

Management's Discussion and Analysis for the third quarter ended September 30, 2017 for Thai Airways International Public Limited Company and Its Subsidiaries

1. Executive summary

World economic growth was likely to continue. The US, EU and Japanese economies expanded at a faster speed as the economic fundamentals improved. Labor market recovering and consumer confidence were in good character resulting the world trade volume has increased. The emerging economies in Asia have continued to grow from the enhanced exports following better global demand. Private consumption has improved in better direction. Meanwhile, the Chinese economy somewhat developed and was likely to decelerate since the reform of the economic structure initiated. Crude oil prices in the third quarter of 2017 increased from the same period of last year due to the reduction of oil production in the oil producing countries.

The Thai economy in the third quarter of 2017 has improved significantly, driven by robust export growth following the global economic recovery and indicated the highest growth in four consecutive years, especially China, CLMV and the US market. Private consumption also well expanded while the tourism sector has continued to escalate due to the number of foreign tourists arriving mainly from China, CLMV, Malaysia, South Korea and India etc. The number of arrivals in the third quarter of 2017 reached 8.78 million, an increase of 6.7% from the previous year. Furthermore, the easing monetary policy facilitated to boost the economy.

In the third quarter of 2017, the global aviation industry expanded due to the recovery of the global economy which supported more passenger demand confirmed by the high figures of cabin factor. The International Air Transport Association (IATA) data during the nine month of 2017 has been shown a 7.7% and 6.4% improvement from last year with an average cabin factor of 81.7%. Meanwhile, freight continued to show signs of improvement from last year in almost all areas. Recovery in emerging markets such as India, China and ASEAN-5 meant an increase in the freight load factor from last year's 42.2% to 44.4%.

Thailand's aviation industry in the third quarter of 2017 had an advanced progressed to solve the standard problems of Thai civil aviation. During September 20-27, 2017, the International Civil Aviation Organization (ICAO) had repeatedly re-examined the Thai aviation standards to remove the red flag position. There were no further objections in safety and other concerns which led to the removal of the red flag status on October 6, 2017; then, the update was publicized by the ICAO website. Consequently, the dismissal of the red flag for Thai aviation and tourism industry would boost both in terms of the credibility of the Thai aviation authorities and confidence to tourists in selecting Thai carriers. This might also influence the FAA upgrading the Thai aviation standard from Category 2, which prohibits the opening of new routes in the United States to Category 1.

THAI has implemented the third phase of its transformation plan; "Sustainable Growth." This continues from the previous quarter and consists of 6 strategies in operation:

- 1) Develop a competitive flight network, increase profitability and reduce complexity of the fleet;
- 2) Increase competitiveness and revenue;
- 3) Excellent service ring building strategy;
- 4) Competitive cost and efficient operation strategy;
- 5) Corporate culture building to sustainability and human resources development to excellence strategy;
- 6) Portfolio management and new business development for sustainability strategy.

In the third quarter of 2017, there were significant actions as follows:

- Focused on increasing revenue and competitiveness by managing ticket prices, finding more income, and being more efficient distribution to be able to compete with competitors in time.
- Continued to implement Network management which, on August 1, 2017, THAISmile introduced "Amadeus Altea" to the system by using 4 main modules consisted of Reservation,

Ticketing, Inventory control, and Departure Control systems. The system would not only allow the better connection between THAI and THAISmile but Thai Smile developed more comfortable to connect with travel agents and other airlines around the world, as well. This enabled the Company to offer a wider range of passenger services and other services as well as to enhance the employees' performance. In addition, it would facilitate to expand the online passenger base and to support the codeshare agreement with alliances in order to increase its service network to customers around the world.

- Initiated to solve uncompetitive cost and inefficiency complications of Technical, Ground Equipment Service and, Ground Customer Services department to manage healthier cost and better efficiency in the long term basis.

In addition, THAI was honored the TTG Travel Hall of Fame for the second consecutive times after winning the Best South East Asian Airline Award at the TTG Travel Award for 10 consecutive years. THAI also won Best Inflight Food 2017 from IFSA Compass Awards which was based on votes submitted by International Flight Service Association (IFSA) members. These awards represented premium service standards and overall customer satisfaction of THAI.

