

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

1. Executive summary

Overview of the global economy in the third quarter of 2019 enlarged the level of resilient recession due to the broaden impact of the US-China trade war affecting the industrial sectors, export sector, and investment as well as the economic depression of many countries throughout the world. Moreover, the political instability in many regions, especially in the Euro zone, due to the prolonged Brexit issue and Hong Kong protest whose consequences highly influence concerns of the world economy and financial markets. World's crude oil in the third quarter of 2019 was considered as a plus side while averaged prices were around 61.2 U.S. Dollars per barrel, lower than the same quarter of the previous year around 17.5 percent.

Thai economy in the third quarter indicated the recession signal from export sector due to world economic uncertainty and consequences from trade war between US and China. Besides, the Baht appreciation against other currencies of major trading countries greatly affected the Thai both export and tourism sectors. Fortunately, with the strong support from inbound tourism helped the number of foreign tourists traveling to Thailand resumes and outstandingly rose in September which was the highest numbers in 15 months. The number of Chinese tourists jumped 31.6% while tourists from other countries such as India, Laos, and Japan increased fairly well. Government sector still used aggressive tourism stimulus measures continuously by extending measure to waive the visa-on-arrival fees for visitors which enhanced the number of international tourists arriving in Thailand in the third quarter of 2019 was 9.7 million, an increase of 7.2% over the previous year.

In the third quarter of 2019, the global aviation industry expanded in reduced rate but with a record high cabin factor of an average of 84.4%. According to the International Air Transport Association (IATA), passenger traffic and passenger production in nine months of 2019 increased 4.5% and 3.9%, respectively while average cabin factor was 82.9%, higher than last year's 82.3%. Overall freight growth continued to decrease resulting freight traffic was lower than last year by 3.5% but freight production increased by 1.9%. The freight load factor was 46.3%.

The Thai aviation industry in the third quarter of the year 2019 had a slight slowing growth in line with the global and Thai economic condition coupled with the appreciation of Thai Baht. As a result, the cost of traveling to Thailand had a much higher cost causing some tourists to change travel to other destinations while airlines added more traffic production in the market resulting in more intense price competition.

In the third 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 and 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, significant actions were continued:

- 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" for enhancing overall performance.
- Commercial management with promotions for sales promotion in various methods during the low-season period as well as generating extra incomes from aviation related business such as preferred seat, and non-aviation related businesses such as increasing the income from catering,

online marketing which is expected to start operating within the 4th quarter of 2019 by cooperating with business partners in the online marketplace, and promoting sales through digital marketing, etc.

- Successfully sold decommissioned aircraft: 1 Airbus A330-300 in September 2019 and 4 Airbus A330-300 aircraft in 2019 which sold 3 aircraft in the second quarter.
- Improved the quality of service by renovating and expanding the Royal Orchid Prestige Lounge at Suvarnabhumi airport under the Ecology Green Mood Concept which aside from being outstanding in convenience and unique Thai. Passengers can feel like resting in the midst of nature which will be able to support the needs and the volume of passengers coming to use the service more with complete facilities for passengers to receive maximum satisfaction before traveling which opened for service on October 21, 2019

Resulting from the accomplishment of services development, THAI was honored the TTG Travel Hall of Fame for the 4 consecutive times after winning the Best South East Asian Airline Award at the TTG Travel Award for 10 consecutive years. Also THAISmile won the Best Boutique Airline award.

In this quarter, THAI and its subsidiaries had total 103 active aircrafts as of September 30, 2019, equal to the previous year. The aircraft utilization was 11.6 hours, lower than last year's 12.1 hours. Production traffic (ASK) decreased by 3.7% due to reducing number of flights resulting from the engines' difficulties resulting the reduction in numbers of operating aircraft. THAI reduced its flights 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 0.6%. Average cabin factor was 80.0% greater than 77.5% of last year with 6.06 million passengers carried higher than last year by 0.8%. Available Dead Load Ton-Kilometers (ADTK) and Revenue Freight Ton-Kilometers (RFTK) were 4.8% and 16.0% lower than last year, respectively due to the immensely slowdown in export sector resulting from US-CHINA trade war. Average freight load factor was 52.2%, lower than last year's 59.2%.

