

**Management Discussions and Analysis for the three-month and six-month period ended
30 June 2013 and 2014****Economic and Industry Situation**

The world economy in the second quarter of 2014 (Q2/2014) are gradually recovering from the economic indicators in the United States and the Europe zone, which showed a positive sign to the export and tourism sectors. However, the political unrest in Iraq and Syria led to an increase in oil price, which fuel cost is the main cost of the aviation business. Nevertheless, the company has the hedging oil policy to mitigate the risk.

For Thai economy, the Office of National Economic and Social Development Board (NESDB) reported that Thai economy during the first quarter of 2014 contracted 2.1% from preceding quarter. The NESDB projects that growth rates this year should range between 1.5% and 2.5%. Meanwhile, Bank of Thailand reported that private consumption index of Q2/2014 increased by 0.1% from previous quarter.

For Thai aviation industry, it has been affected from political instability since the declaration of martial law and the coup, led to many countries issuing a travel advisory to visit Thailand. From the Airport of Thailand's air traffic data, it revealed that this quarter the number of international passengers decreased by 13% when compared to the same period last year, while the number of domestic passengers increased by 15% when compared to the same period last year. Nonetheless, the number of Low Cost Carrier's passenger both domestic and international increased by 23% from the same period last year.

In the second half year of 2014 (2H/2014), we expected the tourism and airline businesses tend to improve due to upcoming travel season as well as the schemes to stimulate the tourism sector such as waiving visa fee for Chinese and Taiwanese tourists for 3 months, announcing an extra holiday in August and offering travel insurance for foreign tourists in special price.

Financial performance summary of Asia Aviation Public Company Limited and subsidiary

Asia Aviation Public Company Limited (“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%.

Asia Aviation Public Company Limited’s financial performance for the three-month and the six-month period ended 30 June 2013 and 2014 has been summarised below:

Statements of Comprehensive income

Asia Aviation Public Company Limited Unit: Baht million	Consolidated		Change	Consolidated		Change
	For the three-month period ended 30 June			For the six-month period ended 30 June		
	2014	2013		2014	2013	
Revenues	5,460.9	5,359.8	+2%	11,920.8	11,388.7	+5%
Gross profit (loss)	(122.6)	727.5	(>-100%)	471.6	2,015.6	(-77%)
Profit(loss) before finance costs and income tax	(357.5)	673.1	(>-100%)	5.8	1,621.1	(-100%)
Net profit (loss)/ Total comprehensive income (expense) for the period	(321.4)	485.8	(>-100%)	(74.4)	1,211.8	(>-100%)
Net profit (loss)/ Total comprehensive income (expense) attributable to:						
Owners of the parent	(176.3)	264.6	(>-100%)	(37.3)	661.9	(>-100%)
Non-controlling interests	(145.1)	221.2	(>-100%)	(37.1)	549.9	(>-100%)
Earnings (loss) Per Share (Baht/Share)	(0.04)	0.05	(>-100%)	(0.01)	0.14	(>-100%)

In the second quarter of 2014 (Q2/2014) Asia Aviation Plc. had revenues of Baht 5,460.9 million, increased by Baht 101.1 million or 2%, compared to the same period last year. Meanwhile, Net loss/ Total comprehensive expense attributable to owners of the parent amounted to Baht 176.3 million and loss per share was amounted to 0.04 Baht/Share.

For the first half year of 2014 (1H/2014) Asia Aviation Plc. had revenues of Baht 11,920.8 million, increased by Baht 532.1 million or 5%, compared to the same period last year. Moreover, Profit before finance costs and income tax amounted to baht 5.8 million, decreased by Baht 1,615.3 million, compared to the same period last year. As result in 1H/2014, Net loss/ Total comprehensive expense attributable to owners of the parent amounted to Baht 37.3 million and loss per share was at 0.01 (Baht/Share).

Statements of financial position

Asia Aviation Public Company Limited Unit: Baht million	Consolidated		Change
	As at 31 June 2014	As at 31 December 2013	
Total assets	44,703.6	44,935.3	(-1%)
Total liabilities	18,102.8	18,260.0	(-1%)
Equity attributable to owners of the parent	19,308.5	19,345.9	(-0%)
Non-controlling interests	7,292.3	7,329.4	(-1%)
Total shareholders' equity	26,600.8	26,675.3	(-0%)

As of 30 June 2014, total assets amounted to Baht 44,703.6 million, decreased by Baht 231.7 million or 1% compared with the year ended 31 December 2013, mainly from short-term investments and investment in private funds decreased by Baht 715.7 million and Baht 972.4 million, respectively, despite an increase in the aircraft, leasehold improvements, and equipment – net by Baht 1,071.4 million from given 2 aircraft deliveries in 1H/2014. Hence, the current ratio was 1.04x.

