

**Management's Discussion and Analysis for the First Quarter of the financial year 2011 Ending March 31,
2011 for Thai Airways International Public Company Limited and its Subsidiaries**

1. Operating Results

In the first quarter of 2011, the airline industry continued to benefit from the global economic recovery. Unfortunately, the growth was not as smooth as predicted because of the various factors ranging from political unrest in many territories of the world, natural disasters, and the express uprising of fuel price. As a result, THAI was also subject to these unpleasant events, especially the mega quake of Japan in March 2011 which critically affected travel demand with the number of passengers dropping in regional route. In addition, the heightened competition among airlines made difficulty to THAI to adjust fuel surcharge for sufficient coverage against rising fuel price. These factors bore direct cause for the lower operating profit compared to the same period last year.

Results of operations are as follows:

Unit : Million Baht	January - March		Increase(Decrease)	
	2011	2010	MTHB	%
Total Revenues	51,851	49,806	+ 2,045	+ 4.1
Total Expenses*	47,739	44,413	+ 3,326	+ 7.5
Profits before Foreign Currency Exchange and Tax	4,112	5,393	- 1,281	- 23.8
Gains (Losses) on Foreign Currency Exchange	(3,358)	5,698	- 9,056	- 158.9
Profits before income tax	754	11,091	- 10,337	- 93.2
Comprehensive income attributable to owners of the parent	618	10,572	- 9,954	- 94.2
Earnings per share (THB)	0.28	6.22	- 5.94	- 95.5
EBITDA	9,755	11,252	- 1,497	- 13.3
EBITDAR	11,191	11,750	- 559	- 4.8

* Excluding gains (losses) of foreign currency exchange but including share of profits (losses) from investments by equity method and financing cost

In 1Q11, total revenue amounted to THB 51,851 million which was an increase of THB 2,045 million or 4.1% over the same period last year. Total operating revenue improved in the amount of THB 2,111 million or 4.3% over last year. Total expenses, excluding gains (losses) of foreign currency exchange but including share of profits (losses) from investments by the equity method and finance costs, amounted to THB 47,739 million which was THB 3,326 million or 7.5% higher than last year. The major factor causing a dramatic increase in cost is the rapid rise in average jet fuel price which was 33.5% higher than 1Q10. In addition, for 1Q11 THAI confronted the losses of foreign currency exchange which was THB 3,358 million compared to last year where THAI gained THB 5,698 million. Consequently, THAI earned profits before income tax in the amount of THB 754 million, declined by THB 10,337 million or a 93.2% year-on-year. However, excluding gains (losses) of foreign currency

exchange, profits before foreign currency exchange and tax amounted to THB 4,112 million, which was a decrease of THB 1,281 million or 23.8% year-on-year.

Comprehensive income attributable to owners of the parent for the period was THB 618 million or 0.28 THB per share was lower than 1Q10's THB 10,572 million or 6.22 THB per share. EBITDAR was THB 11,191 million, THB 559 million or 4.8% less than last year.

Changes in accounting policy

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

2. Performance Analysis of 1Q11

Production and Traffic

		January - March		%
		2011	2010	Change
Production	(MATK)	2,995	2,810	+ 6.6%
Traffic	(MRTK)	2,063	2,064	- 0.1%
Load Factor	(%)	68.9	73.4	- 4.5
Passenger Production	(MASK)	19,571	19,045	+ 2.8%
Passenger Traffic	(MRPK)	14,881	15,425	- 3.5%
Cabin Factor	(%)	76.0	81.0	- 5.0
Freight Production	(MADTK)	1,233	1,096	+ 12.5%
Freight Traffic	(MRFTK)	698	653	+ 6.9%
Freight Load Factor	(%)	56.6	59.6	- 3.0
Number of Passenger	(Million persons)	4.92	5.21	- 5.6%
Flight Hours	(Hours)	89,175	86,722	+ 2.8%
Average Aircraft Utilization	(Hour/Aircraft/Day)	12.4	11.7	+ 6.0%

In 1Q11, THAI took delivery of an A330-300 aircraft which started to operate on March 27, 2011 principally on regional and Australian routes. Upon the new aircraft joining the fleet, an older Airbus A300-600 was decommissioned.

