

## 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% in Thai AirAsia. Under TFRS 3: Business Combination, AAV had conducted full consolidation of its subsidiary, effective 4 May 2012. Consequently, AAV’s financial statements ended 30 September 2012 are on the fully consolidated basis as compared to the financial statements ended 30 September 2011 on the proportionate basis. 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 different and 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.

## Statements of comprehensive income

Three-month ended 30 September 2012 compared to three-month ended 30 September 2011

Unit: millions

Asia Aviation Public Company Limited	For THREE-MONTH ended 30 September		
	Consolidated	Proportionate consolidated	Change
	2012	2011	%
Revenues	4,426.4	1,894.2	+133.7%
Operating costs	(3,992.9)	(1,733.5)	+130.3%
Gross profit	433.5	160.6	+169.9%
Net gain on exchange rates	6.4	9.5	-31.8%
Other income	117.3	39.9	+193.9%
Profit before expenses	557.2	210.0	+165.3%
Selling expenses	(180.1)	(55.2)	+226.5%
Administrative expenses	(118.7)	(50.2)	+136.3%
Profit before finance costs and income tax	258.4	104.6	+147.0%
Finance costs	(0.1)	(9.0)	-98.4%
Income tax	(61.0)	-	+100.0%
<b>Net profit for the period</b>	<b>197.3</b>	<b>95.6</b>	<b>+106.4%</b>
Profit attributable to:			
Owners of the parent	107.7	95.6	
Non-controlling interests	89.6	-	
	197.3	95.6	

For 3Q12, revenue increased to Baht 4,426.4 million based on the fully consolidation method as compared to Baht 1,894.2 million under the 51% proportionate consolidation basis. Net profit for this quarter of Baht 197.3 million as compared to Baht 95.6 million in the same period of last year. From the fully consolidation basis, there was profit attributable to owners of the parent and non-controlling interests of Baht 107.7 million and Baht 89.6 million respectively.

Nine-month ended 30 September 2012 compared to nine-month ended 30 September 2011

Unit: millions Asia Aviation Public Company Limited	For NINE-MONTH ended 30 September		
	Consolidated	Proportionate consolidated	Change
	2012	2011	%
Revenues	10,481.3	5,890.7	+77.9%
Operating costs	(9,467.0)	(5,056.0)	+87.2%
Gross profit	1,014.3	834.6	+21.5%
Net gain on exchange rates	51.2	61.5	-16.7%
Gain on fair value of equity interests	14,690.0	-	+100.0%
Other income	266.5	172.8	+54.2%
Profit before expenses	16,022.0	1,068.9	+1398.9%
Selling expenses	(311.1)	(142.2)	+118.8%
Administrative expenses	(285.2)	(134.8)	+111.6%
Profit before finance costs and income tax	15,425.6	791.9	+1847.9%
Finance costs	(3.3)	(86.8)	-96.2%
Income tax	(109.3)	-	+100.0%
<b>Net profit for the period</b>	<b>15,313.0</b>	<b>705.1</b>	<b>+2071.8%</b>
Profit attributable to:			
Owners of the parent	15,240.7	705.1	
Non-controlling interests	72.3	-	
	15,313.0	705.1	

For 9M12, revenue increased to Baht 10,481.3 million as compared to Baht 5,890.7 million. As AAV realized the gain on the fair value of equity interest in 2Q12 of Baht 14,690.0 million under TFRS 3 : Business Combination, net profit in 9M12 resulted of Baht 15,313.0 million as compared to Baht 705.1 million in the same period of last year. From the fully consolidation basis, there was profit attributable to owners of the parent and non-controlling interests of Baht 15,240.7 million and Baht 72.3 million respectively. In relation to financial performance of the Company, please refer to analysis of Thai AirAsia in the next section.