In the third quarter, THAI took delivery of 4 operating lease aircraft: 3 Airbus A350-900XWB and a Boeing B787-9 aircraft while returned 1 Airbus A330-300 aircraft and another one which was in the return process resulting total active aircraft of 99, 4 aircraft increasing from December 31, 2016. Aircraft Utilization increased by 4.3% from last year's 11.6 to 12.1 hours/day this year. Production traffic (ASK) increased by 7.9% while passenger traffic (RPK) terrifically increased by 14.9% from the same quarter of last year. The Cabin Factor averaged 78.2%, up from 73.5% in the previous year with 5.99 million passengers carried representing 8.9% increase from last year.

THAI and its subsidiaries' operating profit was THB 739 million while last year's loss of THB 836 million. Total revenue was THB 46,928 million, an increase from the same quarter of last year by 6.3% due to an increase of passenger and excess baggage revenue by THB 2,470 million (6.9%) from the increase in passenger traffic by 14.9%, despite a drop in average passenger yield by 7.5% due to intense price competition. Freight and mail revenues increased by THB 577 million (12.7%) from the recovery in the export sector. While total expenses amounted to THB 46,189 million, an increase of THB 1,227 million (2.7%) due to an increase in fuel expenses by THB 1,032 million (9.5%) resulting from an increase of 11.3% in average jet fuel price. Non-fuel operating expense was closed to last years. Net finance cost decreased from last year by THB 112 million or 8.7% resulting from cash management and financial restructure.

This quarter THAI and its subsidiaries had one-time expenses, the amount of THB 537 million and impairment loss of assets and aircraft, amount of THB 1,502 million. In addition, the loss on foreign currency exchange was THB 829 million. Consequently, THAI and its subsidiaries reported the net loss of THB 1,814 million. Loss attributable to owners of the parent amounted to THB 1,825 million. Loss per share was THB 0.84 per share, 0.11 THB or 15.1% higher loss than last year's.

EBITDA was THB 5,835 million, which was THB 865 million (17.4%) over last year. EBITDA margin was 12.4%, as compared to last year's reported 11.3%.

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

The consolidated financial statements for the third quarter of 2017 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			
	2017	2016	Variance	
			MTHB	%
Total operating revenues	46,928	44,126	+2,802	+6.3
- Passenger and excess baggage revenue	38,190	35,720	+2,470	+6.9
- Freight and mail revenue	5,137	4,560	+577	+12.7
- Revenue from other activities	2,936	2,990	-54	-1.8
- Other income	665	856	-191	-22.3
Total operating expenses	46,189	44,962	+1,227	+2.7
- Fuel and oil	11,892	10,860	+1,032	+9.5
- Non-fuel operating expenses	33,120	32,813	+307	+0.9
- Net finance cost	1,177	1,289	-112	-8.7
Operating Profit (loss)	739	(836)	+1,575	+188.4
<u>Less</u> Maintenance provision for operating lease aircraft	92	-	+92	-
<u>Less</u> Provision for collaborating to change due to the Transformation plan	440	-	+440	-
<u>Less</u> Loss from change in ownership interest	5	-	+5	-
<u>Less</u> Impairment loss of assets and aircraft	1,502	624	+878	+140.7
<u>Add</u> Gain (Loss) on foreign currency exchange	(829)	120	-949	-790.8
Loss before income tax	(2,129)	(1,340)	-789	-58.9
Net Loss	(1,814)	(1,591)	-223	-14.0
Loss attribute to owners of the parent	(1,825)	(1,601)	-224	-14.0
Net Loss per share (THB)	(0.84)	(0.73)	-0.11	-15.1
Significant operating data				
EBITDA (MTHB)	5,835	4,970	+865	+17.4
Number of passengers (Million)	5.99	5.50	+0.49	+8.9
Available Seat-Kilometers (Million)	22,931	21,244	+1,687	+7.9
Revenue Passenger-Kilometers (Million)	17,936	15,604	+2,332	+14.9
Cabin factor (%)	78.2	73.5	+4.7	+4.7
Passenger yield (THB/RPK)	2.10	2.27	-0.17	-7.5
Available Dead Load Ton-Kilometers (Million)	959	910	+49	+5.4
Revenue Freight Ton-Kilometers (Million)	609	515	+94	+18.3
Freight load factor (%)	63.5	56.6	+6.9	+6.9
Freight carried (Ton)	167,582	144,621	+22,961	+15.9
Freight Yield (THB/RFTK)	7.90	8.33	-0.43	-5.2
Number of aircraft (As of Sep 30) (Aircraft)	99	94	+5	+5.3
Flight hours (Hours)	102,329	96,670	+5,659	+5.9
Aircraft utilization (Hours/Aircraft/Day)	12.1	11.6	+0.5	+4.3
Average foreign currency exchange rate				
1 USD : THB	33.3875	34.8295	-1.4420	-4.1
1 EUR : THB	39.1969	38.8755	+0.3214	+0.8
100 JPY : THB	30.0863	34.0770	-3.9907	-11.7
Average jet fuel price (USD/BBL)	66.84	60.06	+6.78	+11.3

