

Management's Discussion and Analysis for the second quarter ended June 30, 2013 for Thai Airways International Public Company Limited and Its Subsidiaries

1. Executive summary

The global economic growth for the second quarter of 2013 is likely to expand at a slower rate due to the economic fragility of the European Union which is that is weighing heaviest. The weakness in the European economy bears direct impact on air cargo while competition is getting tougher from relatively new players especially the Middle-east air carriers and existing airlines trying to protect their market share through fleet expansion. Tougher for THAI is the seasonally weak travel demand during the second quarter and compounding the effect was the strengthening Thai Baht further trimming THAI's foreign currency revenue. However, the relatively stable fuel price, which is the most significant cost factor, reduced pressure on THAI's overall cost.

THAI is adhering to its long-term business plan especially in regards to its fleet development plan to ensure long-term competitive advantage and readiness for the Asian Economic Community:AEC by adding 17 new and decommissioning 16 old aircraft in 2013. It should be noted that this will be the year where THAI will make history with the largest aircraft delivery ever which includes 6 narrow-body aircraft, assigned to expand THAI Smile's operations and 3 Airbus A380-800 aircraft, which have been delayed from the previous years. Looking forward, the number of aircraft deliveries this year will likely remain the largest.

The addition of 4 new Airbus A380-800 aircraft, the largest aircraft in the world with 507 seat configuration, joining THAI's fleet since late 2012 on a net basis, has added both passenger and cargo capacity resulting in a much higher production. Passenger and freight production rose by 11.3% and 3.1%, respectively over the same period last year. Passenger traffic increased 4.5% while market share was higher than last year. But with the significant increase in traffic production during a weak season dropped average cabin factor from 75.1% to 70.5% for the second quarter, but still higher than the average cabin factor of the low season in the last five years, which is 68.6%. Freight traffic affected by the slowing global economy since 2011 and intensified market competition increases saw a 3.9% decrease from the same quarter of the previous year.

THAI and its subsidiaries' financial performance in the second quarter of 2013 showed a loss before foreign currency exchange and income tax of THB 4,681 million which is THB 1,943 million or 71.0% higher than last year resulting from impairment of aircraft value in the amount of THB 1,332 million. THAI's revenue increased by THB 883 million or 1.9% over the same period the previous year which was lower than the rate of increase of THAI's operating expenses which saw an increase of THB 2,162 million or 4.5% due to the increase in overall production as compared to the same period last year. Combined with a THB 4,202 million of loss on foreign currency exchange, THAI and its subsidiaries recorded a net loss for the period totaling THB 8,426 million, THB 6,957 million higher than last year reflecting a net profit margin of -17.9% for the second quarter of 2013, which was -3.1% in the same period last year.

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

The consolidated financial statements for the second quarter ended June 30, 2013 compared to the same period last year, this year's 2013's financial information excludes Nok Airlines PCL (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	47,093	47,932	-839	-1.8	47,007	46,124	+883	+1.9
<u>Less</u> Total Operating Expenses	49,992	49,469	+523	+1.1	49,945	47,783	+2,162	+4.5
Operating Profit	(2,899)	(1,537)	-1,362	-88.6	(2,938)	(1,659)	-1,279	-77.1
<u>Add</u> Other revenues	1,313	574	+739	+128.7	851	840	+11	+1.3
<u>Less</u> Other expenses	1,572	338	+1,234	+365.1	1,738	351	+1,387	+395.2
<u>Less</u> Finance cost	1,523	1,437	+86	+6.0	1,523	1,438	+85	+5.9
Loss before foreign currency exchange and income tax	(4,681)	(2,738)	-1,943	-71.0	(5,348)	(2,608)	-2,740	-105.1
Gain(loss) on foreign currency exchange	(4,202)	1,316	-5,518	-419.3	(4,205)	1,312	-5,517	-420.5
Profit (loss) before interest and tax	(7,360)	15	-7,375	-	(8,030)	142	-8,172	-
Net Profit(Loss)	(8,426)	(1,469)	-6,957	-473.6	(9,087)	(1,323)	-7,764	-586.8
Loss attributable to owner of the parent	(8,439)	(1,532)	-6,907	-450.8	(9,087)	(1,323)	-7,764	-586.8
Net profit(Loss) per share (Baht)	(3.87)	(0.70)	-3.17	-452.9	(4.16)	(0.61)	-3.55	-582.0
EBITDA (MTHB)	2,088	3,519	-1,431	-40.7	2,047	3,372	-1,325	-39.3
Operating Profit Margin (%)	(6.2)	(3.2)		-3.0	(6.3)	(3.6)		-2.7
EBITDA Margin (%)	4.4	7.3		-2.9	4.4	7.3		-2.9
Net Profit Margin (%)	(17.9)	(3.1)		-14.8	(19.3)	(2.9)		-16.4

