

## **Management's Discussion and Analysis for three months ended March 31, 2013 for Thai Airways International Public Company Limited and Its Subsidiaries**

### **1. Executive summary**

In 2013, global economic growth is likely to continue at a diminished pace. Despite the economic fragility of the European Union, Asian economy indicators show resilience while the US economy shows signs of recovery. During the first quarter of 2013, the airline industry still saw satisfactory growth due to higher passenger transport numbers and air cargo shows signs for potential recovery. Over the past year, freight traffic demand for Asia Pacific airlines have been negatively impacted by the economic slowdown in many major countries that import from Asia, especially the Eurozone which have been key traditional export markets for air cargo service.

Amidst tough competition within the commercial airline industry, THAI adhered to its strategic initiatives and concentrating on building brand reputation, and ensuring an appropriate level of profitability while ensuring the Company's long-term sustainability and to be among the forefront airlines in Asia.

In this past quarter, THAI added 5 new aircraft to its fleet and decommissioning older aircraft. Traffic production (Available Seat Kilometers : ASK) increased by 5.5% over the same period last year while passenger traffic (Revenue Passenger Kilometers : RPK) also increased 7.7%. Consequently, THAI achieved a strong average cabin factor of 79.8% in the first quarter of 2013 as compared to last year's 78.2%. THAI continued to adhere to its corporate portfolio strategy through the expansion of THAISmile's routes between Bangkok - Mandalay and Bangkok - Ahmedabad starting March 31, 2013. Other routes that THAISmile plans to launch include Phuket - New Delhi; Phuket - Mumbai; and Phuket - Kuala Lumpur starting April 2013 onwards.

Corporate risk management continues to be the core concern at THAI and with fuel cost being the largest proportion of its cost, THAI has been proactively employing fuel hedging to better manage its overall fuel cost while employing a natural hedging strategy to mitigate foreign currency fluctuation. To offset some of the rapid baht appreciation over the past few months, THAI shifted its strategy to selling more baht based revenue tickets along with better matching its net long revenue positions with corresponding currency borrowings is designed to mitigate the cash impact on THAI's operations.

THAI and its subsidiaries' financial performance in the first quarter of 2013 showed an operating profit of THB 4,443 million which is THB 180 million or 3.9% lower than last year resulting from a more rapid increase in cost. The reason for the slight decline in operating profitability is the weaker revenue earned from cargo services but the expenses side rose due to increased traffic production, payment of staff performance incentive and accrued annual welfare. The depreciation charge for the first quarter also declined resulting from the change in depreciation estimate whereby all aircraft are to be depreciated 20 years from the previous policy of 15 years. There was also an adjustment on impairment of aircraft held for sale in the amount of THB 2,260 million. Consequently, profit before foreign currency exchange and income tax was THB 1,903 million, a decrease of THB 3,011 million or 61.3% from last year.

THAI and its subsidiaries earned a net profit for the period totaling THB 8,295 million, THB 3,054 million or 58.3%, higher from last year while net profit margin was 14.8% for the first quarter of 2013, higher than last year's 9.7%.

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

The consolidated financial statements for three months ended March 31, 2013 compared to the same period last year, this year's 2013's financial information excludes Nok Airlines Co., Ltd. (Nok Air) due to the new board of directors which contained more board members since January 18, 2013. This made THAI having none of controlling power over Nok Air through THAI's representation on Nok Air's Board of Directors.

