 million, THB 3,815 million lower than last year because in the second quarter of 2018 there was delivery of an Airbus A350-900 aircraft while there was no delivery of new aircraft. This year the key investment was procurements of rotatable aircraft spare part.

- Investments in other fixed assets amounted to THB 324 million which were the investment in equipment used for Ground service and technical tools for Maintenance services.

When combining with the first quarter of 2019, amounted to THB 595 million, THAI and its subsidiaries had total investment expenditure of THB 1,198 million for the first six months of 2019.

## Financing

In the first six months of 2019, THAI financed total amount of THB 24,000 million, as the following details.

- 1) withdrawing short-term loans in the form of promissory notes with local financial institutions totaling THB 14,000 million in order to repay short-term loans and maturing debentures and used as working capital for operation

- 2) Issuing THB 10,000 million new debentures, their maturity between 1 – 15 years in May, 2019, to repay the maturing debentures and/or return the loan with higher financial costs and/or invest in assets and / or use as working capital.

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

Unit : Million Baht	Jan - Jun	
	2019	2018
Net cash from operating activities	3,716	10,964
Net cash used in investing activities	(751)	(299)
Net cash used in financing activities	(3,330)	(11,917)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(98)	123
<b>Decrease in cash and cash equivalents</b>	<b>(463)</b>	<b>(1,129)</b>

In the first six months of 2019, THAI had net cash from operating activities, the amount of THB 3,716 million, THB 7,248 million lower than last year. Net cash used in financing activities was THB 3,330 million, THB 8,587 million, lower than last year, due to cash received from short-term loans and issuance of debentures higher than last year. Despite, net cash used in investing activities was THB 751 million, THB 452 million higher than last year due to last year there was gain from sale of shares in Royal Orchid Hotel (Thailand) PCL. As a result, cash and cash equivalents as of June 30, 2019, amounted to THB 13,229 million decreased from December 31, 2018 of THB 463 million.

## Fleet

In the second quarter of 2019, the total active aircraft was 103 aircrafts as of June 30, 2019 (including 20 Airbus A320-200 under ThaiSmile's operations) which equaled to numbers of aircraft as of December 2018 but was 2 aircraft less than as of June 30, 2018 since there were decommissioned 2 Boeing B737-400 aircraft in the third quarter of 2018. In addition, in this quarter THAI had the aircraft held for sale as of June 30, 2019 total 18 aircraft comprised of 3 Airbus A340-500, 6 Airbus A340-600, 2 Airbus A330-300, 1 Airbus A300-600, 4 Boeing B737-400, and 2 Boeing B747-400.

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

As of June 30, 2019, total assets totaled THB 261,986 million, a decrease of THB 6,735 million (2.5%) from December 31, 2018.

	Consolidated					
	Jun 30, 2019		Dec 31, 2018		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,229	5.0	13,692	5.1	-463	-3.4
Non-current assets held for sale	733	0.3	490	0.2	+243	+49.6
Other current assets	36,619	14.0	35,366	13.1	+1,253	+3.5
<b>Current Assets</b>	<b>50,581</b>	<b>19.3</b>	<b>49,548</b>	<b>18.4</b>	<b>+1,033</b>	<b>+2.1</b>
Property, plant and equipment						
Aircraft	42,831	16.4	45,946	17.1	-3,115	-6.8
Aircraft under finance leases	102,213	39.0	105,600	39.3	-3,387	-3.2
Aircraft spare parts	11,664	4.5	11,708	4.4	-44	-0.4
Work in process	496	0.2	341	0.1	+155	+45.5
Land, building and improvements	13,205	5.0	13,311	5.0	-106	-0.8
Other plant and equipment	2,671	1.0	2,692	1.0	-21	-0.8
<b>Property, plant and equipment-net</b>	<b>173,080</b>	<b>66.1</b>	<b>179,598</b>	<b>66.9</b>	<b>-6,518</b>	<b>-3.6</b>
Other non-current assets	38,325	14.6	39,575	14.7	-1,250	-3.2
<b>Total Assets</b>	<b>261,986</b>	<b>100.0</b>	<b>268,721</b>	<b>100.0</b>	<b>-6,735</b>	<b>-2.5</b>

Current assets were THB 50,581 million or represented 19.3% of total assets, an increase of THB 1,033 million (2.1%) from as of December 31, 2018. The significant items consisted of

- Other current assets increased by THB 1,253 million (3.5%) mainly from more trade receivable by THB 1,293 million (12.4%) from increasing sale volume in June 2019 from December 2018. It should be noted that this year THAI has been able to manage the collection period of 24 days this year which was closed to last year's collection period and lower than THAI's normal collecting period.

