THAI TRANSFORMATION

Briefing

Thai Airways International PCL

5 February 2015
Operating Environment
Environment Changes

- SEA was Asia’s hub
- Middle East emerging as the new World hub
- Longer range aircraft technology changing face of competition
- Service quality - Thai Touch is being challenged
- Lower wages substituted by technology
- Competitors are growing in size and number
Entry of New Low Cost Carriers

- nok scoot
- Thai Vietjet Air
- AirAsia
- Thai Lion Air
Rapid Growth by LCCs

SOUTHEAST ASIA
FLEET GROWTH

Southeast Asia fleet size (# aircraft)

ANNOUNCED FLEET ORDERS,
SELECT CARRIERS

Announced fleet orders (# aircraft)

~990 new aircraft, mostly narrow body

Note: Jetstar includes Jetstar Airways and Jetstar Asia, excludes Jetstar Pac., Jetstar JP, Jetstar HK; VietJet excludes Thai VietJet; Nok excludes NokScoot

Source: THAI fleet order data; Boeing; CAPA; Airline Monitor; Business Standard
THAI’s Quarterly Performance

Loss 9,210 MTHB

Source: THAI quarterly reports
World Ranking Down

Figure 1: Skytrax ratings for World’s Best Airline

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Many Loss Making Routes

Accumulated Contribution

Profit

Loss

Loss...
Many Aircraft Families & Types

9 FAMILIES, 11 TYPES OF AC
Fleet size: 100

6 FAMILIES, 9 TYPES OF AC
Fleet size: 130

6 FAMILIES, 8 TYPES OF AC
Fleet size: 161

5 FAMILIES, 5 TYPES OF AC
Fleet size: 97

Note: THAI includes THAI Smile fleet, Cathay Pacific includes Dragonair, Singapore Airlines includes Silkair; no cargo aircraft is included for any carrier.
Source: THAI Fleet Information Dec 2014, Airlines Annual Reports
Operating Efficiency

- Low aircraft utilization - 11 hours
- High cost, high unit cost, and lower productivity
- Redundant operations, slow decision making process
- Low staff morale
Transformation Goals

- Re-emerge as a national carrier bearing the pride of the Thai People
- Ensure sustainable growth and profit
- Be ranked among the top 3 airlines in the world
TRANSFORMATION STAGES

1. Stop the Bleeding
   - Immediately cut loss-making routes
   - Frequency or capacity reduction
   - Improve revenue management

2. Strength Building
   - Reduce per-unit cost
   - Enhance efficiency
   - Enhance revenue generating capability

3. Sustainable Growth
   - Leverage growth on rejuvenated organization strength
   - Drive for long-term sustainable profitability
THAI’S TRANSFORMATION PLAN
2015-2016

1. Network Strategies
2. Fleet Strategies
3. Commercial Strategies
4. Operations and Cost Control Strategies
5. Organisation Strategies
6. Portfolio Strategies
Network Strategies

Non-Profit Routes

- Discontinue/Likely to be discontinued
  - No potential for profit
  - Consistently loss-making

- Undecided
  - Consistently loss-making
  - Potential for turning around

Profitable Routes

- Maintain and make profitable
  - Currently loss-making but high potential for making profit

- Strengthen profitability
  - Currently profitable
Impact from Transformation

Accumulated Contribution

Number of THAI Routes

Indirect costs

0

100
Fleet Strategies

Reduce Fleet Size

• From 102 to less than 90 aircraft
• From 9 families, 11 types to 6 families, 8 types
• Sale of 22 aircraft already grounded
Commercial Strategies

- Enhance revenue management/maintain service quality
- Improve sales, diversify distribution channels and broaden customer base
- Improve customer service excellence and consistency
Impact from Transformation

Accumulated Contribution

Number of THAI Routes

Indirect costs
Operations & Cost Strategies
- Reduce non-fuel cash cost

Organization Strategies
- Flatten organization

Portfolio Strategies
- Adopt systematic approach to manage core and non-core businesses
**Impact from Transformation**

Accumulated Contribution

![Graph showing the impact from transformation on the number of THAI Routes, indicating accumulated contribution and indirect costs.](image)
Transformation Guidelines

• Establish **Corporate Transformation Management Office**

• Members represented by all relevant departments

• Establish clear scope, targets and timeline

• Establish clear accountabilities
Transformation Outcome

**Before**
- Financial difficulty
- Uncertain future
- Low staff morale

**After**
- Financial stability
- Sustainable profitability
- A company of opportunities
Airline Transformation Successes

Continental Airlines

“From worst to first in the industry”

Harvard Business Review

JAL

“Japan Airlines Roars Back”

THE WALL STREET JOURNAL

Lufthansa

“Lufthansa Is Back On Course”

Bloomberg Businessweek
Transformation Supported by Sufficient Liquidity

- Standby ECP support from MoF
- Raised THB 6 bn in BE paper at year-end 2014
- Raised THB 4 bn in 5, 7, 10 year bonds (2014) - 3 times oversubscribed
- Planned raising of THB 15 bn in debentures (2015)
Thank You