THAI increased total production (Available Ton-Kilometers: ATK) by 6.6% higher over 1Q10. Total traffic (Revenue Ton-Kilometers: RTK) was at a similar level to that of last year. These made average load factor was 68.9, reduced from 73.4% posted in 1Q10. Passenger production (Available Seat-Kilometers: ASK) increased 2.8% from last year while passenger traffic (Revenue Passenger-Kilometer: RPK) decreased 3.5%. The result was the average cabin factor dropping from 81.0% last year to 76.0% this year.

Revenues

In 1Q11, total revenues for THAI were THB 51,851 million, an increase of THB 2,045 million or 4.1% as follows:

Unit : Million Baht	January - March		Increase(Decrease)	
	2011	2010	MTHB	%
Revenue from transportation activities				
Passenger and excess baggage revenue	41,935	40,631	+ 1,304	+ 3.2
Freight and mail revenue	6,955	6,254	+ 701	+ 11.2
Total revenue from transportation activities	48,890	46,885	+ 2,005	+ 4.3
Revenue from other activities	2,135	2,029	+ 106	+ 5.2
Total operating revenue	51,025	48,914	+ 2,111	+ 4.3
Interest income	120	31	+ 89	+ 287.1
Other incomes	706	861	- 155	- 18.0
Total revenues	51,851	49,806	+ 2,045	+ 4.1

Total operating revenue was THB 51,025 million, an increase of THB 2,111 million or 4.3% from last year.

Total revenue from transportation activities was THB 48,890 million, an increase of THB 2,005 million or 4.3% increase over last year. Details are as follows:

- **Passenger and Excess Baggage Revenue**

Passenger and excess baggage revenue totaled THB 41,935 million, an increase of THB 1,304 million or 3.2%. A significant contribution was from the enhancement of passenger yield (including passenger fuel and insurance surcharge) which rose by 4.9%, 2.64 THB per RPK to 2.77 THB per RPK year-on-year. The

improvement of passenger yield was essentially from an increase in airfare in response to the rapid increase in oil price. However, the increase in yield was mitigated by the strength of the Thai Baht.

Since April 1, 2010, THAI changed its ticket pricing policy by integrating passenger fuel and insurance surcharge for domestic routes and certain international routes and quoted as part of the full fare ticket. In doing so, THAI recognized these revenues from such tickets as full fare and did not recording separately as surcharges as was the case in the previous year. Since January 1, 2011, THAI had announced new pricing policy that THAI included parts of passenger fuel surcharge of international routes as part of the full fare ticket resulting in reduction in fuel surcharge revenue.

- **Freight and mail revenue**

Freight and mail revenue amounted to THB 6,955 million, which was an increase of THB 701 million or 11.2% primarily as a result of the increase in average freight yield (including fuel and insurance surcharge) increased from 9.27 baht per RFTK to 9.71 baht per RFTK or an increase of 4.7% year-on-year. Because of the increase in export and import demand in line with global economic recovery, it reflected THAI having block-spaced two dedicated Boeing 777-200LRF freighter aircraft since March 2010. Consequently, freight production (Available Dead Load Ton-Kilometers: ADTK) increased by 137 million ton-kilometers or 12.5% while freight traffic (Revenue Freight Ton-Kilometers: RFTK) improved by 45 million ton-kilometers or 6.9% over last year. The average freight load factor was 56.6%, which was lower than that of 59.6% last year.

Revenue from Other Activities

Revenue from other activities amounted to THB 2,135 million, an increase of THB 106 million or 5.2% over last year. For Ground Services and Catering Services, the increment of revenue was primarily generated from the increase of flights and passengers of customer airlines which increased significantly contributing to THAI's revenue earned from relevant ground services and food and beverage charges as compared to the same period the year before. The revenue from Cargo Handling Services increased over last year, resulting from increase in freight shipment demand.

Interest income

Interest income totaled THB 120 million which increased by THB 89 million because average cash and cash equivalent along with interest rates were higher than last year. The Company also increased its short-term investments where THAI expected to obtain higher return.

