

## **Management's Discussion and Analysis for the third quarter ended September 30, 2015 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

The global aviation industry for January-September 2015 has been growing continuously as announced by the International Air Transport Association (IATA) showing growth of both passenger traffic and production traffic increased by 6.7% and 6.0% respectively - causing the cabin factor to rise to 80.7%. The primary growth is from low-cost airlines that conquer 25.0%'s market share which rapidly expand in emerging markets including Asia Pacific and the Middle East. However, fierce competition along with the price of crude oil fell decreased approximately by 19.2% QoQ and about 51.4% YoY causing lower yield and ticket prices. World economic is still fragile due to many concerns such as the expectation of raising policy rate of The Federal Reserve (Fed) before the end of the year caused a stronger U.S. dollar and slowdown in the Chinese economy which has resulted the slowdown of economic partners countries, especially on the export sector which makes the freight load factor levels have not improved since mid-2009.

During the third quarter of 2015, as part of fleet Strategy under Transformation Plans launched in the first quarter of 2015, THAI decommissioning 1 aircraft (Airbus A330-300) while took delivery of 2 new aircraft (Boeing B787-8 and Boeing B777-300ER) bringing our total of 95 aircraft at present. The Mutual Separation Plan (MSP) for general employees and Golden Handshake scheme for flight attendants to manage manpower affected by the reduction of flights and routes in order to improve the personnel and cost structure and reduce overall costs in the long term were still under process. The first group of 428 staff joining these 2 programs, was affective on July 1, 2015.

With Thailand tourism sector in recovery path, the economic growth in several countries and the expansion of Chinese tourists traveling abroad from easing measures of the Chinese authorities, Thailand saw 8.99 million flying passengers via Suvarnabhumi airport, an increase of 20.3% over last year. However, this already included impact from Ratchaprasong incident on August 17, 2015 which decreased number of flying passengers in September down by 25.2% compared to that of August. The third quarter flying passengers by THAI were 5.15 million passengers showing an increase of 8.8% YoY. The passenger traffic increased by 3.9% while passenger production decreased by 0.8 % thus explained improve in cabin factor 71.1% last year to 74.4% this year. Cargo business was affected by the export downturn and reduction in freight production from the decommissioned freighter aircrafts. Therefore, the freight traffic amount fell 15.2% YoY.

THAI and its subsidiaries' financial performance for the third quarter of 2015 showed an operating loss of THB 2,786 million – a 27.3% improvement from the same period last year due mainly to 6.1% expense decrease primarily from fuel price. Total revenue was THB 44,342 million representing THB 2,029 million or 4.4% decline from last year mainly from 3.3% reduction in passenger and excess baggage revenue and 19.7% reduction in freight revenue. Main reasons for drop in revenue were from yield drop (6.9% in passenger and 5.2% in freight) resulting from the reduction of fuel surcharge and the intense competition.

Non-operating P&L items included THB 99 million aircraft impairment, THB 4,532 million loss on foreign currency exchange resulting from 8-10% weakening THB against major currencies, and THB 1,453 million net finance cost. Including all these items, the total

net loss for the quarter was THB 9,894 million. Loss attributable to owners of the parent amounted to THB 9,901 million. Loss per share was THB 4.54 compared to gain per share of THB 0.50 that of last year.

EBITDA was THB 1,963 million, THB 582 million (42.1%) higher from last year. EBITDA margin was 4.4%, as compared to last year's reported 3.0%.

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

The consolidated financial statements for the third quarter of 2015 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) THAI Smile Airways Co., Ltd.

### Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jul - Sep			
	2015	2014	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>44,342</b>	<b>46,371</b>	<b>-2,029</b>	<b>-4.4</b>
- Passenger and excess baggage revenue	36,639	37,903	-1,264	-3.3
- Freight and mail revenue	4,371	5,440	-1,069	-19.7
- Revenue from other activities	2,824	2,483	+341	+13.7
- Other income	508	545	-37	-6.8
<b>Total operating expenses</b>	<b>47,128</b>	<b>50,205</b>	<b>-3,077</b>	<b>-6.1</b>
- Fuel and oil	16,364	19,479	-3,115	-16.0
- Non-fuel operating expenses	30,764	30,726	+38	+0.1
<b>Operating Profit (Loss)</b>	<b>(2,786)</b>	<b>(3,834)</b>	<b>+1,048</b>	<b>+27.3</b>
<u>Less</u> Net finance cost	1,453	1,403	+50	+3.6
<u>Less</u> Impairment loss of assets and aircraft	99	1,220	-1,121	-91.9
<u>Add</u> Gain (Loss) on foreign currency exchange	(4,532)	7,379	-11,911	-161.4
Profit (Loss) before tax	(8,870)	922	-9,792	-
Net Profit(Loss)	(9,894)	1,097	-10,991	-
<b>Profit (Loss) attribute to owners of the parent</b>	<b>(9,901)</b>	<b>1,086</b>	<b>-10,987</b>	<b>-</b>
Net Profit (Loss) per share (THB)	(4.54)	0.50	-5.04	-
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	1,963	1,381	+582	+42.1
Number of passengers (Million)	5.15	4.73	+0.42	+8.8
Available Seat-Kilometers (Million)	20,275	20,439	-164	-0.8
Revenue Passenger-Kilometers (Million)	15,089	14,523	+566	+3.9
Cabin factor (%)	74.4	71.1		+3.4
Passenger yield (THB/RPK)	2.39	2.57	-0.18	-6.9
Available Dead Load Ton-Kilometers (Million)	827	945	-118	-12.5
Revenue Freight Ton-Kilometers (Million)	476	561	-85	-15.2
Freight load factor (%)	57.5	59.4		-1.9
Freight carried (Ton)	130,859	139,260	-8,401	-6.0
Freight yield (THB/RFTK)	8.75	9.23	-0.48	-5.2
Number of active aircraft/as at Sep 30 (Aircraft)	95	104	-9	-8.7
Flight hours (Hours)	90,538	90,574	-36	-
Aircraft utilization (Hours/Aircraft/Day)	10.8	10.1	+0.7	+6.9
Average foreign currency exchange rate				
1 USD : THB	35.2551	32.0995	+3.1556	+9.8
1 EUR : THB	39.2336	42.5247	-3.2911	-7.7
100 JPY : THB	28.8868	30.8661	-1.9793	-6.4
Average jet fuel price (USD/BBL)	70.45	124.45	-54.00	-43.4

Note : EBITDA = Total Revenue (Exclude gain/loss on foreign currency) - Total Expenses (exclude finance cost, tax, depreciation and amortization, and one-time expenses)

: In 2015, THAI changed standard weight (statistical calculation for average weight of passenger and free baggage allowance) from 90 kilograms per passenger to 100 kilograms per passenger for comparison purpose both to the industry and restate standard weight in 2014 to be the same basis of this year.

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

For the third quarter of 2015, total revenues decreased by THB 2,029 million (4.4%) from the same period last year with details as follows:

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

Passenger and excess baggage revenue decreased by THB 1,264 million(3.3%) as:

- Average passenger yield (including fuel and insurance surcharge) reduced by 0.18 THB/RPK(6.9%), approximately THB 2,720 million resulting from fuel surcharge in conjunction with strengthening THB when comparing to major revenue currencies namely EUR and JPY. If excluded FX effect and fuel surcharge, average passenger yield decreased by 4.0%. There was an increase in passenger traffic in Asia route; however, fierce competition from Low Cost Carriers(LCC) which operated with greater frequency, rendered the lower yield.

- Passenger traffic (Revenue Passenger-Kilometers - RPK) increased by 3.9% or approximately THB 1,455 million due to the increase of regional traffic in all routes. However, RPK for intercontinental routes decreased due to the discontinue of loss making Bangkok – Johannesburg, reducing frequency in some other European and North Pacific routes in order to matching traffic demand, and cancellation of non-profitable routes. Passenger production decreased by 0.8% resulting average cabin factor increased from 71.1% last year to 74.4% this year.

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

Freight and mail revenue decreased by THB 1,069 million (19.7%) due to the, 15.2% or THB 785 million, decrease of freight traffic (Revenue Freight Ton-Kilometers – RFTK) while average freight yield (including fuel and insurance surcharge) decreased by 0.48 THB/RFTK (5.2%) over last year mainly due to the reduction of fuel surcharge. Also affected by the export decline due to the slowdown of the Chinese economy, the economy of the partner countries, especially with Japan and ASEAN 5 that rely on exports to China relatively high, impacted directly on Thailand's exports in conjunction with Generalized System of Preferences (GSP) cut for all products to EU also impacted the reduction of freight traffic. Freight production (Available Dead-load Ton-Kilometers – ADTK) was 12.5% lower than last year due to decommissioning of 2 Boeing B747F (freighter aircraft) in March 2015 resulting decrease in average freight load factor at 57.5% compare with 59.4% last year.

