

## Management's Discussion and Analysis for the Year Ending December 31, 2011 for Thai Airways International Public Company Limited and Its Subsidiary

### 1. Operating Results

In 2011 THAI's operations has been impacted by a number of external factors affecting its operating results since the first quarter 2011 - the rapid rise in fuel price, the financial crisis in Europe and America, the earthquake in Japan in March leading to the tsunami and rounding off the year-end was the devastating flood in Thailand adversely impacting not only travel demand during the peak season of the year but also hurting the volume of cargo business. To cope with the various adversities and especially the year-end flood, THAI rapidly rationalized its flights to better cope with the change in operating environment and demand. THAI closely monitored fuel price and made necessary adjustments to the level of fuel surcharge to cover the jump in fuel cost but with fierce market competition, THAI was not able to sufficiently adjust fuel surcharge to cover the fuel cost increase which adversely impacted THAI's overall profitability for 2011.

Competition in the airline industry has intensified from the rapid expansion of low cost carriers and Middle East airlines forcing THAI to adjust its marketing and operating strategies to cope with the heightened competition: new flight plan, new aircraft utilization plan, new and variety of promotions, risk management both fuel hedging and currency fluctuation, financial strength policy, postponement of trivial investments, cost reduction and cost controlling program and new business unit: THAI Smile which mainly aimed to expand target groups by designing products and services tailor-made to suit the demands of short-haul travelers in order to contend and maintain market place, and to prepare for the feasible factors that might occur in the future.

Results of operations are as follows:

Unit : Million Baht	2011	2010	Increase(decrease)	
			MTHB	%
Total revenues	194,342	184,270	+ 10,072	+ 5.5
Total expenses *	199,831	176,719	+ 23,112	+ 13.1
Profit (Loss) before foreign currency exchange and income tax	(5,489)	7,551	- 13,040	- 172.7
Gain (Loss) on foreign currency exchange	(2,428)	9,106	- 11,534	- 126.7
Profit (Loss) before income tax	(7,917)	16,657	- 24,574	- 147.5
Effect of tax rate change on deferred income tax	(2,407)	-	- 2,407	-
Profit (loss) attributable to owners of the parent	(10,197)	14,744	- 24,941	- 169.2
Net profit (loss) per share (Baht)	(4.67)	8.06	- 12.73	- 157.9
EBITDA	17,207	28,067	- 10,860	- 38.7
EBITDAR	22,637	32,398	- 9,761	- 30.1

\* Excluding gains (losses) on foreign currency exchange

THAI's total revenues amounted to THB 194,342 million, which was an increase of THB 10,072 million or 5.5% from last year. Total operating revenue increased in the amount of THB 10,409 million or 5.8% from last year mainly due to the increase in number of passengers and the average passenger yield which reflected a higher fuel surcharge rate. THAI's total expenses, excluding gain (loss) on foreign currency exchange amounted to THB 199,831 million, which was THB 23,112 million or 13.1% higher than last year. The reason for the increase was 38.7% increase in average jet fuel prices causing THB 19,870 million jump in fuel cost year on year. In addition, the increase of total production activated the higher relevant cost items. Moreover, THAI

recorded loss on foreign currency exchange in the amount of THB 2,428 million compared to last year where THAI gained THB 9,106 million. Consequently, THAI reported loss before income tax of THB 7,917 million when compared to last year where THAI reported earnings before income tax of THB 16,657 million. Excluding gain (loss) on foreign currency exchange, THAI's loss before foreign currency exchange and income tax was THB 5,489 million compared to last year where THAI earned THB 7,551 million.

With implementation of change in tax rate to be applied in 2011 where tax rate is to drop from 30% to 23% and 20% in 2012 and 2013 onward. The impact will be on both deferred income tax assets and liabilities. In 2011, THAI recorded a tax rate change effect in the income tax expense amounting to THB 2,407 million. The adjustment increased THAI's net loss to THB 10,197 million or 4.67 baht per share compared to last year where THAI reported gain of THB 14,744 million or 8.06 baht per share. EBITDAR was THB 22,637 million, which decreased by THB 9,761 million or 30.1% from last year.

In additional, THAI consolidated the financial results of Thai-Amadeus Southeast Asia Co. Ltd., WingSpan Services Co., Ltd., THAI flight training Co., Ltd. and Tour Eurng Luang Co., Ltd.

