

Management's Discussion and Analysis for three months ended March 31, 2012 for Thai Airways International Public Company Limited and Its Subsidiaries

The consolidated financial statements of the first quarter of 2012, when compared to the same period last year, includes two additional subsidiaries which are Thai Flight Training Co., Ltd., a business to provide aviation personnel training services with THAI holding a 49 percent share launched on July 29, 2011 and Nok Airlines Co.,Ltd (Nok Air) which THAI purchased an additional 5 million shares representing an additional 10 percent stake of Nok Air's issued and paid-up shares on November 29, 2011, increasing THAI's total shares up to 49 percent.

1. Operating Results of Thai Airways International PCL. and its subsidiaries

In the first quarter of 2012 which is the high season period of tourism, the number of international tourists return to Thailand increased after the flooding that occurred in late 2011. Despite improved travel demand outlook, THAI was still subjected to external factors continuing to affect its operations with high fuel prices and the severe competition being the two most significant. Rapid actions was taken to mitigate the impacts through the launch of marketing campaign, rescheduling of flights also consisting of adjusting aircraft type used on particular routes along with adjusting routing and frequency to better match passengers demand and improving risk management, especially proactive fuel hedging to mitigate fuel cost impact on operating cost for the full year. These proactive and aggressive measures enable the Company to return to profitability in the quarter after reeling from the rigorous impact by massive flood in the forth quarter of 2011.

Results of operations of Thai Airways International PCL. and its subsidiaries are as follows:

Unit : Million Baht	January - March		Increase(decrease)	
	2012	2011	MTHB	%
Total revenues	54,505	51,851	+ 2,654	+ 5.1
Total expenses *	51,164	47,739	+ 3,425	+ 7.2
Profit before foreign currency exchange				
and income tax	3,341	4,112	- 771	- 18.8
Gain (Losses) on foreign currency exchange	527	(3,358)	+ 3,885	+ 115.7
Profit before income tax	3,868	754	+ 3,114	+ 413.0
Profit attributable to owners of the parent	3,645	618	+ 3,027	+ 489.8
Net profit per share (Baht)	1.67	0.28	+ 1.39	+ 496.4
EBITDA	9,781	9,756	+ 25	+ 0.3
EBITDAR	10,966	11,192	- 226	- 2.0

* Excluding gains (losses) on foreign currency exchange

Total revenue of THAI and its subsidiaries amounted to THB 54,505 million, which was an increase of THB 2,654 million or 5.1% from last year. Nok Air's top line revenue contribution to the THAI's total revenue was THB 1,873 million while THAI's own revenue increase in revenue totaled THB 925 million due to the increase of passenger revenue. Total expenses for THAI and its subsidiaries, excluding gain (loss) on foreign currency exchange amounted to THB 51,164 million, which was THB 3,425 million or 7.2% higher than last year. The portion of Nok Air's expense totaled THB 1,710 million of THAI's total expense while THAI's expense increased by THB 1,782 million. The major factor causing the increase was the 13.8% increase in average jet fuel price increasing THAI's fuel cost by THB 2,123 million over last year. During the first quarter, THAI and its subsidiaries also recorded a gain on foreign currency exchange in

the amount of THB 527 million compared to last year where THAI lost THB 3,358 million. Consequently, THAI and its subsidiaries reported a profit before income tax of THB 3,868 million, THB 3,114 million higher than last year. Excluding gain (loss) on foreign currency exchange, THAI and its subsidiaries earned a profit before foreign currency exchange and income tax of THB 3,341 million, which is THB 771 million or 18.8% lower than last year.

Profit attribute to owners of parent (net profit) was THB 3,645 million or 1.67 baht per share compared to last year's THB 618 million or 0.28 baht per share earned. EBITDAR was THB 10,966 million, which was decreased of THB 226 million or 2.0% from last year.

2. Performance analysis for the first quarter of 2012

Production and Traffic (Thai Airways International PCL.)