Statements of financial position

Unit: millions

Asia Aviation Public Company Limited

	As at			
	Consolidated 30 Sep 2012		Proportionate consolidated 31 Dec 2011	
	Amount	%	Amount	%
Cash and cash equivalents	1,433.2	4.7%	694.4	31.2%
Cash at financial institutions pledged as security	176.1	0.6%	7.4	0.3%
Short-term investments	3,501.3	11.4%	4.7	0.2%
Trade and other receivables	294.5	1.0%	97.8	4.5%
Amounts due from related parties	250.2	0.8%	140.7	6.3%
Inventories	55.7	0.2%	26.1	1.2%
Other current assets	481.6	1.6%	479.9	21.6%
<b>Total current assets</b>	<b>6,192.6</b>	<b>20.1%</b>	<b>1,451.0</b>	<b>65.3%</b>
Cash at financial institutions pledged as security	7.8	0.0%	28.6	1.3%
General investment	8.8	0.0%	3.5	0.2%
Leasehold improvements and equipment, net	1,656.5	5.4%	154.5	6.9%
Intangible assets, net	14,868.5	48.3%	7.3	0.3%
Goodwill	7,415.1	24.1%	286.2	12.9%
Other non-current assets	665.5	2.2%	292.4	13.2%
<b>Total non-current assets</b>	<b>24,622.1</b>	<b>79.9%</b>	<b>772.5</b>	<b>34.7%</b>
<b>Total assets</b>	<b>30,814.8</b>	<b>100.0%</b>	<b>2,223.5</b>	<b>100%</b>
Trade and other accounts payable	239.5	0.8%	87.9	4.0%
Amounts due to related parties	407.2	1.3%	184.2	8.3%
Deferred revenues	3,198.6	10.4%	1,385.3	62.3%
Accrued expenses	363.0	1.2%	247.4	11.1%
Current portion of long-term borrowing from a financial institution	-	-	247.9	11.2%
Current portion of finance lease liabilities	68.4	0.2%	2.4	0.1%
Other current liabilities	15.8	0.1%	7.1	0.3%
<b>Total current liabilities</b>	<b>4,292.5</b>	<b>13.9%</b>	<b>2,162.2</b>	<b>97.3%</b>
Long-term borrowing from a financial institution	-	-	6.7	0.3%

Unit: millions

Asia Aviation Public Company Limited	As at			
	Consolidated 30 Sep 2012		Proportionate consolidated 31 Dec 2011	
	Amount	%	Amount	%
Finance lease liabilities	1,002.3	3.3%	4.7	0.2%
Employee benefit obligations	106.9	0.3%	42.2	1.9%
Total non-current liabilities	1,109.3	3.6%	53.6	2.4%
<b>Total liabilities</b>	<b>5,401.8</b>	<b>17.5%</b>	<b>2,215.8</b>	<b>99.7%</b>
Share capital	485.0	1.6%	410.0	18.4%
Premium on share capital	2,602.2	8.4%	-	-
Other component of equity	-	-	(15.5)	(0.7%)
Other reserves	(51.1)	(0.2%)	-	-
Retain earnings (deficits)	14,853.9	48.2%	(386.8)	(17.4%)
<b>Equity attributable to owners of the parent</b>	<b>17,889.9</b>	<b>58.1%</b>	<b>7.7</b>	<b>0.3%</b>
Non-controlling interests	7,523.1	24.4%	-	-
<b>Total shareholders' equity</b>	<b>25,413.0</b>	<b>82.5%</b>	<b>7.7</b>	<b>0.3%</b>

For the period, the Company prepared the statements of financial position under fully consolidation basis as at 30 September 2012 as compared to the proportionate consolidation as at 31 December 2012.

Total assets as at 30 September 2012 amounted Baht 30,814.8 million, comprising current assets Baht 6,192.6 million, which was increased from cash from the IPO proceeds and from aircraft acquisition, and non-current assets of Baht 24,622.1 million, which was mainly increased from intangible assets and goodwill as the result of the asset fair valuation under the fully consolidation basis.

Total liabilities as at 30 September 2012 amounted Baht 5,401.8 million, mainly attributable to deferred revenues and finance lease liabilities.

Total shareholders' equity as at 30 September 2012 amounted Baht 25,413.0 million, mainly increased from the premium of share capital and from the gain from fair value of equity interest under retained earnings. Additionally, non-controlling interest was recorded of Baht 7,523.1 million under the fully consolidation as at the end of the period.

Statements of cash flows

Unit: millions Asia Aviation Public Company Limited	For NINE-MONTH ended 30 September	
	Consolidated	Proportionate consolidated
	2012	2011
Cash flows from (used in) operating activities	970.7	63.9
Cash flows from (used in) investing activities	(2,620.3)	36.1
Cash flows from (used in) financing activities	2,353.3	254.6
<b>Net increase in cash and cash equivalents</b>	<b>703.7</b>	<b>354.6</b>

In the nine-month period ended 30 September 2012 under the fully consolidated basis, AAV had net cash generated from operating activities of Baht 970.7 million, being the operating cash flows before changes in operating assets and liabilities of Baht 752.6 million. The net cash flows used in investing activities were Baht 2,620.3 million while the net cash generated from financing activities were Baht 2,353.3 million. As a result, the Company had net increase in cash and cash equivalents of Baht 703.7 million, ending the balance for the period of Baht 1,433.2 million.

