

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

1. Operating Results

In the third quarter of 2011, despite the average fuel price being lower than the last quarter, THAI's financial was impacted from the consistency high fuel price in the global market. Competition in the commercial airline industry, especially on European route, was more fierce with new rivals stepping into the destinations served by THAI while the Middle East carriers deployed larger sized aircraft. To maintain THAI's market shares, THAI was not able to sufficiently adjust fuel surcharge to cover the rapid rise in fuel cost. In this quarter, passenger traffic was higher than the second quarter of 2011 and higher than the same period last year. On the cargo side, Japan's earthquake had direct affect on THAI's air cargo operations as THAI has seen lower volume of shipment since March. The weakening of the Euro zone and United States of America economies had caused lower production output, thus reduced demand for production, further weakening demand for freight and thus impacting THAI's freight production and traffic.

Results of operations are as follows:

Unit : Million Baht	July - September		Increase(Decrease)	
	2011	2010	MTHB	%
Total Revenues	49,961	45,414	+ 4,547	+ 10.0
Total Expenses*	49,668	42,723	+ 6,945	+ 16.3
Profits(Losses) before Foreign Currency Exchange and				
Income Tax	293	2,691	- 2,398	- 89.1
Gains (Losses) on Foreign Currency Exchange	2,299	(2,773)	+ 5,072	+ 182.9
Profits(Losses) before income tax	2,592	(82)	+ 2,674	-
Net profits(losses)	2,447	(15)	+ 2,462	-
Earnings per share (THB)	1.12	(0.01)	+ 1.13	-
EBITDA	5,482	8,451	- 2,969	- 35.1
EBITDAR	6,719	9,691	- 2,972	- 30.7

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

In 3Q'11, total revenues amounted to THB 49,961 million which was an increase of THB 4,547 million or 10.0% over the same period last year. Total operating revenue improved by THB 4,771 million or 10.7% over last year mainly due to the increase in number of passengers and the average passenger yield which reflected a higher fuel surcharge rate. 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 49,668 million which was THB 6,945 million or 16.3% higher than last year. The major factor causing a dramatic increase in cost was the rapid rise in average jet fuel prices which was 44.5% higher than 3Q'10, resulting in a fuel cost increased of THB 6,072

million higher than last year. As the result, THAI earned THB 2,398 million lower in profits before foreign currency exchange and income tax. In 3Q'11 THAI posted the gains on foreign currency exchange in the amount of THB 2,299 million compared to the same period last year where THAI lost THB 2,773 million. Consequently, THAI had gains before income tax in the amount of THB 2,592 million, compared to last year where THAI lost THB 82 million.

Net profit for the period was THB 2,447 million or THB 1.12 per share which was higher than 3Q'10's reported losses of THB 15 million or THB 0.01 per share. EBITDAR for 3Q'11 was THB 6,719 million, THB 2,972 million or 30.7% 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 3Q'11 and 3Q'10 decreased by THB 153 million and THB 152 million, respectively. These made negative impact to reduce earnings per share THB 0.07 for 3Q'11 and THB 0.09 for 3Q'10, consecutively. Net profits of nine months ended September 30, 2011 and 2010 decreased by THB 458 million and THB 455 million; in the meanwhile, earning per share of nine months period ended September 30, 2011 and 2010 decreased THB 0.21 per share and THB 0.27 per share, respectively.

2. Performance Analysis of 3Q'11

Production and Traffic

		July - September		%
		2011	2010	Change
Production	(MATK)	3,009	2,897	+ 3.9%
Traffic	(MRTK)	2,018	2,024	- 0.3%
Load Factor	(%)	67.1	69.9	- 2.8
Passenger Production	(MASK)	19,836	18,847	+ 5.2%
Passenger Traffic	(MRPK)	14,681	14,079	+ 4.3%
Cabin Factor	(%)	74.0	74.7	- 0.7
Freight Production	(MADTK)	1,224	1,199	+ 2.1%
Freight Traffic	(MRFTK)	675	735	- 8.2%
Freight Load Factor	(%)	55.1	61.3	- 6.2
Number of Passenger	(Million persons)	4.77	4.42	+ 7.9%
Flight Hours	(Hours)	88,800	84,458	+ 5.1%
Average Aircraft Utilization	(Hour/Aircraft/Day)	11.3	11.2	+ 0.9%

In 3Q'11, THAI took delivery of the last A330-300 aircraft out of five that was pending as the missing economy class seats were finally installed, and also leased an additional B777-300ER which had been starting to operate since July 4, and August 3, 2011, respectively, principally serving regional and European routes. During the same period, THAI returned a leased freighter Boeing B777-200LRF on August 1, 2011.