		<u>January - March</u>		<u>% Change</u>
		<u>2012</u>	<u>2011</u>	
Production	(MATK)	2,992	2,995	- 0.1%
Traffic	(MRTK)	2,082	2,063	+ 0.9%
Load Factor	(%)	69.6	68.9	+ 0.7
Passenger Production	(MASK)	19,953	19,571	+ 1.9%
Passenger Traffic	(MRPK)	15,605	14,881	+ 4.9%
Cabin Factor	(%)	78.2	76.0	+ 2.2
Freight Production	(MADTK)	1,196	1,233	- 3.0%
Freight Traffic	(MRFTK)	651	698	- 6.8%
Freight Load Factor	(%)	54.4	56.6	- 2.2
No. of Passenger	(million persons)	5.16	4.92	+ 4.8%
Flight Hours	(hours)	91,680	89,175	+ 2.8%
Average of Aircraft Utilization	(hour/aircraft/day)	11.7	12.4	- 5.6%

THAI's passenger production (Available Seat - Kilometers: ASK) increased by 1.9% and passenger traffic (Revenue Passenger - Kilometers: RPK) increased 4.9% because of the promotion campaigns employed to stimulate travel demands to Thailand post the year-end flooding that ended late November 2011 resulting in a cabin factor of 78.2%, higher than the 76.0% cabin factor achieved during the same period last year.

On the freight services side, THAI returned the last block-spaced freighter aircraft in February 2012. Consequently, THAI did not have any freighter aircraft available in March 2012 resulting in lower freight production (Available Dead Load Ton-Kilometers: ADTK) and freight traffic (Revenue Freight Ton-Kilometers: RFTK) decreasing by 3.0% and 6.8%, respectively compared to the same period last year. Freight load factor was 54.4% lower than the 56.6% achieved last year. THAI plans to re-launch its freighter services in April 2012 with its own freighter aircraft converted from passenger aircraft.

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenue for the first quarter of 2012 earned was THB 54,505 million, an increase of THB 2,654 million or 5.1% from last year. Details are as follows:

Unit : Million Baht	January - March		Increase(decrease)	
	2012	2011	MTHB	%
Revenue from transportation activities				
Passenger and excess baggage revenue	44,957	41,935	+ 3,022	+ 7.2
Freight and mail revenue	6,723	6,955	- 232	- 3.3
Total revenue from transportation activities	51,680	48,890	+ 2,790	+ 5.7
Revenue from other activities	2,319	2,135	+ 184	+ 8.6
Total operating revenue	53,999	51,025	+ 2,974	+ 5.8
Interest income	119	120	- 1	- 0.8
Other incomes	387	706	- 319	- 45.2
Total revenues	54,505	51,851	+ 2,654	+ 5.1

Total operating revenue was THB 53,999 million, an increase of THB 2,974 million or 5.8% from the same period last year.

Revenue from transportation activities amounted to THB 51,680 million, an increase of THB 2,790 million or 5.7% from last year. Details are as follows:

- **Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 44,957 million, an increase of THB 3,022 million or 7.2%. The main reasons are

- Passenger and excess baggage revenue for THAI increased by THB 1,206 million with the increase in number of passenger partially from the launch of promotion campaigns. Passenger traffic (Revenue Passenger Ton-Kilometers: RPK) increased by 4.9% as a result cabin factor increased from 76.0% last year to 78.2% for the first quarter of 2012. With the launch of the promotion campaigns, average passenger yield (including fuel and insurance surcharge) decrease slightly from 2.77 last year to 2.75 this year.
- Passenger and excess baggage revenue for Nok Air totaled THB 1,814 million.

- **Freight and mail revenue**

Freight and mail revenue amounted to THB 6,723 million, which was a decrease of THB 232 million or 3.3%, primarily due to the return of the last leased freighter aircraft in February 2012 while the first aircraft was returned in August 2011. This caused freight production (Available Dead Load Ton-Kilometers: ADTK) and freight traffic (Revenue Freight Ton-Kilometers: RFTK) to decrease from the same period last year by 3.0% and 6.8%, respectively.

Other activities revenue

Other activities revenue amounted to THB 2,319 million, which increased by THB 184 million or 8.6% primarily as a result of an increase in number of both flights and passengers from customer airlines earned higher level of external revenue by Ground Services, Catering Services, Cargo Handling Services and Technical Services.