As of 30 June 2014, total liabilities amounted to Baht 18,102.8 million, decreased by Baht 157.2 million or 1% compared with the year ended 31 December 2013, mainly due to deferred revenues, accrued expense and income tax payable decreased by Baht 477.6 million, Baht 196.5 million and Baht 150.5 million, respectively, despite an increase in finance lease liabilities by Baht 689.6 million.

As at 30 June 2014, total shareholders' equity amounted to Baht 26,600.8 million, decreased by Baht 74.4 million compared with the year ended 31 December 2013, due to retain earning decreased by Baht 37.3 million which derived from net loss in this period. Thus, as at 30 June 2014 the equity attributable to owners of the parent amounted to Baht 19,308.5 million and non-controlling interests amounted to Baht 7,292.3 million.

Statements of cash flows

Asia Aviation Public Company Limited Unit: Baht million	Consolidated For the six-month period ended 30 June	
	2014	2013
Net cash generated from (used in) operating activities	(901.1)	1,819.4
Net cash generated from (used in) investing activities	1,575.7	(2,998.1)
Net cash used in financing activities	<u>(421.8)</u>	<u>(175.1)</u>
Net increase (decrease) in cash and cash equivalents	252.8	(1,353.8)
Cash and cash equivalents at the beginning of the year	1,958.6	3,852.8
Exchange gain (loss) on cash and cash equivalents	<u>(13.3)</u>	<u>144.3</u>
Cash and cash equivalents at the end of the period	<u>2,198.2</u>	<u>2,643.3</u>

For the six-month period ended 30 June 2014, Asia Aviation Plc. had net cash used in operating activities amounted of Baht 901.1 million due to changes in operating assets and liabilities from a decrease in deferred revenue and accrued expenses. However, net cash generated from investing activities was Baht 1,575.7 million from the maturity of short-term investment and disposal of investment in private fund. Moreover, the net cash used in financing activities was Baht 421.8 million from repayment of finance lease and interest paid. As a result, Asia Aviation Plc. had net increase in cash and cash equivalents of Baht 252.8 million, while the cash and cash equivalent at the end of the period amounted to Baht 2,198.2 million.

Thai AirAsia's financial performance for the three-month period ended 31 March 2013 and 2014 has been summarized below:

Statements of comprehensive income

Thai AirAsia Company Limited Unit: Baht million	For the three-month period ended 30 June		Change	For the six-month period ended 30 June		Change
	2014	2013		2014	2013	
Revenues	5,460.9	5,359.8	+2%	11,920.8	11,388.7	+5%
Gross profit (loss)	(118.4)	733.2	(>-100%)	480.1	2,027.2	(>-100%)
Profit (loss) before finance cost and income tax expense	(352.8)	685.9	(>-100%)	12.7	1,647.5	(-99%)
Net Profit(loss)/ Total Comprehensive income (expense) for the period	(317.6)	498.7	(>-100%)	(73.0)	1,237.7	(>-100%)
Earnings Per Share (Baht)	(7.29)	11.45	(>-100%)	(1.67)	28.42	(>-100%)

In Q2/2014, revenues of Thai AirAsia amounted to Baht 5,460.9 million, slightly increased by 2% from Baht 5,359.8 million in Q2/2013, due to a plump in average fare at Baht 1,612 or decreased by 14% from Baht 1,877 in Q2/2013 and a decrease in the load factor by 4 percentage points to 78% in Q2/2014. Nevertheless, the number of passengers carried increased from 2.4 million in Q2/2013 to 2.8 million in Q2/2014 or 16% growth. Available Seat Kilometer (ASK) increased by 20% in Q2/2014 to 3,667 million, while Revenue Passenger Kilometers (RPK) in Q2/2014 increased by 12% to 2,855 million. The aircraft utilization in Q2/2014 amounted to 10.7 hours per day. Moreover, Ancillary revenue per passenger increased from Baht 335 in Q2/2013 to Baht 341 in Q2/2014, mainly from baggage handling fee and connecting fee (Fly-Thru).

In Q2/2014, gross loss of Thai AirAsia amounted to Baht 118.4 million or decreased by 116% compared with the same period last year, which had the gross profit amounting to Baht 733.2 million. It derived from an increase in fuel expense in relation to a rise in average fuel price in world market and a weakening of Thai Baht against the USD, despite a decrease in the fuel consumption per ASK. Additionally, the aircraft rental increased in relation to the additional aircraft and depreciation of Thai Baht, as well as, the escalation of other costs such as repair and maintenance costs and depreciation expense from larger fleet size.

Loss before finance costs and income tax amounted to Baht 352.8 million, decreased by Baht 1,038.7 million compared with the same period last year as an increase in advertising and marketing expenses as well as a decrease in gain on exchange.