THAI increased total production (Available Ton-Kilometers: ATK) by 3.9% higher over 3Q'10. Total traffic (Revenue Ton-Kilometers: RTK) decreased by 0.3% compared to the same period last year. This resulted in the average load factor of 67.1%, a reduction from 69.9% in 3Q'10. Passenger production (Available Seat-Kilometers: ASK) increased 5.2% from last year while passenger traffic (Revenue Passenger-Kilometer: RPK) increased 4.3%. The result was a decline in the average cabin factor decreased from 74.7% last year to 74.0% this year.

Revenues

In 3Q'11, total revenues for THAI were THB 49,961 million, an increase of THB 4,547 million or 10.0%.

Unit : Million Baht	July - September		Increase(Decrease)	
	2011	2010	MTHB	%
Revenue from transportation activities				
Passenger and excess baggage revenue	40,207	35,388	+ 4,819	+ 13.6
Freight and mail revenue	6,892	7,186	- 294	- 4.1
Total revenue from transportation activities	47,099	42,574	+ 4,525	+ 10.6
Revenue from other activities	2,105	1,859	+ 246	+ 13.2
Total operating revenue	49,204	44,433	+ 4,771	+ 10.7
Interest income	104	43	+ 61	+ 141.9
Other incomes	653	938	- 285	- 30.4
Total revenues	49,961	45,414	+ 4,547	+ 10.0

Total operating revenue was THB 49,204 million, an increase of THB 4,771 million or 10.7% over last year.

Total revenue from transportation activities was THB 47,099 million, an increase of THB 4,525 million or 10.6% over last year. Details are as follows:

- **Passenger and Excess Baggage Revenue**

Passenger and excess baggage revenue totaled THB 40,207 million, an increase of THB 4,819 million or 13.6%. A significant contribution was from the enhancement of passenger traffic which rose by 4.3% and passenger yield (including passenger fuel and insurance surcharge) which rose by 9.0%, THB 2.47 per RPK last year to THB 2.69 per RPK this year. The improvement of passenger yield was essentially from an increase in fuel surcharge in response to the rapid increase in oil price.

- **Freight and mail revenue**

Freight and mail revenue amounted to THB 6,892 million, which was a decrease of THB 294 million or 4.1% primarily as a result of the decrease in freight traffic but the average freight yield (including cargo fuel and insurance surcharge) increased from THB 9.56 per RFTK to THB 9.94 per RFTK or an increase of 4.0% year-on-year. Freight production (Available Dead Load Ton-Kilometers: ADTK) increased by 25 million ton-kilometers or 2.1% while freight traffic (Revenue Freight Ton-Kilometers: RFTK) was 60 million ton-kilometers or 8.2% lower than the same period last year. Overall freight traffic was lower in the quarter compared to last year leading THAI to adjust its freighter plan by returning a leased cargo aircraft, B777-200LRF, leased during high freight traffic demand last year. As a result, freight load factor was down from 61.3% in 3Q'10 to 55.1% in 3Q'11.

Revenue from Other Activities

Revenue from other activities amounted to THB 2,105 million, an increase of THB 246 million or 13.2% over last year. The increment of revenue was primarily generated from the increased in number of flights and passengers of customer airlines. Moreover, 3Q'11 THAI provided more maintenance services to customer airlines and the public sector .

Interest income

Interest income totaled THB 104 million which increased by THB 61 million because average cash and cash equivalent along with average 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 653 million which decreased by THB 285 million or 30.4% 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 3Q'11, total expenses totaled THB 47,369 million, THB 1,873 million or 4.1% higher than 3Q'10