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

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues for the third quarter of 2017 were THB 46,928 million which increased THB 2,802 million (6.3%) from last year. Details are as follows:

- Passenger and excess baggage revenue

Passenger and excess baggage revenue was THB 38,190 million which increased THB 2,470 million (6.9%) over last year as:

- Passenger traffic (Revenue Passenger-Kilometers:RPK) increased by 14.9%, approximately THB 5,295 million in Intercontinental and Regional routes but decreased in Domestic route.
- Average passenger yield (including fuel and insurance surcharge) decreased by 0.17 THB/RPK (7.5%) or approximately THB 3,049 million. The impacts were partially from the strength of the Thai Baht against Japanese Yen but the trivial weakening the Thai Baht against EURO dollar which depressed the overall passenger yield in Baht term. When excluding such effects, average passenger yield decreased by 0.07 THB/RPK or around THB 1,255 million resulting average passenger yield decreased solely by 4.4% or THB 1,790 million due to the intense competition and reduction of fuel surcharge.

- Freight and mail revenue

Freight and mail revenue was THB 5,137 million which increased by THB 577 million (12.7%) due to the increase of freight traffic (Revenue Freight Ton-Kilometers: RFTK) by 18.3% or around THB 785 million resulting from the recovery in export sector. The major expanding markets were China, CLMV countries, and the US while average freight yield (including fuel and insurance surcharge) was 7.90 THB/RFTK, a decrease of 0.43 THB/RFTK (5.2%) or THB 260 million over last year. Average freight load factor was 63.5% higher than last year's 56.6%.

- Other income

Other income was THB 665 million which decreased by THB 191 million (22.3%) mainly due to last year's insurance compensation from the "Bird Strike" case, the amount of THB 325 million.

Expenses for Thai Airways International PCL. and its subsidiaries

Total expenses for third quarter of 2017 was THB 46,189 million which increased by THB 1,227 million (2.7%). A summary of the operating expenses was as follows:

- Fuel and oil expense was THB 11,892 million which increased by THB 1,032 million (9.5%) due to the increase in average jet fuel price by 11.3% compared to the same period last year and the growth of traffic production by 7.9% resulting the increase in fuel consumption. However, fuel hedging expenses was THB 1,388 million lower than last year and the strength of Thai Baht against the US dollars caused the lower expense in Baht term.

- Non-fuel operating expense was THB 33,120 million, an increase of THB 307 million (0.9%) from last year. Details as follows:

Unit : Million Baht	Jul - Sep					
	2017	% of Total Expense	2016	% of Total Expense	Variance	
					MTHB	%
Expense						
Employee benefit expenses	7,007	21.2	7,222	22.0	-215	-3.0
Flight service expenses	5,673	17.1	5,420	16.5	+253	+4.7
Crew expenses	1,410	4.3	1,329	4.1	+81	+6.1
Aircraft maintenance and overhaul costs	4,259	12.9	4,359	13.3	-100	-2.3
Depreciation and amortization expenses	4,399	13.3	4,480	13.6	-81	-1.8
Lease of aircraft and spare parts	2,764	8.3	2,602	7.9	+162	+6.2
Inventories and supplies	2,183	6.6	2,127	6.5	+56	+2.6
Selling and advertising expenses	2,798	8.4	2,438	7.4	+360	+14.8
Insurance expense	130	0.4	136	0.4	-6	-4.4
Other expenses	2,449	7.4	2,414	7.4	+35	+1.4
Share of losses of associates	48	0.1	286	0.9	-238	-83.2
Non-fuel Operating Expense	33,120	100.0	32,813	100.0	+307	+0.9

- Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits amounted to THB 7,007 million which decreased THB by 215 million (3.0%) due to the reduction of vacation compensation expense since the actual was lower than accrued amount.

- Flight related expenses consisted of flight service expenses, crew expenses, maintenance and overhaul, and inventories and supplies expenses totaled THB 13,525 million which increased by THB 290 million (2.2%) due to higher production and traffic of this year.

- Depreciation and amortization amounted to THB 4,399 million decreased by THB 81 million (1.8%) because of aircraft and assets which were fully depreciated. However, THAI took delivery of two financial lease aircraft, Airbus A350-900XWB in the second quarter this year.