### **- Revenue from other activities**

Ground services, Catering, Cargo handling services, and other activities revenue increased by THB 341 million (13.7%) from last year. The increased revenues were mainly from Ground services and Catering due to increasing number of other customer airlines flights and number of passengers but revenue from cargo handling was decreased by the lower volume of cargo traffic.

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

Total expenses for third quarter of 2015 was THB 3,077 million (6.1%) lower than the same period last year. A summary of operating expenses is as follows:

- **Fuel and oil** expense was THB 3,115 million (16.0%) lower than last year due to a decrease in average jet fuel price by 43.4%. However, depreciating THB against USD caused expense in THB to increase with the fuel hedging fee caused the company's expense with THB 5,986 million.

- **Non-fuel** operating expense was THB 38 million (0.1%) higher than last year. Details as follows:

Unit : Million Baht	Jul - Sep					
	2015	% of Total Expense	2014	% of Total Expense	Variance	
					MTHB	%
<b>Expense</b>						
Employee benefit expenses	7,167	23.3	7,279	23.7	-112	-1.5
Flight service expenses	5,075	16.5	5,038	16.4	+37	+0.7
Crew expenses	1,310	4.3	1,469	4.8	-159	-10.8
Aircraft maintenance and overhaul costs	3,130	10.2	3,174	10.3	-44	-1.4
Depreciation and amortization expenses	4,672	15.2	5,146	16.8	-474	-9.2
Lease of aircraft and spare parts	2,436	7.9	1,658	5.4	+778	+46.9
Inventories and supplies	1,831	6.0	1,970	6.4	-139	-7.1
Selling and advertising expenses	2,466	8.0	2,286	7.4	+180	+7.9
Insurance expense	158	0.5	112	0.4	+46	+41.1
Other expenses	2,442	7.9	2,489	8.1	-47	-1.9
Share of los (profit) of associates	77	0.2	105	0.3	-28	-26.7
<b>Non-fuel Operating Expense</b>	<b>30,764</b>	<b>100.0</b>	<b>30,726</b>	<b>100.0</b>	<b>+38</b>	<b>+0.1</b>

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits decreased by THB 112 million (1.5%) due to the lower number of employees – both retired staff and employees with health issue participating in Mutual Separation Plan (MSP) in 2014. THAI also provided the Mutual Separation Plan -MSP for general employees and Golden Handshake scheme for flight attendants to manage manpower based upon THAI's transformation plan. The first group of participants joining these programs, totaled 428 staff being affective on July 1, 2015.

- Flight related expenses consisted of flight service expenses, crew expenses, aircraft maintenance and overhaul costs, and inventories and supplies decreased by THB 305 million (2.6%) due to the reduction in production.

- Depreciation and amortization decreased by THB 474 million (9.2%) due to decommissioning 6 Airbus A340-600 aircraft which still had useful life and aircraft that have already fully depreciated. Despite there were new aircraft under finance leases added to the fleet.

- Lease of aircraft and spare parts increased by THB 778 million (46.9%) due to increase of 11 operating lease aircraft since 2014 comprises of 6 Boeing B787-8 and 5 Airbus A320-200 aircraft while 3 operating lease aircraft had been returned since 2014.

- Selling and advertising expenses increased by THB 180 million (7.9%) due to increase in reservation expenses from the higher rate and weakening Thai Baht against US dollar.

Moreover, the implementation of new cargo revenue accounting system in August 2014 made changes in revenue recognition of freight and mail revenues which enabled to isolate commission expense while the old system recognized it as a net revenue. Thus, the commission expense for this period, roughly THB 104 million, THB 34 million higher than last year, was booked as part of the freight and mail revenues account, the same amount was booked in the selling and advertising expenses account. The simultaneous booking in the revenue and expense accounts bears no overall effect to THAI's profit and loss statement.

- Other expenses decreased by THB 47 million (1.9%) following cost management program based on transformation plan.