Interest income

Interest income totaled THB 119 million, which was almost the same amount as last year.

Other incomes

Other income amounted to THB 387 million was a decrease of THB 319 million or 45.2% primarily the result of no further compensation for delay in aircraft delivery, compared to the amount of THB 256 million received in compensation the year before. The other portion which saw lower recognition is passenger airport fees, that were not billed to THAI for over 3 years, was THB 120 million lower than last year.

Expenses for Thai Airways International PCL. and its subsidiaries

In the first quarter of 2012, total expenses amounted to THB 50,637 million, which was THB 460 million or 0.9% lower than the same period last year. A summary of operating expenses is as follows:

Unit : Million Baht	January - March		Increase(decrease)	
	2012	2011	MTHB	%
Fuel and oil	20,326	17,510	+ 2,816	+ 16.1
Employee benefit expenses	7,095	7,739	- 644	- 8.3
Flight service expenses	5,111	5,091	+ 20	+ 0.4
Crew expenses	1,466	1,347	+ 119	+ 8.8
Aircraft maintenance and overhaul costs	2,977	2,494	+ 483	+ 19.4
Depreciation and amortization	5,147	4,796	+ 351	+ 7.3
Lease of aircraft and spare parts	1,185	1,436	- 251	- 17.5
Inventories and supplies	2,352	2,221	+ 131	+ 5.9
Selling and advertising expenses	1,534	1,335	+ 199	+ 14.9
Insurance expenses	129	164	- 35	- 21.3
Impairment loss of assets	19	357	- 338	- 94.7
Impairment loss of aircraft	181	-	+ 181	-
Other expenses	2,254	1,978	+ 276	+ 14.0
Loss (gains) on foreign currency exchange	(527)	3,358	- 3,885	- 115.7
Finance costs	1,481	1,309	+ 172	+ 13.1
Share of profits of associates	(93)	(38)	- 55	- 144.7
Total Expenses	50,637	51,097	- 460	- 0.9

Significant changes of expenses for the first quarter of 2012 included:

Fuel and oil expense amounted to THB 20,326 million, was THB 2,816 million or 16.1% higher than last year.

- Fuel and oil expense for THAI increased THB 2,123 million. The main reasons were the increase in average jet fuel price by 13.8% from last year and an increase in fuel consumption by 1.5% from passenger production expansion. Moreover, THAI was compensated on fuel hedging contracts in the amount of THB 909 million, which was THB 436 million higher than last year.
- Fuel and oil expense for Nok Air amounted to THB 692 million.

Employee benefits expenses (including Nok Air's whose amount was THB 119 million) consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense amounted to THB 7,095 million, which was a decrease of THB 644 million or 8.3% over last year mainly due to the decrease of THAI's personnel expense since there was no accrued annual welfare for this year.

Aircraft maintenance and overhaul costs amounted to THB 2,977 million was an increase of THB 483 million or 19.4% from last year. The increase was mainly from

- Aircraft maintenance and overhaul costs for THAI increased by THB 181 million as the number of engines requiring maintenance service was more than the year before
- Aircraft maintenance and overhaul costs for Nok Air amounted to THB 302 million.

Lease of aircraft and spare parts expenses totaled THB 1,185 million, a decrease of THB 251 million or 17.5%, which was mainly from

- Lease of aircraft and spare parts expenses for THAI decreased THB 432 million due to the return of the last leased freighter aircraft.
- Lease of aircraft and spare parts expenses for Nok Air amounted to THB 181 million.

Impairment loss of assets amounted to THB 19 million, a decrease of THB 338 million or 94.7% due to lower reserved for damaged rotatable spare parts which had been set aside for pending sale.

Impairment loss of aircraft amounted to THB 181 million due to decommission of 2 Airbus A300-600 aircraft in March 2012 and in the process for sale. According to the comparison between book value and fair value less cost of sell found that the fair value less cost of sell was lower than the book value. Thus, THAI realized the impairment loss of those aircraft amounted to THB 181 million.