- Lease of aircraft and spare parts amounted of THB 2,764 THB which increased by THB 162 million (6.2%) due to the increase of five operating lease aircraft ; four Airbus A350-900XWB aircraft (one aircraft in the fourth quarter of 2016 and three aircraft in the third quarter 2017) and a Boeing B787-9 aircraft in this quarter while two Airbus A330-300 operating lease aircraft were returned in August and October 2017, respectively.

- Selling and advertising expenses amounted of THB 2,798 million which increased by THB 360 million (14.8%) resulting from greater reservation expense which increased from the higher number of passengers and reservation service rate.

- Share of loss of associates amounted of THB 48 million less loss than last year of THB 238 million (83.2%) since this year Nok Airlines PCL. reported the loss of THB 128 million while last year's loss of THB 373 million. Details as follow:

- Nok Airlines PCL.'s loss of THB 128 million, a decrease of THB 245 million

- Suvarnabhumi Airport Hotel Ltd.'s profit of THB 12 million, an increase of THB 6 million.
- Donmuang International Airport Hotel Ltd.'s loss of THB 9 million, while last year reported profit of THB 7 million.
- Bangkok Aviation Fuel Services PCL's profit of THB 65 million, an increase of THB 2 million.
- Phuket Air Catering Ltd.'s profit of THB 8 million, same as last year.
- Royal Orchid Hotel (Thailand) PCL's profit of THB 4 million, an increase of THB 1million.

Net finance cost was THB 1,177 million which decreased by THB 112 million (8.7%) since average short-term and long-term loans were lower than last year. Furthermore, the result of cash management and financial restructure while the strength of the Thai Baht compared to USD and Japanese Yen but the trivial weakening Thai Baht against EURO dollar also benefited the lower finance cost.

Maintenance provision for operating lease aircraft totaled THB 92 million based on the additional recognition of maintenance provision for aircraft return conditions of two Airbus A330-300 aircraft due to the premature return of the aircraft operating lease.

Provision for collaborating to change due to the Transformation plan totaled THB 440 million, which mainly was special incentive provision to employees as a reward for collaborating to changes due to the transformation plan.

Impairment loss of assets and aircraft totaled THB 1,502 million, an increase of THB 878 million (140.7%) as the following details:

- Impairment loss of aircraft amounted to THB 1,405 million, THB 955 million higher than last year, comprised of impairment loss of thirteen aircraft including six Airbus A340-600, three Airbus A340-500, two Boeing B747-400 (Freighter) and two Boeing A330-300 aircraft.
- Impairment loss of assets was THB 97 million, THB 76 million lower than last year, due to lower reserved for damaged rotatable spare parts and could not be repaired from last year.

Loss on foreign currency exchange was THB 829 million consisted of THB 891 million unrealized loss mainly resulting from revaluation of foreign currency loans, especially the weak of Thai Baht against the Euro as of September 30, 2017 and revaluation of assets on inabilities as of September 30, 2017, and realized gain of THB 62 million.

Operating results of Thai Airways International PCL. and its subsidiaries of the nine months of 2017 (January - September 2017) are as follows:

Financial Performance: THAI and its subsidiaries

Unit : Million Baht	Jan - Sep			
	2017	2016	Variance	
			MTHB	%
Total operating revenues	141,913	135,553	+6,360	+4.7
- Passenger and excess baggage revenue	116,254	111,274	+4,980	+4.5
- Freight and mail revenue	14,766	13,364	+1,402	+10.5
- Revenue from other activities	9,014	9,114	-100	-1.1
- Other income	1,879	1,801	+78	+4.3
Total operating expenses	139,849	130,993	+8,856	+6.8
- Fuel and oil	37,016	33,454	+3,562	+10.6
- Non-fuel operating expenses	99,365	93,630	+5,735	+6.1
- Net finance cost	3,468	3,909	-441	-11.3
Operating profit (Loss)	2,064	4,560	-2,496	-54.7
<u>Less</u> Maintenance provision for operating lease aircraft	550	1,153	-603	-52.3
<u>Less</u> Provision for collaborating to change due to the Transformation plan	1,040	427	+613	+143.6
<u>Less</u> Loss from change in ownership interest	433	-	+433	-
<u>Less</u> Impairment loss of assets and aircraft	2,909	2,670	+239	+9.0
<u>Add</u> Gain (Loss) on foreign currency exchange	(1,699)	34	-1,733	-
Profit (Loss) before income tax	(4,567)	344	-4,911	-
Net Profit(Loss)	(3,853)	1,504	-5,357	-356.2
Profit (Loss) attribute to owners of the parent	(3,879)	1,476	-5,355	-362.8
Net Profit (Loss) per share (THB)	(1.78)	0.68	-2.46	-361.8
<u>Significant operating data</u>				
EBITDA (MTHB)	16,896	20,680	-3,784	-18.3
Number of passengers (Million)	18.38	16.52	+1.86	+11.3
Available Seat-Kilometers (Million)	67,025	62,957	+4,068	+6.5
Revenue Passenger-Kilometers (Million)	53,504	46,195	+7,309	+15.8
Cabin factor (%)	79.8	73.4	+6.4	+6.4
Passenger yield (THB/RPK)	2.14	2.38	-0.24	-10.1
Available Dead Load Ton-Kilometers (Million)	2,848	2,649	+199	+7.5
Revenue Freight Ton-Kilometers (Million)	1,730	1,521	+209	+13.7
Freight load factor (%)	60.7	57.4	+3.3	+3.3
Freight carried (Ton)	477,205	423,632	+53,573	+12.6
Freight yield (THB/RFTK)	7.99	8.28	-0.29	-3.5
Number of aircraft (As of Sep 30) (Aircraft)	99	94	+5	+5.3
Flight hours (Hours)	302,484	286,937	+15,547	+5.4
Aircraft utilization (Hours/Aircraft/Day)	12.0	11.4	+0.6	+5.3
Average foreign currency exchange rate				
1 USD : THB	34.2680	35.2556	-0.9876	-2.8
1 EUR : THB	38.1113	39.3234	-1.2121	-3.1
100 JPY : THB	30.6302	32.5693	-1.9391	-6.0
Average jet fuel price (USD/BBL)	68.09	54.55	+13.54	+24.8

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

THAI and its subsidiaries' reported operating profit for the nine month of 2017 of THB 2,064 million, a decrease of THB 2,496 million (54.7%) from the previous year. Details are as follow:

Total revenue totaled THB 141,913 million which increased by THB 6,360 million (4.7%), mainly due to an increase in transportation revenue of THB 6,382 million (5.1%). Revenue from passenger and excess baggage was THB 116,254 million, an increase of THB 4,980 million (4.5%) from passenger traffic (Revenue Passenger Kilometers-RPK) which increased by 15.8% despite average passenger yield (including fuel and insurance surcharge) was 10.1% lower than last year due to fierce competition in the aviation industry and the reduction of fuel surcharge in line with the falling fuel prices. Freight and mail revenues totaled THB 14,766 million which increased by THB 1,402 million (10.5%), mainly due to the increase in freight traffic (Revenue Freight Ton-Kilometers: RFTK) from the export sector, which improved 13.7% from the previous year. However, revenue from other activities decreased from the previous year. The main reason was from the lower ground handling revenue due to the lower number of customer airlines' flights. Nevertheless, cargo handling services was higher than last year due to greater freight traffic.

Total expenses was THB 139,849 million which increased by THB 8,856 million (6.8%) due to an increase in fuel expenses in line with fuel price. Non-fuel operating expense increased from an increase in production and traffic.

THAI and its subsidiaries reported operating profit of THB 2,064 million, THB 2,496 million (54.7%) lower than last year. In addition, THAI and its subsidiaries had one-time expenses as follows:

- Maintenance provision for operating lease aircraft totaled THB 550 million based on the additional maintenance provision for aircraft return conditions of two Airbus A330-300 aircraft due to the premature return of the aircraft operating lease, while last year represented the maintenance provision of major overhaul of Engine for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations.
- Provision for collaborating to change due to the Transformation plan totaled THB 1,040 million, which mainly was special incentive provision to employees as a reward for collaborating to changes according to the transformation plan while last year's was the MSP program.
- Loss from change in ownership interest totaled THB 433 million, resulting from the dilution of THAI's shareholding in Nok Airlines PCL. from 39.20% to 21.57%. (Please see Notes to the Financial Statement No.6.28.2)
- Impairment loss of assets and aircraft increased by THB 239 million. This was mainly due to the additional provision of sixteen decommissioned aircraft which held for sales, amount of THB 2,401 million and engines for Airbus A340-500 and A340-600 aircraft, amount of THB 207 million while last year's provision for impairment loss of grounded aircraft, amount of THB 1,963 million and engines for Airbus A340-500 and A340-600 aircraft amount of THB 325 million.