THAI and its subsidiaries's performance for the third quarter of 2019 reported total revenue was THB 45,016 million, decreased by THB 2,937 million or 6.1% when comparing to the same period last year resulting from various negative factors that affected both passenger and cargo as well as intense competition resulting reduction of passenger and freight revenue, THB 4,605 million (10.4%). However, there was an adjustment item: passenger airport tax liability which is a part of ticket fare collected from passenger before 2016 was adjusted to be other revenue amounted of THB 1,976 million. Total expenses were THB 47,858 million, a decrease of THB 4,029 million (7.8%). The significant decrease in expenses consisted of dropping fuel expense, THB 2,107 million (13.7%) since fuel prices decreased by 12.2%. Non-fuel operating expense decreased by THB 1,914 million(5.4%) from last year resulted from adjustment of vacation compensation expenses, annual holidays which are not used within 3 years according to the company regulations, which were recognized as expenses in the financial statements for the year 2015-2018, totaling approximately THB 1,261 million and reducing other operating expense. Consequently, THAI and its subsidiaries confronted the operating loss of THB 2,842 million, THB 1,092 million (27.8%) less losses than last year.

This quarter THAI and its subsidiaries had one-time expenses consisted of

- Estimated service compensation in the amount of THB 2,689 million. THAI recognized additional compensation according to State Enterprise Labor Relations Committee announcement regarding minimum standards of employment conditions in a state enterprise (No.4) announced to set the maximum severance pay rate at 400 days of the employee's latest wage rate for an employee who has worked for 20 consecutive years or more which effective on September 30, 2019 onwards.
- Impairment loss of assets and aircraft, amount of THB 181 million and
- Gain on foreign currency exchange was THB 919 million mainly from balance sheet revaluation.

Consequently, THAI and its subsidiaries reported the net loss of THB 4,680 million which was more loss by THB 994 million (27.0%) of last year. Loss attributable to owners of the parent

amounted to THB 4,682 million. Loss per share was THB 2.14 per share, THB 0.44 or 25.9% more loss than last year.

EBITDA was THB 2,461 million, which increased THB 1,263 million (105.4%) over last year. EBITDA margin was 5.5%, as compared to last year's reported 2.5%.

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 third quarter and the nine months of 2019. The details indicated in Note 6 to the Financial Statement.

The consolidated financial statements for the third 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	Jul-Sep			
	2019	2018	Variance	
			MTHB	%
Total operating revenues	45,016	47,953	-2,937	-6.1
- Passenger and excess baggage revenue	35,339	38,494	-3,155	-8.2
- Freight and mail revenue	4,248	5,698	-1,450	-25.4
- Revenue from other activities	3,056	3,296	-240	-7.3
- Other income	2,373	465	+1,908	+410.3
Total operating expenses	47,858	51,887	-4,029	-7.8
- Fuel expense	13,284	15,391	-2,107	-13.7
- Non-fuel operating expenses	33,507	35,421	-1,914	-5.4
- Net finance cost	1,067	1,075	-8	-0.7
Operating loss	(2,842)	(3,934)	+1,092	+27.8
<u>Less</u> Estimate service compensation (400 days)	2,689	-	+2,689	-
<u>Less</u> Impairment loss of assets and aircraft	181	371	-190	-51.2
<u>Add</u> Gain on foreign currency exchange	919	299	+620	+207.4
Loss before income tax	(4,793)	(4,006)	-787	-19.6
Net Loss	(4,680)	(3,686)	-994	-27.0
Loss attributable to owners of the parent	(4,682)	(3,701)	-981	-26.5
Net Loss per share (THB)	(2.14)	(1.70)	-0.44	-25.9
Significant operating data				
EBITDA (MTHB)	2,461	1,198	+1,263	+105.4
Number of passengers (Million)	6.06	6.01	+0.05	+0.8
Available Seat-Kilometers (Million)	22,529	23,391	-862	-3.7
Revenue Passenger-Kilometers (Million)	18,018	18,121	-103	-0.6
Cabin factor (%)	80.0	77.5		+2.5
Passenger yield (THB/RPK)	1.93	2.09	-0.16	-7.7
Available Dead Load Ton-Kilometers (Million)	985	1,035	-50	-4.8
Revenue Freight Ton-Kilometers (Million)	514	612	-98	-16.0
Freight load factor (%)	52.2	59.2		-7.0
Freight carried (Ton)	144,246	173,528	-29,282	-16.9
Freight Yield (THB/RFTK)	7.75	8.76	-1.01	-11.5
Number of aircraft(As of Sep 30) (Aircraft)	103	103	-	-
Flight hours (Hours)	103,771	106,119	-2,348	-2.2
Aircraft utilization (Hours/Aircraft/Day)	11.6	12.1	-0.5	-4.1
Average foreign currency exchange rate				
1 USD : THB	30.7123	32.9732	-2.2609	-6.9
1 EUR : THB	34.1389	38.3502	-4.2113	-11.0
100 JPY : THB	28.6163	29.5740	-0.9577	-3.2
Average jet fuel price (USD/BBL)	82.72	94.19	-11.47	-12.2

