

**Management's Discussion and Analysis for the Second Quarter of the financial year 2011 Ending June 30, 2011 for Thai Airways International Public Company Limited and its Subsidiaries**

**1. Operating Results**

In the second quarter of 2011, THAI was subjected to the impacts from the rapid and continuous rise of fuel prices in the global market, low season period which had fewer passengers, the world economy slowdown, especially in Europe, and the earthquake in Japan, which has been among the strongest performing route. THAI had to deal with the diminishing traffic demand by canceling and reducing flights along with increasing fuel surcharge which was closely monitored to cope with higher fuel cost. Unfortunately, due to the shrinking number of passengers and the fierce competition compounded the difficulty for THAI to adjust fuel surcharge which was not able to cover the rapid rise in fuel cost. Moreover, Japan's earthquake disrupted Japanese manufacturing leading to reduce production capacity, which directly affected THAI's air cargo operations with lower volume of shipment. These factors had direct negative impact on THAI's operations leading to the operation loss incurred in this quarter.

Results of operations are as follows:

Unit : Million Baht	April - June		Increase(Decrease)	
	2011	2010	MTHB	%
Total Revenues	45,559	39,634	+ 5,925	+ 14.9
Total Expenses*	51,518	42,130	+ 9,388	+ 22.3
Profits(Losses) before Foreign Currency Exchange and				
Income Tax	(5,959)	(2,496)	- 3,463	- 138.7
Gains (Losses) on Foreign Currency Exchange	(2,265)	4,391	- 6,656	- 151.6
Profits(Losses) before income tax	(8,224)	1,895	- 10,119	- 534.0
Net profits(losses)	(7,874)	1,401	- 9,275	- 662.0
Earnings per share (THB)	(3.61)	0.82	- 4.43	- 540.2
EBITDA	20	2,956	- 2,936	- 99.3
EBITDAR	1,495	3,967	- 2,472	- 62.3

\* Excluding gains (losses) on foreign currency exchange but including share of profits of investments by the equity method and finance costs

In 2Q11, total revenues amounted to THB 45,559 million which was an increase of THB 5,925 million or 14.9% over the same period last year. Total operating revenue improved in the amount of THB 6,081 million or 15.7% over last year. Total expenses, excluding gains (losses) on foreign currency exchange but including share of profits of investments by the equity method and finance costs, amounted to THB 51,518 million which was THB 9,388 million or 22.3% higher than last year. The major factor causing a dramatic increase in cost was the rapid rise in average jet fuel prices which was 46.2% higher than 2Q10. In 2Q11 THAI confronted the losses on foreign currency exchange which was THB 2,265 million compared to the same period last year where THAI

gained THB 4,391 million, as well. Consequently, THAI had losses before income tax in the amount of THB 8,224 million, compared to last year where THAI gained THB 1,895 million. However, excluding gains (losses) on foreign currency exchange, losses before foreign currency exchange and income tax amounted to THB 5,959 million, which was an increase of THB 3,463 million or 138.7% year-on-year.

Net losses for the period was THB 7,874 million or THB 3.61 per share was lower than 2Q10's which reported profit of THB 1,401 million or THB 0.82 per share. EBITDAR was THB 1,495 million, THB 2,472 million or 62.3% less than last year.

#### **Changes in accounting policy**

In order to comply with Thai Accounting Standard (TAS) and Thai Financial Reporting Standard (TFRS) which are effective on January 1, 2011, THAI has changed in accounting policies which are presentation of financial statements and employee benefits. (Also see notes to the financial statement no. 2 and 3) The changes in those accounting policies have effected only on the presentation of financial statements, but have no effect on profit or earnings per share, excepted in employee benefits. THAI has opted to record the entire amount of the employee benefits obligation as retrospective adjustment. According to these changes, retained earnings indicated in consolidated financial statement as of January 1, 2011 declined by THB 6,527 million. Net profits of 2Q11 and 2Q10 decreased by THB 153 million and THB 152 million, respectively. These made negative impact to reduce earnings per share THB 0.07 for 2Q11 and THB 0.09 for 2Q10, consecutively. Net profits of 1H11 and 1H10 decreased by THB 305 million and THB 303 million; in the meanwhile, earning per share for 1H11 and 1H10 decreased THB 0.14 per share and THB 0.18 per share, respectively.