## Financial Performance

Unit : Million Baht	Consolidated				The Company			
	2013	2012	Variance		2013	2012	Variance	
			MTHB	%			MTHB	%
Total Operating Revenues	56,013	53,999	+ 2,014	+ 3.7	55,918	52,204	+ 3,714	+ 7.1
<u>Less</u> Total Operating Expenses	51,570	49,376	+ 2,194	+ 4.4	51,531	47,625	+ 3,906	+ 8.2
Operating Profit	4,443	4,623	- 180	- 3.9	4,387	4,579	- 192	- 4.2
<u>Add</u> Other revenues	1,129	2,090	- 961	- 46.0	952	484	+ 468	+ 96.7
<u>Less</u> Other expenses	2,260	318	+ 1,942	+ 610.7	2,609	410	+ 2,199	+ 536.3
<u>Less</u> Finance cost	1,409	1,481	- 72	- 4.9	1,409	1,481	- 72	- 4.9
<b>Profit before foreign currency exchange and income tax</b>	<b>1,903</b>	<b>4,914</b>	<b>- 3,011</b>	<b>- 61.3</b>	<b>1,321</b>	<b>3,172</b>	<b>- 1,851</b>	<b>- 58.4</b>
<u>Add</u> Gain(loss) on foreign currency exchange	6,129	527	+ 5,602	-	6,132	528	+ 5,604	-
Profit before interest and tax	9,441	6,922	+ 2,519	+ 36.4	8,862	5,181	+ 3,681	+ 71.0
Net Profit	8,295	5,241	+ 3,054	+ 58.3	7,731	3,517	+ 4,214	+ 119.8
<b>Profit attributable to owner of the parent</b>	<b>8,283</b>	<b>5,224</b>	<b>+ 3,059</b>	<b>+ 58.6</b>	<b>7,731</b>	<b>3,517</b>	<b>+ 4,214</b>	<b>+ 119.8</b>
Net profit(Loss) per share (Baht)	3.79	2.39	+ 1.40	+ 58.6	3.54	1.61	+ 1.93	+ 119.8
EBITDAR (MTHB)	10,266	10,966	- 700	- 6.4	10,208	10,717	- 509	- 4.7
Operating Profit Margin (%)	7.9	8.6	- 0.7	- 0.7	7.8	8.8	- 1.0	- 1.0
EBITDAR Margin (%)	18.3	20.3	- 2.0	- 2.0	18.3	20.5	- 2.2	- 2.2
Net Profit Margin (%)	14.8	9.7	+ 5.1	+ 5.1	13.8	6.7	+ 7.1	+ 7.1

In this quarter, THAI's consolidated operating profit totaled THB 4,443 million, which was THB 180 million or 3.9% less than last year since THAI's own operating profit decreased by THB 192 million or by 4.2%. The net effect of THAI's revenue increasing by THB 3,714 million or 7.1% due to an increase of passenger and excess baggage revenue, totaling THB 4,412 million or 10.2% from last year. However, revenue from freight and mail decreased THB 649 million or 10.0%. However, THAI's own operating expenses increased THB 3,906 million or 8.2%, which is higher than the rate of increase in revenue resulting from higher traffic production, payment of staff performance incentive, and accrued annual staff welfare. However, depreciation expense decreased due to a change in accounting estimate extending aircraft useful life from 15 to 20 years. Excluding gain (loss) on foreign currency exchange, THAI and its subsidiaries earned a profit before foreign currency exchange and income tax of THB 1,903 million, which is THB 3,011 million or 61.3% lower than last year. THAI's own profit before foreign currency exchange and income tax decreased THB 1,851 million or 58.4% due to adjustment of impairment aircraft held for sale in the amount of THB 2,260 million and gains on business acquisition in the amount of THB 1,584 million last year.

THAI's consolidated gain on foreign currency exchange was THB 6,129 million, which was THB 5,602 million higher than last year. Consequently, THAI and its subsidiaries reported net profit of THB 8,295 million, an increase of THB 3,054 million or 58.3% from last year. Profit attributable to owners of the parent was THB 8,283 million or 3.79 baht per share, an increase from last year where was 2.39 baht per share.

EBITDAR was THB 10,266 million, which decreased by THB 700 million or 6.4% over last year. EBITDAR margin was 18.3% lower than last year where reported 20.3%.

## Operating performance

The Company		January - March		% Change
		2013	2012	
Production	(MATK)	3,153	2,992	+ 5.4%
Traffic	(MRTK)	2,182	2,082	+ 4.8%
Load Factor	(%)	69.2	69.6	- 0.4
Total yield	(THB/RTK)	24.31	23.91	+ 1.7%
Passenger carried	(Million)	5.69	5.16	+ 10.3%
Passenger Production	(MASK)	21,051	19,953	+ 5.5%
Passenger Traffic	(MRPK)	16,802	15,605	+ 7.7%
Cabin Factor	(%)	79.8	78.2	+ 1.6
Passenger yield	(THB/RPK)	2.79	2.75	+ 1.5%
Freight Production	(MADTK)	1,258	1,196	+ 5.2%
Freight Traffic	(MRFTK)	641	651	- 1.5%
Freight Load Factor	(%)	50.9	54.4	- 3.5
Freight loaded	(Ton)	165,759	170,625	- 2.9%
Freight yield	(THB/RFTK)	9.16	10.02	- 8.6%
Flight Hours	(Hours)	95,926	91,680	+ 4.6%
Average of Aircraft Utilization	(Hour/Aircraft/Day)	11.2	11.7	- 4.3%
Number of flight	(Flight)	24,210	22,501	+ 7.6%

### Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues (excluded gain on foreign currency exchange) for the first quarter of 2013 earned was THB 57,142 million, an increase of THB 1,053 million or 1.9% higher than last year. It should be noted that in the first quarter last year Nok Air's revenues, amounted to THB 1,873 million was included in the Company's top line revenue. Details are as follows:

Unit : MTHB	<u>Consolidated</u>						<u>The Company</u>			
	<u>January - March</u>				<u>Variance</u>		<u>January - March</u>		<u>Variance</u>	
	2013	% of Total revenue	2012	% of Total revenue	MTHB	%	2013	2012	MTHB	%
<b>Revenues from transportation activities</b>										
Passenger and excess baggage revenue	47,552	83.2	44,957	80.2	+2,595	+5.8	47,552	43,140	+4,412	+10.2
Freight and mail revenue	6,071	10.6	6,723	12.0	-652	-9.7	6,071	6,721	-650	-9.7
<b>Total revenues from transportation activities</b>	<b>53,623</b>	<b>93.8</b>	<b>51,680</b>	<b>92.2</b>	<b>+1,943</b>	<b>+3.8</b>	<b>53,623</b>	<b>49,861</b>	<b>+3,762</b>	<b>+7.5</b>
Revenue from business units	1,841	3.2	1,865	3.3	-24	-1.3	1,841	1,865	-24	-1.3
Revenue from other activities	549	1.0	454	0.8	+95	+20.9	454	478	-24	-5.0
<b>Total operating revenue</b>	<b>56,013</b>	<b>98.0</b>	<b>53,999</b>	<b>96.3</b>	<b>+2,014</b>	<b>+3.7</b>	<b>55,918</b>	<b>52,204</b>	<b>+3,714</b>	<b>+7.1</b>
Interest income	119	0.2	119	0.2	-	-	118	105	+13	+12.4
Other incomes	712	1.3	387	0.7	+325	+84.0	834	379	+455	+120.1
Gains on business acquisition	-	-	1,584	2.8	-1,584	-100.0	-	-	-	-
Gains on reclassified investment	298	0.5	-	-	+298	-	-	-	-	-
<b>Total revenues</b>	<b>57,142</b>	<b>100.0</b>	<b>56,089</b>	<b>100.0</b>	<b>+1,053</b>	<b>+1.9</b>	<b>56,870</b>	<b>52,688</b>	<b>+4,182</b>	<b>+7.9</b>

**Revenues from transportation activities**, representing 93.8% of total revenues, totaled THB 53,623 million, an increase of THB 1,943 million or 3.8% over last year. It should be noted that in the first quarter last year revenues from transportation activities included Nok Air's revenue, amount of THB 1,816 million.

**- Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 47,552 million, an increase of THB 2,595 million or 5.8%. The main reasons are

- Passenger and excess baggage revenue for THAI increased by THB 4,412 million or 10.2% since passenger traffic (Revenue Passenger Ton-Kilometers: RPK) increased by 7.7%. Average passenger yield (including fuel and insurance surcharge) increased by 0.04 THB/RPK or 1.5% over last year because of special fare tickets which were offered to stimulate traffic demand after the massive flooding in Thailand. The strengthening Baht also lowered the Company's yield by about 0.15 THB/RPK compared to the same period last year.

- Passenger and excess baggage revenue for Nok Air totaling THB 1,814 million was included in the Company's first quarter profit and loss statement last year.