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

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues for the third quarter of 2019 totaled THB 45,016 million, a decrease of THB 2,937 million (6.1%). Details are as follows:

- **Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 35,339 million, a decrease of THB 3,155 million (8.2%) over last year as:

- Passenger traffic (Revenue Passenger-Kilometers:RPK) decreased by 0.6 % or approximately THB 215 million. Passenger production decreased by 3.7%. Consequently, average cabin factor was 80.0% higher than 77.5% of last year but lower than nine month of industry average which was 82.9%. The significant impacts were from various undesirable aspects which directly influenced passenger demand and 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 0.16 THB/RPK(7.7%) or approximately THB 2,883 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 0.11 THB/RPK (5.3%) or THB 2,046 million. When exclude foreign exchange impact, the average passenger yield decreased approximately by 2.4% or THB 900 million.

- **Freight and mail revenue**

Freight and mail revenue amounted of THB 4,248 million, a decrease of THB 1,450 million (25.4%) because of the 16.0% reduction in freight traffic (Revenue Freight Ton-Kilometers: RFTK) or approximate THB 858 million resulting from the pale export sector in line with the global economic slowdown, US-China trade war, and the closure of the Pakistan airspace which forced THAI had to altered its standard operating flight paths which THAI needed to reserve the extra fuel for each flight resulting the less cargo capacity. Aaverage freight yield (including fuel and insurance surcharge) was 7.75 THB/RFTK, a decrease of 1.01 THB/RFTK (11.5 %) or around THB 519 million. Average freight load factor was 52.2% lower than 59.2% of last year but higher than nine month of industry average which was 46.3%.

- **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 3,056 million, a decrease of THB 240 million (7.3%) over last year mainly since revenue of maintenance services was lower than last year's.

- **Other income**

Other income was THB 2,373 million, increased by THB 1,908 million (410.3%) mainly due to the adjustment item: passenger airport tax liability which is a part of ticket fare collected from passenger before 2016 was adjusted to be other revenue amounted of THB 1,976 million since no obligation for refunding to the airports in each country based on assumptions from past data that have not been charged for more than 3 years since the day had recorded this liability. (Also see Note 4.1 to the Financial Statement)

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses of the third quarter of 2019 amounted to THB 47,858 million, a decrease of THB 4,029 million (7.8%). A summary of the operating expenses was as follows:

- Fuel and oil expense, amount of THB 13,284 million or represented 27.8% of total expenses, decreased by THB 2,107 million (13.7%) due to a decrease in average jet fuel price by 12.2% and the appreciation of Thai Baht against US dollars which somewhat caused the lower expense in Baht term but in this period, THAI had fuel hedging loss THB 295 million while last year THAI gained THB 655 million.

• Non-fuel operating expense was THB 33,507 million, or THB 1,914 million (5.4%) lower than last year. Details as follows:

Unit : Million Baht	Jul-Sep					
	2019	% of Total Expense	2018	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	6,202	18.5	7,513	21.2	-1,311	-17.4
Flight service expenses	5,317	15.9	5,687	16.1	-370	-6.5
Crew expenses	1,528	4.5	1,424	4.0	+104	+7.3
Aircraft repair and maintenance costs	5,050	15.1	4,954	14.0	+96	+1.9
Depreciation and amortization expenses	4,189	12.5	4,017	11.3	+172	+4.3
Lease of aircraft and spare parts	3,675	10.9	3,881	11.0	-206	-5.3
Inventories and supplies	2,243	6.7	2,333	6.6	-90	-3.9
Selling and advertising expenses	2,644	7.9	2,781	7.9	-137	-4.9
Insurance expense	157	0.5	147	0.4	+10	+6.8
Other expenses	2,406	7.2	2,532	7.1	-126	-5.0
Share of losses of associates	96	0.3	152	0.4	-56	-36.8
Non-fuel Operating Expense	33,507	100.0	35,421	100.0	-1,914	-5.4

The significant items consisted of :

• Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased by THB 1,311 million (17.4%). The main reason was the adjustment of vacation compensation expenses. (Annual holidays which are not used within 3 years according to the company regulations), which are recognized as expenses in the financial statements for the year 2015-2018, totaling approximately THB 1,261 million (Details as in Note 4.2 to the financial statements). In addition, flight pay expenses decreased by THB 107 million resulting from the change in pilot's per diem calculation which reduced the pilot's overtime.