- Non-current assets held for sale increased by THB 243 million (49.6%) from transferring 4 Airbus A330-300 aircraft from non-performing assets, amount of THB 926 million and sold 3 Airbus A330-300, their cost totalled THB 567 million. In addition, there was recognition of impairment of 2 Boeing B747-400 and 1 Airbus A330-300 aircraft, totaling THB 116 million.

As of June 30, 2019, non-current assets held for sale comprised of 4 aircraft which were 2 Airbus A330-300 and 2 Boeing B747-400 aircraft amount of THB 733 million.

- Cash and cash equivalent decreased by THB 463 million (3.4%) mainly from THAI had less net cash from operating activities than net cash used in investing activities and net cash used in financing activities.

Property, plant and equipment-net totalled THB 173,080 million or represented 66.1% of total assets, a decrease of THB 6,518 million (3.6%) from December 31, 2018 due to normal depreciation.

Other non-current assets totalled THB 38,325 million or represented 14.6% of total assets, which decreased by THB 1,250 million (3.2%) from as of December 31, 2018 resulting from

- Non-performing assets decreased by THB 1,125 million (23.0%) mainly from the transfer 4 Airbus A330-300 aircraft to non-current assets held for sale and more provision impairment loss of aircraft,

- Deferred tax assets decreased by THB 388 million (3.6%), which mainly from the decreasing tax for provision of impairment of aircraft,

- Deferred refurbishment of operating lease aircraft decreased THB 268 million (5.9%) from amortizing both buyer-furnished equipment for operating lease aircraft and crew rest and in-flight connectivity for 6 Boeing B787-8 aircraft.

- An increase, approximately THB 627 million (4.6%), in maintenance reserve would be collected by lessor to accrue for the schedule major maintenance events as specified by maintenance schedule in lease agreement.

Return on assets of the first half of 2019 was -1.50% when compared to last year's 0.27%.

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

Total liabilities as of June 30, 2019 were THB 245,133 million decreased by THB 3,132 million (1.3%) from December 31, 2018. These comprised of:

	Consolidated					
	Jun 30, 2019		Dec 31, 2018		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	68,105	27.8	66,046	26.6	+2,059	+3.1
<b>Long-term liabilities</b>						
Debentures	69,050	28.2	64,850	26.1	+4,200	+6.5
Liabilities under financial leases	52,017	21.2	58,982	23.8	-6,965	-11.8
Long term borrowings	20,842	8.5	24,444	9.8	-3,602	-14.7
<b>Total long-term liabilities</b>	<b>141,909</b>	<b>57.9</b>	<b>148,276</b>	<b>59.7</b>	<b>-6,367</b>	<b>-4.3</b>
Other non-current liabilities	35,119	14.3	33,943	13.7	+1,176	+3.5
<b>Total Liabilities</b>	<b>245,133</b>	<b>100.0</b>	<b>248,265</b>	<b>100.0</b>	<b>-3,132</b>	<b>-1.3</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 19,053 million (27.8%) were THB 68,105 million, an increase of THB 2,059 million (3.1%) from December 31, 2018 since the short-term loan increased by THB 2,000 million mainly from short-term loan drawdown of promissory notes with domestic financial institutions to repay short-term loans and maturity debentures.

Long-term liabilities (including current portion of long term liabilities' totaled THB 19,053 million) were THB 141,909 million represented 57.9% of total liabilities, which was a decrease of THB 6,367 million (4.3%) from December 31, 2018 primarily due to the repayment of long term loans and debentures and the liabilities under financial leases in the total amount of THB 13,337 million but there was somewhat increase due to the issuance of bonds for the period of 1-15 years in May 2019 amounted to THB 10,000 million. Then, the appreciation of Thai Baht against the Euro, Yen and US dollar as of June 30, 2019, compared with the end of the year 2018, resulting in long-term liabilities when considered Baht decreased by THB 3,030 million.

Other non-current liabilities as of June 30, 2019 totaled THB 35,119 million or represented 14.3% of total liabilities which increased by THB 1,176 million (3.5%) mainly due to the maintenance provision for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations and the increase in provision of employee benefits by THB 464 million.

At the end of the second quarter 2019, the interest bearing debt to equity was 8.72 times, closed to the end of 2018's 7.40 times. Debt to equity ratio was 14.55 times, higher than 12.14 times of last year.