**- Freight and mail revenue**

Freight and mail revenue amounted to THB 6,071 million for THAI, which was a decrease of THB 652 million or 9.7% due to global economic weakness, greater competition amongst sea, land and air transport companies, especially among airlines lowering the Company's freight traffic (Revenue Freight Ton-Kilometers: RFTK) by 1.5%. As a result, average freight yield (including fuel and insurance surcharge) decreased 0.86 THB/RFTK or 8.6% over last year along with the strengthening of the baht against foreign currencies.

### - Revenues from Business Units

Revenues from Business Units amounted to THB 1,841 million, which decreased by THB 24 million mainly due revenue reduction from cargo handling services and cargo transportation as mentioned above. However, revenue of other business units including ground customer services and ground equipment services rose.

### - Other activities revenue

Other activities revenue amounted to THB 549 million, which slightly increased, THB 95 million, from last year. The main reason was income from lease of aircraft to Nok Air, THB 43 million.

### - Other income

- interest income totaled THB 119 million similar to last year
- gains on reclassified investment totaled THB 298 million which was a gain on reclassified investment of Nok Air from a subsidiary company to an associated company
- other income amounted to THB 712 million was an increase of THB 325 million primarily to compensation for delay in aircraft delivery of THB 206 million, another THB 103 million derived from the Technical Department, and recognition of passenger airport fees that were not billed to THAI for over 3 years which was THB 79 million higher than last year.

## Expenses for Thai Airways International PCL. and its subsidiaries

In the first quarter of 2013, total expenses amounted to THB 55,239 million, which was THB 4,064 million or 7.9% higher than the same period last year. A summary of operating expenses is as follows:

Unit : MTHB	Consolidated						The Company			
	2013	January - March		Variance		January - March		Variance		
		% of Total Expenses	2012	% of Total Expenses	MTHB	%	2013	2012	MTHB	%
<b>Operating expense</b>										
Fuel and oil	20,314	36.8	20,326	39.7	-12	-0.1	20,314	19,634	+680	+3.5
Employee benefit expenses	8,381	15.2	7,095	13.9	+1,286	+18.1	8,381	6,978	+1,403	+20.1
Depreciation and amortization	4,779	8.6	5,158	10.1	-379	-7.3	4,777	5,134	-357	-7.0
Other operating expenses	18,096	32.8	16,797	32.8	+1,299	+7.7	18,059	15,879	+2,180	+13.7
<b>Total Operating Expenses</b>	<b>51,570</b>	<b>93.4</b>	<b>49,376</b>	<b>96.5</b>	<b>+2,194</b>	<b>+4.4</b>	<b>51,531</b>	<b>47,625</b>	<b>+3,906</b>	<b>+8.2</b>
Impairment loss of aircraft and assets	2,368	4.3	200	0.4	+2,168	-	2,368	200	+2,168	-
Finance costs	1,409	2.5	1,481	2.9	-72	-4.9	1,409	1,481	-72	-4.9
Share of profits of associates	(349)	(0.6)	(93)	(0.2)	-256	-275.3	-	-	-	-
Other expenses	241	0.4	211	0.4	+30	+14.2	241	210	+31	+14.8
<b>Total Expenses</b>	<b>55,239</b>	<b>100.0</b>	<b>51,175</b>	<b>100.0</b>	<b>+4,064</b>	<b>+7.9</b>	<b>55,549</b>	<b>49,516</b>	<b>+6,033</b>	<b>+12.2</b>

**Total operating expenses** amounted to THB 51,570 million, was THB 2,194 million or 4.4% higher than last year. Significant changes of expenses for this quarter included:

Fuel and oil expense amounted to THB 20,314 million, 36.8% of total expenses, was THB 12 million or 0.1% less than last year.

- Fuel and oil expense for THAI increased by THB 680 million or 3.5%. The main reasons were the increase of both fuel consumption and average jet fuel price which raised 4.3% and 0.3%, respectively. Therefore, the stronger Thai Baht affected the decrease of THAI's fuel expense in baht terms. However, from fuel hedging policy made compensation income from fuel hedging amounting to THB 689 million.

- Last year fuel and oil expense for Nok Air amounted to THB 692 million was included.