• Flight related expenses consisted of flight service expenses and inventories and supplies totaled THB 7,560 million, decreased by THB 460 million (5.7%) resulting from the appreciation of Thai Baht compared to the major currencies of expenses, resulting in a decrease of approximately THB 386 million. If excluding the effects of exchange rates, Flight related expenses would decrease by THB 74 million according to the reduced production.

• Crew expenses totaled THB 1,528 million, increased by THB 104 million (7.3%) 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 200 million, but reduced the pilot's overtime by THB 85 million while crew' per diem was THB 89 million lower than last year's.

• Lease of aircraft and spare parts and Depreciation and amortization expenses were THB 7,864 million, decreased by THB 34 million (0.4%). Details as follow

- Lease of aircraft and spare parts decreased by THB 206 million (5.3%) due to the appreciation of Thai baht compared to USD causing decreasing expenses when translated into Thai Baht and lease rates calculation based on the USD LIBOR which decreased.

- Depreciation and amortization expenses increased by THB 172 million (4.3%) mainly from changing in the estimate residual value of aircraft and spare engines resulting increase in depreciation by THB 369 million. When exclude such change, depreciation and amortization decreased by THB 197 million resulting from fully depreciated aircrafts, aircraft seats, and other assets.

- Selling and advertising expenses totaled THB 2,644 million, decreased by THB 137 million (4.9%) due to the decreasing sales.

- Share of losses of associates amounted of THB 96 million, less loss of THB 56 million (36.8%) than last year's. Details as follow:

- Nok Airlines PCL. loss of THB 167 million, less loss of THB 78 million than last year's.
- Bangkok Aviation Fuel Services PCL profit of THB 58 million, a decrease of THB 15 million profit.

- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 10 million, a decrease of THB 17 million.

- Donmuang International Airport Hotel Ltd.'s profit of THB 1 million, an increase of THB 1 million.

- Phuket Air Catering Ltd.'s profit of THB 2 million, while last year's loss of THB 5 million.

- Royal Orchid Hotel (Thailand) PCL's loss decreased by THB 2 million from the sale of the whole amount of shares by transferring ownership to the buyer on April 23, 2018.

Estimated service compensation for employees

State Enterprise Labor Relations Committee announcement regarding minimum standards of employment conditions in a state enterprise (No.4) announced in the Royal Thai Government Gazette on September 26, 2019. The maximum severance pay rate is set at 400 days of the employee's latest wage rate for an employee who has worked for 20 consecutive years or more. The employee is entitled to receive compensation of not less than 400 days at the employee's last wage rate and effective on September 27, 2019. Hence, it is effective to retire employee since September 30, 2019. This change is considered a post-employment benefits plan amendment, and results in an increase of THB 2,689 million in employee benefits. The Company has recorded the effect by recognizing as expenses in the statement of comprehensive income. (Also see Note 8.13 to the Financial Statement)

Impairment loss of assets and aircraft totaled THB 181 million, a decrease of THB 190 million (51.2%) as the following details:

- Impairment loss of aircraft amounted to THB 86 million, THB 72 million lower than last year, comprised of impairment loss of 8 aircraft which are 1 Airbus A300-600, 2 Airbus A340-500, 2 Airbus A340-600, 2 Boeing B737-400 , and 1 Boeing B747-400 total amount of THB 33 million. In addition provision for impairment of 5 engines totaled THB 53 million.

- Impairment loss of assets totaled THB 95 million, THB 118 million lower than last year, due to lower reserve for damaged rotatable spare parts and could not be repaired from last year.

Gains on foreign currency exchange was THB 919 million consisted of THB 738 million unrealized gain resulting from revaluation of foreign currency loans and assets and liabilities, especially the appreciation of Thai Baht against Euro as of September 30, 2019 compared to June 30, 2019 and realized gain of THB 181 million.

Operating results of Thai Airways International PCL. and its subsidiaries of the nine months of 2019 (January - September 2019).

Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Sep			
	2019	2018	Variance	
			MTHB	%
Total operating revenues	137,316	148,658	-11,342	-7.6
- Passenger and excess baggage revenue	110,961	119,454	-8,493	-7.1
- Freight and mail revenue	13,310	16,472	-3,162	-19.2
- Revenue from other activities	9,886	9,729	+157	+1.6
- Other income	3,159	3,003	+156	+5.2
Total operating expenses	148,098	151,565	-3,467	-2.3
- Fuel expense	41,193	43,577	-2,384	-5.5
- Non-fuel operating expenses	103,731	104,705	-974	-0.9
- Net finance cost	3,174	3,283	-109	-3.3
Operating loss	(10,782)	(2,907)	-7,875	-270.9
<u>Less</u> Estimate service compensation (400 days)	2,689	-	+2,689	-
<u>Add</u> Gain on change in ownership interest	273	-	+273	-
<u>Less</u> Impairment loss of assets and aircraft	566	3,100	-2,534	-81.7
<u>Add</u> Gain on foreign currency exchange	2,808	452	+2,356	+521.2
Loss before income tax	(10,956)	(5,555)	-5,401	-97.2
Net Loss	(11,102)	(4,036)	-7,066	-175.1
Loss attributable to owners of the parent	(11,120)	(4,082)	-7,038	-172.4
Net Loss per share (THB)	(5.09)	(1.87)	-3.22	-172.2
Significant operating data				
EBITDA (MTHB)	5,144	12,437	-7,293	-58.6
Number of passengers (Million)	18.07	18.16	-0.09	-0.5
Available Seat-Kilometers (Million)	67,297	69,729	-2,432	-3.5
Revenue Passenger-Kilometers (Million)	52,733	54,372	-1,639	-3.0
Cabin factor (%)	78.4	78.0		+0.4
Passenger yield (THB/RPK)	2.07	2.17	-0.10	-4.6
Available Dead Load Ton-Kilometers (Million)	2,939	3,032	-93	-3.1
Revenue Freight Ton-Kilometers (Million)	1,551	1,827	-276	-15.1
Freight load factor (%)	52.8	60.3		-7.5
Freight carried (Ton)	431,094	510,629	-79,535	-15.6
Freight Yield (THB/RFTK)	8.04	8.46	-0.42	-5.0
Number of aircraft (As of Sep 30) (Aircraft)	103	103	-	-
Flight hours (Hours)	312,252	315,695	-3,443	-1.1
Aircraft utilization (Hours/Aircraft/Day)	11.1	11.8	-0.7	-5.9
Average foreign currency exchange rate				
1 USD : THB	31.3042	32.1436	-0.8394	-2.6
1 EUR : THB	35.1737	38.3942	-3.2205	-8.4
100 JPY : THB	28.6911	29.3184	-0.6273	-2.1
Average jet fuel price (USD/BBL)	83.59	90.50	-6.91	-7.6

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, estimate service compensation, and impairment loss of assets and aircraft)

THAI and its subsidiaries' had operating loss for the nine months of 2019 of THB 10,782 million, greater loss than last year by THB 7,875 million (270.9%).

Total revenue was THB 137,316 million, decreased by THB 11,342 million (7.6%), mainly due to a decrease in transportation revenue of THB 11,655 million (8.6%). Revenue from passenger and excess baggage decreased 7.1% from passenger traffic decreasing by 3.0% partially from the reduction in production traffic and average passenger yield (including fuel and insurance surcharge) were 4.6% diminished from last year as well as impact from foreign currency exchange causing passenger yield lessening by 3.7% . Freight and mail revenues decreased by 19.2%, mainly due to the 15.1% decrease in freight traffic (Revenue Freight Ton-Kilometers : RFTK) while average freight yield decreased by 5.0%. Other incomes increased from the previous year by 5.2% mainly from the adjustment item: passenger airport tax liability which is a part of ticket fare collected from passenger before 2016 was adjusted to be other revenue amounted of THB 1,976 million. It should be noted that last year's profit was from sale of shares in Royal Orchid Hotel (Thailand) PCL and gain from selling properties both domestic and abroad totaled THB 1,287 million. Besides, revenues from other activities somewhat increased from last year.

Total expenses were THB 148,098 million, decreased by THB 3,467 million (2.3%) due to a decrease in fuel expenses by THB 2,384 million (5.5%) due to a decrease in average jet fuel price by 7.6%. Non-fuel operating expense decreased by THB 974 million (0.9%) mainly from the reduction in vacation compensation had been accrued during 2015-2018 totaled THB 1,261 million. Furthermore, flight related expenses decreased in line with diminishing production traffic. However, there were increasing items comprised of 1) lease of aircraft and spare parts increased by THB 533 (4.8%) from adding more operating lease aircraft to the fleet, 2) depreciation and amortization expenses increased by THB 687 million (5.8%) from changing in the estimate residual value of aircraft and spare engines, and 3) crew expenses increased by THB 460 million (10.9%) from changing in pilot's per diem calculation.