**Share of loss of associates** reduced by THB 28 million(26.7%) YoY. The details as follow:

- Bangkok Aviation Fuel Services PCL's amount of THB 58 million profit, an increase of THB 15 million,
- Suvarnabhumi Airport Hotel Ltd.'s amount of THB 8 million profit, while last year's loss of THB 3 million,
- Royal Orchid Hotel (Thailand) PCL's amount of THB 8 million loss, decrease in loss of THB 9 million,
- Nok Airlines PCL.'s amount of THB 137 million loss, decrease in loss of THB 1 million,
- Phuket Air Catering Ltd.'s amount of THB 4 million loss, while last year's profit of THB 4 million, and
- Donmuang International Airport Hotel Ltd.'s amount of THB 7 million profit, equivalent to last year

**Impairment loss of assets and aircraft** decreased by THB 1,121 million (91.9%) with the following details:

- Impairment loss of aircraft decreased by THB 1,131 million, due to no provision for impairment loss during this quarter, while there were an impairment loss of 2 Airbus A300-600 recognized last year, amount of THB 1,131 million.
- Impairment loss of assets increased by THB 10 million due to higher reserve for damaged spare parts which were unrepairable.

**Net finance cost** increased by THB 50 million (3.6%) due to amortization charges of loan guarantee premiums to purchase 5 Airbus A340-600 aircraft, amount of THB 113 million, which repaid the full amount of loan. If excluding this amount, the financial cost would be THB 63 million lower than last year due to lower average interest rates this year. The strengthened THB against EUR and JPY also helped lower expense in Baht term.

#### **Loss on foreign currency exchange**

Loss on foreign currency exchange was THB 4,532 million consisted of THB 5,274 million unrealized loss resulting from revaluation of foreign currency loans offset with realized gain of THB 742 million.

Operating results of Thai Airways International PCL. and its subsidiaries of the first nine months of 2015 (January - September 2015) are as follows:

**Financial Performance: THAI and its subsidiaries**

Unit : Million Baht	Jan - Sep			
	2015	2014	Variance	
			MTHB	%
<b>Total operating revenues</b>	<b>137,715</b>	<b>139,645</b>	<b>-1,930</b>	<b>-1.4</b>
- Passenger and excess baggage revenue	114,205	113,485	+720	+0.6
- Freight and mail revenue	13,746	17,523	-3,777	-21.6
- Revenue from other activities	8,461	7,118	+1,343	+18.9
- Other income	1,303	1,519	-216	-14.2
<b>Total operating expenses</b>	<b>138,063</b>	<b>151,523</b>	<b>-13,460</b>	<b>-8.9</b>
- Fuel and oil	45,778	58,938	-13,160	-22.3
- Non-fuel operating expenses	92,285	92,585	-300	-0.3
<b>Operating Profit (Loss)</b>	<b>(348)</b>	<b>(11,878)</b>	<b>+11,530</b>	<b>+97.1</b>
<u>Less</u> Net finance cost	4,188	4,346	-158	-3.6
<u>Less</u> Termination benefits mutual separation plan	3,722	-	+3,722	-
<u>Less</u> Impairment loss of assets and aircraft	12,330	2,519	+9,811	+389.5
<u>Add</u> Gain (Loss) on foreign currency exchange	1,443	9,378	-7,935	-84.6
Profit (Loss) before tax	(19,145)	(9,365)	-9,780	-104.4
Net Profit(Loss)	(18,100)	(9,177)	-8,923	-97.2
<b>Profit (Loss) attribute to owners of the parent</b>	<b>(18,119)</b>	<b>(9,211)</b>	<b>-8,908</b>	<b>-96.7</b>
Net Profit (Loss) per share (THB)	(8.30)	(4.22)	-4.08	-96.7
<b><u>Significant operating data</u></b>				
EBITDA (MTHB)	14,297	3,727	+10,570	+283.6
Number of passengers (Million)	15.84	13.77	+2.07	+15.0
Available Seat-Kilometers (Million)	62,422	61,262	+1,160	+1.9
Revenue Passenger-Kilometers (Million)	45,619	41,826	+3,793	+9.1
Cabin factor (%)	73.1	68.3		+4.8
Passenger yield (THB/RPK)	2.46	2.67	-0.21	-7.7
Available Dead Load Ton-Kilometers (Million)	2,645	2,808	-163	-5.8
Revenue Freight Ton-Kilometers (Million)	1,555	1,815	-260	-14.3
Freight load factor (%)	58.8	64.6		-5.9
Freight carried (Ton)	412,993	454,546	-41,553	-9.1
Freight yield (THB/RFTK)	8.39	9.29	-0.90	-9.6
Number of active aircraft/as at Sep 30 (Aircraft)	95	104	-9	-8.7
Flight hours (Hours)	279,557	272,733	+6,824	+2.5
Aircraft utilization (Hours/Aircraft/Day)	10.8	10.2	+0.6	+5.9
Average foreign currency exchange rate				
1 USD : THB	33.7562	32.4059	+1.3503	+4.2
1 EUR : THB	37.6548	43.9060	-6.2512	-14.2
100 JPY : THB	27.9331	31.4669	-3.5338	-11.2
Average jet fuel price (USD/BBL)	75.50	127.05	-51.56	-40.6

