

## Management Discussions and Analysis

### Financial performance summary of Asia Aviation Public Company Limited and subsidiary

Asia Aviation Public Company Limited (“the Company” or “AAV”) is a major shareholder of Thai AirAsia Company Limited who is an airline operator of Thai AirAsia, in which the Company currently holds 55%. Under TFRS 3: Business Combination, AAV had conducted full consolidation of its subsidiary, effective 4 May 2012. Consequently, AAV’s financial statements ended 30 June 2013 are on the fully consolidated basis as compared to the financial statements ended 30 June 2012 not on a fully consolidated basis for the entire three-month period. For the purpose of this management discussion and analysis, the Company will explain the effects resulting from the consolidation at AAV’s level but will not show the comparison analysis on a YoY basis as the basis of preparing the financial statements is not comparable. Nonetheless, it will further discuss the results of operations in details at Thai AirAsia level for analysis based on the same comparable basis.

Asia Aviation Plc.'s financial performance for 2Q13 has been summarized below:

Since 1 January 2013, the Company has applied Thai Accounting Standard 12, which dealt with accounting for current and deferred income taxes. As a result, AAV had retrospective adjustments in consolidated statement of comprehensive income for the quarter and the first-half ended 30 June 2012, having the income taxes expenses decreased by Baht 0.5 million in 2Q12 while increased by Baht 73.0 million in 1H12, which led the basic earnings per share to increase Baht 0.0008 in 2Q12 and to decrease Baht 0.0165 in 1H12. For more details, refer to Asia Aviation Plc.'s notes to interim financial information no. 4.1 and no. 12 for the six-month period ended 30 June 2013.

Since 1Q13, AAV had completed measuring the fair value of identifiable assets acquired and liabilities assumed of TAA according to TFRS 3 "Business combinations" that the acquirer (AAV) shall retrospectively adjust the provisional amounts recognized at the acquisition date (4 May 2012) within a year after such date to reflect additional information about facts and circumstances that existed as of the acquisition date. Thus, there are the effects on the adjustments to the AAV's consolidated statement of financial position as at 31 December 2012 and to the consolidated statement of comprehensive income for the period ended 30 June 2012 as disclosed in Asia Aviation Plc.'s notes to interim financial information no. 5 for the six-month period ended 30 June 2013.

#### Statement of comprehensive income

Asia Aviation Public Company Limited Unit: Baht million	For the quarter ended 30 June		
	Consolidated	Consolidated	Change
	2013	2012*	%
Revenues	5,359.8	3,572.2	+50%
Gross profit	727.5	141.0	+416%
Profit before finance costs and income tax <i>(excluding gain on fair value)</i>	673.1	134.7	+400%
Net profit / total comprehensive income for the period <i>(excluding gain on fair value)</i>	485.8	91.3	+432%
Profit attributable to:			
Owners of the parent <i>(excluding gain on fair value)</i>	264.6	120.6	+120%
Non-controlling interests	221.2	(29.2)	+857%

\* Consolidation from May 2012 onwards

Changing in accounting treatment from proportionate to full consolidation in 2Q12, AAV had gain on fair value of previously held equity interests of Baht 14,676.6 million; thus, the reported profits in the consolidated statement of comprehensive income for the quarter ended 30 June 2013 are as follows:

Asia Aviation Public Company Limited Unit: Baht million	For the quarter ended 30 June		
	Consolidated 2013	Consolidated 2012*	Change %
<u>Special item:</u>			
Gain on fair value of previously held equity interests	-	14,676.6	-100%
Profit before finance costs and income tax	673.1	14,811.3	-95%
Net profit / total comprehensive income for the period	485.8	14,767.9	-97%
Profit attributable to:			
Owners of the parent	264.6	14,797.2	-98%
Non-controlling interests	221.2	(29.2)	+857%

\* Consolidation from May 2012 onwards

Asia Aviation Plc. had revenues on a partially consolidated 2Q12 (full consolidation from May 2012 onwards) of Baht 3,572.2 million compared to Baht 5,359.8 million in 2Q13 based on the fully consolidation method. Net profit / total comprehensive income for the quarter amounted Baht 14,767.9 million; however, if excluding gain on fair value, net profit / total comprehensive income for 2Q12 amounted Baht 91.3 million against Baht 485.8 million in 2Q13. Profit attributable to owners of the parent amounted Baht 264.6 million increasing 120% from prior year (excluding gain on fair value), while non-controlling interests amounted Baht 221.2 million in 2Q13.