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

**Statements of comprehensive income**

*Three-month ended 30 September 2012 compared to three-month ended 30 September 2011*

Unit: millions Thai AirAsia Company Limited	For THREE-MONTH ended 30 September		
	2012	2011	Change %
Revenues	4,426.4	3,788.3	+16.8%
Operating costs	(3,992.9)	(3,467.1)	+15.2%
Gross profit	433.5	321.3	+34.9%
Net gain on exchange rates	6.4	18.9	-65.9%
Other income	117.3	79.8	+47.0%
Profit before expenses	557.2	420.0	+32.7%
Selling expenses	(180.1)	(110.3)	+63.3%
Administrative expenses	(116.9)	(98.0)	+19.3%
Profit before finance costs and income tax	260.2	211.7	+22.9%
Finance costs	(0.1)	(18.1)	-99.2%
Income tax	(61.0)	-	+100.0%
<b>Net profit for the period</b>	<b>199.1</b>	<b>193.6</b>	<b>+2.8%</b>

Revenues increased 16.8% from Baht 3,788.3 million in 3Q11 to Baht 4,426.4 million in 3Q12, primarily attributable to an increase in passenger revenues and recovery in ancillary revenues.

Passenger revenues increased 18.2% YoY as the number of passengers carried increased from 1.6 million in 3Q11 to 2.0 million in 3Q12. The increase in passengers carried was supported from the increase in capacity from 2.0 million to 2.4 million YoY as well as the load factor of 82% in 3Q12 as compared to 80% in the same period of prior year. With an incremental of four aircraft YoY, Thai AirAsia has higher number of flights with increased ASK in the third quarter from 2,269 million to 2,564 million YoY. The aircraft utilization has improved from 10.7 hours per day to 11.5 hours per day. The third quarter's traffic (RPK) has increased from 1,813 million to 2,079 million YoY. Average fare declined from Baht 1,929 to Baht 1,915 due to promotional fare to promote new destinations and stimulate the overall demand. During the period, Thai AirAsia flew more frequencies toward domestic routes, having shorter average stage length from 1,123 kilometers in 3Q11 to 1,067 kilometers in 3Q12.



Ancillary revenues increased by 6.4% in 3Q12 on YoY, from the baggage handling fees recovery after such fees readjustment at the end of 2Q12. As passengers growth outpaced the ancillary revenues growth, ancillary revenue per passenger was down from Baht 390 in 3Q11 to Baht 341 in 3Q12.

Operating costs in 3Q12 increased 15.2% YoY from Baht 3,467.1 million to Baht 3,992.9 million. The incremental was mainly from higher fuel costs by 14.3% YoY, primarily due to higher consumption from larger fleet and effects from runway closure for maintenance and bad weather condition in 3Q12 despite a decline in average market jet fuel price from US\$ 127.0 per barrel to US\$ 119.1 per barrel YoY. Aircraft rental and repair and maintenance costs increased by 13.5% and 26.0% YoY respectively along with the increase in fleet size and higher flying hours.

Gross profit increased 34.9% YoY in the third quarter from Baht 321.3 million to Baht 433.5 million, having gross profit margin of 9.8% in 3Q12.

Other income for the quarter increased 47.0% YoY from Baht 79.8 million to Baht 117.3 million, principally because of the increase from airport fees collected from passengers and from interest income on short term investments.

Selling expenses increased from Baht 110.3 million to Baht 180.1 million YoY in this quarter, mainly attributable to higher advertising and sales promotion in regards to relocation to Don Mueang and new routes promotion during the period.

Administrative expenses increased from Baht 98.0 million to Baht 116.9 million comparing this quarter YoY, principally on the account of higher back office's personnel costs and of IT costs.

Profit before finance costs and income tax improved from Baht 211.7 million in 3Q11 to Baht 260.2 million in 3Q12.

Finance costs considerably decreased from Baht 18.1 million to Baht 0.1 million, comparing this quarter YoY. The decline was mainly due to no interest expense payable to related parties and payable to financial institution in 3Q12.

Income tax in 3Q12 amounted Baht 61.0 million compared to zero income tax accrual in 3Q11 due to cumulative tax losses at that time.

Net profit for 3Q12 rose 2.8% YoY from Baht 193.6 million in 3Q11 to Baht 199.1 million; whilst, net profit margin came down from 5.1% to 4.5% in this quarter.



