

**Management's Discussion and Analysis for the First Quarter of Financial Year 2009 ending March 31, 2009 for Thai Airways International Public Company Limited and Its Subsidiary**

**1. Operating Result**

For the first quarter of fiscal year 2009 (January 1 - March 31, 2009), the decrease in number of outbound and inbound travelers to Thailand, resulting from the ongoing impact on political unrest in the country particularly in 4Q08 as well as the global economic downturn. Therefore, the Company reduced its flight frequencies and suspended the flight to Johannesburg in January 2009 to suit the market situation. Moreover, flight to New York had been suspended since July 2008. As a result, the Company's passenger production (Available Seat-Kilometer : ASK) decreased by 14.9% from last year. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) decreased by 20.3%. The average cabin factor was 76.4%, which is lower than that of 81.6% last year. The average load factor decreased to 65.3% compared with that of 72% last year. Passenger yield was 2.59 Baht/RPK, which is a decrease of 5.8% from last year. Freight yield was 8.77 Baht/RFTK, which is a decrease of 19.1% from last year. The main reason was from severe price competition.

Furthermore, the Company moved all of its domestic flights services from Don Mueang Airport to Suvarnabhumi Airport since March 29, 2009. The move enables the Company to develop its network as well as provide more convenient international and domestic flight connections for passengers.

The Company's total revenues amounted to THB 41,270 million which is a decrease of THB 14,581 million or 26.1% from 1Q08. The total operating revenue amounted to THB 40,683 million, which is a decrease of THB 14,162 million or 25.8% from the same period last year. The total expenses, excluding a gain on foreign currency exchange, totaled THB 36,365 million, which is a decrease of THB 14,144 million or 28%, mainly due to the reduction of 45.2% in average jet fuel price, a decrease in production and outcome from the ongoing cost control measures to cope with the impact of the crises last year. In addition, the Company gained on foreign currency exchange, arising from translation of the Company's outstanding loan into Baht terms at the end of period, amounting to THB 4,609 million whereas there was a loss of THB 663 million in last year. As a result, profit before tax was THB 8,064 million, which is an increase of THB 4,807 million or 147.6% from the same period last year. The net profit was THB 7,869 million or 4.63 baht per share, which is higher than a net profit of THB 2,216 million or 1.30 baht per share of the same period last year. EBITDA was THB 9,512 million.

**Operating results for the first quarter of fiscal year 2009 compared with the same period last year as follows:**

| Unit : million Baht             | <u>Jan-Mar</u> |        | <u>Increase(decrease)</u> |        |
|---------------------------------|----------------|--------|---------------------------|--------|
|                                 | 2009           | 2008   | MTHB                      | %      |
| Total revenues                  | 41,270         | 55,851 | (14,581)                  | (26.1) |
| Gain (Loss) on foreign exchange | 4,609          | (663)  | 5,272                     |        |
| Profit before income tax        | 8,064          | 3,257  | 4,807                     | 147.6  |
| Net profit                      | 7,869          | 2,216  | 5,653                     | 255.1  |
| Net profit per share (Baht)     | 4.63           | 1.30   | 3.33                      |        |
| EBITDA                          | 9,512          | 9,334  | 178                       | 1.9    |

## Revenues

For the first quarter of fiscal year 2009, the Company's total revenue was THB 41,270 million, which is a decrease of THB 14,581 million or 26.1% from 1Q08. The summaries are as follows:

**Total operating revenue** totaled THB 40,683 million, which is a decrease of THB 14,162 million or 25.8% over the same period last year. Comprising of:

**Revenue from transportation activities** was THB 38,557 million, which is a decrease of THB 13,894 million or 26.5% from 1Q08. Resulting from:

- Passenger and excess baggage revenue amounted to THB 34,665 million, which is a decrease of THB 10,975 million or 24% from 1Q08. The main reasons are number of passengers and passenger yield were lower than last year.