Asia Aviation Public Company Limited Unit: Baht million	For the first-half ended 30 June		
	Consolidated 2013	Consolidated 2012*	Change %
Revenues	11,388.7	6,054.9	+88%
Gross profit	2,015.6	568.1	+255%

Asia Aviation Public Company Limited Unit: Baht million	For the first-half ended 30 June		
	Consolidated 2013	Consolidated 2012*	Change %
Profit before finance costs and income tax (excluding gain on fair value)	1,621.1	454.2	+257%
Net profit / total comprehensive income for the period (excluding gain on fair value)	1,211.8	334.3	+262%
Profit attributable to:			
Owners of the parent (excluding gain on fair value)	661.9	363.5	+82%
Non-controlling interests	549.9	(29.2)	+1982%

\* Consolidation from May 2012 onwards

The gain on fair value of previously held equity interests that occurred in 2Q12 contributed AAV to have the reported profits in the consolidated statement of comprehensive income for the first-half ended 30 June 2013 as follows:

Asia Aviation Public Company Limited Unit: Baht million	For the first-half ended 30 June		
	Consolidated 2013	Consolidated 2012*	Change %
<u>Special item:</u>			
Gain on fair value of previously held equity interests	-	14,676.6	-100%
Profit before finance costs and income tax	1,621.1	15,130.9	-89%
Net profit / total comprehensive income for the period	1,211.8	15,010.9	-92%
Profit attributable to:			
Owners of the parent	661.9	15,040.2	-96%
Non-controlling interests	549.9	(29.2)	+1982%

\* Consolidation from May 2012 onwards

Asia Aviation Plc. had revenues on a partially consolidated 1H12 (from May 2012) of Baht 6,054.9 million compared to Baht 11,388.7 million in 1H13 based on the fully consolidation method. Net

profit / total comprehensive income for the first-half amounted Baht 15,010.9 million in 1H12 against Baht 1,211.8 million in 1H13. Profit attributable to owners of the parent in 1H13 amounted Baht 661.9 million increasing 82% from same period of prior year excluding the gain on fair value, while non-controlling interests amounted Baht 549.9 million.

#### Statement of financial position

Asia Aviation Public Company Limited	As at	As at
Unit: Baht million	30 June 2013	31 December 2012
	Consolidated	
Total assets	38,738.2	34,609.4
Total liabilities	12,771.4	9,891.6
Equity attributable to owners of the parent	18,958.0	18,259.1
Non-controlling interests	7,008.7	6,458.7
Total shareholders' equity	25,966.7	24,717.8

As at 30 June 2013, total assets amounted Baht 38,738.2 million, which mainly increased from aircraft, leasehold improvements, and equipment – net, given 2 aircraft deliveries in 1H13 (Jan. and Apr.) and from net book value of investments in private funds. Total liabilities as at the end of the first-half amounted Baht 12,771.4 million, which was mainly increased from finance lease liabilities on aircraft deliveries during the period and higher deferred revenues. Total shareholders' equity amounted Baht 25,966.7 million, increasing from retained earnings derived from profits during the period. Thus, equity attributable to owners of the parent amounted Baht 18,958.0 million and non-controlling interests amounted Baht 7,008.7 million as at the end of 1H13.