Nine-month ended 30 September 2012 compared to nine-month ended 30 September 2011

Unit: millions Thai AirAsia Company Limited	For NINE-MONTH ended 30 September		
	2012	2011	Change %
Revenues	13,727.3	11,781.3	+16.5%
Operating costs	(12,134.4)	(10,112.1)	+20.0%
Gross profit	1,592.9	1,669.3	-4.6%
Net gain on exchange rates	54.6	122.9	-55.6%
Other income	328.7	345.7	-4.9%
Profit before expenses	1,976.1	2,137.9	-7.6%
Selling expenses	(440.3)	(284.4)	+54.8%
Administrative expenses	(353.7)	(266.5)	+32.7%
Profit before finance costs and income tax	1,182.1	1,587.0	-25.5%
Finance costs	(6.3)	(173.7)	-96.4%
Income tax	(109.3)	-	+100%
<b>Net profit for the period</b>	<b>1,066.5</b>	<b>1,413.3</b>	<b>-24.5%</b>

Revenues increased 16.5% from Baht 11,781.3 million in 9M11 to Baht 13,727.3 million in 9M12, primarily attributable to an increase in passenger revenues and in ancillary revenues.

Passenger revenues increased 16.1% YoY as the number of passengers carried increased from 5.0 million in 9M11 to 6.0 million in 9M12. The increase in passengers carried was supported from the increase in capacity from 6.2 million to 7.3 million YoY as well as the load factor of 82% in 9M12 as compared to 81% in the same period of prior year. With an incremental of four aircraft YoY, Thai AirAsia has higher number of flights with increased ASK in the nine-month from 6,766 million to 7,697 million YoY. The aircraft utilization has improved from 11.3 hours per day to 11.6 hours per day. The nine-month's traffic (RPK) has increased from 5,494 million to 6,297 million YoY, while average fare was slightly increased from Baht 1,921 to Baht 1,926. For the period, Thai AirAsia flew more frequencies toward domestic routes, having shorter average stage length from 1,084 kilometers in 9M11 to 1,052 kilometers in 9M12. Bangkok – Chennai, Bangkok – Chongqing, Bangkok – Trang, and Bangkok – Nakhorn Phanom and Chiangmai-Macau are the new routes in 9M12 that are currently active; furthermore, Bangkok-Singapore, Bangkok-Chiangmai and Bangkok-Trang routes have additional frequency during the period.



Ancillary revenues rose by 4.2% in 9M12 YoY while the ancillary revenue per passenger was down from Baht 385 in 9M11 to Baht 336 in 9M12 given the effect from the reduction in unit price of baggage handling fees in the 1H12.

Operating costs in 9M12 increased 20.0% YoY from Baht 10,112.1 million to Baht 12,134.4 million. The incremental was mainly from higher fuel costs by 21.4% YoY, primarily due to higher consumption from larger fleet, effects from runway closure at BKK airport as well as higher average market jet fuel price from US\$ 123.7 per barrel in 9M11 to US\$ 125.8 per barrel in 9M12. Aircraft rental and repair and maintenance costs increased by 16.6% and 29.9% YoY respectively for the nine-month of the year along with the increase in fleet size and higher flying hours.

Gross profit decreased 4.6% YoY in the nine-month from Baht 1,669.3 million to Baht 1,592.9 million, having gross profit margin of 11.6% in 9M12.

Other income for the nine-month of the year decreased 4.9% YoY from Baht 345.7 million to Baht 328.7 million, principally because of the decrease in interest income from related parties despite the increase from airport fees collected from passengers.

Selling expenses increased from Baht 284.4 million to Baht 440.3 million YoY in this nine-month of the year, mainly attributable to more advertisement and marketing activities.

Administrative expenses increased from Baht 266.5 million to Baht 353.7 million comparing the nine-month YoY, mainly from the increases of back office's staff personnel costs and of professional fees.

Profit before finance costs and income tax declined from Baht 1,587.0 million in 9M11 and to Baht 1,182.1 million in 9M12.

Finance costs significantly decreased from Baht 173.7 million to Baht 6.3 million, comparing this nine-month YoY. The decline was mainly due to no interest expense payable to related parties in 9M12 and no interest payable to financial institution since 2Q12.

Income tax in 9M12 amounted Baht 109.3 million compared to zero income tax accrual in 9M11 due to cumulative tax losses at that time.

Net profit for 9M12 slowed from Baht 1,413.3 million in 9M11 to Baht 1,066.5 million down 24.5% YoY; therefore, net profit margin came down from 12.0% to 7.8% correspondingly.