- Freight and mail revenue amounted to THB 3,892 million, which is a decrease of THB 2,919 million or 42.9% from 1Q08, due to the decrease in number of freight and mail as well as dramatically decrease in freight yield from last year.

**Revenue from other activities** mostly comprised of revenue from business units; Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services, revenue from maintenance & overhaul services provided to Nok Airlines Company Ltd. and revenue from Thai-Amadeus Southeast Asia Company Limited, amounting to THB 2,126 million, which is THB 268 million or 11.2% lower than 1Q08.

**Interest income** amounted to THB 74 million, which is THB 129 million or 63.5% lower than last year, resulting from a decrease in cash and cash equivalent.

**Other income** amounted to THB 513 million, which is THB 290 million or 36.1% lower than previous year due to the gain on sales of engines and spare part, totalling THB 220 million which is lower than last year gain on sales of 2 Airbus A300-600 in the amount of THB 370 million. And also revenue from passenger airport tax, which has not been billed to the Company over 3 year is lower than 1Q08.

## Expenses

For the first quarter of fiscal year 2009, the Company's total expenses amounted to THB 31,756 million, which is THB 19,416 million or 37.9% lower than the same period last year. However, the total expenses, excluding a gain on foreign currency exchange, amounted to THB 36,365 million which is THB 14,144 million or 28% lower than last year.

Significant changes of operating expense included:

- Fuel cost of THB 10,936 million, including fuel hedging compensation in amount of THB 1,300 million, a decrease of THB 8,627 million or 44.1% from 1Q08. The main reasons were the decrease in average jet fuel price of 45.2% as well as fuel consumption from production reduction.

- Personnel expense amounted to THB 6,757 million, which is a decrease of THB 987 million or 12.7% from 1Q08. The decrease was as a result of the Mutual Separation Plan in last year and the decrease in overtime payment.

- Flight service expenses amounted to THB 4,192 million, a decrease of THB 963 million or 18.7% from 1Q08, which mainly caused by the decrease in number of flights and passengers.

- Aircraft maintenance and Overhaul costs amounted to THB 1,746 million, a decrease of THB 1,564 million or 47.3% from last year, which was mainly the result of acquiring the Total Care Agreement for Rolls Royce Trent 500 and Trent 800 engines.

- Cockpit and cabin crew expenses amounted to THB 1,320 million, a decrease of THB 451 million or 25.5% from last year, which was mainly due to the decrease in number of flights and the reduction of cockpit and cabin crew's overnight stays, according to an ongoing cost control measures to cope with the impact of the crises last year.

- Lease of aircraft and spare parts expense was THB 415 million, which is a decrease of THB 757 million or a 64.6% mainly due to the decrease of 5 operating lease aircraft, the reduction in a lease rate of aircraft from extending the lease contract of 3 aircraft and the cancellation of cargo block space.

- Sales and advertising expenses amounted to THB 1,400 million, a decrease of THB 418 million or 23% from 1Q08. The decrease caused by the lower sale expenses, according to sale reduction.

Other Operating expenses decreased from 1Q08, which was mainly due to an ongoing cost control measures to cope with the impact of the crises last year.

**Gain on foreign currency exchange** amounted to THB 4,609 million, which was mostly due to the translation of the Company's outstanding EURO and JPY currency loans into Baht term at the end of the period.

**Finance cost** was THB 1,449 million, which is an increase of THB 71 million or 5.2% mainly due to the increase in outstanding loans.

## 2. Financial Position of Thai Airways International Public Co., Ltd. and Its Subsidiary

**Assets** As at 1Q09 (March 31, 2009), the Company's total assets were THB 260,351 million, an increase of THB 817 million or 0.3% from as at December 31, 2008. The current and non-current assets accounted for 16.4% and 83.6% of total assets, respectively consisting of:

|                                   | <u>March 31, 2009</u> |                   | <u>December 31, 2008</u> |                   |
|-----------------------------------|-----------------------|-------------------|--------------------------|-------------------|
|                                   | MTHB                  | % of total assets | MTHB                     | % of total assets |
| Current assets                    | 42,773                | 16.4              | 42,118                   | 16.2              |
| Property, plant and equipment-net | 207,400               | 79.7              | 207,064                  | 79.8              |
| Other non-current assets          | 10,178                | 3.9               | 10,352                   | 4.0               |