In this past second quarter, THAI's consolidated operating loss totaled THB 2,899 million, which was THB 1,362 million or 88.6% higher than last year with THAI's own operating loss increasing by THB 1,279 million or by 77.1%. The THB 883 million or 1.9% increase in operating revenue reflects the impact from the strengthening of Thai Baht against foreign currencies reducing operating revenue by approximately 6.1%. The increase in operating revenue reflects greater production and the increase in passenger and excess baggage revenue, totaling THB 1,470 million or 3.9% over the same period last year. Revenue from business units and other activities also increased by THB 194 million or 9.2% while revenue from freight and mail decreased THB 781 million or 11.7%. THAI's own operating expenses increased THB 2,162 million or 4.5%. Although THAI benefitted from the baht appreciation by reducing operating costs by approximately 3.3%, an increase in total production (ATK) by 8% increased expenses related to traffic production. Moreover, the increase in personnel expenses, at rates as high as 14.1 percent of the reserves are attributable to annual staff welfare, higher outsource staff's wages due to the Government's policy to increase minimum wage, and higher overtime because of a shortage of workers and 2 additional annual holidays.

THAI's consolidated loss before loss on foreign currency exchange and income tax was THB 4,681 million, THB 1,943 million or 71.0% higher than last year. This was mainly the result of THAI's own loss before foreign currency exchange and income tax, which is THB 2,740 million higher than last year. Operating loss totaled THB 1,279 million and an impairment charge against aircraft held for sale totaling THB 1,332 million. However, there is a THB 722 million gain on deemed disposal from Nok Air Plc consolidated into THAI's financial performance.

THAI's consolidated loss on foreign currency exchange was THB 4,202 million as compared to last year's gain of THB 1,316 million. Consequently, THAI and its subsidiaries reported a net loss of THB 8,426 million, an increase of THB 6,957 million from last year. Loss attributable to owners of the parent was THB 8,439 million or a loss of 3.87 baht per share, an increase from last year's loss of 0.70 baht per share.

EBITDA was THB 2,088 million, which decreased by THB 1,431 million or 40.7% over last year. EBITDA margin this past quarter was 4.4%, as compared to last year's reported 7.3%.

Operating performance

The Company		April - June		% Change
		2013	2012	
Production	(MATK)	3,081	2,854	+ 8.0%
Traffic	(MRTK)	1,974	1,940	+ 1.8%
Load Factor	(%)	64.1	68.0	- 3.9
Total yield	(THB/RTK)	22.18	22.70	- 2.3%
Passenger carried	(Million)	5.11	4.86	+ 5.1%
Passenger Production	(MASK)	20,906	18,776	+ 11.3%
Passenger Traffic	(MRPK)	14,732	14,102	+ 4.5%
Cabin Factor	(%)	70.5	75.1	- 4.6
Passenger yield	(THB/RPK)	2.57	2.63	- 2.3%
Freight Production	(MADTK)	1,200	1,164	+ 3.1 %
Freight Traffic	(MRFTK)	621	646	- 3.9%
Freight Load Factor	(%)	51.7	55.4	- 3.7
Freight loaded	(Ton)	159,175	165,147	- 3.6%
Freight yield	(THB/RFTK)	9.13	10.10	- 9.6%
Flight Hours	(Hours)	93,009	86,594	+ 7.4%
Average of Aircraft Utilization	(Hour/Aircraft/Day)	11.0	11.3	- 2.7%
Number of flight	(Flight)	23,926	21,717	+ 10.2%

Revenues of Thai Airways International PCL. and its subsidiaries

Total revenues (excluded gain on foreign currency exchange) for the second quarter of 2013 earned was THB 48,406 million, a decrease of THB 100 million or 0.2% lower than last year. It should be noted that in the second quarter last year Nok Air's revenues, amounted to THB 1,882 million was included in the Company's top line revenue. Details are as follows:

	<u>Consolidated</u>						<u>The Company</u>			
	<u>April - June</u>				<u>Variance</u>		<u>April - June</u>		<u>Variance</u>	
	2013	% of Total Revenue	2012	% of Total Revenue	MTHB	%	2013	2012	MTHB	%
Revenues from transportation activities										
Passenger and excess baggage revenue	38,792	80.1	39,146	80.7	-354	-0.9	38,792	37,322	+1,470	+3.9
Freight and mail revenue	5,903	12.2	6,688	13.8	-785	-11.7	5,903	6,684	-781	-11.7
Total Revenue from Transportation activities revenue	44,695	92.3	45,834	94.5	-1,139	-2.5	44,695	44,006	+689	+1.6
Revenue from business units	1,736	3.6	1,632	3.4	+104	+6.4	1,736	1,632	+104	+6.4
Revenue from other activities	662	1.4	466	1.0	+196	+42.1	576	486	+90	+18.5
Total operating revenue	47,093	97.3	47,932	98.9	-839	-1.8	47,007	46,124	+883	+1.9
Interest income	138	0.3	115	0.2	+23	+20.0	136	103	+33	+32.0
Other incomes	453	0.9	459	0.9	-6	-1.3	715	737	-22	-3.0
Gain on deemed disposal	722	1.5	-	-	+722	-	-	-	-	-
Total revenues	48,406	100.0	48,506	100.0	-100	-0.2	47,858	46,964	+894	+1.9