Employee benefits expenses consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense amounted to THB 8,381 million, which was an increase of THB 1,286 million or 18.1% over last year mainly due to

- The increase of THAI's employee benefit expenses in the amount of THB 1,403 million or 20.1% was the result of the increment in annual salary, Increase the professional license of the Technical Department to ensure compliance with international standards along with the provision for annual welfare on a monthly basis compared to last year where was set on December and performance incentive was set on this quarter instead of the forth quarter last year.

- Last year employee benefits expenses for Nok Air amounted to THB 119 million was included

Depreciation and amortization expenses totaled THB 4,779 million, a decrease of THB 379 million or 7.3% due to the change in accounting estimate which extended the useful life of aircraft from 15 to 20 years which made decrease in depreciation expense, amounted to THB 684 million.

Other operating expenses consisted of flight service expenses, crew expenses, aircraft maintenance and overhaul costs, lease of aircraft and spare parts, inventories and supplies, selling and advertising expenses, insurance expenses, and other expenses totaled THB 18,096 million, an increase of THB 1,299 million or 7.7% since the expenses related to production and traffic of this year was higher than last year.

**Impairment loss of aircraft and assets** was THB 2,368 million, THB 2,168 million higher than last year, since the recognized impairment loss of net book value of 2 Airbus A300-600 aircraft and 4 Airbus A340-500 aircraft pending for sale was higher than the net fair value less cost to sell, amount of THB 2,260 million.

**Finance cost** amounted to THB 1,409 million, a decrease of THB 72 million or 4.9%. Although long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) increased from the same period last year by THB 11,400 million, the lower interest rates as well as the strong Thai Baht lowered foreign interest expenditure when converted to Baht.

**Share of profits of associates** amounted to THB 349 million, THB 256 million higher compared to last year due to recognizing a share of Nok Air's profit, in the amount of THB 208 million; Royal Orchid Hotel (Thailand) PCL's profit of THB 33 million an increased over last year where recognized as expense, amount of THB 13 million.

**Gain on foreign currency exchange** of THAI and its subsidiaries amounted to THB 6,129 million which consisted of realized foreign currency gain of THB 1,066 million, and another part which is the unrealized portion resulting from active natural hedging to mitigate the impact from the foreign currency fluctuation totaling THB 5,063 million which was the result of translating the Company's outstanding foreign currency loans into Baht terms at the end of the period.

### 3. Financial Position and Liquidity

#### Capital Expenditures

Capital expenditures before deduction of cash received from finance lease agreements for this quarter ending March 31, 2013 totaled THB 11,001 million, which increased by THB 5,806 million or 111.8% from last year. Capital expenditures for this year mainly were payments for acquisition of new aircraft, amounted to THB 7,347 million, consisted of aircraft under finance lease: Airbus A330-300 aircraft delivered on January 16, 2013 and Airbus A380-800 delivered on March 21, 2013 this year, prepayment for acquisition of aircraft and rotatable aircraft spare part, amounted to THB 1,662 million. For the acquisition of new aircraft in which delivery will be taken in 2013-2018 as well as investment in in-flight equipment both current aircraft and new aircraft and cabin reconfiguration program for Boeing B777-200 aircraft and Boeing B747-400 aircraft (on-going project during 2011-2013) , totalling 7 aircraft with an investment value of THB 1,603 million. Other fixed assets amounted to THB 389 million.

Unit : Million Baht	January – March	
	2013	2012
Aircraft and aircraft spare parts	10,612	4,958
Non-Aircraft	389	237
<b>Total</b>	<b>11,001</b>	<b>5,195</b>

THAI provided financing to pay for 2 new aircraft delivered during this quarter through hire purchases in Euro currency using aircraft as collateral. THAI received support from European Export Credit Agencies (ECAs) in terms of loan guarantees for Airbus A380-800 aircraft. For other investments, THAI used cash from operating activities, amounted to THB 7,559 million which was THB 2,453 million higher than the same period last year including cash received from advance payments that were made for aircraft and engines, sales from 2 decommissioned aircraft, and sales of other assets that were not needed.