### **Changes in accounting policy**

In order to comply with Thai Accounting Standard (TAS) and Thai Financial Reporting Standard (TFRS) which are effective on January 1, 2011, THAI has changed in accounting policies which are presentation of financial statements and employee benefits. (Also see notes to the financial statement no. 3 and 4) The changes in those accounting policies have effected only on the presentation of financial statements, but have no effect on profit or earnings per share, excepted in employee benefits. THAI has opted to record the entire amount of the employee benefits obligation as retrospective adjustment. According to these changes, retained earnings indicated in consolidated financial statement as of January 1, 2011 declined by THB 6,527 million. Net profits of 2010 decreased by THB 606 million and earnings per share reduced THB 0.33.

## 2. Performance analysis for the year 2011

### Production and Traffic

		2011	2010	% Change
Production	(MATK)	11,987	11,516	+ 4.1%
Traffic	(MRTK)	7,836	7,997	- 2.0%
Load Factor	(%)	65.4	69.4	- 4.0
Passenger Production	(MASK)	78,533	75,600	+ 3.9%
Passenger Traffic	(MRPK)	55,267	55,676	- 0.7%
Cabin Factor	(%)	70.4	73.6	- 3.2
Freight Production	(MADTK)	4,919	4,708	+ 4.5%
Freight Traffic	(MRFTK)	2,766	2,895	- 4.5%
Freight Load Factor	(%)	56.2	61.5	- 5.3
No. of Passenger	(million persons)	18.39	18.17	+ 1.2%
Flight Hours	(hours)	355,815	341,165	+ 4.3%
Average of Aircraft Utilization	(hour/aircraft/day)	11.9	11.4	+ 4.4%

THAI implemented a fleet efficiency improvement strategy to compete with its peers, to support growth of the aviation industry and reduce the Company's overall cost. In 2011 THAI took delivery of nine aircraft consisting of seven new Airbus A330-300's, principally used on regional routes and two leased Boeing B777-300ER's serving European routes for aircraft replacement and fleet expansion. THAI decommissioned two more than 20-year-old Airbus A300-600's pending sale. THAI has begun to convert two Boeing B747-400's into freighter aircraft to substitute for the 2 previously leased Boeing B777-200LRF freighters. One of which was returned in August 2011 and the contract for the second aircraft will terminate in March 2012.

For route development in 2011, THAI launched new routes: Bangkok- Brussels, Kingdom of Belgium, in November 2011 with 3 weekly flights to support the strong European passenger demand during the winter schedule and 2 direct routes from Copenhagen - Phuket and Seoul - Phuket operating 3 weekly flights. Victim of the European financial crisis was the Bangkok - Athens route where service has been discontinued.

Consequently, THAI's total production (Available Ton - Kilometer : ATK) increased by 4.1% from last year. Total traffic (Revenue Ton - Kilometer : RTK) decreased by 2.0%. Average load factor decreased from 69.4% in 2010 to 65.4%, in 2011, passenger production (Available Seat - Kilometer : ASK) increased by 3.9% but passenger traffic (Revenue Passenger - Kilometer : RPK) decreased 0.7% while cabin factor was 70.4%, lower than 73.6% over the same period last year.

## Revenues

Total revenues for the year 2011 was THB 194,342 million, an increase of THB 10,072 million or 5.5% from last year. Details are as follows:

Unit : Million Baht	2011	2010	Increase(decrease)	
			MTHB	%
<b>Passenger and excess baggage revenue</b>				
Regional	58,298	52,953	+ 5,345	+ 10.1
Intercontinental	56,013	52,954	+ 3,059	+ 5.8
Domestic	13,808	12,399	+ 1,409	+ 11.4
Non-schedule flight	699	539	+ 160	+ 29.7
Passenger insurance surcharge	1,670	1,925	- 255	- 13.2
Passenger fuel surcharge	24,158	24,092	+ 66	+ 0.3
<b>Total passenger and excess baggage revenue</b>	<b>154,646</b>	<b>144,862</b>	<b>+ 9,784</b>	<b>+ 6.8</b>
Freight and mail revenue	28,092	28,230	- 138	- 0.5
<b>Total revenue from transportation activities</b>	<b>182,738</b>	<b>173,092</b>	<b>+ 9,646</b>	<b>+ 5.6</b>
Revenue from other activities	8,259	7,496	+ 763	+ 10.2
<b>Total operating revenue</b>	<b>190,997</b>	<b>180,588</b>	<b>+ 10,409</b>	<b>+ 5.8</b>
Interest income	711	185	+ 526	+ 284.3
Other incomes	2,634	3,497	- 863	- 24.7
<b>Total revenues</b>	<b>194,342</b>	<b>184,270</b>	<b>+ 10,072</b>	<b>+ 5.5</b>

**Total operating revenue** was THB 190,997 million, an increase of THB 10,409 million or 5.8% from the same period last year.