## **2. Performance Analysis of 2Q11**

### **Production and Traffic**

		<b>April - June</b>		<b>%</b>
		<b>2011</b>	<b>2010</b>	<b>Change</b>
Production	(MATK)	2,975	2,743	+ 8.5%
Traffic	(MRTK)	1,893	1,793	+ 5.6%
Load Factor	(%)	63.6	65.4	- 1.8
Passenger Production	(MASK)	19,172	17,973	+ 6.7%
Passenger Traffic	(MRPK)	12,737	11,605	+ 9.8%
Cabin Factor	(%)	66.4	64.6	+ 1.8
Freight Production	(MADTK)	1,250	1,125	+ 11.1%
Freight Traffic	(MRFTK)	723	729	- 0.8%
Freight Load Factor	(%)	57.9	64.8	- 6.9
Number of Passenger	(Million persons)	4.20	3.71	+ 13.2%
Flight Hours	(Hours)	86,140	80,506	+ 7.0%
Average Aircraft Utilization	(Hour/Aircraft/Day)	11.5	10.9	+ 5.5%

In 2Q11, THAI took delivery of three A330-300 aircraft, completely equipped with passenger economy class seats, which had been starting to operate since April 16, May 25 and June 16, 2011, respectively, principally on regional and Australian routes. Upon the new aircraft joining the fleet, an older Airbus A300-600 was decommissioned on April 16, 2011.

THAI increased total production (Available Ton-Kilometers: ATK) by 8.5% higher over 2Q10. Total traffic (Revenue Ton-Kilometers: RTK) increased by 5.6% YoY. These made average load factor was 63.6%, reduced from 65.4% posted in 2Q10. Passenger production (Available Seat-Kilometers: ASK) increased 6.7% from last year while passenger traffic (Revenue Passenger-Kilometer: RPK) increased 9.8%. The result was the average cabin factor increased from 64.6% last year to 66.4% this year as in 2Q10 THAI was affected from a volcanic eruption in Iceland and domestic political unrest which made THAI to cancel and reduce flight frequency. This year, THAI again was impacted from a Japan's earthquake and severe market competition in various regions, especially in Europe, which caused lower-than-expected passenger traffic but higher than 2Q10.

## Revenues

In 2Q11, total revenues for THAI were THB 45,559 million, an increase of THB 5,925 million or 14.9% as follows:

Unit : Million Baht	April - June		Increase(Decrease)	
	2011	2010	MTHB	%
<b>Revenue from transportation activities</b>				
Passenger and excess baggage revenue	35,487	29,879	+ 5,608	+ 18.8
Freight and mail revenue	7,363	7,179	+ 184	+ 2.6
<b>Total revenue from transportation activities</b>	<b>42,850</b>	<b>37,058</b>	<b>+ 5,792</b>	<b>+ 15.6</b>
Revenue from other activities	1,990	1,701	+ 289	+ 17.0
<b>Total operating revenue</b>	<b>44,840</b>	<b>38,759</b>	<b>+ 6,081</b>	<b>+ 15.7</b>
Interest income	101	33	+ 68	+ 206.1
Other incomes	618	842	- 224	- 26.6
<b>Total revenues</b>	<b>45,559</b>	<b>39,634</b>	<b>+ 5,925</b>	<b>+ 14.9</b>

**Total operating revenue** was THB 44,840 million, an increase of THB 6,081 million or 15.7% from last year.

**Total revenue from transportation activities** was THB 42,850 million, an increase of THB 5,792 million or 15.6% over last year. Details are as follows:

- **Passenger and Excess Baggage Revenue**

Passenger and excess baggage revenue totaled THB 35,487 million, an increase of THB 5,608 million or 18.8%. A significant contribution was from the enhancement of passenger traffic which rose by 9.8%

and passenger yield (including passenger fuel and insurance surcharge) which rose by 8.3%, THB 2.52 per RPK to THB 2.73 per RPK year-on-year. The improvement of passenger yield was essentially from an increase in airfare in response to the rapid increase in oil price.