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

Unit : Million Baht	Consolidated		The Company	
	2013	2012	2013	2012
Net cash from operating activities	7,559	5,106	7,526	5,014
Net cash used in investing activities	(2,475)	(2,561)	(2,378)	(2,843)
Net cash from (used in) financing activities	(5,744)	48	(5,744)	48
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(756)	19	(756)	19
<b>Increase(Decrease) in cash and cash equivalents</b>	<b>(1,416)</b>	<b>2,612</b>	<b>(1,352)</b>	<b>2,238</b>

Net cash from operating activities for the three-months period ended March 31, 2013 increased mainly due to the better performance along with net cash used in investing activities decreased when compared to last year. However, there was a higher amount of loans that came due resulting in repayment and thus lower cash and cash equivalents as of March 31, 2013 as compared to December 31, 2012, by THB 1,416 million.

## Fleet

According to the fleet development plan, the objective is to enhance effectiveness by concentrating on overhaul and maintenance cost reduction, enhancing fuel-cost efficiency, reducing Carbon dioxide emission to lower environmental impact, and increasing aircraft utilization by commonizing aircraft and engine type THAI's fleet development strategy includes the retiring older aircraft along while commissioning new ones.

As of December 31, 2012, aircraft in the fleet totaled 111 aircraft which combined with 58 THAI's own aircraft, 35 aircraft under finance lease, and 18 operating lease aircraft. In this quarter, THAI took delivery of 2 new aircraft which are aircraft under finance lease which made the total number of aircraft under finance lease to be 37 aircraft. Moreover, THAI took additional 3 operating lease aircraft, whose lease terms are 12 years: 2 Airbus A320-200 delivered on January 17, 2013 and March 28, 2013, respectively and a Boeing B777-300ER aircraft on March 7, 2013, which brought the total aircraft under operating lease to 21.

Under THAI's fleet development program encompasses the ongoing retirement of older aircraft upon taking delivery of new aircraft. At the end of the year 2012, 10 aircraft were held for sale which consisted of 4 Airbus A300-600 aircraft, 3 Airbus A340-500 aircraft, and 3 Boeing B737-400 aircraft. In March 2013, 2 Airbus A300-600 aircraft were sold. In this quarter after taking delivery of new 5 aircraft, THAI decommissioned 5 additional old aircraft which were 3 Airbus A300-600 aircraft, 1 Airbus A340-500 aircraft, and 1 Boeing B747-400 aircraft. The total aircraft held for sale totals 13 aircraft at the end of the quarter.

As of March 31, 2013 THAI's fleet totaled 114 aircraft which consisted of 98 active aircraft, 13 aircraft held for sale, and 3 aircraft leased by Nok Air. The details as follow:

Aircraft type	Number of Aircraft	Owned	Finance lease	Operating lease	Aircraft in services	Aircraft held for sale	Leased aircraft to Nok Air
Boeing B747-400	16	12	4	-	15	1	-
Boeing B777-300	6	6	-	-	6	-	-
Boeing B777-200ER	6	-	6	-	6	-	-
Boeing B777-200	8	6	-	2	8	-	-
Boeing B737-400	9	6	-	3	5	3	1
Boeing B777-300ER	8	-	-	8	8	-	-
Airbus A340-600	6	-	6	-	6	-	-
Airbus A340-500	4	1	3	-	-	4	-
Airbus A330-300	26	10	14	2	26	-	-
Airbus A320-200	6	-	-	6	6	-	-
Airbus A380-800	4	-	4	-	4	-	-
Airbus A300-600R	11	11	-	-	6	5	-
ATR- 72	2	2	-	-	-	-	2
Freighter aircraft							
Boeing B747-400	2	2	-	-	2	-	-
<b>Total</b>	<b>114</b>	<b>56</b>	<b>37</b>	<b>21</b>	<b>98</b>	<b>13</b>	<b>3</b>

According to THAI's fleet development program, aircraft delivery commitments are as follows:

- Obligation to purchase 18 aircraft expected delivery during the year 2013-2018 which consists of 2 Airbus A380-800 aircraft, 1 Airbus A300-300 aircraft, 5 Airbus A320-200 aircraft, 4 Airbus A350-900XWB, and 6 Boeing B777-300ER worth a total of THB 64,882 million



- Lease obligations and commitment fees for 21 operating lease aircraft which are now in service and 30 aircraft which have not been scheduled for delivery totaling THB 146,153 million. The lease terms of 51 operating lease aircraft will be for the period between 2013-2029.