Other income

Other income amounted to THB 706 million which decreased by THB 155 million or 18.0% principally from the THB 97 million recognized less as compared to the year before by THAI as compensation for the delay in aircraft delivery. In addition, revenue from passenger airport fees which have not been billed to THAI for over 3 year was THB 69 million lower than last year.

Expenses

In 1Q11, total expenses totaled THB 51,097 million, THB 38,715 million or 32.0% higher than 1Q10 with the following details:

Unit : Million Baht	January - March		Increase(Decrease)	
	2011	2010	MTHB	%
Fuel and oil	17,510	14,292	+ 3,218	+ 22.5
Employee benefits expense	7,739	7,670	+ 69	+ 0.9
Flight service expenses	5,091	4,988	+ 103	+ 2.1
Crew expenses	1,347	1,352	- 5	- 0.4
Aircraft maintenance and overhaul costs	2,494	2,749	- 255	- 9.3
Depreciation and amortization expenses	4,796	5,215	- 419	- 8.0
Lease of aircraft and spare parts	1,436	498	+ 938	+ 188.4
Inventories and supplies	2,221	2,381	- 160	- 6.7
Sales and advertising expenses	1,335	1,598	- 263	- 16.5
Insurance expenses	164	164	-	-
Impairment loss of assets	357	88	+ 269	+ 305.7
Other expenses	1,978	2,066	- 88	- 4.3
Losses (gains) on foreign currency exchange	3,358	(5,698)	+ 9,056	+ 158.9
Share of loss (profit) from investments by the equity method	(38)	7	- 45	- 642.9
Finance costs	1,309	1,345	- 36	- 2.7
Total Expenses	51,097	38,715	+ 12,382	+ 32.0

Significant changes of expenses for 1Q11 included:

Fuel and oil expenses amounted to THB 17,510 million, THB 3,218 million or 22.5% higher than last year. The main reasons were the increase in average jet fuel price by 33.5% over last year and a 2.6% increase in fuel consumption from increased production. THAI was compensated for fuel hedging contracts in the amount of THB 473 million while the weaker US dollar against the Thai baht partially offset the rise in fuel cost.

Employee benefits expense consisting of personnel expense, employee benefits expense, management benefits expense, and board of directors benefits expense, amounted to THB 7,739 million, which was at a similar level to that of last year. It should also be noted that THAI implemented new accounting standards in accordance with new guidelines announced under TAS 19. To comply with TAS 19, with retrospective restatement, expenses increased for 1Q11 and 1Q10 by THB 218 million and THB 217 million, respectively.

Flight service expenses amounted to THB 5,091 million, an increase of THB 103 million or 2.1% from last year. The increase was mainly the result of the increase in total production of THAI and the increase in cargo handling expenses in lines with the Block Space agreement.

Aircraft maintenance and overhaul costs amounted to THB 2,494 million, a decrease of THB 255 million or 9.3% from last year, which was essentially from the lower cost in overhaul expense from lower “Total Care” payment year-on-year.

Depreciation and amortization expenses were THB 4,796 million, a decrease of THB 419 million or 8.0% because of full depreciation of aircraft, spare parts, building and equipment.

Lease of aircraft and spare parts were THB 1,436 million, an increase of THB 938 million or 188.4%, as THAI had leased two Boeing 777-200LRF aircraft since March 2010 for freight service and three Boeing 777-300ER aircraft from Jet Airways since May 2010.

Inventory and supplies were THB 2,221 million, a decrease of THB 160 million or 6.7%, due to lower in-flight product development expenses and number of passengers carried in 1Q11 was lower than in 1Q10, which directly affected lower meal expense.

Sales and advertising expenses were THB 1,335 million, a decrease of THB 263 million or 16.5%, since global distribution system (GDS) operators discounted their reservation fees as well as the lower number of passengers carried lowered reservation expenses.

Impairment loss of assets were THB 357 million, an increase of THB 269 million or 305.7% over the same period last year. The major reason for the steep rise compared to last year was due to higher reserved damaged rotatable spare parts which has been set aside for pending sale.

Losses on foreign currency exchange amounted to THB 3,358 million in 1Q11 against last year’s gain of THB 5,698 million due to the translation of the outstanding EURO currency loans into Baht term at the end of the period.