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

As of June 30, 2019, shareholders' equity totaled THB 16,853 million, a decrease of THB 3,603 million (17.6%) from December 31, 2018 due to loss of the operations from THAI and its subsidiaries. It should be noted that the impact of the adoption of Thai Financial Reporting Standard No. 15 on Revenue from contracts with customers causing the retained earnings as of January 1, 2019 to increase by THB 2,159 million. However, the net loss increased from the six months of the previous year resulting, the return on equity decreased from -1.1 % in the first six months of 2018 to -34.4 % in first six months of 2019.

On April 26, 2019, the 2019 Annual General Meeting of Shareholders had a resolution to approve transferring of legal reserve, amount of THB 2,691 million and premium on ordinary shares, amount of THB 25,546 million which calculated these items in the total amount of THB 28,237 million for compensating the deficits as of December 31, 2018, the amount of THB 28,533 million. Consequently, the remained deficits totaled THB 296 million.

As of January 1, 2019, THAI had a loss carried forward of THB 28,533 million after the adjustment of the effect of the adoption of Thai Financial Reporting Standard No. 15 in the amount of THB 2,159 million. The remaining accumulated loss amounted to THB 26,374 million. THAI also transferred its THB 2,691 million of legal amount and THB 23,683 million of premium on ordinary shares to compensate the accumulated loss causing deficits brought forward as at January 1, 2019, remaining to 0 and the remaining premium on ordinary shares was THB 1,863 million. Such actions was not affecting total amount of the shareholders' equity whatsoever, whereby THAI also recorded the said transfer items in the first quarter of 2019.

### **Liquidity**

As of June 30, 2019, THAI and its subsidiaries had cash and cash equivalents amounted to THB 13,229 million or represented 5.0% of total assets, decreased from December 31, 2018. In the first six months of 2019, THAI financed short-term loans from other finance and related parties and issued debentures in May 2019. According to the previous normal operation mentioned earlier, the preparation of cash flow projections for the year 2019 which considered under careful conditions indicated that the THAI still had sufficient cash on hand and able to operate normally. In addition, there was a credit line for Committed Credit Line as of June 30, 2019, amount THB 12,500 million.

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

The global aviation industry in the second half of the year 2019 is likely to grow at a slower pace both from passenger and cargo transportation from the slowing global economy. The impact of the trade war between the United States and China and the Baht appreciation situation affecting the entire export sector and the tourism sector slowed down considerably. For crude oil prices, it is expected that prices will increase slightly but still close to the year 2018

The trend of Thai aviation industry in 2019 is likely to expand but slow down from 2018, which is expected to increase in this year because the country can successfully remove the red flag. Thus, Thai airlines are able to expand their routes further and increase the number of flights. In addition, the progress of solving the problem that the Federal Aviation Administration (FAA) reduced the level of aviation safety in Thailand from Category 2 to Category 1, the Civil Aviation Authority of Thailand is expected that the FAA will be upgrade the status to Category 1 by the end of 2019.

In the year 2019, THAI continued to implement the business transformation plan from the previous quarter, focusing on increasing the main income from ticket sale with effective cost management to reduce losses and be able to return to profit in the second half of 2019. Moreover,

THAI intend to generate more income from the supplementary business under the "Montra" project, which is an urgent as described above.

## 5. Financial Ratios

		Jan - Jun	
		2019	2018
<b>Liquidity Ratio</b>			
Current Ratio	(times)	0.83	0.90
Current Ratio (Included Committed Credit Line)	(times)	1.03	1.09
<b>Profitability Ratio</b>			
Operating profit (Loss) Margin	%	(8.59)	1.02
Net Profit (Loss) Margin	%	(6.95)	(0.35)
Return on Equity	%	(34.42)	(1.10)
<b>Efficiency Ratio</b>			
Return on Total Assets	%	(1.50)	0.27
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	8.72	4.99
Total Debt to Equity	(times)	14.55	8.00
Interest Coverage Ratio	(times)	1.22	4.89
Net Debt to EBITDA	(times)	86.43	21.04
Debt Service Coverage Ratio	(times)	0.62	1.04

### GLOSSARY

**Current Ratio** = Current Assets (Excluding Non-Current Assets 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, and gain on change in ownership interest)

**Net Profit(Loss) Margin** = Net Profit(Loss) / Total Revenue (excluded gain on foreign currency exchange and gain on change in ownership interest)

**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

**Net Debt to EBITDA** = (Total liabilities – Cash and cash equivalents) / EBITDA

**Debt Service Coverage Ratio** = EBITDAR/ (Long-term Loan repayment + Interest payment + Lease of aircraft and spare part)