THAI and its subsidiaries reported a net loss of THB 3,853 million while last year's net profit was THB 1,504 THB. Loss attributable to owners the parent amounted to THB 3,879 million. Loss per share was 1.78 THB, compared to last year where THAI reported a profit per share of 0.68 THB.

First nine-month results 2017: EBITDA decreased by THB 3,784 million (18.3%) from last year. EBITDA margin was 11.9% which decreased from last year's where reported 15.2%

3. Financial Position and Liquidity

Capital Expenditures

Unit : Million Baht	Jul - Sep		Jan - Sep	
	2017	2016	2017	2016
Aircraft and aircraft spare parts	352	2,504	8,879	4,474
Non-Aircraft	216	21	373	127
Total	568	2,525	9,252	4,601

Capital expenditures for the third quarter of 2017 totaled THB 568 million, a decrease of THB 1,957 million from last year due to last year there was the prepayment for acquisition of 1 Airbus A350-900XWB aircraft and 3 TRENT XWB-84 spare engines used for Airbus A350-900XWB aircraft. Details as followed:

- Investment in aircraft and aircraft spare parts totaled THB 352 million which was mainly from investment in rotatable spare parts of aircraft and engines.
- Investments in other fixed assets amounted to THB 216 million.

Combined with the investment in the first half of 2017 amounted to THB 8,684 million, the accumulated investment for the nine months of 2017 totaled THB 9,252 million which was from the delivery of two financial lease Airbus A350-900 XWB and the prepayment for acquisition of Airbus A350-900XWB aircraft and TRENT XWB-84 engines used for these aircraft.

Financing

In the nine months of 2017, THAI financed in the total amount of THB 26,771 million, as the following details.

- 1) Acquired short-term foreign borrowing via the Ministry of Finance in the form of issuance of Euro Commercial Paper (ECP) in foreign currency and draw down of its committed revolving credit line from domestic financial institution to roll over the short-term loan repayment at maturity and used as working capital, amount of THB 10,594 million.
- 2) Acquired long-term financing through financial lease aircraft for two Airbus A350-900XWB by using the aircraft themselves as collateral, totaled THB 8,177 million.
- 3) Issued THB 8,000 million new debentures in June 2017 to repay the debentures at maturity, repay loan with higher financial cost, and/or use as an investment, and/or working capital.

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

Unit : Million Baht	Jan - Sep	
	2017	2016
Net cash from operating activities	17,917	18,028
Net cash used in investing activities	(2,203)	(3,214)
Net cash used in financing activities	(10,437)	(21,908)
Effect from changing in exchange rate on cash and cash at banks increase (decrease)	(42)	8
Increase (decreases) in cash and cash equivalents	5,235	(7,086)

In the first nine months of 2017, THAI had net cash used in financing activities was THB 10,437 million due to the repayment of both short and long term loans which were lower than last year. Net cash used in investing activities was THB 2,203 million lower than last year due to the reduction of investment in fixed assets. Net cash from operating activities totaled THB 17,917 million, which was lower than last year. As a result, cash and cash equivalents as of September 30, 2017 increased from December 31, 2016 of THB 5,235 million.

Fleet

In the third quarter of 2017, THAI delivered four operating lease aircraft comprised of three Airbus A350-900XWB and one Boeing B787-9 aircraft. Simultaneously, THAI returned one operating aircraft, Airbus A330-300 and wait for another shipment in October 2017. Thus, the total active aircraft as of September 30, 2017 was 99 aircraft (including 20 Airbus A320-200 aircraft for THAISmile's operation) which was four more aircraft than at the end of 2016. In addition, in this quarter THAI had the aircraft held for sale as of September 30, 2017 totaled 22 aircraft.

Assets of Thai Airways International PCL. and its subsidiaries

As of September 30, 2017, total assets were THB 287,889 million which increased by THB 4,765 million (1.7%) from December 31, 2016.