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

- Estimated service compensation for employees totaled THB 2,689 million as mentioned above.
- 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 566 million, decreased by THB 2,534 million (81.7%). This was mainly due to the additional provision of impairment loss of 15 decommissioned aircraft which held for sales, amount of THB 343 million and 6 engines aircraft, amount of THB 59 million resulting total amount of THB 402 million while last year's provision for impairment loss of 19 grounded aircraft, amount of THB 2,694 million and engines of THB 86 million resulting total amount of THB 2,780 million.
- Gain on foreign currency exchange of THB 2,808 million which consisted of realized gain, the amount of THB 377 million, and unrealized gain, the amount of THB 2,431 million, while last year had gain on foreign currency exchange of THB 452 million.

For the nine months of 2019, THAI and its subsidiaries reported a net loss of THB 11,102 million more loss than last year by THB 7,066 million. Loss attributable to owners the parent amounted to THB 11,120 million. Loss per share was THB 5.09, compared to last year's loss per share of THB 3.22.

For the nine-month results of 2019, EBITDA was THB 5,144 million, decreased by THB 7,293 million (58.6%) from last year. EBITDA margin was 3.7% which decreased from last year's where reported 8.4%.

3. Financial Position and Liquidity

Capital Expenditures

Unit : Million Baht	Jul-Sep		Jan - Sep	
	2019	2018	2019	2018
Aircraft and aircraft spare parts	488	467	1,061	8,778
Non-Aircraft	165	270	790	610
Total	653	737	1,851	9,388

Capital expenditures for the third quarter of 2019 totaled THB 653 million, slightly reduces from last year's. Capital expenditures in this quarter were

- Investment in aircraft and aircraft spare parts totaled THB 488 million which was mainly from the acquisition of rotatable aircraft spare parts.

- Investments in other fixed assets amounted to THB 165 million which were the investment in equipment used for Ground service, catering and technical tools for Maintenance services.

When combining with the half-year amounts of 2019, THB 1,198 million, THAI and its subsidiaries had total investment expenditure of THB 1,851 million for the nine months of 2019

Financing

In the nine months of 2019, THAI financed in the total amount of THB 31,000 million, as the following details.

- 1) withdrawing short-term loans in the form of promissory notes with local financial institutions totaling THB 18,000 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 and financing THB 3,000 million long-term loan from domestic financial institutions, 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 - Sep	
	2019	2018
Net cash from operating activities	8,108	12,896
Net cash used in investing activities	(1,368)	(895)
Net cash used in financing activities	(6,285)	(14,191)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(166)	(13)
Increase (Decrease) in cash and cash equivalents	289	(2,203)

In the nine months of 2019, THAI had net cash from operating activities, the amount of THB 8,108 million, THB 4,788 million lower than last year from substandard performance. Net cash used in financing activities was THB 6,285 million, THB 7,906 million, lower than last year, due to net cash received from short-term loans higher than last year. Despite, net cash used in investing activities was THB 1,368 million, THB 473 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 September 30, 2019, amounted to THB 13,981 million increased from December 31, 2018 of THB 289 million.

Fleet

The total active aircraft was 103 aircrafts as of September 30, 2019 (including 20 Airbus A320-200 under THAISmile's operations) which equaled to numbers of aircraft as of December 31, 2018 and September 30, 2018. As of September 30, 2019, THAI had the aircraft held for sale total 17 aircraft comprised of 3 Airbus A340-500, 6 Airbus A340-600, 1 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 September 30, 2019, total assets totaled THB 258,194 million, a decrease of THB 10,527 million (3.9%) from December 31, 2018.