Revenues from transportation activities, totaling THB 44,695 million, constituting 92.3% of total revenues, decreased by THB 1,139 million or 2.5% over the same period last year. It should be noted that in the second quarter last year revenue from transportation activities included Nok Air's revenue of THB 1,825 million.

- Passenger and excess baggage revenue

Passenger and excess baggage revenue totaled THB 38,792 million, a decrease of THB 354 million or 0.9%. The main reasons are

- Passenger and excess baggage revenue for THAI increased by THB 1,470 million or 3.9% since passenger traffic (Revenue Passenger Ton-Kilometers: RPK) increased by 4.5%. Average passenger yield (including fuel and insurance surcharge) decreased by 0.06 THB/RPK or 2.3% resulting from the Baht strength lowering the Company's yield by about 0.17 THB/RPK compared to the same period last year.

The implementation of a new passenger revenue accounting system has enabled THAI to track between revenue and the amount of commission for which THAI has to pay. The resulting change is that THAI no longer reports its revenue on a net basis but now constitutes two parts – ticket sales and commissions due to agencies. In the second quarter of 2013, the amount of commission amounted to THB 644 million was booked as part of the passenger and excess baggage revenue account and on the expense side, the same amount was booked in the selling and advertising expenses account. In simultaneous booking in the revenue and expense accounts bears no overall effect to THAI's profit and loss statement.

- Passenger and excess baggage revenue for Nok Air totaling THB 1,822 million was included in the Company's 2012 second quarter profit and loss statement.

- Freight and mail revenue

Freight and mail revenue amounted to THB 5,903 million for THAI, which was a decrease of THB 785 million or 11.7% due to global economic weakness, greater competition amongst sea, land and air transport companies lowering the Company's freight traffic (Revenue Freight Ton-Kilometers: RFTK) by 3.9% and average freight yield (including fuel and insurance surcharge) decreased 0.97 THB/RFTK or 9.6% over last year. The baht strength also contributed to the weaker yield.

- Revenues from Business Units

Revenues from Business Units amounted to THB 1,736 million, an increase of THB 104 million or 6.4% resulting from higher revenue generated from almost all business units which was mainly derived from the increase of service rendered to customer airlines except for cargo handling and cargo transportation services as mentioned above.

- Other activities revenue

Other activities revenue amounted to THB 662 million, which increased slightly by THB 196 million or 42.1% over last year. The main reason was revenue from aircraft maintenance rendered to customer airlines and government agencies increased from the previous year.

- Other income

- interest income totaled THB 138 million, an increase of THB 23 million or 20.0%, and

- other income amounted to THB 453 million, a decrease of THB 6 million or 1.3% lower than last year.

- Gain on deemed disposal

On June 20, 2013, Nok Airlines PCL offered the increase of 125 million shares at the offering price of 26 THB. Nok Airline PCL has already received an aggregate of THB 3,250 million for which caused the decrease of THAI's share portion from 49.0% to 39.0%. Gain on deemed disposal, the amount of THB 722 million, was the net result of recognition of investment portion's 39.2% in the amount of THB 1,242 million deducted by the difference from changing in share portion from 49 to 39.2% in the amount of THB 519 million.

Expenses for Thai Airways International PCL. and its subsidiaries

In the second quarter of 2013, total expenses amounted to THB 53,087 million, which was THB 1,843 million or 3.6% higher than the same period last year. A summary of operating expenses is as follows:

	<u>Consolidated</u>						<u>The Company</u>			
	<u>April - June</u>				<u>Variance</u>		<u>April - June</u>		<u>Variance</u>	
	2013	% of Total Expenses	2012	% of Total Expenses	MTHB	%	2013	2012	MTHB	%
Operating expense										
Fuel and oil	18,453	34.8	19,679	38.4	-1,226	-6.2	18,453	19,021	-568	-3.0
Employee										
Benefit expenses	8,742	16.5	7,787	15.2	+955	+12.3	8,732	7,656	+1,076	+14.1
Depreciation and amortization	4,987	9.4	5,056	9.9	-69	-1.4	4,985	5,031	-46	-0.9
Other operating expenses	17,810	33.5	16,947	33.0	+863	+5.1	17,775	16,075	+1,700	+10.6
Total Operating Expenses	49,992	94.2	49,469	96.5	+523	+1.1	49,945	47,783	+2,162	+4.5
Impairment loss of aircraft and assets	1,404	2.6	113	0.2	+1,291	-	1,404	113	+1,291	-
Financial cost	1,523	2.9	1,437	2.8	+86	+6.0	1,523	1,438	+85	+5.9
Share of profits of associates	(166)	(0.3)	(15)	-	-151	-	-	-	-	-
Other expenses	334	0.6	240	0.5	+94	+39.2	334	238	+96	+40.3
Total Expenses	53,087	100.0	51,244	100.0	+1,843	+3.6	53,206	49,572	+3,634	+7.3