**Revenue from transportation activities** amounted to THB 182,738 million, an increase of THB 9,646 million or 5.6% from last year. Details are as follows:

- **Passenger and excess baggage revenue**

Passenger and excess baggage revenue totaled THB 154,646 million, an increase of THB 9,784 million or 6.8%. The main reasons are the increase of average passenger yield (including fuel and insurance surcharge) increased from 2.57 baht/RPK in year 2010 to 2.75 baht/RPK or 7.0% this year essentially due to the increase of fuel surcharge, included as part of the ticket fare, that caused the higher fare rate in response to the rapid increase in fuel prices and the increase income from first and business passengers.

THAI has been quoting the price of its domestic tickets to be all inclusive of applicable fuel and insurance surcharges Since April 2010 and on certain international routes including

India since June 2010, Australia and New Zealand since January 2011 and Sri Lanka since February 2011, respectively. THAI received more passenger revenue (excluding fuel and insurance surcharge) than last year since fuel surcharges have been included in the ticket price on some International routes.

*- Passenger and excess baggage revenue classified by flight regions*

**Regional passenger and excess baggage revenue** amounted to THB 58,298 million, which was an increase of THB 5,345 million or 10.1% due to the combination of fuel surcharge as part of the full fare ticket. THAI also made route network adjustments, flight frequency and change in aircraft capacity to better suit passenger traffic demand. As a result, ASKs increased by 1,572 million seat-kilometers or 5.4%. But because of the earthquake in Japan and the devastating flood in Thailand resulting in many travel warnings issued by various governments for their citizens to reconsider travel to Thailand, RPK increased slightly by 133 million passenger-kilometers or 0.6% while average cabin factor was 70.2%, lower than the 73.5% achieved in 2010.

**Intercontinental passenger and excess baggage revenue** amounted to THB 56,013 million, which was an increase of THB 3,059 million or 5.8% partly resulting from the combination of fuel surcharge as part of the full fare ticket, except Australia and New Zealand territory where both fuel and insurance surcharges were included in fare ticket. In 2011, THAI adjusted flight plans to suit the operating environment and thus discontinued the Bangkok – Athens route which was heavily affected by European financial crisis. On the other hand, THAI added and modified routes to respond to passenger demand by opening: Bangkok – Brussels, 3 weekly flights, and direct flight: Copenhagen – Phuket with 3 flights per week. As a result, ASKs increased by 1,226 million seat-kilometers or 2.9% but due to the European and America financial crisis along with the heated competition-more airlines, flight frequency and aircraft type adjustments caused RPKs to decrease by 691 million passenger-kilometers or 2.2%, while cabin factor was 70.5% which was lower than the 74.3% average in 2010.

**Domestic passenger and excess baggage revenue** amounted to THB 13,808 million, which was an increase of THB 1,409 million or 11.4% primarily due to the pricing, revenue management and incremental market share strategy which increased both average passenger yield and the number of passengers. THAI continued to emphasize service on primary trunk routes while cooperating with NOK Air on secondary routes and feeder routes to provide a broader span of service to passengers across the country. As a result, ASKs increased by 62 million seat-kilometers or 1.4% and RPKs increased by 118 million passenger-kilometers or 3.9% while cabin factor was 72.2% higher than 70.5% over the same period the year before.

*- Passenger and excess baggage revenue from non-scheduled flights*

Passenger and excess baggage revenue from non-scheduled flights totalled THB 699 million, which was an increase of THB 160 million or 29.7% due to the increase in number of international non-schedule flights.

*- Passenger insurance surcharge*

Passenger insurance surcharge amounted to THB 1,670 million, which was a decrease of THB 255 million or 13.2% mainly due to THAI realized that insurance surcharge sold in some countries as part of passenger revenue.

*- Passenger fuel surcharge*

Passenger fuel surcharge amounted to THB 24,158 million, which was an increase of THB 66 million or 0.3% mainly due to the combination of fuel surcharge as part of the full fare ticket as mention above. Moreover, due to the rigorous competition which was incapable for THAI to adjust fuel surcharge to fully compensate the rise in fuel cost, it caused the diminutive increment of passenger fuel surcharge revenue.