Note : EBITDA = Total Revenue (Exclude gain/loss on foreign currency) - Total Expenses(exclude finance cost, tax, depreciation and amortization, and one-time expenses)

: In 2015, THAI changed standard weight (statistical calculation for average weight of passenger and free baggage allowance) from 90 kilograms per passenger to 100 kilograms per passenger for comparison purpose both to the industry and the previous period by recalculating standard weight in 2014 to be the same basis of this year.

THAI and its subsidiaries' financial performance for the first nine month of 2015 showing an airlines business operating loss of THB 348 million, a decrease of THB 11,530 million(97.1%) compared to loss last year.

- Total revenue decreased by THB 1,930 million (1.4%) mainly due to decrease of freight and mail revenue, THB 3,777 million (21.6%). The decrease in freight and mail revenue was mainly from the decrease of average freight yield while freight traffic was lower than last year, as well. Passenger and excess baggage revenue increased by THB 720 million (0.6%). THAI's passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 9.1%. However, the severe competition in aviation industry, the reduction of fuel surcharge which decreased in line with the decreasing fuel prices, and the strengthen Thai Baht entirely made lower average passenger yield (including fuel and insurance surcharge) by 0.21 THB/RPK (7.7%). If excluded fuel surcharge and FX effects, average passenger yield diminished 4.8%. Revenues from other activities increased by THB 1,343 million (18.9%).

- Total expenses decreased by THB 13,460 million (8.9%) due to the lower fuel prices and the strengthen THB against most major currencies (EUR, JPY, AUD) with an exception to USD which Baht slightly appreciated, causing expenses dropped in Baht term.

- Termination benefits - Mutual Separation plan amounted to THB 3,722 million comprises of employees compensation from Mutual Separation Plan and Golden Handshake following the transformation plan.

- Impairment loss of assets and aircraft increased by THB 9,811million due to the impairment of 9 grounded aircrafts

- Gain on foreign currency exchange was THB 1,443 million, THB 7,935 million (84.6%) lower than last year.

Net loss was THB 18,100 million, 8,923 million (97.2%) more loss than last year. Loss attributable to owners the parent amounted to THB 18,119 million. Loss per share was 8.30 THB, compared to last year where THAI reported a loss per share of 4.22 THB.

EBITDA increased by THB 10,570 million (283.6%) from last year. EBITDA margin was 10.4% which increased from last year's where reported 2.7%

### 3. Financial Position and Liquidity

#### Capital Expenditures - The Company

Unit : Million Baht	Jan - Sep	
	2015	2014
Aircraft and aircraft spare parts	13,006	12,034
Non-Aircraft	479	826
<b>Total</b>	<b>13,485</b>	<b>12,860</b>

Capital expenditures for the third quarter of 2015 totaled THB 4,327 million as the following details



- Investment in aircraft and aircraft spare parts totaled THB 4,215 million included payment for aircraft delivered, which totaled 1 new Boeing B777-300ER aircraft and related expenses of existing aircraft, total amount was THB 3,241 million. Prepayment for acquisition of aircraft and engines in which delivery will be taken in 2015-2018 totaled THB 815 million and THB 159 million for rotatable aircraft spare part and spare engine.

- Investments in other fixed assets amounted to THB 112 million. Most of them were invested in the Ground Support Equipment activities.

Combined with the investment in the first half of 2015 amounted to THB 9,158 million, the accumulated investment of 2015 totaled THB 13,485 million.

### Financing

In the first nine months of 2015, THAI financed in the total amount of THB 52,262 million as the following details

1) acquired long-term financing through financial lease using the aircraft as collateral, totaled THB 17,397 million. During the first quarter, THAI financed for 1 Boeing B777-300ER aircraft for aircraft payment in the amount of EURO 137 million, or approximately THB 5,140 million and 1 Airbus A320-200 aircraft in the amount of EURO 28 million or approximately THB 1,067 million. During the second quarter, there was additional Boeing B777-300ER in the amount of USD 160 million, or approximately THB 5,392 million. During this quarter, there was an additional Boeing B777-300ER in the amount of USD 160 million, or approximately THB 5,798 million.