Total operating expenses amounted to THB 49,992 million was THB 523 million or 1.1% higher than last year. Significant changes of expenses for this quarter include:

Fuel and oil expense amounted to THB 18,453 million, 34.8% of total expenses, was THB 1,226 million or 6.2% less than last year.

- Fuel and oil expense for THAI decreased by THB 568 million or 3.0% despite traffic production increased. Average jet fuel price was 9.0% lower than the same period last year and the stronger Thai Baht further benefitted THAI from lower fuel cost in baht terms. Compensation from fuel hedging during the period totaled THB 182 million.

- Last year fuel and oil expense for Nok Air of THB 658 million was included in THAI's profit and loss statement.

Employee benefits expenses consisting of personnel expense, employee benefits, management benefits and board of directors' benefits amounted to THB 8,742 million, which was an increase of THB 955 million or 12.3% over last year mainly due to

- THAI's employee benefits increased by THB 1,076 million or 14.1% mainly due to higher overtime payment and a higher level of outsourcing as compared to last year. The main reasons were the increase of traffic production, Government's minimum wage policy, shortage of outsourced staff and 2 additional public holidays. Other items contributing to the rise employee benefits include the increment in annual staff salary, increase in professional license fee for the Technical Department to ensure compliance with international standards and the provision for a one month annual welfare pay deducted equally each month as compared to last year where the annual welfare pay was charged to December's account resulting in a higher total expense and performance incentive was set on this quarter instead of the fourth quarter last year produced higher expenses.

- Employee benefits expenses for Nok Air totalling THB 118 million was included last year

Depreciation and amortization expenses totalled THB 4,987 million, a decrease of THB 69 million or 1.4% due to the change in accounting estimate which extended the useful life of aircraft from 15 to 20 years which decreased the depreciation expense by THB 669 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 17,810 million, an increase

of THB 863 million or 5.1%. The largest increase was the lease of aircraft and spare parts account by THB 269 million or a 29.2% jump due to a greater number of aircraft joining the fleet under operating lease bringing the total to 20 from 13 aircraft last year. Other items increased in relation to increased traffic production which was higher than the same period last year.

Impairment loss of assets totaled THB 72 million, a decrease of THB 41 million or 36.3%.

Impairment loss of aircraft totaled THB 1,332 million. In the first 6 months of 2013, THAI recognized impairment loss on 3 Airbus A300-600 aircraft and 4 Airbus A340-500 aircraft pending sale where the book value was higher than the net fair value less cost to sell, totaling THB 3,592 million. The charge-off of THB 2,260 million was taken in the first quarter of 2013 while another THB 1,332 million was taken in the second quarter of 2013.

Finance cost amounted to THB 1,523 million, an increase of THB 86 million or 6.0%. Although long-term liabilities (including liabilities under finance lease, long-term borrowing, and debentures) increased from the same period last year by THB 38,199 million which most of the increasing long-term liabilities caused by liabilities under finance lease, THAI has been able to raise cheaper cost of funds.

Share of profits of associates amounted to THB 166 million, THB 151 million higher compared to last year due to recognizing a share of Nok Airlines PCL's profit, in the amount of THB 128 million. It should be noted that last year, Nok Airlines was recognized as a subsidiary of THAI. THAI also recognized

- Bangkok Aviation Fuel Services PCL's profit of THB 31 million ,
- Phuket Air Catering Ltd.'s profit of THB 14 million,
- Donmuang International Airport Hotel Ltd.'s profit of THB 1 million,
- Royal Orchid Hotel (Thailand) PCL's profit of THB -3 million, and
- Suvarnabhumi Airport Hotel Ltd.'s profit of THB -5 million

Loss on foreign currency exchange of THAI and its subsidiaries totaled THB 4,202 million. THAI's own loss on foreign currency exchange amounted to THB 4,205 million which consists of realizing foreign currency gain of THB 90 million resulting from active natural hedging to mitigate the impact from foreign currency fluctuation and the unrealized loss portion totaling THB 4,295 million resulting from marking-to-market the Company's outstanding foreign currency loans into Baht terms at the end of the period.