	Consolidated					
	Sep 30, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	%
Current assets						
Cash and cash equivalents	18,625	6.5	13,390	4.7	+5,235	+39.1
Other current assets	36,758	12.7	33,662	11.9	+3,096	+9.2
Current Assets	55,383	19.2	47,052	16.6	+8,331	+17.7
Property, plant and equipment						
Prepaid aircraft and spare engine	7,108	2.5	9,647	3.4	-2,539	-26.3
Aircraft	40,992	14.2	44,686	15.8	-3,694	-8.3
Aircraft under finance leases	117,623	40.9	112,917	39.9	+4,706	+4.2
Aircraft spare parts	9,521	3.3	10,228	3.6	-707	-6.9
Work in process	472	0.2	371	0.1	+101	+27.2
Land, building and improvements	13,630	4.7	13,872	4.9	-242	-1.7
Other plant and equipment	2,857	1.0	3,170	1.1	-313	-9.9
Property, plant and equipment-net	192,203	66.8	194,891	68.8	-2,688	-1.4
Non-current assets classified as						
held for sale	8,971	3.1	12,322	4.4	-3,351	-27.2
Other non-current assets	31,332	10.9	28,859	10.2	+2,473	+8.6
Total Assets	287,889	100.0	283,124	100.0	+4,765	+1.7

Current assets were THB 55,383 million or represented 19.2% of total assets, an increase of THB 8,331 million (17.7%) from as of December 31, 2016. The significant items consisted of

- Cash and cash equivalents increased by THB 5,235 million (39.1%), mainly from the issuance of debentures on June 23, 2017 which would be paid back the due in October 2017 while net cash flow from operations were higher than net cash used in financing and investing activities.
- Trade receivables increased by THB 2,281 million (22.0%) due to the increase of passenger sale volume.

Property, plant and equipment-net totaled THB 192,203 million or represented 66.8% of total assets, a decrease of THB 2,688 million (1.4%) from December 31, 2016 due to the normal depreciation which has caused the asset to decline; however, there was the delivery of two new Airbus A350-900XWB aircraft in the second quarter.

Non-current assets classified as held for sale were THB 8,971 million or represented 3.1% of total assets, which decreased by THB 3,351 million (27.2%) mainly due to the additional provision of aircraft impairment and sale of three aircraft consisted of an Airbus A330-300 aircraft in February 2017, two Boeing B747-400 aircraft in May 2017, a spare engine of Airbus A340-500 aircraft.

Other non-current assets totaled THB 31,332 million or represented 10.9% of total assets, which increased by THB 2,473 million (8.6%) from as of December 31, 2016 resulting from

- Investment in associated companies decreased by THB 909 million mainly from investment in Nok Airline Public Co.,Ltd. decreased by THB 937 million (50.4%) due to the decrease in ownership interest, combined with the operation loss in the nine months of 2017.

- Deferred expenses increased by THB 1,306 million, mainly due to the cost of the renovation project by installing Crew Rest and In-flight Connectivity equipment to six Boeing 787-8 aircraft and installing buyer-furnished equipment to four operating lease aircraft comprised of three Airbus A350-900XWB and a Boeing B787-9 aircraft.

- An increase, approximately THB 1,556 million, in maintenance reserve corresponded to an increase in maintenance provision to aircraft maintenance plan according to its utilization and maintenance condition. Once after THAI perform the maintenance according to the criteria under lease agreement, THAI can reimburse from the lessors under the maintenance reserves deposit.

Return on assets for the nine months of 2017 was -0.3% compared to 1.5% last year.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of September 30, 2017 totaled THB 257,961 million which increased by THB 8,425 million (3.4%) from December 31, 2016. These comprised of:

	Consolidated					
	Sep 30, 2017		Dec 31, 2016		Variance	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	%
Current liabilities (excluding current portion of long-term liabilities)	66,969	26.0	64,555	25.9	+2,414	+3.7
Long-term liabilities						
Debentures	66,100	25.6	59,300	23.8	+6,800	+11.5
Liabilities under financial leases	65,874	25.5	64,750	25.9	+1,124	+1.7
Long term borrowings	30,776	12.0	35,933	14.4	-5,157	-14.4
Total long-term liabilities	162,750	63.1	159,983	64.1	+2,767	+1.7
Other non-current liabilities	28,242	10.9	24,998	10.0	+3,244	+13.0
Total Liabilities	257,961	100.0	249,536	100.0	+8,425	+3.4

Current liabilities (excluding current portion of long term liabilities' amount of THB 31,335 million), represented 26.0 % of total liabilities, totaled THB 66,969 million, an increase of THB 2,414 million (3.7 %) from December 31, 2016. The foremost items were from unearned transportation revenues increased by THB 6,389 million corresponding to the increase of passenger sale volume but short-term loans decreased by 3,041 million.