- **Freight and mail revenue**

Freight and mail revenue amounted to THB 7,363 million, which was an increase of THB 184 million or 2.6% primarily as a result of the increase in average freight yield (including cargo fuel and insurance surcharge) increased from THB 9.63 per RFTK to THB 9.92 per RFTK or an increase of 3.0% year-on-year. Freight production (Available Dead Load Ton-Kilometers: ADTK) increased by 125 million ton-kilometers or 11.1% because of the increase in number of flights. However, in the severe situation affected by the Japan's earthquake, the company had reduced the number of flights on affected routes depending on the situation. While freight traffic (Revenue Freight Ton-Kilometers: RFTK) was slightly lower than the same period last year. In this quarter, overall freight traffic was slowdown compared to last year leading to higher competition along with the Japan's earthquake leading to reduction of regional traffic demand. As a result, freight load factor was down from 64.8% in 2Q10 to 57.9% in 2Q11.

***Revenue from Other Activities***

Revenue from other activities amounted to THB 1,990 million, an increase of THB 289 million or 17.0% over last year. The increment of revenue was primarily generated from the increase of flights and passengers of customer airlines. This year THAI could gain more revenue from new service lines. For instance, THAI provides the VIP lounge for passengers who are credit card holders from banks which have the contract to THAI.

***Interest income***

Interest income totaled THB 101 million which increased by THB 68 million because average cash and cash equivalent along with interest rates were higher than last year. THAI also increased its short-term investments where THAI expected to obtain higher return.

***Other income***

Other income amounted to THB 618 million which decreased by THB 224 million or 26.6% principally from the compensation for the delay in aircraft delivery and revenue from passenger airport fees which had not been billed to THAI for over 3 years was lower than last year.

## Expenses

In 2Q11, total expenses totaled THB 53,783 million, THB 37,739 million or 42.5% higher than 2Q10 with the following details:

Unit : Million Baht	April - June		Increase(Decrease)	
	2011	2010	MTHB	%
Fuel and oil	19,370	13,801	+ 5,569	+ 40.4
Employee benefits expenses	8,689	7,660	+ 1,029	+ 13.4
Flight service expenses	5,105	4,520	+ 585	+ 12.9
Crew expenses	1,362	1,234	+ 128	+ 10.4
Aircraft maintenance and overhaul costs	3,085	2,034	+ 1,051	+ 51.7
Depreciation and amortization expenses	5,007	5,118	- 111	- 2.2
Lease of aircraft and spare parts	1,475	1,011	+ 464	+ 45.9
Inventories and supplies	2,147	2,063	+ 84	+ 4.1
Selling and advertising expenses	1,463	1,365	+ 98	+ 7.2
Insurance expenses	169	166	+ 3	+ 1.8
Impairment losses of assets	256	30	+ 226	+ 753.3
Other expenses	2,074	2,041	+ 33	+ 1.6
Losses (gains) on foreign currency exchange	2,265	(4,391)	+ 6,656	+ 151.6
Losses on redemption of debentures	1	-	+ 1	-
Share of profit of investments by the equity method	(104)	(176)	+ 72	+ 40.9
Finance costs	1,419	1,263	+ 156	+ 12.4
<b>Total Expenses</b>	<b>53,783</b>	<b>37,739</b>	<b>+ 16,044</b>	<b>+ 42.5</b>

Significant changes of expenses for 2Q11 included:

Fuel and oil expenses amounted to THB 19,370 million, THB 5,569 million or 40.4% higher than last year. The main reasons were the increase in average jet fuel prices by 46.2% over last year and a 5.5% increase in fuel consumption from increased production. THAI was compensated for fuel hedging contracts in the amount of THB 425 million while the weaken US dollar against the Thai baht partially offset the rise in fuel cost.

Employee benefits expenses consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense, amounted to THB 8,689 million, THB 1,029 million or 13.4% higher than last year. The reasons were the annual salary increment, an increases of salary for employees whose salary was less than THB 50,000 by the Cabinet resolution, overtime due to increased production, vacation compensation to employees who could not take vacation, and pilot trainee expenses. It should also be noted that THAI implemented new accounting standards in accordance with new guidelines announced under TAS 19 with

retrospective restatement effected expenses to increase by THB 218 million and THB 217 million for 2Q11 and 2Q10, respectively.