Operating results of Thai Airways International PCL. and its subsidiaries of the first six months of 2013 (January - June 2013) are as follows:

Unit : Million Baht	<u>Consolidated</u>				<u>The Company</u>			
	2013	2012	<u>Variance</u>		2013	2012	<u>Variance</u>	
			MTHB	%			MTHB	%
Total Operating Revenues	103,105	101,931	+1,174	+1.2	102,925	98,329	+4,596	+4.7
<u>Less</u> Total Operating Expenses	101,561	98,845	+2,716	+2.7	101,476	95,408	+6,068	+6.4
Operating Profit	1,544	3,086	-1,542	-50.0	1,449	2,921	-1,472	-50.4
<u>Add</u> Other revenues	2,443	2,664	-221	-8.3	1,802	1,324	+478	+36.1
<u>Less</u> Other expenses	3,833	656	+3,177	+484.3	4,347	762	+3,585	+470.5
<u>Less</u> Finance cost	2,932	2,918	+14	+0.5	2,932	2,919	+13	+0.4
Profit before foreign currency exchange and income tax	(2,778)	2,176	-4,954	-227.7	(4,028)	564	-4,592	-814.2
Gain(loss) on foreign currency exchange	1,927	1,843	+84	+4.6	1,928	1,839	+89	+4.8
Profit before interest and tax	2,081	6,937	-4,856	-70.0	832	5,322	-4,490	-84.4
Net Profit	(131)	3,772	-3,903	-103.5	(1,356)	2,193	-3,549	-161.8
Profit attributable to owner of the parent	(156)	3,692	-3,848	-104.2	(1,356)	2,193	-3,549	-161.8
Net profit(Loss) per share (Baht)	(0.07)	1.69	-1.76	-104.1	(0.62)	1.00	-1.62	-162.0
EBITDA (MTHB)	11,310	13,300	-1,990	-15.0	11,212	13,086	-1,874	-14.3
Operating Profit Margin (%)	1.5	3.0	-1.5		1.4	3.0	-1.6	
EBITDA Margin (%)	11.0	13.0	-2.0		10.9	13.3	-2.4	
Net Profit Margin (%)	(0.1)	3.7	-3.8		(1.3)	2.2	-3.5	

- THAI and its subsidiaries' operating profit amounted to THB 1,544 million, a decrease of THB 1,542 million or 50.0% when compared to last year.

- Revenue from selling of services increased THB 1,174 million or 1.2% mainly due to the increase of passenger and excess baggage revenue. However, freight and mail revenue decreased.

- Operating expenses increased THB 2,716 million or 2.7% on the back of higher traffic production despite benefits of lower average fuel cost and extended aircraft depreciation period. Contributing to the net increase were employee benefits which was much higher than last year due to overtime payment and a higher level of outsourcing due to the increase of traffic production, Government's minimum wage policy, shortage of outsourced staff and 2 additional public holidays, the annual salary increment, increase professional license fee for the Technical Department to ensure compliance with international standards and the monthly provision for annual welfare.

- Other revenues and expenses in 2013 recorded a gain on deemed disposal value of THB 722 million, gain on reclassified investment of THB 298 million, an impairment charge taken against aircraft held for sale of THB 3,592 million compared to last year where THAI recognized a gain on business acquisition of THB 1,584 million.

- Gain on foreign currency exchange amounted to THB 1,927 million, THB 84 million or 4.6% higher than last year.

- Net loss amounted to THB 131 million compared to the same period last year where THAI's consolidated recorded profit was THB 3,772 million. Loss attributable to the parent amounted to THB 156 million.

- Loss per share was 0.07 THB, a decrease from last year where THAI reported a profit per share of 1.69 THB.

- EBITDA was THB 11,310 million, a decrease of THB 1,990 million or 15.0% from last year

- EBITDA margin was 11.0 decreased from last year where reported 13.0%

Operating performance

The Company		January - June		% Change
		2013	2012	
Production	(MATK)	6,234	5,846	+ 6.6%
Traffic	(MRTK)	4,156	4,022	+ 3.3%
Load Factor	(%)	66.7	68.8	- 2.1
Total yield	(THB/RTK)	23.27	23.35	- 0.3%
Passenger carried	(Million)	10.79	10.02	+ 7.7%
Passenger Production	(MASK)	41,957	38,729	+ 8.3%
Passenger Traffic	(MRPK)	31,534	29,707	+ 6.2%
Cabin Factor	(%)	75.2	76.7	- 1.5
Passenger yield	(THB/RPK)	2.69	2.69	-
Freight Production	(MADTK)	2,458	2,360	+ 4.2%
Freight Traffic	(MRFTK)	1,261	1,297	- 2.8%
Freight Load Factor	(%)	51.3	54.9	- 3.6
Freight loaded	(Ton)	324,864	335,772	- 3.2%
Freight yield	(THB/RFTK)	9.15	10.07	- 9.1%
Flight Hours	(Hours)	188,935	178,274	+ 6.0%
Average of Aircraft Utilization	(Hour/Aircraft/Day)	11.1	11.5	- 3.5%
Number of flight	(Flight)	48,136	44,218	+ 8.9%