Statements of financial position

Unit: millions

Thai AirAsia Company Limited

	As at			
	30 Sep 2012		31 Dec 2011	
	Amount	%	Amount	%
Cash and cash equivalents	1,400.8	16.4%	1,359.7	35.9%
Cash at financial institutions pledged as security	176.1	2.1%	14.5	0.4%
Short-term investments	3,501.3	40.9%	9.1	0.2%
Trade and other receivables	294.5	3.4%	191.8	5.1%
Amounts due from related parties	250.2	2.9%	276.0	7.3%
Inventories	55.7	0.7%	51.2	1.4%
Other current assets	531.3	6.2%	934.0	24.6%
<b>Total current assets</b>	<b>6,210.0</b>	<b>72.5%</b>	<b>2,836.4</b>	<b>74.8%</b>
Cash at financial institutions pledged as security	7.8	0.1%	56.0	1.5%
General investment	8.8	0.1%	6.9	0.2%
Leasehold improvements and equipment, net	1,656.5	19.3%	302.9	8.0%
Intangible assets, net	12.5	0.1%	14.3	0.4%
Other non-current assets	665.5	7.8%	573.4	15.1%
<b>Total non-current assets</b>	<b>2,351.0</b>	<b>27.5%</b>	<b>953.5</b>	<b>25.2%</b>
<b>Total assets</b>	<b>8,561.0</b>	<b>100.0%</b>	<b>3,789.8</b>	<b>100.0%</b>
Trade and other accounts payable	239.5	2.8%	172.3	4.5%
Amounts due to related parties	407.2	4.8%	361.1	9.5%
Deferred revenues	3,198.6	37.4%	2,716.4	71.7%
Accrued expenses	338.6	4.0%	476.1	12.6%
Current portion of long-term borrowing from a financial institution	-	-	486.0	12.8%
Current portion of finance lease liabilities	68.4	0.8%	4.8	0.1%
Other current liabilities	15.8	0.2%	14.0	0.4%
<b>Total current liabilities</b>	<b>4,268.1</b>	<b>49.9%</b>	<b>4,230.7</b>	<b>111.6%</b>
Long-term borrowing from a financial institution	-	-	13.2	0.3%
Finance lease liabilities	1,002.3	11.7%	9.3	0.2%
Employee benefit obligations	106.9	1.2%	82.8	2.2%
<b>Total non-current liabilities</b>	<b>1,109.3</b>	<b>13.0%</b>	<b>105.2</b>	<b>2.8%</b>

Unit: millions

Thai AirAsia Company Limited	As at			
	30 Sep 2012		31 Dec 2011	
	Amount	%	Amount	%
<b>Total liabilities</b>	<b>5,377.4</b>	<b>62.8%</b>	<b>4,335.8</b>	<b>114.4%</b>
Share capital	435.6	5.1%	400.0	10.6%
Premium on share capital	2,628.8	30.7%	1.2	0.0%
Retain earnings (deficits)	119.3	1.4%	(947.2)	(25.0%)
<b>Total shareholders' equity</b>	<b>3,183.6</b>	<b>37.2%</b>	<b>(546.0)</b>	<b>(14.4%)</b>

As of 30 September 2012, Thai AirAsia had total assets of Baht 8,561.0 million, being the current asset of Baht 6,210.0 million which was increased from cash and cash equivalent received from capital increase by AAV in 2Q12 and non-current asset of Baht 2,351.0 million which was increased from aircraft acquisition and spareparts. Total liabilities amounted Baht 5,377.4 million as at the end of the period with an incremental of finance lease liabilities in 3Q12. Shareholders' equity amounted Baht 3,183.6 million, given the share capital increase in 2Q12.

#### Statements of cash flows

Unit: millions	For NINE-MONTH ended	
	30 September	
Thai AirAsia Company Limited	2012	2011
Cash flows from (used in) operating activities	1,662.9	133.9
Cash flows from (used in) investing activities	(3,822.6)	72.1
Cash flows from (used in) financing activities	2,154.4	509.2
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5.3)</b>	<b>715.3</b>

In the nine-month period ended 30 September 2012, Thai AirAsia had net cash generated from operating activities of Baht 1,662.9 million, being the operating cash flows before changes in operating assets and liabilities of Baht 1,199.7 million. The net cash increase in operating assets and liabilities were mainly from the receipt of value added tax receivable of Baht 681.2 million from Thai Revenue Department and the increase in deferred revenues of Baht 482.2 million despite the half-year income tax paid. Thai AirAsia's net cash flows used in investing activities of Baht 3,822.6 million were primarily from the short term investment of Baht 3,492.2 million and from leasehold improvements and equipments of Baht 342.7 million. Thai AirAsia's net cash generated from financing activities of Baht 2,154.4 million

were mainly from the proceeds from issuance of ordinary shares of Baht 2,663.1 million despite the repayments of long term borrowing from financial institution of Bath 499.2 million. As a result, Thai AirAsia had net decrease in cash and cash equivalents of Baht 5.3 million, ending the balance for the period of Baht 1,400.8 million.