Share of profit (loss) from investment by equity method recorded a THB 38 million gain in 1Q11 as compared to a loss of THB 7 million registered for the same period last year by recognizing share from Nok Air Company Limited’ profits.

Finance costs amounted to THB 1,309 million, a decline of THB 36 million or 2.7% due to the decrease of long-term debt.

Net income tax expense

Net income tax expense amounted to THB 121 million, which was a decrease of THB 378 million or 75.8% against the previous year with lower taxable profits earned in 1Q11 that were subject to taxation at the prevailing rates.

Comprehensive income attributable to owners of the parent

Comprehensive income attributable to owners of the parent amounted to THB 618 million, decreased by THB 9,954 million or a 94.2% year-on-year.

3. Financial Position

Assets

As of March 31, 2011, total assets were THB 291,554 million, a decrease of THB 5,004 million or 1.7% from December 31, 2010. Details are as the follows:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	74,859	25.7	78,302	26.4
Property, plant and equipment				
Aircraft	65,580	22.5	65,615	22.1
Aircraft under finance leases	113,791	39.0	115,425	38.9
Aircraft spare parts	10,744	3.7	10,822	3.7
Land, buildings and improvements	7,851	2.7	7,987	2.7
Other plant and equipment	6,438	2.2	6,269	2.1
Property, plant and equipment-net	204,404	70.1	206,118	69.5
Other non-current assets	12,291	4.2	12,138	4.1
Total Assets	291,554	100.0	296,558	100.0

Current assets were THB 74,859 million or accounted for 25.7% of total assets, a decrease of THB 3,443 million or 4.4% from December 31, 2010 from lower cash and cash equivalents items which totaled THB 33,495 million as of March 31, 2011, a decrease of THB 4,185 million from as of December 31, 2010 due to long-term loans and interest repayments, aircraft advance payment, and payment on other assets where the cash outflow exceeded than net cash earned from operating activities.

Property, plant and equipment-net totaled THB 204,404 million or represented 70.1% of total assets, which decreased by THB 1,714 million or 0.8% from December 31, 2010, primarily resulting from accumulated depreciation charges. In 1Q11, THAI made advance payments for 3 A330-300s aircraft and paid for refurbished equipment of new Airbus A330-300s and Airbus A380-800s totaling THB 1,277 million. A complete seat-installation Airbus A330-300 was delivered to THAI's fleet on March 25, 2011.

Other non-current assets totaled THB 12,291 million or represented 4.2% of total assets, which increased by THB 153 million or 1.3% from December 31, 2010 mostly resulting from the increase in deferred income tax expense.

Liabilities

Total liabilities of THAI as of March 31, 2011 totaled THB 214,539 million, which was a decrease of THB 5,637 million or 2.6% from December 31, 2010. These comprise of:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	52,844	24.6	57,581	26.2
Long-term loans				
Debentures	29,335	13.7	29,335	13.3
Liabilities under financial leases	63,468	29.6	64,327	29.2
Long term loan from others	52,105	24.3	52,618	23.9
Total long-term loans	144,908	67.6	146,280	66.4
Employee benefits obligation	9,544	4.4	9,326	4.2
Other non-current liabilities	7,243	3.4	6,989	3.2
Total liabilities	214,539	100.0	220,176	100.0

Current liability (excluding current portion of long-term loans) totaled THB 52,844 million, representing 24.6% of total liabilities, which declined from December 31, 2010 by THB 4,737 million or 8.2%. The main reasons were the decrease of THB 5,392 million in accrued expenses and THB 1,594 million in unearned transportation revenues. However, trade account payable increased THB 2,550 million due to a larger account payable for fuel cost.

Long-term loans as of March 31, 2011 totaled THB 144,908 million (including the current portion of long-term loans amounted to THB 23,455 million) or represented 67.6% of total liabilities, which was a decrease of THB 1,372 million from December 31, 2010. The decrease was mainly from the repayment of liabilities under financial leases and long-term loans.