Financial Position and Liquidity

Capital Expenditures

Capital expenditures for this quarter ending June 30, 2013 totalled THB 5,880 million, an increase of THB 1,396 million from last year. Capital expenditures for this year mainly were payments for one new aircraft under finance lease and the prepayment for acquisition of aircraft and engines totalling THB 4,411 million for aircraft deliveries from 2013-2018 as well as investment in in-flight equipment both current aircraft and new aircraft. Other investments include the cabin reconfiguration programs for Boeing B777-200 and Boeing B747-400 aircraft (on-going project during 2011-2013), totalling 7 aircraft with an investment value of THB 1,266 million. Other fixed assets amounted to THB 203 million. When combined with the first quarter of 2013, THB 11,001 million, total investments for the half year totaled THB 16,881 million.

Unit : Million Baht	January - June	
	2013	2012
Aircraft and aircraft spare parts	16,289	9,261
Non-Aircraft	592	418
Total	16,881	9,679

In this quarter THAI acquired long-term Euro funding using aircraft as collateral to finance its new Airbus A330-300. THAI also sought a 17-year USD 500 million loan facility from the Ministry of Finance to finance its 2 Airbus A380-800 aircraft where delivery is planned for the 4th quarter. Although THAI had to drawdown the loan as per the Ministry of Finance's requirement by June 2013 ahead of the expected delivery dates, the terms, conditions and cost were very favorable. To mitigate the negative carry cost of the loan, THAI is able to invest the funds on a short-term basis at attractive rates.

THAI also issued THB 5,000 million in new debentures with a tenor of 5 years in May 2013 to be used as working capital, for making investments, for repaying maturing bonds, for maintaining liquidity, and/or repaying higher cost debt tranches. For the first 6 months of 2013, total other investment used from cash from operating activities was THB 13,695 million, which was THB 1,449 million higher than the same period last year. If including net cash received from aircraft and engine payments, the sale of 4 decommissioned aircraft and the sale of other assets, the Company's cash flows are as follows:

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	13,695	12,246	13,583	12,165
Net cash used in investing activities	(5,589)	(6,482)	(5,430)	(6,900)
Net cash from (used in) financing activities	7,190	(4,657)	7,325	(4,491)
Effect from changing in exchange rate on cash and cash equivalents increase (decrease)	(405)	(71)	(405)	(72)
Increase(Decrease) in cash and cash equivalents	14,891	1,036	15,073	702

Net cash from operating activities for the six-month period ended June 30, 2013 increased THB 14,891 million from December 31, 2012 mainly due to cash from operations totaling THB 13,695

million which was higher than last year. Cash used in investing activities, amount of THB 5,589 million, decreased compared to last year. However, cash from financing activities totaled THB 7,190 million which was higher resulting from more borrowings in 2013 while repayments exceeded borrowings in the same period last year.

Fleet

In this quarter, THAI's fleet development strategy continues with retiring older aircraft and taking delivery of new ones. As of June 30, 2013, THAI took delivery of 1 Airbus A330-300 aircraft under finance lease in May 2013 and 2 Boeing B777-300ER aircraft under operating lease with a 12year lease term joining the fleet in April and June 2013, respectively. THAI returned 3 Boeing B777-300ER aircraft under operating lease as per the agreed upon return schedule and is holding for return 1 additional aircraft as per the agreed terms in July 2013.. THAI also decommissioned 2 own aging aircraft - 1 Boeing B747-400 aircraft in April 2013 and 1 Airbus A300-600 aircraft in June 2013. The above aircraft movement puts THAI's net active aircraft fleet at 95.

THAI also sold 2 Airbus A300-600 aircraft which were decommissioned earlier and were held for sale. Nok Airlines also returned 1 Boeing B737-400 aircraft and 2 Aerei da Trasporto Regionale ATR72 aircraft as per the agreed contract terms.