2) issued THB 15,000 million new debentures: THB 7,000 million in April 2015 and THB 8,000 million in September 2015, divided into four series of bonds would pay interest every six month throughout the life. The objective is to repay the debentures at maturity, and / or use as an investment and / or working capital and supporting fund for transformation plan.

3) draw down of its committed revolving credit line from domestic financial institution, foreign borrowings via the Ministry of Finance, and Bill of Exchange (B/E) to repay the loan at maturity and used as working capital, amount of THB 19,865 million.

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

Unit : Million Baht	Jan – Sep	
	2015	2014
Net cash from operating activities	15,801	530
Net cash from (used in) investing activities	82	(5,748)
Net cash from (used in) financing activities	(11,585)	12,514
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	607	(429)
<b>Increase in cash and cash equivalents</b>	<b>4,905</b>	<b>6,867</b>

In the first nine months of 2015, THAI's net cash from operating activities totaled THB 15,801 million, an increase of THB 15,271 million from last year because of the better performance which caused the lower loss of 97.1% and net cash from investing activities, amount of THB 82 million this year. THAI's net cash used in financing activities amounted to THB 11,585 million due to both short-term and long-term repayment which were higher than last year. Consequently, cash and cash equivalents for the period ended September 30, 2015 increased by THB 4,905 million from the end of last year.

### Fleet

According to the fleet development strategy which has been implementing since last year along with the fleet strategy aimed to streamline the number of aircraft and types of aircraft for improving efficiency and operation cost reduction, it is one of THAI's transformation plan.

In the third quarter of 2015, THAI's consolidated took delivery of total 1 Boeing B777-300ER aircraft under finance lease and 1 operating lease aircraft: Boeing B787-8. THAI also decommissioned 1 Airbus A330-300 aircraft. When combined with 94 active aircraft as of June 30, 2015, these put THAI's net active aircraft fleet at 95 aircraft (including 3 Airbus A320-200 aircraft subleased and 10 Airbus A320-200 aircraft transferred the leasehold right to ThaiSmile.).

In this quarter, THAI sold totally 5 grounded aircraft: Airbus A300-600 aircraft which were decommissioned in the previous years.

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

As of September 30, 2015, total assets decreased by THB 6,831 million (2.2%) from as at December 31, 2014.

	Consolidated					
	Sep 30, 2015		Dec 31, 2014		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	28,251	9.4	23,346	7.6	+4,905	+21.0
Non-current assets classified as held for sale	13,562	4.5	4,826	1.6	+8,736	+181.0
Other current assets	35,565	11.9	36,113	11.7	-548	-1.5
<b>Current Assets</b>	<b>77,378</b>	<b>25.8</b>	<b>64,285</b>	<b>20.9</b>	<b>+13,093</b>	<b>+20.4</b>
Property, plant and equipment						
Prepaid aircraft and spare engine	6,023	2.0	12,368	4.0	-6,345	-51.3
Aircraft	41,509	13.8	51,322	16.7	-9,813	-19.1
Aircraft under finance leases	130,958	43.6	134,611	43.8	-3,653	-2.7
Aircraft spare parts	12,990	4.3	13,191	4.3	-201	-1.5
Work in process	275	0.1	1,274	0.4	-999	-78.4
Land, building and improvements	6,172	2.1	6,449	2.1	-277	-4.3
Other plant and equipment	4,615	1.5	4,806	1.6	-191	-4.0
<b>Property, plant and equipment-net</b>	<b>202,542</b>	<b>67.4</b>	<b>224,021</b>	<b>72.9</b>	<b>-21,479</b>	<b>-9.6</b>
Other non-current assets	20,516	6.8	18,961	6.2	+1,555	+8.2
<b>Total Assets</b>	<b>300,436</b>	<b>100.0</b>	<b>307,267</b>	<b>100.0</b>	<b>-6,831</b>	<b>-2.2</b>

Current assets were THB 77,378 million or accounted for 25.8% of total assets, an increase of THB 13,093 million (20.4 %) from as of December 31, 2014. The significant items consisted of

- An increase in cash and cash equivalents of THB 4,905 million (21.0%), mainly from debentures issuance, amount of THB 8,000 million as of September 30, 2015 combined with the previous debentures lot, amount of THB 4,000 million. Net cash from operating activities totaled THB 15,801 million but there were short-term loans repayment which due, the amount of THB 5,135 million, and long-term loans repayment and interest expenses of THB 18,418 million.