Flight service expenses amounted to THB 5,105 million, an increase of THB 585 million or 12.9% from last year. The increase was mainly the result of the increase in total production of THAI and the increase in flight service expenses relating to the operating lease aircraft.

Aircraft maintenance and overhaul costs amounted to THB 3,085 million, an increase of THB 1,051 million or 51.7% from last year, which was mainly from production increment and higher numbers of repaired engine year-on-year.

Lease of aircraft and spare parts were THB 1,475 million, an increase of THB 464 million or 45.9%, as THAI had paid more expenses for freighter aircraft and leased three Boeing 777-300ER aircraft from Jet Airways since May 2010.

Impairment losses of assets were THB 256 million, an increase of THB 226 million over the same period last year due to higher reserved damaged rotatable spare parts which had been set aside for pending sale.

Losses on foreign currency exchange amounted to THB 2,265 million in 2Q11 against last year's gain of THB 4,391 million due to the translation of the outstanding EURO currency loans into Baht term at the end of the period.

Share of profit of investment by equity method recorded as THB 104 million, a decrease of THB 72 million due to the decrease of recognizing share from Nok Air Company Limited' profits.

Finance costs amounted to THB 1,419 million, an increase of THB 156 million or 12.4% due to the increase of long-term debt.

#### **Net income tax expense (income)**

Net income tax income amounted to THB 360 million against the previous year with income tax expenses was THB 487 million as this year THAI had losses while last year THAI gained profit.

#### **Net profits(losses)**

Net losses amounted to THB 7,874 million compared to last year where THAI reported net profits, amounted to THB 1,401 million.

**Operating results for first half-year of fiscal year 2011 (January 1 - June 30, 2011)** THAI reported losses before foreign currency exchange and income tax amounted to THB 1,847 million, compared to 1H10 where THAI reported profits before foreign currency exchange and income tax amounted to THB 2,897 million. The foremost reasons were from rapid and continuous increase of fuel prices and the more fierce competition that made the difficulty for THAI to adjust fuel surcharge for sufficient coverage against rising fuel cost. It made the uprising fuel cost greater than the increase of total revenue. Furthermore, in 1H11, THAI reported losses on foreign currency exchange of THB 5,623 million compared to the same period last year where THAI gained profits on foreign currency exchange of THB 10,090 million. Consequently, THAI reported net losses of THB

7,256 million or THB 3.32 per share against 1H10's of which reported net profits of THB 11,973 million or THB 7.05 per share.

Results of operations are as follows:

Unit : Million Baht	January - June		Increase(Decrease)	
	2011	2010	MTHB	%
Total Revenues	97,410	89,440	+ 7,970	+ 8.9
Total Expenses*	99,257	86,543	+ 12,714	+ 14.7
Profits(Losses) before Foreign Currency Exchange and				
Income Tax	(1,847)	2,897	- 4,744	- 163.8
Gains (Losses) on Foreign Currency Exchange	(5,623)	10,090	- 15,713	- 155.7
Profits(Losses) before income tax	(7,470)	12,987	- 20,457	- 157.5
Net profits(losses)	(7,256)	11,973	- 19,229	- 160.6
Earnings per share (THB)	(3.32)	7.05	- 10.37	- 147.1
EBITDA	9,775	14,208	- 4,433	- 31.2
EBITDAR	12,686	15,717	- 3,031	- 19.3

\* Excluding gains (losses) on foreign currency exchange but including share of profits of investments by the equity method and finance costs

### 3. Financial Position

#### Assets

As of June 30, 2011, total assets were THB 283,028 million, a decrease of THB 13,530 million or 4.6% from December 31, 2010 with the following details:

	June 30, 2011		December 31, 2010	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	65,829	23.3	78,302	26.4
<b>Property, plant and equipment</b>				
Predelivery payment - aircraft and spare engines	21,378	7.5	17,983	6.1
Aircraft	46,240	16.3	48,588	16.4
Aircraft under finance leases	111,974	39.6	115,621	39.0
Aircraft spare parts	9,910	3.5	9,593	3.2
Work in Progress	2,208	0.8	311	0.1
Land, buildings and improvements	7,706	2.7	7,987	2.7
Other plant and equipment	5,344	1.9	6,035	2.0
<b>Property, plant and equipment-net</b>	<b>204,760</b>	<b>72.3</b>	<b>206,118</b>	<b>69.5</b>
Other non-current assets	12,439	4.4	12,138	4.1
<b>Total Assets</b>	<b>283,028</b>	<b>100.0</b>	<b>296,558</b>	<b>100.0</b>