As of June 30, 2013 THAI's fleet totaled 111 aircraft (excluding the pending return of 1 Boeing B777-300ER) consists of 95 active aircraft and another 16 aircraft held for sale. Fleet details are as follow:

Aircraft type	Number of Aircraft	Owned	Finance lease	Operating Lease	Aircraft in service	Aircraft held for sale
Boeing B747-400	16	14	2	-	14	2
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	4
Boeing B777-300ER ¹⁾	6	-	-	6	6	-
Airbus A340-600	6	-	6	-	6	-
Airbus A340-500	4	1	3	-	-	4
Airbus A330-300	27	10	15	2	27	-
Airbus A320-200	6	-	-	6	6	-
Airbus A380-800	4	-	4	-	4	-
Airbus A300-600R	9	9	-	-	5	4
ATR 72	2	2	-	-	-	2
Freighter aircraft						
Boeing B747-400	2	2	-	-	2	-
Total	111	56	36	19	95	16

Remarks : 1) Excluded 1 Boeing B777-300ER which was decommissioned and held for return due to expiration of terms in July 2013

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

- Obligation to purchase 17 aircraft expected delivery during the year 2013 – 2018 which consists of 2 Airbus A380-800 aircraft, 5 Airbus A320-200 aircraft, 4 Airbus A350-900XWB, and 6 Boeing B777-300ER worth a total of THB 62,576 million
- Lease obligations and commitment fees for 20 operating lease aircraft which are now in service and 28 aircraft which have not been scheduled for delivery totaling THB 150,049 million. The lease terms of 48 operating lease aircraft will be for the period between 2013-2029.

Assets of Thai Airways International PCL. and its subsidiaries

As of June 30, 2013, total assets were THB 324,103 million, an increase of THB 20,007 million or 6.6% from as at December 31, 2012.

	Consolidated				The Company			
	June 30, 2013		December 31, 2012		June 30, 2013		December 31, 2012	
	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	% of Total Assets	MTHB	% of Total Assets
Current assets								
Cash and cash equivalents	34,939	10.8	20,048	6.6	34,815	10.9	19,742	6.6
Non-current assets classified as								
held for sale	7,848	2.4	7,430	2.4	7,848	2.4	7,430	2.5
Other current assets	42,111	13.0	44,133	14.5	42,355	13.2	42,185	14.1
Current Assets	84,898	26.2	71,611	23.5	85,018	26.5	69,357	23.2
Property, plant and equipment								
Prepaid aircraft and spare engine	16,394	5.1	17,617	5.8	16,394	5.1	17,617	5.9
Aircraft	51,631	15.9	51,661	17.0	51,631	16.1	51,661	17.3
Aircraft under finance leases	127,825	39.4	122,707	40.4	127,825	39.9	122,707	41.0
Aircraft spare parts	12,668	3.9	12,506	4.1	12,668	4.0	12,506	4.2
Work in process	2,190	0.7	2,488	0.8	2,190	0.7	2,488	0.8
Land, building and improvements	6,860	2.1	7,020	2.3	6,859	2.1	7,020	2.3
Other plant and equipment	4,709	1.5	4,569	1.5	4,701	1.5	4,479	1.5
Property, plant and equipment-net	222,277	68.6	218,568	71.9	222,268	69.4	218,478	73.0
Other non-current assets	16,928	5.2	13,917	4.6	13,121	4.1	11,521	3.8
Total Assets	324,103	100.0	304,096	100.0	320,407	100.0	299,356	100.0

Current assets were THB 84,898 million or accounted for 26.2% of total assets, an increase of THB 13,287 million from as of December 31, 2012. The main reason was an increase in cash and cash equivalents, THB 14,891 million which originated from loan financing from Ministry of Finance for Airbus 380-800 payment in the 4th quarter of 2013. Non-current assets classified as held for sale was THB 418 million higher due to additional 6 retired aircraft held for sale which increased from 10 aircraft at the end of 2012 where THAI sold 4 aircraft. 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 3 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 3,592 million.

Property, plant and equipment-net totaled THB 222,277 million or represented 68.6 % of total assets, which saw an increase of THB 3,709 million or 1.7% from as of December 31, 2012 resulting from the increase in the number of aircraft under finance lease mentioned above.

Other non-current assets totaled THB 16,928 million or represented 5.2% of total assets, which increased THB 3,011 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 4,828 million. Goodwill, recorded in the first quarter last year was lower by THB 1,391 million.

Return on assets of the first six months was 0.66% lower than last year's 2.51% due to the great number of delivered aircraft this year. However, it is unable to effectively increase revenue to retain speed with the assets growth and last year THAI earned gain on acquisition of subsidiary and consolidated Nok Airline PCL's financial statement.

Liabilities of Thai Airways International PCL. and its subsidiaries

Total liabilities as of June 30, 2013 totaled THB 256,360 million, which was an increase of THB 22,082 million or 9.4% from as of December 31, 2012. These comprise of:

	Consolidated				The Company			
	June 30, 2013		December 31, 2012		June 30, 2013		December 31, 2012	
	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities	MTHB	% of Total Liabilities
Current liabilities (including current Portion of long-term liabilities)	85,002	33.2	82,683	35.3	85,282	33.2	81,632	35.0
Long-term liabilities								
Debentures	36,400	14.2	32,120	13.7	36,400	14.2	32,120	13.8
Liabilities under financial leases	66,312	25.9	61,611	26.3	66,312	25.9	61,611	26.4
Long term borrowings	51,117	19.9	41,011	17.5	51,117	19.9	41,011	17.6
Total long-term liabilities	153,829	60.0	134,742	57.5	153,829	60.0	134,742	57.8
Other non-current liabilities	17,529	6.8	16,853	7.2	17,500	6.8	16,738	7.2
Total Liabilities	256,360	100.0	234,278	100.0	256,611	100.0	233,112	100.0