• ***Freight and mail revenue***

Eventhough average freight yield (including fuel and insurance surcharge) increased from 9.50 baht/RFTK in 2010 to 9.89 baht/RFTK this past year or a 4.1% increase, freight and mail revenue amounted to THB 28,092 million, which was a decrease of THB 138 million or 0.5%, primarily due to global economic weakening, the earthquake that hit Japan and massive flood that hit Thailand. These factors reduced the production capacity which directly affected the amount of freight traffic. Another factor lowering THAI's freight revenue is the growth in land transportation alternatives. To better adjust to the changing operating environment, THAI returned one of the two leased Boeing 777-200LRF freighter aircraft that joined the fleet in 2010 during the height of the air cargo transport business. Consequently, freight traffic (Revenue Freight Ton-Kilometers : RFTK) decreased by 129 million ton-kilometers or 4.5% from 2010. Freight production (Available Dead Load Ton-Kilometers : ADTK) increased by 211 million ton-kilometers or 4.5% from 2010. The average freight load factor was 56.2%, which is lower than that the 61.5% posted in 2010.

***Other activities revenue***

Other activities revenue amounted to THB 8,259 million, which increased by THB 763 million or 10.2% primarily as a result of an increase in number of both flights and passengers from customer airlines and new services such as VIP lounge access privilege to the passenger who hold bank credit card contracted with THAI and new cargo handling fees of cargo handling, and so forth, increasing revenue earned by Technical Services, Ground Services, Catering Services and Cargo Handling Services. During 2011, THAI implemented

***Interest income***

Interest income totalled THB 711 million, which increased by THB 526 million or 284.3% due to receipt of THB 287 million in interest on aircraft deposit along with a higher average cash and cash equivalent items and higher interest rates than last year. Also, THAI increased its short-term investment, which THAI will obtain higher return.

***Other income***

Other income amounted to THB 2,634 million, which decreased by THB 863 million or 24.7% primarily resulting from THAI recognized compensation for the delay in aircraft delivery, which was THB 952 million lower than the compensation recognized in last year. In addition, revenue from passenger airport fees, which were not been billed to THAI over 3 year, was THB 275 million lower than last year, as well. In 2011, THAI recorded revenue from insurance compensation flood disaster amounted to THB 175 million by using the net book value of assets that has been damaged by flooding. Those assets are protected under the terms of insurance policy (also see notes to the financial statement no. 6.35.1).

## Expenses

In 2011, Total expenses amounted to THB 202,259 million, which was THB 34,646 million or 20.7% higher than the same period last year. A summary of operating expenses is as follows:

Unit : Million Baht	2011	2010	Increase(decrease)	
			MTHB	%
Fuel and oil	76,389	56,519	+ 19,870	+ 35.2
Employee benefit expenses	31,009	34,525	- 3,516	- 10.2
Flight service expenses	20,428	19,064	+ 1,364	+ 7.2
Crew expenses	5,485	5,092	+ 393	+ 7.7
Aircraft maintenance and overhaul costs	11,698	9,675	+ 2,023	+ 20.9
Depreciation and amortization	19,989	20,236	- 247	- 1.2
Lease of aircraft and spare parts	5,430	4,331	+ 1,099	+ 25.4
Inventories and supplies	9,042	9,046	- 4	-
Selling and advertising expenses	5,885	6,103	- 218	- 3.6
Insurance expenses	733	675	+ 58	+ 8.6
Impairment loss of assets	940	318	+ 622	+ 195.6
Impairment loss of aircraft	181	171	+ 10	+ 5.8
Other expenses	7,149	6,056	+ 1,093	+ 18.0
Loss (gain) on foreign currency exchange	2,428	(9,106)	+ 11,534	+ 126.7
Finance costs	5,656	5,166	+ 490	+ 9.5
Loss on debenture redemption	1	-	+ 1	-
Share of Profit from investments in associated companies	(184)	(258)	+ 74	+ 28.7
<b>Total Expenses</b>	<b>202,259</b>	<b>167,613</b>	<b>+ 34,646</b>	<b>+ 20.7</b>

Significant changes of expenses for the year 2011 included:

Fuel and oil expense amounted to THB 76,389 million, was THB 19,870 million or 35.2% higher than last year. The main reasons were an increase in average jet fuel prices by 38.7% from last year and an increase in fuel consumption by 2.5% from production expansion whereas the US dollar is weaken against Thai baht partially offset the rise in fuel cost. Moreover, the Company was compensated on fuel hedging contracts in the amount of THB 1,103 million, THB 505 million or 84.4% higher than last year.