Gain on foreign currency exchange amounted to THB 527 million mostly due to the translation of the Company's outstanding Japanese Yens currency loans into Baht term at the end of the period when compared to last year where THAI and its subsidiaries had loss on foreign currency exchange in the amount of THB 3,358 million.

Share of profits of associates amounted to THB 93 million, an increase of THB 55 million or 144.7% due to an increase of recognizing the share of Bangkok Aviation Fuel Services PCL's and Phuket Air Catering Co.,Ltd's profits.

Financial cost amounted to THB 1,481 million, an increase of THB 172 million or 13.1% mainly due to the increase of long-term liabilities.

Net income tax expenses of Thai Airways International PCL. and its subsidiaries

Net income tax expenses amounted to THB 200 million, an increase of THB 79 million or 65.3% due to an increase of THB 280 million which recognizing deferred tax asset or liability from temporary differences. On the contrary, THAI and its subsidiaries had less net income tax expenses from taxable profit for this period, amount of THB 202 million which is an impact of changes in corporate income tax rate from 30 percent to 23 percent started implementing in this quarter and exercised tax benefit from net loss which incurred in the 2011.

Profit attributable to owners of the parent

Profit attributable to owners of the parent amounted to THB 3,645 million or net profit margin of 6.75% when compared to last year where THAI and its subsidiaries earned THB 618 million or a 1.21% net profit margin.

3. Financial Position of Thai Airways International PCL. and its subsidiaries

Assets

As of March 31, 2012, total assets were THB 281,397 million, an increase of THB 6,952 million or 2.5% from as at December 31, 2011.

	<u>March 31, 2012</u>		<u>December 31, 2011</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	64,346	23.0	59,294	21.6
Property, plant and equipment				
Prepaid aircraft and Spare engine	22,598	8.0	21,279	7.8
Aircraft	48,088	17.1	46,104	16.8
Aircraft under finance leases	110,678	39.3	112,051	40.8
Aircraft spare parts	10,602	3.8	10,367	3.8
Work in process	2,687	0.9	2,838	1.0
Land, buildings and improvements	7,347	2.6	7,463	2.7
Other plant and equipment	4,918	1.7	4,893	1.8
Property, plant and equipment-net	206,918	73.4	204,995	74.7
Other non-current assets	10,133	3.6	10,156	3.7
Total Assets	281,397	100.0	274,445	100.0

Current assets were THB 64,346 million or accounted for 23.0% of total assets, an increase of THB 5,052 million or 8.5% from as of December 31, 2011. The main reason were

- Cash and cash equivalents (included cash and cash equivalents of Nok Air, amount of THB 300 million) as of March 31, 2012 totaled to THB 19,278 million which increased by THB 2,612 million from as of December 31, 2011 resulting from the issuance of debentures, totaling THB 4,500 million.
- Temporary investments as of March 31, 2012 totaled THB 1,370 million, an increase of THB 951 million on a consolidated basis where Nok Air invested THB 1,000 million in bill of exchange.

- Other current assets as of March 31, 2012 totaled THB 7,969 million, an increase of THB 849 million from as of December 31, 2011. Other current assets for THAI increased THB 568 million mainly from accrued income from fuel hedging and input tax refund. Other current assets of Nok Air totaled THB 421 million.

Property, plant and equipment-net totaled THB 206,918 million or represented 73.4 % of total assets, which saw an increase by THB 1,923 million or 0.9% from as of December 31, 2011 resulting from

- Prepaid aircraft and spare engines increased THB 1,319 million due to advance payments for aircraft and furnished equipment of Airbus A330-300 aircraft, Airbus A380-800 aircraft and Boeing B777-300ER aircraft and spare engines, expected to be delivered during 2012-2017.
- Aircraft and aircraft under finance lease increased by THB 611 million with a delivery of one new Airbus A330-300 aircraft in the first quarter.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of March 31, 2012 totaled THB 213,752 million, which was an increase of THB 2,742 million or 1.3% from as of December 31, 2011. These comprise of:

	<u>March 31, 2012</u>		<u>December 31, 2011</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	51,463	24.1	51,804	24.6
Long-term loans				
Debentures	32,127	15.0	27,797	13.2
Liabilities under financial leases	56,897	26.6	57,895	27.4
Long term loan from others	56,056	26.2	56,607	26.8
Total long-term loans	145,080	67.8	142,299	67.4
Employee benefits obligation	10,934	5.1	10,632	5.0
Other non-current liabilities	6,275	3.0	6,275	3.0
Total liabilities	213,752	100.0	211,010	100.0

Long-term loans as of March 31, 2012 totaled THB 145,080 million (includes the current portion of long-term loans amounting to THB 19,654 million) or represented 67.8% of total liabilities, which was an increase of THB 2,781 million from December 31, 2011. In this quarter, THAI issued new debentures, totaling THB 4,500 million, for working capital, for asset investment and for loans repayment bearing higher cost of capital. THAI repaid loans and maturing debenture due and made prepayment on outstanding loan's whose amount totaled THB 431 million.

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

As of March 31, 2012, shareholders' equity (include Nok Air's shareholders' equity, amount of THB 411 million) totaled THB 67,645 million, an increase of THB 4,210 million from December 31, 2011 due to the positive results in this quarter.

Liquidity of Thai Airways International PCL. and its subsidiaries

Cash and cash equivalents as of March 31, 2012 amounted to THB 19,278 million, an increase of THB 2,612 million or 15.7% from as of December 31, 2011.

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

Unit : Million Baht	January - March	
	2012	2011
Net cash from operating activities	5,106	5,228
Net cash used in investing activities	(2,561)	(3,161)
Net cash from (used in) financing activities	48	(6,004)
Effect from changing in exchange rate on cash and cash equivalents	19	(247)
Increase (decrease) in cash and cash equivalents	2,612	(4,184)

Net cash from operating activities

Net cash from operating activities for three-months period ended March 31, 2012 amounted to THB 5,106 million, decreased by THB 122 million mainly due to the operating profit before changes in operating assets and liabilities to decrease by THB 180 million. Operating assets increased by THB 848 million. Operating liabilities increased by THB 916 million.

Net cash used in investing activities

Net cash used in investing activities for the first three months of 2012 amounted to THB 2,561 million, which decreased by THB 600 million. These primarily comprised of cash received from transferring the rights for advanced payments of aircraft and aircraft equipment amounted to THB 283 million and cash received from investment in subsidiaries amounted to THB 197 million. For majority of net cash used in investing activities in this quarter consisted of advance payments that were also made for aircraft and engines, furnished equipment, rotatable spare parts procurement and the cost of designing products and parts for cabin reconfiguration program of Boeing B747-400 and B777-200 aircraft.

Net cash from (used in) financing activities

Net cash from financing activities for three months ending March 31, 2012 amounted to THB 48 million compared to net cash used in financing activities amount of THB 6,004 million last year. Net cash from financing activities for this year consisted of cash inflow including new debentures issued totaling THB 4,500 million and cash outflow including repayment of long-term loans and debentures in the amount of THB 3,308 million, interest payment totaling THB 1,144 million.

5. Capital Expenditures

Capital expenditures before deduction of cash received from finance leases agreement for three months ending March 31, 2012 totaled THB 5,195 million, which increased by THB 1,709 million or 49.0% from last year. Capital expenditures for the first quarter of this year mainly consisted of payment for the acquisition of new aircraft in which delivery will be taken in 2012-2017 as well as payment for acquisition of rotatable aircraft spare part and cabin reconfiguration program totaling THB 4,958 million.

Unit : Million Baht	January - March	
	2012	2011
Aircraft and aircraft spare parts	4,958	2,828
Non-Aircraft	237	658
Total	5,195	3,486

6. Financial Ratios

		January - March	
		2012	2011
Liquidity Ratio			
Current Ratio ¹⁾	(times)	2.21	2.61
Profitability Ratio			
Operating Profit Margin	(%)	8.58	9.72
Net Profit Margin	(%)	6.75	1.21
Return on Equity	(%)	5.56	0.81
Efficiency Ratio			
Return on Total Assets	(%)	1.31	0.21
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	2.14	1.88
Interest Coverage Ratio ²⁾	(times)	6.61	7.45

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

Detail of significant contractual obligations are in the note to the financial statements number 2.24