Employee benefits obligation as of March 31, 2011 was THB 9,544 million or 4.4% of total liabilities. It increased by THB 218 million or 2.3% from December 31, 2010. (Also see notes to the financial statements no.4.10 for details)

Other non-current liabilities as of March 31, 2011 totaled THB 7,243 million or represented 3.4% of total liabilities, which was a slight increase of THB 254 million or 3.6% from December 31, 2010.

Shareholders' Equity

In compliance with TAS 19 regarding employee benefits, since January 1, 2011, all defined employee benefits obligation was adjusted through the retained earnings portion of retrospective restatement. In doing so, the Company's retained earnings as of December 31, 2010 decreased THB 6,527 million pushing the Interest Bearing Debt (IBD) to Equity ratio up from 1.76 times to 1.92 times.

As of March 31, 2011, total shareholders' equity amounted to THB 77,015 million, which was an increase of THB 633 million from December 31, 2010 due to positive comprehensive income earned in 1Q11. Interest Bearing Debt (IBD) to Equity ratio decreased from 1.92 times at December 31, 2010 to 1.88 times as of the quarter ended of March 31, 2011.

4. Liquidity

Cash and cash equivalents as of March 31, 2011 amounted to THB 33,495 million, a decrease of THB 4,185 million or 11.1% from December 31, 2010.

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

Unit : Million Baht	January - March	
	2011	2010
Net cash from operating activities	5,227	10,118
Net cash used in investing activities	(3,161)	(904)
Net cash used in financing activities	(6,004)	(4,856)
Effect from changing in exchange rate on cash and cash equivalents	(247)	(246)
Increase (decrease) in cash and cash equivalents	(4,185)	4,112

Net cash from operating activities

Net cash from operating activities for the first quarter ended March 31, 2011 amounted to THB 5,227 million, a decrease of THB 4,891 million or 48.3%, since operating profits before changes in operating assets and liabilities was THB 2,473 million lower. However, current assets increased by THB 2,359 million from an increase of 1) prepaid expenses and deposits and 2) inventories and supplies, while there was a THB 4,777 million reduction in operating liabilities from the decrease of 1) accrued expenses and other current liabilities and 2) unearned transportation revenues.

Net cash used in investing activities

Net cash used in investing activities for the first quarter ended March 31, 2011 amounted to THB 3,161 million, which increased by THB 2,257 million or 249.7%. These primarily comprised of the use of cash in making advance payments on Airbus A330-300 aircraft. In addition, payment was also made for furnished equipment to be installed in Airbus A330-300 and A380-800 aircraft to be delivered between 2011-2013.

Net cash used in financing activities

Net cash used in financing activities for first quarter ended March 31, 2011 amounted to THB 6,004 million, an increase of THB 1,148 million over the same period last year. Net cash from financing activities for this year consisted of repayment of long-term loans in the amount of THB 4,611 million and interest payment totaling THB 1,393 million.

5. Capital Expenditures

Total capital expenditure before deduction of cash received from financial lease agreement for first quarter ended March 31, 2011 totaled THB 3,592 million, which decreased by THB 1,355 million or 27.4% year-on-year. It consisted of payment for the acquisition of new aircraft in which delivery would be taken during the year 2011-2013 as well as payment for aircraft spare parts totaling THB 2,933 million.

Unit : Million Baht	January - March	
	2011	2010
Aircraft and aircraft spare parts	2,933	4,772
Non-Aircraft	659	175
Total	3,592	4,947

6. Financial Ratios

		January - March	
		2011	2010
Liquidity Ratio			
Current Ratio ⁽¹⁾	(times)	2.61	1.74
Profitability Ratio			
Operating Profit Margin	(%)	9.72	12.34
Net Profit Margin	(%)	1.21	21.61
Return on Equity	(%)	0.81	20.09
Efficiency Ratio			
Return on Total Assets	(%)	0.21	3.81
Financial Policy Ratio			
Interest Bearing Debt to Equity	(times)	1.88	2.60
Interest Coverage Ratio ⁽²⁾	(times)	7.45	8.37
Debt Service Coverage Ratio (DSCR) ⁽³⁾	(times)	1.50	2.01

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

2) Interest Coverage Ratio = EBITDA / Interest Expense

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

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

Details of contractual obligations can be found in the notes to the financial statements number 4.22.