Employee benefit expenses consisting of personnel expense, employee benefits expense, management benefits expense and board of directors benefits expense amounted to THB 31,009 million, which was a decrease of THB 3,516 million or 10.2% from last year. The main reasons were no annual welfare payment for this year while THAI paid THB 4,301 million for annual welfare fee in 2010. Therefore, there was no execution of Golden Handshake Program and Mutual Separation Plan for year 2011. When compared to year 2010 where Golden Handshake Program and Mutual Separation Plan was implemented, THAI could save the amount of THB 2,263 million for compensation expenses this year. Without taking into consideration the annual

welfare fee and compensation expenses of Golden Handshake Program and Mutual Separation Plan, employee benefit expenses would be THB 3,048 million higher than last year because of

- the annual salary increment, an increase in salary for employees whose salary was less than THB 50,000 as per the Cabinet resolution,
- increase in overtime due to increased production,
- special incentive based on employees performance for the year 2010,
- pilot trainee expenses,
- increase in employee benefit due to applying of new guidelines announced under Thai Accounting Standard (TAS) 19 (Also see notes to the financial statement no.6.17) and
- provision for flood victim staff, totaled 6,000 staff, amount of THB 400 million

Flight service expenses amounted to THB 20,428 million was an increase of THB 1,364 million or 7.2% from last year. The increase was mainly from the increase in the total production. It should be noted that when compared to last year, THAI received special discount program from Airport of Thailand Pcl.(AOT) mainly to assist airlines and operators of AOT during March – December 2010 which made atypical low expenses.

Aircraft maintenance and overhaul costs amounted to THB 11,698 million, an increase of THB 2,023 million or 20.9% from last year, which were mainly from an increase in overhaul expense due to more scheduled overhaul in 2011 than last year and an increase in total traffic production.

Lease of aircraft and spare parts expenses totaled THB 5,430 million, an increase of THB 1,099 million or 25.4%, which was due to leases of three Boeing 777-300ER aircraft from JetAirways since May 2010 and additional two aircraft in July and November 2011, respectively, which made greater amount of expenses than last year. Also, the cost of renting space on cargo freight tonnage increased from the previous year.

Other expenses totaled THB 7,149 million, an increase of THB 1,093 million or 18.0%. Since 2010 THAI had reduced the estimated reserve for damages and fine from violating the Antitrust and Competition law that was put aside in the amount of THB 1,783 million. This year THAI reduced the reserve down, THB 1,042 million, which made the remaining reserve balance is THB 1,465 million (Also see notes to the financial statement no.6.16.7). In 2011, THAI also recorded flood disaster expense, THB 175 million, by using the net book value of assets that has been damaged by flooding(Also see notes to the financial statement no.6.35.1).

Loss on foreign currency exchange amounted to THB 2,428 million mostly due to the translation of the Company's outstanding EURO and Japanese Yens currency loans into Baht term at the end of the period when compared to last year, THAI had gain on foreign currency exchange amounted to THB 9,106 million.

Share of profit from investment in associated companies amounted to THB 184 million, a decrease of THB 74 million or 28.7% due to a decrease of recognizing the share of Nok Air Company Limited' profits.

### **Net income tax expenses**

THAI's net income tax expenses amounted to THB 2,245 million, which was a record of an impact to deferred tax assets and liabilities because of changes in corporate income tax from 30 percent to 23 percent in 2012 and 20 percent in 2013 onward.

### Net loss attributable to owners of the parent

THAI's net loss attributable to owners of the parent amounted to THB 10,197 million or -5.34% net profit margin when compared to last year where THAI gained profit, amount of THB 14,744 million or 8.16% net profit margin.

### 3. Financial Position

#### Assets

As of December 31, 2011, THAI's total assets were THB 274,445 million, a decrease of THB 22,113 million or 7.5% from as at December 31, 2010.