Unit : Million Baht	July - September		Increase(Decrease)	
	2011	2010	MTHB	%
Fuel and oil	20,013	13,941	+ 6,072	+ 43.6
Employee benefits expenses	6,470	7,129	- 659	- 9.2
Flight service expenses	5,137	4,505	+ 632	+ 14.0
Crew expenses	1,374	1,189	+ 185	+ 15.6
Aircraft maintenance and overhaul costs	3,043	2,052	+ 991	+ 48.3
Depreciation and amortization expenses	5,113	4,993	+ 120	+ 2.4
Lease of aircraft and spare parts	1,237	1,240	- 3	- 0.2
Inventories and supplies	2,751	2,328	+ 423	+ 18.2
Selling and advertising expenses	1,584	1,535	+ 49	+ 3.2
Insurance expenses	169	174	- 5	- 2.9
Impairment losses of assets	265	447	- 182	- 40.7
Impairment losses of aircraft	181	-	+ 181	-
Other expenses	864	1,932	- 1,068	- 55.3
Losses (gains) on foreign currency exchange	(2,299)	2,773	- 5,072	- 182.9
Share of profit of investments by the equity method	-	(57)	+ 57	+ 100.0
Finance costs	1,467	1,315	+ 152	+ 11.6
Total Expenses	47,369	45,496	+ 1,873	+ 4.1

Significant changes of expenses for 3Q'11 included:

Fuel and oil expenses amounted to THB 20,013 million, THB 6,072 million or 43.6% higher than last year. The main reasons were the increase in average jet fuel prices by 44.5% over last year and a 3.3% increase in fuel consumption from increased production. In this quarter, THAI also benefited from a weaker USD against the THB 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 6,470 million, THB 659 million or 9.2% lower than the previous year, resulting primarily from the reversal of the entire amount of reserve welfare fee which was recorded in the beginning of this year in the amount of THB 1,391 million to better reflect THAI's financial circumstances. Without taking into consideration the annual welfare fee, employee benefits expenses would be higher than last year because of the annual salary increment, an increase in salary for employees whose salary was less than THB 50,000 as per the Cabinet resolution, increase in overtime due to increased production, special incentive based on employees performance for the year 2010, 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 3Q'11 and 3Q'10, respectively.

Flight service expenses amounted to THB 5,137 million, an increase of THB 632 million or 14.0% from last year. The increase was mainly the result of the increase in total production and the weaker THB against major currencies: EUR and YEN.

Aircraft maintenance and overhaul costs amounted to THB 3,043 million, an increase of THB 991 million or 48.3% from last year, which was mainly from increase in production and higher number of engines repaired for both scheduled and unplanned maintenance year-on-year.

Inventories and supplies were THB 2,751 million, an increase of THB 423 million or 18.2%, as this quarter THAI increased its production and replaced life-limited parts of engines at the end of its useful life.

Impairment losses of assets were THB 265 million, a decrease of THB 182 million over the same period last year due to lower reserves booked against damaged rotatable spare parts which had been set aside for pending sale.

Impairment losses of aircraft totaled THB 181 million due to recognition of an impairment loss of 2 Airbus A300-600 aircraft which were decommissioned and in the process for sale.

Other expenses were THB 864 million, a decrease of THB 1,068 million or 55.3% year-on-year since THAI reversed the provision for damages and fine from violating the Antitrust and Competition law that was put aside in 2008 in the amount of THB 1,082 million. The remaining reserve balance is THB 1,425 million.

Gains on foreign currency exchange amounted to THB 2,299 million in 3Q'11 against last year's losses of THB 2,773 million due to the translation of the outstanding EUR and YEN loans into THB at the end of the period.

Finance costs amounted to THB 1,467 million, an increase of THB 152 million or 11.6% due to the increase of long-term debt.

Net income tax expense (income)

Net income tax expenses amounted to THB 140 million against the previous year with income tax income of THB 79 million as this year THAI gained profit while THAI had losses last year.

Net profits (losses)

Net profits amounted to THB 2,447 million compared to last year where THAI posted net losses of THB 15 million.

Operating results for the nine months of fiscal year 2011 (January 1 - September 30, 2011) THAI reported losses before foreign currency exchange and income tax amounted to THB 1,553 million, compared to the same period last year where THAI reported profits before foreign currency exchange and income tax of THB 5,588 million. This year's performance was adversely impacted by the rapid and continuous increase of fuel prices and the fierce competition that made it difficult for THAI to adjust fuel surcharge to sufficiently cover the higher fuel cost. The rise in fuel cost outpaced the increase in total revenue. For 2011, THAI reported losses on foreign currency exchange of THB 3,325 million compared to the same period last year where THAI gained profits on foreign currency exchange of THB 7,317 million. Consequently, THAI reported net losses of THB 4,809 million

or THB 2.20 per share against last year of which reported net profits of THB 11,958 million or THB 6.99 per share. Fortunately, when compared to 1H'11, THAI's performance had improvement due to the decreasing losses.