Long-term liabilities as of June 30, 2013 (including liabilities under finance lease, long-term borrowings, and debentures) were THB 153,829 million or represented 60.0% of total liabilities, which was an increase of THB 19,087 million from December 31, 2012. Consequently, interest bearing debt to equity increased from 2.27 times from the end of last year to 2.65 times at the end of this quarter. In the first six months of 2013, THAI obtained a total of THB 32,071 million in long-term financing:

- Liabilities under finance leases, amount of THB 11,393 million, which attended to pay for the purchase of three aircraft consisting of 2 Airbus A330-300 aircraft delivered in the first quarter and second quarter, respectively, and 1 Airbus A380-800 aircraft, delivered in the first quarter.
- Long-term liabilities, amount of USD 500 million or around THB 15,678 million, which THAI borrowed from Ministry of Finance for 2 Airbus A380-800 aircraft repayment in the fourth quarter of 2013. THAI had drawn down under the loan prior to withdrawal of the Ministry of Finance and had the funds to invest in the short-term to reduce the financial cost while waiting to pay for the aircraft.
- Debentures, amount of THB 5,000 million, which to be used as working capital, investment in assets, repayment of the debentures to maturity, conserving liquidity, and / or repayment higher finance costs.

Current liabilities as of June 30, 2013 were THB 85,002 million or represented 33.2% of total liabilities, which was an increase of THB 2,319 million or 2.8% from December 31, 2012 mainly as liabilities within 1 year increased THB 1,807 million or 7.5%.

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

As of June 30, 2013, shareholders' equity totaled THB 67,743 million, a decrease of THB 2,075 million from December 31, 2012 due to a dividend payment of THB 1,226 million made and the net effect from no longer holding controlling power over Nok Airlines PCL., in the amount of THB 721 million. Consequently, return on equity for the first half of 2013 decreased from 5.76 last year to -0.19 this year.

4. Factors affecting future operations

In the next half-year of 2013, there is a very high possibility that the airline industry will continue to see growth in South-East Asia but much depends on the global economic recovery and the average fuel price which is currently not expected to deviate from current levels. THAI continues to face major hurdles including the global economic recession, the uncertain political environment both domestic and international, the fluctuation in currency exchange reflecting the continued strengthening of the Thai Baht but there was some reprieve early of May as the Thai Baht weakened upon news related to curbing quantitative easing by both the US and Japan. The rapid growth and impending entrants in the low cost space significantly is likely to further heighten competition in and around Thailand where THAI will continue to watch closely.

THAI has prepared plans to adjust its strategy to increase more revenue by taking delivery of 9 new aircraft in the second half of 2013. In addition, THAI will increase flight frequency and initiate new routes to markets with good potential such as Japan, China, and Russia. THAI will rationalize its seat capacity to suit market demand. THAI will make the Japanese market a priority as THAI expects to benefit from the lifting of visa requirement from the Japanese government and the dramatically weakened Japanese Yen. Despite the weak European markets, THAI will have to make adjustments to its services and enhance efficiency to better compete in the new era of competition. This includes using the most suitable aircraft for each market and utilizing Thai Smile to better compete on certain routes. THAI also plans to heighten the effectiveness of sales management in various areas such as internet sales and improving call center response among many other improvements.

5. Financial Ratios

		<u>Consolidated</u>		<u>The Company</u>	
		<u>January - June</u>		<u>January - June</u>	
		<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Liquidity Ratio					
Current Ratio	(times)	2.28	2.44	2.27	2.45
Profitability Ratio					
Operating Profit Margin	%	1.50	3.03	1.41	2.97
Net Profit Margin	%	(0.13)	3.70	(1.32)	2.23
Return on Equity	%	(0.19)	5.76	(2.09)	3.49
Efficiency Ratio					
Return on Total Assets	%	0.66	2.51	0.27	1.95
Financial Policy Ratio					
Interest Bearing Debt to Equity	(times)	2.65	2.10	2.81	2.21
Interest Coverage Ratio	(times)	3.86	4.56	3.82	4.48

GLOSSARY

EBITDA = Total Operating Revenue – Total Operating Expenses + Depreciation and Amortization

EBITDA MARGIN = EBITDA/ Total operating revenue

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

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

Net Profit Margin = Net Profit / Total Operating revenue

Return on Equity = Net Profit / Average Shareholders' Equity

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

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

Interest Coverage ratio = EBITDA/interest