	Consolidated					
	Sep 30, 2019		Dec 31, 2018		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	13,981	5.4	13,692	5.1	+289	+2.1
Non-current assets held for sale	503	0.2	490	0.2	+13	+2.7
Other current assets	35,531	13.8	35,366	13.1	+165	+0.5
Current Assets	50,015	19.4	49,548	18.4	+467	+0.9
Property, plant and equipment						
Aircraft	41,195	16.0	45,946	17.1	-4,751	-10.3
Aircraft under finance leases	100,543	38.9	105,600	39.3	-5,057	-4.8
Aircraft spare parts	11,575	4.5	11,708	4.4	-133	-1.1
Work in process	406	0.2	341	0.1	+65	+19.1
Land, building and improvements	13,142	5.1	13,311	5.0	-169	-1.3
Other plant and equipment	2,708	1.0	2,692	1.0	+16	+0.6
Property, plant and equipment-net	169,569	65.7	179,598	66.9	-10,029	-5.6
Other non-current assets	38,610	14.9	39,575	14.7	-965	-2.4
Total Assets	258,194	100.0	268,721	100.0	-10,527	-3.9

Current assets were THB 50,015 million or represented 19.4% of total assets, an increase of THB 467 million (0.9%) from as of December 31, 2018. The significant items consisted of

- Cash and cash equivalents increased by THB 289 million (2.1%) from net cash from operating activities higher than net cash from investing and financing activities.

- Other current assets increased by THB 165 million (0.5%) mainly from more trade receivable by THB 690 million (6.6%) from increasing sale volume in September 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 13 million (2.7%) from transferring 4 Airbus A330-300 aircraft from non-performing assets, amount of THB 926 million and sold 4 Airbus A330-300, their cost totalled THB 778 million. In addition, there was recognition of impairment of 2 Boeing B747-400 and 1 Airbus A330-300 aircraft, totaling THB 135 million.

As of September 30, 2019, non-current assets held for sale comprised of 3 aircraft which were 1 Airbus A330-300 and 2 Boeing B747-400 aircraft amount of THB 503 million.

Property, plant and equipment-net totaled THB 169,569 million or represented 65.7% of total assets, a decrease of THB 10,029 million (5.6%) from December 31, 2018 due to normal depreciation.

Other non-current assets totaled THB 38,610 million or represented 14.9% of total assets, which decreased by THB 965 million (2.4%) from as of December 31, 2018 resulting from

- Non-performing assets decreased by THB 1,192 million (24.4%) mainly from the transfer 4 Airbus A330-300 aircraft to non-current assets held for sale and more provision impairment loss of aircraft,

- Deferred refurbishment of operating lease aircraft decreased THB 404 million (8.9%) from amortizing both buyer-furnished equipment for operating lease aircraft and crew rest and in-flight connectivity for 6 Boeing B787-8 aircraft.

- Deferred tax assets decreased by THB 272 million (2.6%), which was mainly from the decreasing in deferred tax for provision of impairment of aircraft,

- An increase, approximately THB 1,164 million (8.6%), 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 nine months of 2019 was -2.90 % when compared to last year's -0.77%.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of September 30, 2019 were THB 245,719 million decreased by THB 2,546 million (1.0%) from December 31, 2018. These comprised of:

	Consolidated					
	Sep 30, 2019		Dec 31, 2018		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	67,547	27.5	66,046	26.6	+1,501	+2.3
Long-term liabilities						
Debentures	68,550	27.9	64,850	26.1	+3,700	+5.7
Liabilities under financial leases	48,767	19.8	58,982	23.8	-10,215	-17.3
Long term borrowings	22,319	9.1	24,444	9.8	-2,125	-8.7
Total long-term liabilities	139,636	56.8	148,276	59.7	-8,640	-5.8
Other non-current liabilities	38,536	15.7	33,943	13.7	+4,593	+13.5
Total Liabilities	245,719	100.0	248,265	100.0	-2,546	-1.0

Current liabilities (excluding current portion of long term liabilities' amount of THB 22,240 million) represented 27.5% of total liabilities were THB 67,547 million, an increase of THB 1,501 million (2.3%) from December 31, 2018. The major subjects were from

- Short-term loan increased by THB 1,000 million (33.3%) mainly from short-term loan drawdown of promissory notes with domestic financial institutions to repay short-term loans and maturity debentures.
- Trade payables increased by THB 1,773 million (34.3%) mainly from the increased account payables for Total Care maintenance program.
- Unearned transportation revenue decreased by THB 737 million (2.4%) in line of reducing sale volume.
- Accrued expenses decreased by 475 million (2.6%) mainly from transferring accrued expense for Total Care maintenance program to trade payables as describe earlier.

Long-term liabilities (including current portion of long term liabilities' totaled THB 22,240 million) were THB 139,636 million or represented 56.8% of total liabilities, which decreased by THB 8,640 million (5.8%) from December 31, 2018 primarily due to repayment of long term loans, debentures, and the liabilities under financial leases, total amount of THB 17,322 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 and long-term financing amounted to THB 3,000 million. Then, the appreciation of Thai Baht against the Euro, Yen and US dollar as of September 30, 2019, compared with the end of the year 2018, resulting in long-term liabilities when transferred into Baht term decreased by THB 4,318 million..