#### Statement of cash flows

Asia Aviation Public Company Limited	For the first-half ended 30 June	
Unit: Baht million	Consolidated	Consolidated
	2013	2012*
Net cash generated from operating activities	1,819.4	783.7
Net cash used in investing activities	(2,998.1)	(1,065.0)
Net cash generated from (used in) financing activities	(175.1)	2,375.7
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,353.8)</b>	<b>2,094.4</b>

\* Consolidation from May 2012 onwards

For the first-half ended 30 June 2013 under the fully consolidated basis, Asia Aviation Plc. had net cash generated from operating activities of Baht 1,819.4 million, being the operating cash flows before changes in operating assets and liabilities of Baht 1,620.6 million. The net cash used in investing activities was Baht 2,998.1 million while the net cash used in financing activities was Baht 175.1 million. As a result, Asia Aviation Plc. had net decrease in cash and cash equivalents of Baht 1,353.8 million, ending the balance for 1H13 of Baht 2,643.3 million.

Thai AirAsia's financial performance for 2Q13 has been summarized below:

Since 1 January 2013, Thai AirAsia had applied Thai Accounting Standard 12, which dealt with accounting for current and deferred income taxes. As a result, TAA had retrospective adjustments in statement of comprehensive income for the quarter and the first-half ended 30 June 2012, having the income taxes expenses increased by Baht 7.6 million and Baht 151.7 million respectively, which led to the decrease in basic earnings per share of Baht 0.18 for 2Q12 and of Baht 3.73 for 1H12. For more details, refer to Thai Asia's notes to interim financial information no. 4.1 and no. 10 for the six-month period ended 30 June 2013.

#### Statement of comprehensive income

Thai AirAsia Company Limited Unit: Baht million	For the quarter ended 30 June		
	2013	2012	Change %
Revenues	5,359.8	4,432.8	+21%
Gross profit	733.2	322.0	+128%
Profit before finance costs and income tax	685.9	294.3	+133%
Net profit / total comprehensive income for the period	498.7	238.2	+109%

In 2Q13, revenues increased 21% from Baht 4,432.8 million in 2Q12 to Baht 5,359.8 million, primarily attributable to increase of passenger revenues, based on more passengers carried from 1.9 million in 2Q12 to 2.4 million in 2Q13 or a 25% growth despite lower average fare from Baht 1,962 to Baht 1,877 when compared to the same period of last year. The load factor in this quarter grew from 79% in 2Q12 to 82% in this quarter. ASK in 2Q13 increased from 2,593 million in 2Q12 to 3,064 million, given the increase of 5 aircraft comparing year-on-year. Aircraft utilization was 11.5 hours per day. Ancillary revenues per passenger increased from Baht 311 in 2Q12 to Baht 335 in 2Q13.

Gross profit grew significantly at 128% from Baht 322.0 million in 2Q12 to Baht 733.2 million in 2Q13, having higher gross profit margin of 14%. The improvement was mainly due to the decelerating growth of fuel cost from lower jet fuel price as well as the decelerating growth of aircraft rental from Thai AirAsia entering into finance leases instead of operating leases, which currently has 4 aircraft under finance leases out of a fleet of 29 as at the end of this quarter, despite growing of other costs such as repair and maintenance costs and staff costs from larger fleet size.

Profit before finance costs and income tax importantly increased 133% from Baht 294.3 million in 2Q12 to Baht 685.9 million in 2Q13, having improved EBIT margin of 13% despite increases in brand license expenses. Profit before finance costs and income tax included the net gain on exchange rates of Baht 131.9 million in this quarter.

Net profit / total comprehensive income for the period had an essential growth of 109% from Baht 238.2 million in 2Q12 to Baht 498.7 million in 2Q13, having a 4-point improvement in net profit margin to 9% after including the income tax of Baht 151.1 million in 2Q13 and higher year-on-year finance costs from the interests of aircraft under finance leases.