- Non-current assets classified as held for sale increased by THB 8,736 million (181.0%) due to the transferring 14 decommissioned aircraft as aircraft held for sale which were 6 Airbus A330-300, 6 Airbus A340-600, and 2 Boeing B747-400(Freighter). In this quarter, there was 1 additional decommissioned aircraft. THAI sold total 7 aircraft: 2 aircraft in the first quarter which were 1 Airbus A300-600 and 1 Boeing B747-400 aircraft and 5 Airbus A300-600 aircraft in this quarter.

Property, plant and equipment-net totaled THB 202,542million or represented 67.4 % of total assets, which saw a decrease of THB 21,479 million (9.6%) from December 31, 2014 resulting from

- The prepaid aircraft and spare engines decreased by THB 6,345 million (51.3%) due to the transfer from aircraft prepayment: 3 Boeing B777-300ER and 1 Airbus A320-200 aircraft to aircraft under finance lease and engine prepayment to rotatable spare part; however, there were additional aircraft prepayment of Airbus A350-900XWB and Airbus A320-200 aircraft.

- Aircraft decreased by THB 9,813 million (19.1%) due to the normal calculation of aircraft depreciation and transferring decommissioned aircraft to non-current assets classified as held for sales, totaling 8 aircraft: 6 Airbus A330-300 and 2 Boeing B747-400F aircraft.

- Aircraft under finance lease decreased by THB 3,653 million (2.7%) mainly due to transferring 6 decommissioned Airbus A340-600 aircraft to non-current assets classified as held for sales aircraft and the result of depreciation estimated. However, there were new aircraft delivered in the nine-month period of 2015 which consisted of 3 Boeing B777-300ER and 1 Airbus A320-200 aircraft.

- Property, plant and other equipment, consisted of work in progress, land, buildings and improvements, and other plants and equipment decreased by THB 1,467 million (11.7%) mainly due to the normal depreciation estimated.

Other non-current assets totaled THB 20,516 million or represented 6.8% of total assets, which increased by THB 1,555 million (8.2%) from as of December 31, 2014 resulting from increase of deferred tax assets THB 1,845 million (26.3%) due to the recording of deferred tax assets from the increase of allowance for impairment of aircraft and the effective portion of changes in fair value of cash flow hedges from application of hedge accounting to foreign currency borrowings and forecasted future revenue (Revenue Hedging).

Return on assets of the first nine months of 2015 was -4.8% higher than last year's -1.6% due to the more loss this year.

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

Total liabilities as of September 30, 2015 increased by THB 14,278 million (5.4%) from as of December 31, 2014. These comprise of:

	Consolidated					
	Sep 30, 2015		Dec 31, 2014		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (including current portion of long-term liabilities)	79,733	28.5	80,432	30.2	-699	-0.9
<b>Long-term liabilities</b>						
Debentures	56,600	20.2	44,600	16.8	+12,000	+26.9
Liabilities under financial leases	79,530	28.4	72,027	27.1	+7,503	+10.4
Long term borrowings	46,677	16.6	51,925	19.5	-5,248	-10.1
<b>Total long-term liabilities</b>	<b>182,807</b>	<b>65.2</b>	<b>168,552</b>	<b>63.4</b>	<b>+14,255</b>	<b>+8.5</b>
Other non-current liabilities	17,709	6.3	16,987	6.4	+722	+4.3
<b>Total Liabilities</b>	<b>280,249</b>	<b>100.0</b>	<b>265,971</b>	<b>100.0</b>	<b>+14,278</b>	<b>+5.4</b>

Current liabilities (excluding current portion of long term liabilities' amount of THB 20,551 million) totaled THB 79,733 million or accounted for 28.5% of total liabilities, a decrease of THB 699 million (0.9%) from last year.

- The short-term loan decreased by THB 4,820 million. The main reason was from the repayment of the loan at maturity.

- Accrued expenses decreased by THB 1,668 million, mainly due to the decrease of accrued fuel expense from falling oil prices.

- Other current liabilities increased by THB 3,036 million, mainly due to the recognition of compensation from Koito Industries Limited which was paid to THAI by court order in order to filing a case breaching of general terms agreements (economy class seats) for USD 60 million, approximately THB 2,100 million, which is currently undecided case as Koito argued by bringing the case to the Court of Appeals. (see also Notes to the financial statements 7.25).