Current assets were THB 65,829 million or accounted for 23.3% of total assets, a decrease of THB 12,473 million or 15.9% from December 31, 2010 resulting from lower cash and cash equivalents items which totaled THB 26,034 million as of June 30, 2011, a decrease of THB 11,646 million from as of December 31, 2010 due to long-term loans, debentures, interest and dividend payments, aircraft and spare engines advance payment and payment on other assets where the cash outflow exceeded than cash earned from operating and financing activities.

Property, plant and equipment-net totaled THB 204,760 million or represented 72.3% of total assets, which decreased by THB 1,358 million or 0.7% from December 31, 2010, primarily resulting from

- Predelivery payment-aircraft and spare engines increased THB 3,395 million due to advance payments for aircraft, spare engines and furnished equipment of new Airbus A330-300s and Airbus A380-800s, expected to be delivered during 2011-2013.
- Aircraft and aircraft under finance lease decreased THB 5,995 million since the amount of aircraft depreciation was higher than the value of new aircraft. During this period, THAI took delivery of 4 Airbus A330-300s which were completely equipped with passenger economy class seats, 1 aircraft in 1Q11 and 3 aircraft in 2Q11.
- Work in progress increased by THB 1,897 million mainly due to the cost of product design and parts of 12 Boeing B747-400s and 8 Boeing B777-200s cabin reconfiguration program of which have been under construction, expected to complete in 2012.

Other non-current assets totaled THB 12,439 million or represented 4.4% of total assets, which increased by THB 301 million or 2.5% from December 31, 2010 mostly resulting from the increase in deferred income tax assets THB 256 million and other non-current assets, THB 170 million, respectively .



## Liabilities

Total liabilities of THAI as of June 30, 2011 totaled THB 216,662 million, which was a decrease of THB 3,514 million or 1.6% from December 31, 2010 with the following details:

	<b>June 30, 2011</b>		<b>December 31, 2010</b>	
	<b>MTHB</b>	<b>% of total liabilities</b>	<b>MTHB</b>	<b>% of total liabilities</b>
Current liabilities (excluding current portion of long-term liabilities)	53,235	24.6	57,581	26.2
<b>Long-term liabilities</b>				
Debentures	31,285	14.4	29,335	13.3
Liabilities under financial leases	62,897	29.0	64,327	29.2
Long term loan	52,106	24.1	52,618	23.9
<b>Total long-term liabilities</b>	<b>146,288</b>	<b>67.5</b>	<b>146,280</b>	<b>66.4</b>
Employee benefits obligation	9,762	4.5	9,326	4.2
Other non-current liabilities	7,377	3.4	6,989	3.2
<b>Total liabilities</b>	<b>216,662</b>	<b>100.0</b>	<b>220,176</b>	<b>100.0</b>

Current liabilities (excluding current portion of long-term liabilities) as of June 30, 2011 totaled THB 53,235 million, representing 24.6% of total liabilities, which declined from December 31, 2010 by THB 4,346 million or 7.5%. The main reasons were the decrease of THB 4,617 million in accrued expenses and THB 1,940 million in unearned transportation revenues. However, trade account payable increased THB 2,404 million due to a larger account payable for fuel cost.

Long-term liabilities as of June 30, 2011 totaled THB 146,288 million (including the current portion of long-term liabilities amounted to THB 19,688 million) or represented 67.5% of total liabilities, which was closed to long-term liabilities from December 31, 2010 amount of THB 146,280 million. For 1H11, in addition to the loan repayments, THAI repaid the loan ahead of schedule, the amount of THB 2,809 million. Furthermore, THAI issued new debentures, the amount of THB 8,000 million, to repay debentures due, amount of THB 6,000 million and other long-term loans.

Employee benefits obligation as of June 30, 2011 was THB 9,762 million or 4.5% of total liabilities. It increased by THB 436 million or 4.7% from December 31, 2010. (Also see notes to the financial statement no.4.10 for details)

Other non-current liabilities as of June 30, 2011 totaled THB 7,377 million or represented 3.4% of total liabilities, which was an increase of THB 388 million or 5.6% from December 31, 2010 due to the increase of staff pension fund.