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	59,294	21.6	78,577	26.5
Property, plant and equipment				
Prepaid aircraft and Spare engines	21,279	7.8	17,983	6.1
Aircraft	46,104	16.8	48,588	16.4
Aircraft under finance leases	112,051	40.8	115,621	39.0
Aircraft spare parts	10,367	3.8	9,593	3.2
Work in process	2,838	1.0	311	0.1
Land, buildings and improvements	7,463	2.7	7,987	2.7
Other plant and equipment	4,893	1.8	6,035	2.0
<b>Property, plant and equipment-net</b>	<b>204,995</b>	<b>74.7</b>	<b>206,118</b>	<b>69.5</b>
Other non-current assets	10,156	3.7	11,863	4.0
<b>Total Assets</b>	<b>274,445</b>	<b>100.0</b>	<b>296,558</b>	<b>100.0</b>

Current assets were THB 59,294 million or accounted for 21.6% of total assets, a decrease of THB 19,283 million or 24.5% from as of December 31, 2010. The main reason was from cash and cash equivalents as of December 31, 2011 amounting to THB 16,666 which decreased by THB 21,014 million from as of December 31, 2010 since cash outflow, which consisted of repayment of long-term loans, debentures, interest, dividend payments, and payment of other assets acquisition along with aircraft and spare engines advance payment, exceeded cash earned from operating and financing activities- issuing of debentures and obtaining long-term loans.

Property, plant and equipment-net were THB 204,995 million or represented 74.7% of total assets, which decreased by THB 1,123 million or 0.5% from as of December 31, 2010 primarily resulting from

- Prepaid aircraft and spare engines increased THB 3,296 million due to advance payments for five Airbus A320-200 aircraft, five Airbus A330-300 aircraft, four Airbus A350-900 XWB aircraft, six Airbus A380-800 aircraft, six Boeing B777-300ER aircraft and spare engines and furnished equipment, expected to be delivered during 2012-2017.
- Aircraft and aircraft under finance lease decreased THB 6,054 million since the amount of aircraft depreciation was higher than the value of new seven Airbus A330-300 aircraft delivered during 2011.

- Work in progress increased by THB 2,527 million mainly due to the cost of product design and parts of eight Boeing B747-400s, eight Boeing B777-200s cabin reconfiguration program of which have been under construction, and two Boeing B747-400s which have been on the process of conversion to freighter aircraft expected to complete in 2012.

Other non-current assets were THB 10,156 million or represented 3.7% of total assets, which decreased by THB 1,707 million or 14.4% from as of December 31, 2010, primarily resulting from the reduction of deferred income tax assets under the decree: reduction of corporate income tax rate (Also see notes to the financial statement no.6.9 -6.10).

### Liabilities

The Company's total liabilities as of December 31, 2011 totaled THB 211,010 million, which was a decrease of THB 9,166 million or 4.2% from as of December 31, 2010. These comprise of:

	<u>December 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)	51,804	24.6	57,581	26.2
<b>Long-term loans</b>				
Debentures	27,797	13.2	29,335	13.3
Liabilities under financial leases	57,895	27.4	64,327	29.2
Long term loan from others	56,607	26.8	52,618	23.9
<b>Total long-term loans</b>	<b>142,299</b>	<b>67.4</b>	<b>146,280</b>	<b>66.4</b>
Employee benefit obligation	10,632	5.0	9,326	4.2
Other non-current liabilities	6,275	3.0	6,989	3.2
<b>Total liabilities</b>	<b>211,010</b>	<b>100.0</b>	<b>220,176</b>	<b>100.0</b>

Current liabilities (excluding current portion of long-term loans) totaled THB 51,804 million, representing 24.6% of total liabilities, which decreased from December 31, 2010 by THB 5,777 million or 10.0%. The main reason were the decrease of THB 4,939 million in accrued expenses and THB 1,044 million in unearned transportation revenue.

Long-term loans as of December 31, 2011 totaled THB 142,299 million (including current portion of long-term loans amounting to THB 18,872 million) or represented 67.4% of total liabilities, was a decrease of THB 3,981 million from December 31, 2010. In 2011, in addition to loan repayments, THAI made a loan prepayment totaling THB 6,308 million for which THB 1,500 million in long-term borrowings was acquired to prepay existing debt to extend maturity and lower interest burden. Furthermore, THAI issued a total of THB 10,000 million in new debentures to repay THB 11,538 million in debentures due.