### Assets of Thai Airways International PCL. and its subsidiaries

As of March 31, 2013, total assets were THB 307,657 million, an increase of THB 3,561 million or 1.2% from as at December 31, 2012.

	Consolidated				The Company			
	March 31, 2013		December 31, 2012		March 31, 2013		December 31, 2012	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets								
Non-current assets classified as								
held for sale	8,520	2.8	7,430	2.4	8,520	2	7,430	2.
Other current assets	61,378	19.9	64,181	21.1	61,122	20	61,927	20.
<b>Current Assets</b>	<b>69,898</b>	<b>22.7</b>	<b>71,611</b>	<b>23.5</b>	<b>69,642</b>	<b>22</b>	<b>69,357</b>	<b>23.</b>
Property, plant and equipment								
Prepaid aircraft and spare engine	15,163	4.9	17,617	5.8	15,163	5	17,617	5.
Aircraft	46,438	15.1	51,661	17.0	46,438	15	51,661	17.
Aircraft under finance leases	133,048	43.3	122,707	40.4	133,048	43	122,707	41.
Aircraft spare parts	13,054	4.2	12,506	4.1	13,054	4	12,056	4.
Work in process	2,587	0.8	2,488	0.8	2,587		2,488	
Land, building and improvements	6,930	2.3	7,020	2.3	6,930	2	7,020	
Other plant and equipment	4,832	1.6	4,569	1.5	4,823	1	4,479	
<b>Property, plant and equipment-net</b>	<b>222,052</b>	<b>72.2</b>	<b>218,568</b>	<b>71.9</b>	<b>222,043</b>	<b>72</b>	<b>218,478</b>	<b>7.</b>
Other non-current assets	15,707	5.1	13,917	4.6	12,690	4	11,521	
<b>Total Assets</b>	<b>307,657</b>	<b>100.0</b>	<b>304,096</b>	<b>100.0</b>	<b>304,375</b>	<b>100</b>	<b>299,356</b>	<b>100.0</b>

Current assets were THB 69,898 million or accounted for 22.7% of total assets, a decrease of THB 1,713 million from as of December 31, 2012. The main reason was a decrease in other current assets. However, non-current assets classified as held for sale was THB 1,090 million higher due to additional 5 retired aircraft held for sale while 2 aircraft held for sales were sold during the period. Also, when comparing between the net book value with the fair value less cost to sell, it appeared that the fair value less cost to sell of 2 Airbus A300-600 aircraft and 4 Airbus A340-500 aircraft were less than the net book value, therefore, THAI recognized an impairment loss for those aircraft in the amount of THB 2,260 million.

Property, plant and equipment-net totaled THB 222,052 million or represented 72.2 % of total assets, which saw an increase of THB 3,484 million or 1.6% from as of December 31, 2012 resulting from the increase in the number of aircraft and spare engines mentioned above.

Other non-current assets totaled THB 15,707 million or represented 5.1% of total assets, which increased THB 1,790 million from as of December 31, 2012 resulting from the change in position of Nok Air from a subsidiary to an associated company. Hence, the investments in associated company increased from THB 1,430 million to THB 4,037 million. Goodwill reduced by THB 1,391 million compared to the same period last year.

Return on assets was 3.09% higher than last year's 2.49%.

### Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of March 31, 2013 totaled THB 230,261 million, which was a decrease of THB 4,017 million or 1.7% from as of December 31, 2012. These comprise of:

	<u>Consolidated</u>				<u>The Company</u>			
	<u>March 31, 2013</u>		<u>December 31, 2012</u>		<u>March 31, 2013</u>		<u>December 31, 2012</u>	
	<u>MTHB</u>	<u>% of Total Liabilities</u>	<u>MTHB</u>	<u>% of Total Liabilities</u>	<u>MTHB</u>	<u>% of Total Liabilities</u>	<u>MTHB</u>	<u>% of Total Liabilities</u>
Current liabilities (including current Portion of long-term liabilities)	81,132	35.2	82,683	35.3	81,297	35.3	81,632	35.0
<b>Long-term liabilities</b>								
Debentures	31,400	13.6	32,120	13.7	31,400	13.6	32,120	13.8
Liabilities under financial leases	61,970	26.9	61,611	26.3	61,970	26.9	61,611	26.4
Long term borrowings	38,632	16.8	41,011	17.5	38,632	16.8	41,011	17.6
<b>Total long-term liabilities</b>	<b>132,002</b>	<b>57.3</b>	<b>134,742</b>	<b>57.5</b>	<b>132,002</b>	<b>57.3</b>	<b>134,742</b>	<b>57.8</b>
Other non-current liabilities	17,127	7.5	16,853	7.2	17,102	7.4	16,738	7.2
<b>Total Liabilities</b>	<b>230,261</b>	<b>100.0</b>	<b>234,278</b>	<b>100.0</b>	<b>230,401</b>	<b>100.0</b>	<b>233,111</b>	<b>100.0</b>

Long-term liabilities as of March 31, 2013 (including liabilities under finance lease, long-term borrowings, and debentures) represented 57.3% of total liabilities, which was a decrease of THB 2,740 million from December 31, 2012 primarily due to prepayments on loans totaling THB 5,145 million. Furthermore, the strengthened value of the Baht benefited from the reduction of long-term liabilities translated to Baht terms where 70% of THAI's long-term liabilities are in foreign currency. In this quarter, additional long-term financing to pay for aircraft purchases, amounted to THB 8,683 million which include 1 Airbus A330-300 aircraft and 1 Airbus A380-800 aircraft. The profit earned in the first quarter dropped the interest bearing debt to equity ratio from 2.27 times last year to 2.02 times this year.

Other non-current liabilities decreased significantly from lower unearned transportation revenue, posted a total of THB 23,789 million as at December 31, 2012 to THB 21,479 million as of March 31, 2013, a THB 2,310 million reduction since at the beginning of last year THAI launched promotion campaigns to relieve the impact of the mega flood as well as the continuing strengthening of the Baht is reflected in the lower unearned revenue, where most of the outstanding non-current liabilities were in foreign currency translated to Baht.

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

As of March 31, 2013, shareholders' equity totaled THB 77,396 million, an increase of THB 7,578 million from December 31, 2012 due to the positive performance from THAI and its subsidiaries which was THB 8,295 million in net profit. Hence, return on equity increased from 8.0% last year to 11.3% this year.

#### 4. Factors affecting future operations

In the next quarter, there is a very high possibility that the Thai Baht continue to strengthen. Moreover, the economic situation of the EU and US are starting to show signs of recovery but still remain fragile. Fuel prices could be lower than the first quarter but will likely still be considered to be on the high side which will bear significant on the Company's operations.

THAI has prepared plans to adjust its strategy to cope with the baht's potential further strengthening. THAI will adjust the proportion of its income by increasing revenue in baht as well as managing the flow of money within its business operations which consists of multi-currency including the USD Euro and the Yen by balancing the amount of debt and the currency of the debt to be in line

with excess cash flows from operations. Taking into consideration, change from floating interest rates to fixed interest rate when market conditions permit in order to reduce the risk of rising interest rates in the future. Nonetheless, the appreciation of the currency bears impact on the fuel expense which is the major expense. There are also plans to increase the number of flights, both domestic and international, to meet market demand, especially during the Songkran festival.

In the second quarter, another new Airbus A330-300 aircraft will join THAI's fleet in April 2013. Funding will be raised to acquire the aircraft while using the asset as collateral.

The outlook for air cargo is still uncertain as the global economic uncertainty continues although there are signs of recovery towards the latter part of the year. With the likelihood of continued appreciation of the baht export volume may be further adversely affected; therefore, THAI plans to restructure the new air cargo business to improve financial performance.

## **GLOSSARY**

**EBITDAR** = Total Operating Revenue – Total Operating Expenses + Depreciation and Amortization + Lease of Aircraft and Spare parts

**EBITDAR MARGIN** = EBITDAR / Total operating revenue

**Operating Profit Margin** = (Total Operating revenue – Operating expenses) / Total Operating revenue

**Net Profit Margin** = Net Profit / Total Operating revenue

**Return on Asset** = Profit before interest and tax / Average total assets

**Return on Equity** = Net Profit / Average Shareholders' Equity

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