Long-term liabilities (including current portion of long term liabilities' totaled THB 31,335 million) totaled THB 162,750 million or represented 63.1 % of total liabilities, which was an increase of THB 2,767 million (1.7 %) from December 31, 2016 primarily due to the depreciation of Thai baht against the Euro as of September 30, 2017 comparing to December 31, 2016. This affected the increase of long-term liabilities translated to Baht terms. When excluded the foreign currency adjustment, the amount of THB 1,270 million, long-term liabilities increased by THB 1,497 million from the issuance of debenture and the liabilities under financial leases increased from the delivery of two A350-900XWB aircraft. However, there were some repayments of long term loans.

- Other non-current liabilities as of September 30, 2017 totaled THB 28,242 million represented 10.9% of total liabilities which increased by THB 3,244 million (13.0%) mainly due to the maintenance provision for operating lease aircraft based on actual conditions of aircraft and maintenance contractual obligations. Such expense can be refunded from the lessor when maintenance activities meet the reimbursement condition.

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

As of September 30, 2017, shareholders' equity totaled THB 29,928 million, a decrease of THB 3,660 million (10.9%) from December 31, 2016 due to loss of the operations from THAI and its subsidiaries for the nine months period. THAI's return on equity for the nine months of 2017 decreased from 4.5% last year's to -12.1% this year.

As of September 30, 2017, interest bearing debt to equity increased from 5.0 times from December 31, 2016 to 5.6 times.

4. Factors affecting future operations

The situation of the aviation industry in the fourth quarter of 2017 is expected to grow constantly due to the world economy recovery. In the end of 2017, the global economy is also driven by three main factors: 1) Private consumption from the labor market has recovered in many regions. 2) World trade recovery which is driven by demand from key countries, which strengthened economic growth in exporting countries. 3) The fiscal stimulus of the major economies which also contribute to further economic growth. Oil prices in the fourth quarter of 2017 are expected to rise slightly but remain low.

For the Thai aviation industry, after the International Civil Aviation Organization (ICAO) released the red flag on October 6, 2017, it would be beneficial for the aviation industry and tourism. It is expected that the number of foreign tourists coming to Thailand will increase, especially in the form of charter flights; because many carriers have AOC recertification can return service. However, the competition between airlines is likely to be more intense, both through the opening of new routes and shortages of aviation personnel, such as pilots, flight attendants, engineers and technicians. In addition, the plan to develop Thailand as an aerospace hub and Maintenance, Repair and Overhaul (MRO) is likely to be more successful due to the release of the red flag and more attraction to foreign entrepreneurs to invest in both projects even more.

For the rest of 2017, THAI has significant action plans as follows:

- THAI will begin operating four roundtrip flights per week from Bangkok-Vienna. The first flight will be departed on November 16, 2017. Moreover, THAI plans to add more frequencies in some intercontinental flights such as Brussels, Oslo, Auckland, etc. and expand ASEAN routes using THAI Smile which is an important tool in strategic planning to develop the new routes and better connectivity by introducing 2 new routes since October 1, 2017: Bangkok – Kaohsiung, Taiwan and Bangkok - Luang Prabang, Lao People's Democratic Republic.

- Taking delivery of a new Boeing 787-9 aircraft in October 2017.
- Reducing cost and increasing work efficiency which are the continuing campaign from the previous quarter by concentrating on ground services and aircraft maintenance activities whose objectives are to be more competitive cost and efficient operations.

5. Financial Ratios

		Jan – Sep	
		2017	2016
Liquidity Ratio			
Current Ratio	(times)	0.85	0.76
Profitability Ratio			
Operating Profit(loss) Margin	%	1.45	3.36
Net Profit (loss) Margin	%	(2.71)	1.11
Return on Equity	%	(12.13)	4.53
Efficiency Ratio			
Return on Total Assets	%	(0.34)	1.49
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	5.58	5.21
Total Debt to Equity	(times)	8.62	7.58
Interest Coverage Ratio	(times)	4.70	5.09

GLOSSARY

Current Ratio = Current Assets / Current Liabilities (Excluding Unearned Transportation Revenues)

Operating Profit (loss) Margin = Operating Profit (loss) / Total Revenue (excluded gain(loss) on foreign currency exchange)

Net Profit(Loss) Margin = Net Profit(Loss) / Total Revenue (excluded gain(loss) on foreign currency exchange)

Return on Equity = Net Profit (Loss) / Average Shareholders' Equity

Return on Total Assets = Profit (Loss) before interest and tax/ Average total assets

Interest Bearing Debt to Equity = (Short-term Loan + Long-term Loan including current portion of Long-term Loan within 1 year) / Shareholders' Equity

Total debt to equity ratio = Total liabilities/Shareholders' Equity

Interest Coverage ratio = EBITDA/interest