Thai AirAsia Company Limited	For the first-half ended 30 June		
	2013	2012	Change %
Unit: Baht million			
Revenues	11,388.7	9,300.9	+22%
Gross profit	2,027.2	1,159.4	+75%
Profit before finance costs and income tax	1,647.5	921.9	+79%
Net profit / total comprehensive income for the period	1,237.7	715.7	+73%

Revenues in 1H13 increased 22% from Baht 9,300.9 million in 1H12 to Baht 11,388.7 million, primarily attributable to higher passenger revenues due to more passengers carried from 4.0 million in 1H12 to 5.0 million in 1H13 or a 23% growth, together with a slight growth in average fare to Baht 1,938 when compared to the same period of last year. The load factor in the first-half grew 1-point to 84% in this year. ASK in 1H13 increased 18% to 6,076 million, based on an incremental of 5 aircraft comparing year-on-year. Aircraft utilization was stable at 11.6 hours per day. Ancillary revenues per passenger increased from Baht 333 in 1H12 to Baht 346 in 1H13.

Gross profit grew considerably at 75% from Baht 1,159.4 million in 1H12 to Baht 2,027.2 million in 1H13, having a hefty gross profit margin of 18%. The improvement was mainly due to the decelerating growth of fuel cost from lower jet fuel price as well as the decelerating growth of aircraft rental from Thai AirAsia entering into finance leases instead of operating leases, despite the escalation of other costs such as repair and maintenance costs and staff costs from larger fleet size.

Profit before finance costs and income tax significantly increased 79% from Baht 921.9 million in 1H12 to Baht 1,647.5 million in 1H13, having higher EBIT margin of 14% despite increases in advertising and marketing expenses as well as brand license expenses. Profit before finance costs and income tax included the net gain on exchange rates of Baht 132.3 million in this period.

Net profit / total comprehensive income for the period had a strong growth of 73% from Baht 715.7 million in 1H12 to Baht 1,237.7 million in 1H13 with net profit margin of 11%, a 3-point improvement, after including the income tax of Baht 346.3 million in 1H13 and higher year-on-year finance costs from the interests of aircraft under finance leases.

#### Statement of financial position

Thai AirAsia Company Limited	As at	As at
Unit: Baht million	30 June 2013	31 December 2012
Total assets	14,893.9	10,780.7
Total liabilities	9,760.3	6,884.7
Total shareholders' equity	5,133.6	3,895.9

As at 30 June 2013, Thai AirAsia Co., Ltd. had an increase in total assets to Baht 14,893.9 million, primarily attributable to the increases in aircraft, leasehold improvements, and equipment – net, given 2 new deliveries in the first-half of this year (Jan. and Apr.) and in net book value of investments in private funds. Total liabilities as at 1H13 had increased from finance lease liabilities on new aircraft deliveries during the period and from deferred revenues. Having the 1H13 net profit of Baht 1,237.7 million contributed Thai AirAsia to have the increases in retained earnings and total shareholders' equity, respectively.

#### Statement of cash flows

Thai AirAsia Company Limited	For the first-half ended 30 June	
Unit: Baht million	2013	2012
Net cash generated from operating activities	1,817.3	1,486.3
Net cash used in investing activities	(2,998.1)	(2,267.3)
Net cash generated from (used in) financing activities	(175.1)	2,156.0
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,355.9)</b>	<b>1,374.9</b>

For the first-half ended 30 June 2013, Thai AirAsia Co., Ltd. had net cash generated from operating activities of Baht 1,817.3 million, being the operating cash flows before changes in operating assets and liabilities of Baht 1,627.5 million. The net cash increase from changes in operating assets

and liabilities were mainly from the increase in deferred revenues. The net cash used in investing activities of Baht 2,998.1 million was primarily on the investments in private fund and short-term investments and partially on payments for aircraft, leasehold improvements and equipment. The net cash used in financing activities of Baht 175.1 million was mainly from the repayments of finance lease and interest paid. As a result, Thai AirAsia Co., Ltd. had net decrease in cash and cash equivalents of Baht 1,355.9 million, ending the balance as at 30 June 2013 of Baht 2,636.2 million.