Current assets increased by THB 655 million or 1.6% due to an increase in cash and cash equivalent. Property, plant and equipment-net increased by THB 336 million or 0.2%, which was mainly due to advance payment in Airbus A380-800 and A330-300 and engines as well as repurchasing 1 Boeing 777-200 operating lease aircraft. Other current assets decreased by THB 174 million or 1.7%, which was mainly due to the decrease in deferred income taxes.

**Liabilities** The Company's total liabilities as at 1Q09 (March 31, 2009) totaled THB 206,582 million, which is a decrease of THB 7,070 million or 3.3% from as at December 31, 2008. These comprise of:

|  | <u>March 31, 2009</u> |                        | <u>December 31, 2008</u> |                        |
|--|-----------------------|------------------------|--------------------------|------------------------|
|  | MTHB                  | % of total liabilities | MTHB                     | % of total liabilities |
| Current liabilities (excluding current portion of long-term loans) | 71,217                | 34.5                   | 79,307                   | 37.1                   |
| Long-term debt   | 126,672               | 61.3                   | 125,693                  | 58.8                   |
| Other non-current liabilities                                      | 8,693                 | 4.2                    | 8,652                    | 4.1                    |

Current liabilities (excluding current portion of long-term loans) decreased from December 31, 2008 by THB 8,090 million or 10.2% mainly due to a decrease in unearned transportation revenues and accrued expenses.

Long-term debt as at March 31, 2009 were THB 126,672 million, including current portion of long-term loans of THB 19,457 million, which is an increase by THB 979 million or 0.8% from as at December 31, 2008. The increase resulted from the increase in debentures, amounting to THB 4,790 million, and increase in long-term loans, amounting to THB 2,256 million while liabilities under financial leases and promissory note decreased THB 5,842 million and THB 225 million, respectively.

Other non-current liabilities, comprising of staff pension fund and long-term provisions was as nearly amount as last year.

### **Shareholders' Equity**

As at 1Q09, the Company's shareholders' equity amounted to THB 53,769 million, an increase of THB 7,887 million or 17.2% from December 31, 2008 due to the net profit from operation.

Interest Bearing Debt to Equity Ratio as at March 31, 2009 was 2.77 times, which was lower than the 3.21 times as of December 31, 2008

### **Liquidity**

Cash and cash equivalents as at March 31, 2009 amounted to THB 10,028 million, an increase of THB 2,534 million from the beginning of the period (January 1, 2009). Net cash from and used in each activities are as follows:

- Net cash from operating activities amounted to THB 3,150 million.
- Net cash used in investing activities amounted to THB 4,816 million mainly due to advance payment in Airbus A380-800 and A330-300 and engines as well as repurchasing 1 Boeing 777-200 operating lease aircraft.
- Net cash from financing activities amounted to THB 4,301 million, comprising of cash received from debenture in the amount of THB 4,790 million and from net short-term loan in the amount of THB 915 million. However, there is net repayment of long term in the amount of THB 280 million and promissory note repayment as well as interest payment in the amount of THB 225 million and THB 899 million, respectively.

The Company prepared the immediate Business Turnaround Plan to determine the plan for resolving the problems related to the Company's business operation and financial liquidity for the year 2009. The plan focuses on revenue enhancement, cost optimization as well as monitoring the financial liquidity. The plan will be used as a guideline for business operation and improvements during 2010-2011 in order to ensure sustainable and quality growth of the Company in both business and financial status which will be prepared in the next phase.

Such plan has been approved in the principal by the Company's Board of Directors on February 27, 2009 and thoroughly assessed by the Turnaround Steering Committee, which has been appointed by the Company's Board of Directors. The plan was submitted to the Ministry of Transport and Ministry of Finance on April 1, 2009.

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