Results of operations are as follows:

Unit : Million Baht	January - September		Increase(Decrease)	
	2011	2010	MTHB	%
Total Revenues	147,372	134,854	+ 12,518	+ 9.3
Total Expenses*	148,924	129,266	+ 19,658	+ 15.2
Profits(Losses) before Foreign Currency Exchange and Income Tax	(1,553)	5,588	- 7,141	- 127.8
Gains (Losses) on Foreign Currency Exchange	(3,325)	7,317	- 10,642	- 145.4
Profits(Losses) before income tax	(4,878)	12,905	- 17,783	- 137.8
Net profits(losses)	(4,809)	11,958	- 16,767	- 140.2
Earnings per share (THB)	(2.20)	6.99	- 9.19	- 131.5
EBITDA	15,258	22,658	- 7,400	- 32.6
EBITDAR	19,405	25,407	- 6,002	- 23.6

* 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 September 30, 2011, total assets were THB 277,044 million, a decrease of THB 19,514 million or 6.6% from December 31, 2010 with the following details:

	September 30, 2011		December 31, 2010	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	61,270	22.1	78,302	26.4
Property, plant and equipment				
Predelivery payment - aircraft and spare engines	24,016	8.7	17,983	6.1
Aircraft	44,951	16.2	48,588	16.4
Aircraft under finance leases	109,545	39.6	115,621	39.0
Aircraft spare parts	9,569	3.4	9,593	3.2
Work in Progress	2,391	0.9	311	0.1
Land, buildings and improvements	7,562	2.7	7,987	2.7
Other plant and equipment	5,105	1.8	6,035	2.0
Property, plant and equipment-net	203,139	73.3	206,118	69.5
Other non-current assets	12,635	4.6	12,138	4.1
Total Assets	277,044	100.0	296,558	100.0

Current assets were THB 61,270 million or accounted for 22.1% of total assets, a decrease of THB 17,032 million or 21.8% from December 31, 2010 resulting from lower cash and cash equivalents items which totaled THB 20,469 million as of September 30, 2011, a decrease of THB 17,211 million from as of December 31, 2010. The main reason was from the cash outflow, which consisted of repayment of long-term loans, debentures, interest, dividend payments, and on other assets along with aircraft and spare engines advance payment, where such payments exceeded cash earned from operating and financing activities.

Property, plant and equipment-net totaled THB 203,139 million or represented 73.3% of total assets, which decreased by THB 2,979 million or 1.4% from December 31, 2010, primarily resulting from

- Predelivery payment-aircraft and spare engines increased THB 6,033 million due to advance payments for aircraft, spare engines and furnished equipment, expected to be delivered during 2011-2017.
- Aircraft and aircraft under finance lease decreased THB 9,713 million since the amount of aircraft depreciation was higher than the value of new aircraft. During this period, THAI took delivery of five Airbus A330-300s which were completely equipped with passenger economy class seats, 1 aircraft in 1Q'11, 3 aircraft in 2Q'11, and 1 aircraft in 3Q'11.
- Work in progress increased by THB 2,080 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 12,635 million or represented 4.6% of total assets, which increased by THB 497 million or 4.1% from December 31, 2010 mostly resulting from the increase in deferred income tax assets of THB 214 million and intangible assets of THB 93 million, respectively .

Liabilities

Total liabilities of THAI as of September 30, 2011 totaled THB 208,225 million, which was a decrease of THB 11,951 million or 5.4% from December 31, 2010 with the following details:

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term liabilities)	50,828	24.4	57,581	26.2
Long-term liabilities				
Debentures	31,285	15.0	29,335	13.3
Liabilities under financial leases	58,594	28.1	64,327	29.2
Long term loan	51,104	24.6	52,618	23.9
Total long-term liabilities	140,983	67.7	146,280	66.4
Employee benefits obligation	9,980	4.8	9,326	4.2
Other non-current liabilities	6,434	3.1	6,989	3.2
Total liabilities	208,225	100.0	220,176	100.0

Current liabilities (excluding current portion of long-term liabilities) as of September 30, 2011 totaled THB 50,828 million, representing 24.4% of total liabilities, which declined from December 31, 2010 by THB 6,753 million or 11.7%. The main reasons were the decrease of THB 5,347 million in accrued expenses and THB 2,507 million in unearned transportation revenues.