- Unearned transportation revenues increased by THB 2,871 million, although sales decreased because the accrual period of the ticket, where passengers have not flown as of September 30, 2015, was prolonged longer than the December 31, 2014.

Long-term liabilities as of September 30, 2015 (including current portion of long term liabilities' totaled THB 20,551 million) totaled THB 182,807 million represented 65.2 % of total liabilities, which was an increase of THB 14,255 million (8.5%) from December 31, 2014 primarily due to the weakening value of the Baht to EUR and JPY as of September 30, 2015 when compared to the end of 2014 affected from the escalation of long-term liabilities translated to Baht terms. When excluded foreign currency adjustment, the amount of THB 4,505 million, long-term liabilities increased by THB 9,750 million mainly due to

- acquiring the additional long-term financing increased by THB 17,397 million to pay for aircraft purchases, 3 Boeing B777-300ER and 1 Airbus A320-200 aircraft,

- issuing new debentures the amount of THB 15,000 million which segregated into 2 lots: THB 7,000 million in April 2015 and another THB 8,000 million in September 2015.
- long-term repayment, amount of THB 22,333 million, consisted of long-term repayment and the debentures at maturity.

Other non-current liabilities totaled THB 17,709 million or represented for 6.3% of total liabilities, an increase of THB 722 million (4.3%) due to the increase of employee benefits.

At the end of the third quarter 2015, interest bearing debt to equity was 10.0 times when compared to the end of 2014's 4.7 times.

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

As of September 30, 2015, shareholders' equity totaled THB 20,186 million, a decrease of THB 21,110 million (51.1%) from December 31, 2014 due to loss from operations. Consequently, return on equity for the first nine months of 2015 decreased from -17.6% at the same period last year to -58.9%.

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

The forecast situation of the aviation industry in the last quarter is to grow steadily corresponding to the global economic relief from the expected lower oil prices than the third quarter of 2015 and U.S economic recovery.

For the aviation industry, it seems to be in the positive trend but in Asia-Pacific region there will be a big challenge from the recession of air cargo business. Although the decreasing fuel prices is the helpful factor, the strengthen US dollar makes lower profit. For the situation of Thai's aviation industry, it is the most urgent to solve the Significant Safety Concerns-SSC issue based on Universal Safety Oversight Audit Program-USOAP from the International Civil Aviation Organization (ICAO) before this problem will be more aggressive.

For the implementation of the reform plan, THAI proceeded the further steps as follows:

- Adjusting Winter TPI by planning to resume the Day Flight to London and Frankfurt which will operate double daily flights, cancel routes: Bangkok- Seoul- Los Angeles and Bangkok - Rome, and reduce flight frequency in Bangkok - Kolkata to 1 daily flight since October 25, 2015 onwards.
- Adjusting the implementation of transformation plan in other areas by focusing on increasing revenues and reducing costs, such as ancillary revenue, corporate restructuring and the management reprocessing is rigorous on every level.

In addition, THAI has established a monitoring process closely to ensure that the transformation plans will be updated to reflect the change of circumstances promptly.

## 5. Financial Ratios

	Jan - Sep	
	2015	2014
<b>Liquidity Ratio</b>		
Current Ratio (times)	0.85	0.75
<b>Profitability Ratio</b>		
Profit (loss) before Gain on foreign currency exchange		
Tax and One-time Margin %	(3.29)	(11.60)
Net Profit (loss) Margin %	(13.12)	(6.56)
Return on Equity %	(58.88)	(17.55)
<b>Efficiency Ratio</b>		
Return on Total Assets %	(4.84)	(1.56)
<b>Financial Policy Ratio</b>		
Interest Bearing Debt to Equity (times)	9.97	4.02
Total Debt to Equity (times)	13.88	5.51
Interest Coverage Ratio (times)	3.22	0.82

### GLOSSARY

**Current Ratio** = Current Assets (excluding non-current Assets classified as held for sale) / Current Liabilities  
(Excluding Unearned Transportation Revenues)

**Profit (loss) Margin (before gain on foreign currency exchange tax and one-time expense)**  
= Profit (loss) before gain on foreign currency exchange tax and one-time expense /  
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 Debts to Equity** = Total debts / Shareholders' Equity

**Interest Coverage ratio** = EBITDA/interest