Employee benefit obligation as of December 31, 2011 was THB 10,632 million or 5.0% of total liabilities. It increased by THB 1,306 million or 14.0% from December 31, 2010 due to recognition of employee benefit obligation for the year-end. (Also see notes to the financial statement no.6.17 for details)

Other non-current liabilities as of December 31, 2011 totaled THB 6,275 million or represented 3.0% of total liabilities, which was a decrease of THB 714 million or 10.2% from December 31, 2010. The decrease mainly came from a decrease in long-term provisions in the amount of THB 1,030 million, which was from the reduction in provision for damages and fines from the antitrust and competition charges. In addition, the staff pension fund increased in the amount of THB 190 million, deferred income tax liabilities increased in the amount of THB 56 million and other non-current liabilities increased in the amount of THB 71 million.

### **Shareholders' Equity**

As of December 31, 2011, THAI's shareholders' equity amounted to THB 63,435 million, a decrease of THB 12,947 million from December 31, 2010. The main reasons were from the negative results in 2011 and dividend payment for year 2010.

## **4. Liquidity**

Cash and cash equivalents as of December 31, 2011 amounted to THB 16,666 million, a decrease of THB 21,014 million or 55.8% from as of December 31, 2010.

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

<b>Unit : Million Baht</b>	<b>2011</b>	<b>2010</b>
Net cash from operating activities	9,167	28,268
Net cash used in investing activities	(11,030)	(8,872)
Net cash from (used) in financing activities	(19,238)	3,979
Effect from changing in exchange rate on cash and cash equivalents	87	5
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(21,014)</b>	<b>23,380</b>

### **Net cash from operating activities**

Net cash from operating activities for fiscal year end December 31, 2011 amounted to THB 9,167 million, decreasing THB 19,101 million was mainly from incurring operating loss with profit from operations before changes in assets and liabilities decreased by THB 13,906 million. Operating liabilities decreased by THB 12,316 million while operating assets decreased by THB 6,183 million and income tax decreased by THB 938 million year on year.

### **Net cash used in investing activities**

Net cash used in investing activities for year 2011 amounted to THB 11,030 million, which increased by THB 2,158 million. These primarily comprised of the use of cash in making advance payments on aircraft and engines. In addition, payment was also made for furnished equipment, rotatable spare parts procurement, the cost of designing products and parts for cabin reconfiguration program of Boeing B747-400 and Boeing B777-200 aircraft and the cost of aircraft conversion for two Boeing B747-400's into freighter aircraft.

### **Net cash from (used) in financing activities**

Net cash used in financing activities for year 2011 amounted to THB 19,238 million, increased THB 23,217 million from last year. Net cash used in financing activities for this year consisted of cash outflow including repayment of long-term loans and debentures in the amount of THB 29,463 million, interest payment totaling THB 5,770 million, dividend payment totaling

THB 2,805 million and cash inflow including new debentures issued and long-term loans totaling THB 18,800 million.

## 5. Capital Expenditures

THAI's capital expenditures before deduction of cash received from financial lease agreement for year 2011 totaled THB 16,338 million, which increased by THB 2,730 million or 20.1% from last year. Capital expenditures for year 2011 mainly consisted of payment for the acquisition of new aircraft in which delivery will be taken in 2012-2017 as well as payment for acquisition of rotatable aircraft spare part, cabin reconfiguration program, and aircraft conversion expenses of two Boeing B747-400s which will be operated as freighter aircraft totaling THB 15,638 million.

Unit : Million Baht	2011	2010
Aircraft and aircraft spare parts	15,638	13,235
Non-Aircraft	700	373
<b>Total</b>	<b>16,338</b>	<b>13,608</b>

## 6. Financial Ratios

	2011	2010
<b>Liquidity Ratio</b>		
Current Ratio <sup>1)</sup>	2.19	2.47
<b>Profitability Ratio</b>		
Operating Profit(Loss) Margin	(1.46)	4.34
Net Profit(Loss) Margin	(5.34)	8.16
Return on Equity	(14.59)	23.84
<b>Efficiency Ratio</b>		
Return on Total Assets	(3.57)	5.17
<b>Financial Policy Ratio</b>		
Interest Bearing Debt to Equity	2.24	1.92
Interest Coverage Ratio <sup>2)</sup>	3.04	5.43

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

2) Interest Coverage Ratio = EBITDA / Interest Expense

3) Financial ratios for year 2010 showed above was adjusted which caused by the adoption of new TAS used for comparison

Detail of significant accounting policies, privileges received under investment promotion, market risk and contractual obligations are in the note to the financial statements number 5, 6.26, 6.32 and 6.34, respectively.