Long-term liabilities as of September 30, 2011 totaled THB 140,983 million (including the current portion of long-term liabilities amounted to THB 20,802 million) or represented 67.7% of total liabilities, which decreased from December 31, 2010 which was THB 146,280 million. For nine months ended September 30, 2011, in addition to loan repayments, THAI made a loan prepayment in the amount of THB 4,309 million. Furthermore, THAI issued new debentures, totaling THB 8,000 million, to repay a maturing debenture due of THB 6,000 million and other long-term loans.

Employee benefits obligation as of September 30, 2011 was THB 9,980 million or 4.8% of total liabilities. It increased by THB 654 million or 7.0% from December 31, 2010 due to recognition of employee benefits obligation for nine months period ended September 30, 2011. (Also see notes to the financial statement no.4.11 for details)

Other non-current liabilities as of September 30, 2011 totaled THB 6,434 million or represented 3.1% of total liabilities, which was a decrease of THB 555 million or 7.9% from December 31, 2010 due to the decrease of long term provision by THB 1,081 million from the reversal of the provision for damages and fine from the

Antitrust and Competition law. However, in this period there were the increase of staff pension fund, in the amount of THB 334 million and other non-current liabilities, in the amount of THB 122 million.

Shareholders' Equity

As of September 30, 2011, total shareholders' equity amounted to THB 68,819 million, which was a decrease of THB 7,563 million from December 31, 2010 resulting from net losses for the nine months ended September 30, 2011 and dividend payment for the year 2010.

4. Liquidity

Cash and cash equivalents as of September 30, 2011 amounted to THB 20,469 million, a decrease of THB 17,211 million or 45.7% from December 31, 2010.

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

Unit : Million Baht	January - September	
	2011	2010
Net cash from operating activities	7,554	19,417
Net cash used in investing activities	(9,000)	(5,119)
Net cash used in financing activities	(15,821)	(834)
Effect from changing in exchange rate on cash and cash equivalents	56	(79)
Increase (decrease) in cash and cash equivalents	(17,211)	13,385

Net cash from operating activities

Net cash from operating activities for the nine months ended September 30, 2011 amounted to THB 7,554 million, a decrease of THB 11,863 million, because of lower operating profits before changes in operating assets and liabilities, which were THB 7,401 million lower and the reduction of operating liabilities by THB 8,361 million.

Net cash used in investing activities

Net cash used in investing activities for nine months ended September 30, 2011 amounted to THB 9,000 million, which increased by THB 3,881 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, rotatable spare parts procurement, and the cost of designing products and parts for cabin reconfiguration program of B747-400 and B777-200 aircraft.

Net cash used in financing activities

Net cash used in financing activities for nine months ended September 30, 2011 amounted to THB 15,821 million, an increase of THB 14,987 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 18,930

million, interest payment totaling THB 4,088 million, dividend payment totaling THB 2,805 million and cash inflow including new debentures issued and long-term loans totaling THB 10,000 million.

5. Capital Expenditures

Total capital expenditure before deduction of cash received from financial lease agreement for nine months ended September 30, 2011 totaled THB 9,654 million, which increased by THB 131 million or 1.4% year-on-year. It consisted of payment for the acquisition of new aircraft in which delivery would be taken during the year 2011-2017 as well as payment for aircraft spare parts and cabin reconfiguration program totaling THB 9,396 million.

Unit : Million Baht	January - September	
	2011	2010
Aircraft and aircraft spare parts	9,396	9,435
Non-Aircraft	258	88
Total	9,654	9,523

6. Financial Ratios

		January - September	
		2011	2010
Liquidity Ratio			
Current Ratio ⁽¹⁾	(times)	2.23	2.34
Profitability Ratios			
Operating Profit Margin	(%)	0.24	5.55
Net Profit Margin	(%)	(3.31)	9.05
Return on Equity	(%)	(6.62)	19.76
Efficiency Ratios			
Return on Total Assets	(%)	(1.68)	4.28
Financial Policy Ratios			
Interest Bearing Debt to Equity	(times)	2.05	1.91
Interest Coverage Ratio ⁽²⁾	(times)	3.64	5.78

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) Financial ratios of 9 months period ended September 30, 2010 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 4.25.