Other non-current liabilities as of September 30, 2019 totaled THB 38,536 million or represented 15.7% of total liabilities which increased by THB 4,593 million (13.5%) mainly due to employee benefit obligations increases by THB 3,379 million as a result of estimate service compensation for employees as mentioned earlier. Moreover, long-term provision increased by THB 1,016 million resulting from the maintenance provision for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations.

At the end of the third quarter 2019, the interest bearing debt to equity was 11.51 times, higher than at the end of 2018's 7.40 times. Debt to equity ratio was 19.70 times, higher than 12.14 times of last year.

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

As of September 30, 2019, shareholders' equity totaled THB 12,475 million, a decrease of THB 7,981 million (39.0%) 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 nine months of the previous year resulting, the return on equity decreased from -13.36 % in the first nine months of 2018 to -67.42 % in nine 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 2,691million 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 reserve 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 September 30, 2019, THAI and its subsidiaries had cash and cash equivalents amounted to THB 13,981 million or represented 5.4% of total assets, increased from December 31, 2018. In the nine months of 2019, THAI financed short-term and long-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 measured under cautious circumstances 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 September 30, 2019, amount THB 9,500 million.

4. Factors affecting future operations

The global aviation outlook in the fourth quarter of 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 noticeably slowed down. For average crude oil prices of 2019, it is expected to be lower than 2018

The trend of Thai aviation industry in 2019 is likely to expand but decelerate than 2018. There will be predicted that the competitive will be more intense because Thailand successfully removed the red flag. Thus, Thai airlines can develop their routes and add more 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.

According to the extreme competition which directly influence to the performance of THAI, THAI establishes the serious 6 strategies designed to cut expenses and improve revenues as follows:

1. Save TG Co-Creation: A cost-control strategy that does not hinder THAI's quality of service. The Company's cost reduction plan allows THAI staff to propose ideas and suggestions to the Management team, and more importantly grants passengers the opportunity to suggest solutions for THAI.

2. Zero Waste Management: A project that helps save and creates a circular economy for both the organization and the nation as a whole starting from food waste.

3. In the fourth quarter, a new marketing strategy will be implemented to launch direct flights to Sendai, Japan since October 29, 2019.

4. Strategy to increase revenue: Utilize digital marketing, such as promotions in the digital media on a regular basis in order to better serve the online customer. The mobile application helps to increase revenue by selling ancillary products, such as increase excess baggage allowance, travel insurance, airport limousine service, car rental, hotels, and

Furthermore, the customers will also be able to purchase products online through the eCommerce platform. THAI has selected eCommerce vendors who have worked with other world-class airlines and anticipates that service will be launched in the fourth quarter of 2019.

5. THAI Synergy Strategy: THAI's products and services can be offered through business alliances. Currently, a project is underway for THAI to collaborate with Café Amazon to expand business in Thailand and the Asian region.

6. TG Group Strategy: THAI and THAI Smile will be stronger together in all dimensions, with a route network that offers systematic connectivity for passenger convenience, which will be implemented regionally during the fourth quarter this year. THAI Smile will completely become a Star Alliance connecting partner by the end of this year, which will strengthen the airline network in this region.

In addition, THAI is in the process of issuing and offering the debentures of the Company No. 2/2019 in the amount of THB 10,000 million by offering in a private placement (to institutional investors and high net-worth investors in November 2019).

4. Financial Ratios

	Jan - Sep	
	2019	2018
Liquidity Ratio		
Current Ratio (times)	0.83	0.98
Current Ratio (Included Committed Credit Line) (times)	0.98	1.26
Profitability Ratio		
Operating profit (Loss) Margin (%)	(7.84)	(1.95)
Net Profit (Loss) Margin (%)	(8.08)	(2.71)
Return on Equity (%)	(67.42)	(13.36)
Efficiency Ratio		
Return on Total Assets (%)	(2.90)	(0.77)
Financial Policy Ratio		
Interest Bearing Debt to Equity (times)	11.51	5.39
Total Debt to Equity (times)	19.70	8.78
Interest Coverage Ratio (times)	1.55	3.64
Net Debt to EBITDA (times)	45.05	18.99
Debt Service Coverage Ratio (times)	0.65	0.91

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)