### Shareholders' Equity

As of June 30, 2011, total shareholders' equity amounted to THB 66,366 million, which was a decrease of THB 10,016 million from December 31, 2010 as a result of net losses for the six months ended June 30, 2011 and dividend payment for the year 2010.

### 4. Liquidity

Cash and cash equivalents as of June 30, 2011 amounted to THB 26,034 million, a decrease of THB 11,646 million or 30.9% from December 31, 2010.

A summary of cash from and used in each activity showed as follows :

Unit : Million Baht	January - June	
	2011	2010
Net cash from operating activities	6,074	11,252
Net cash used in investing activities	(6,712)	(1,585)
Net cash used in financing activities	(11,289)	(14,187)
Effect from changing in exchange rate on cash and cash equivalents	281	78
Increase (decrease) in cash and cash equivalents	<b>(11,646)</b>	<b>(4,442)</b>

#### Net cash from operating activities

Net cash from operating activities for the 1H11 ended June 30, 2011 amounted to THB 6,074 million, a decrease of THB 5,178 million, because of the reduction of operating profits before changes in operating assets and liabilities, which were THB 5,801 million lower.

#### Net cash used in investing activities

Net cash used in investing activities for 1H11 ended June 30, 2011 amounted to THB 6,712 million, which increased by THB 5,127 million. These primarily comprised of the use of cash in making advance payments on aircraft and engines. In addition, payment was also made for furnished equipment to be installed in Airbus A330-300 and A380-800 aircraft, rotatable spare parts procurement, and the cost of designing products and parts for cabin reconfiguration program of these aircraft: 12 B747-400s and 8 B777-200s.

#### Net cash used in financing activities

Net cash used in financing activities for 1H11 ended June 30, 2011 amounted to THB 11,289 million, a decrease of THB 2,898 million over the same period last year. Net cash from financing activities for this year consisted of cash outflow including repayment of long-term loans and debentures in the amount of THB 14,024 million, interest payment totaling THB 2,988 million, dividend payment totaling THB 2,719 million and cash inflow including new debentures issued and long-term loan totaling THB 8,500 million.

## 5. Capital Expenditures

Total capital expenditure before deduction of cash received from financial lease agreement for 1H11 ended June 30, 2011 totaled THB 7,282 million, which increased by THB 1,418 million or 24.2% year-on-year. It consisted of payment for the acquisition of new aircraft in which delivery would be taken during the year 2011-2013 as well as payment for aircraft spare parts and cabin reconfiguration program totaling THB 7,128 million.

Unit : Million Baht	January - June	
	2011	2010
Aircraft and aircraft spare parts	7,128	5,816
Non-Aircraft	154	48
<b>Total</b>	<b>7,282</b>	<b>5,864</b>

## 6. Financial Ratios

		January - June	
		2011	2010
<b>Liquidity Ratio</b>			
Current Ratio <sup>(1)</sup>	(times)	2.24	1.58
<b>Profitability Ratio</b>			
Operating Profit Margin	(%)	(0.03)	4.42
Net Profit Margin	(%)	(7.57)	13.66
Return on Equity	(%)	(10.17)	22.56
<b>Efficiency Ratio</b>			
Return on Total Assets	(%)	(2.50)	4.43
<b>Financial Policy Ratio</b>			
Interest Bearing Debt to Equity	(times)	2.20	2.37
Interest Coverage Ratio <sup>(2)</sup>	(times)	3.58	5.45
Debt Service Coverage Ratio (DSCR) <sup>(3)</sup>	(times)	0.65	0.98

Note : 1) Current Ratio = Current Assets / Current Liabilities (Excluding Current Portion of Long-Term Liabilities and Unearned Transportation Revenues)

2) Interest Coverage Ratio = EBITDA / Interest Expense

3) Debt Service Coverage Ratio = EBITDAR / (Long-term loan Repayment+Interest Expense+Lease of Aircraft and Spare Parts)

4) Financial ratios of 1H10 showed above was adjusted which caused by the adoption of new TAS used for comparison

Details of contractual obligations can be found in the notes to the financial statements number 4.23.