Net loss/ total comprehensive income for the period amounted to Baht 317.6 million, decreased by Baht 816.3 million compared with the same period last year due to an increase in finance costs from the interests of aircraft under finance leases.

For 1H/2014, revenue of Thai AirAsia's amounted to Baht 11,920.8 million, increased by 5% from Baht 11,388.7 million in 1H/2013, primarily due to an increase in ancillary revenue per person from Baht 346 in 1H/2013 to Baht 356 in 1H/2014, together with more passengers carried from 5.0 million in 1H/2013 to 5.9 million in 1H/2014. However, the average fare in 1H/2014 amounted to Baht 1,665 decreased by 14% from Baht 1,938 in 1H/2013. The load factor decreased 5 percentage points to 79% in 1H/2014. ASK in 1H/2014 increased by 23% to 7,488 million, due to the additional 2 aircraft in this period, while RPK in 1H/2014 increased by 14% to 5,913 million. Besides, the number of stages flown was at 41,656 flown in 1H/2014, increasing from 32,812 flown in 1H/2013 as an addition in a new route and an increase in frequencies of existing routes. There was aircraft utilization was at 11.1 hours per day.

Net loss/ Total comprehensive expense amounted to Baht 73 million, decreased by 106% compared with 1H/2013. It was primarily from an increase in fuel expense in relation to the Baht's depreciation, despite a slightly decrease in the global fuel price. Moreover, aircraft rental and finance costs increased in relation to larger fleet size.

Thai AirAsia Company Limited	Q2/2014	Q2/2013	Change	1H/2014	1H/2013	Change
Passenger Carried (Million)	2.81	2.42	16%	5.92	4.99	19%
Capacity (Million seats)	3.61	2.94	23%	7.50	5.91	27%
Load Factor (%)	78	82	-4 ppts	79	84	-5 ppts
RPK (Million seats -km)	2,855	2,551	12%	5,913	5,165	14%
ASK (Million -km)	3,667	3,064	20%	7,488	6,076	23%
Average fare (Baht)	1,612	1,877	-14%	1,665	1,938	-14%

Statements of financial position

Thai AirAsia Company Limited Unit: Baht million	As at 31 June 2014	As at 31 December 2013	change
Total assets	20,888.5	21,107.9	(-1%)
Total liabilities	15,105.1	15,251.5	(-1%)
Total shareholders' equity	5,783.4	5,856.4	(-1%)

As at 30 June 2014, total assets amounted to Baht 20,888.5 million, decreased by Baht 219.4 or 1% compared with the year ended 31 December 2013, due to short-term investments and investment in private fund decreased Baht 715.7 million and Baht 972.4 million, respectively. Meanwhile the aircraft, leasehold improvements and equipment-net increased by Baht 1,083.1 million, given that 2 aircraft deliveries in 1H/2014.

As at 30 June 2014, total liabilities amounted to Baht 15,105.1 million, decreased by Baht 146.4 million or 1% compared with the year ended 31 December 2013, mainly from deferred revenues, accrued expense and income tax payable decreased by Baht 477.6 million, Baht 196.5 million and Baht 150.5 million, respectively. In the meanwhile finance lease liabilities decreased by Baht 689.6 million, from given that 2 aircraft deliveries in 1H/2014.

As at 30 June 2014, total shareholders' equity amounted to Baht 5,783.4 million, decreased by Baht 73.0 million or 1% compared with the year ended 31 December 2013, resulted from a decrease in retained earnings which derived from net loss during the period amounted to Baht 73.0 million.

Statements of cash flows

Thai AirAsia Company Limited Unit: Baht million	For the six-month period ended 30 June	
	2014	2013
Net cash generated from (used in) operating activities	(900.9)	1,817.3
Net cash generated from (used in) investing activities	1,575.7	(2,998.1)
Net cash used in financing activities	<u>(421.8)</u>	<u>(175.1)</u>
Net increase (decrease) in cash and cash equivalents	253.1	(1,355.9)
Cash and cash equivalents at the beginning of the year	1,956.6	3,847.8
Exchange gain (loss) on cash and cash equivalents	<u>(13.3)</u>	<u>144.3</u>
Cash and cash equivalents at the end of the period	<u>2,196.4</u>	<u>2,636.2</u>

For the six-month period ended 30 June 2014, Thai AirAsia had net cash used in operating activities of Baht 900.9 million due to changes in operating assets and liabilities primarily from a decrease in deferred revenue and accrued expenses. Whereas, net cash generated from investing activities was Baht 1,575.7 million as a result of the maturity of short-term investment and disposal of investment in private fund. Additionally, the net cash used in financing activities was Baht 421.8 million mainly from repayment of finance lease and interest paid. As a result, Thai AirAsia had net increase in cash and cash equivalents of Baht 253.1 million, ending the balance for the period of Baht 2,196.4 million.