

## **Management's Discussion and Analysis for the First Quarter of Financial Year 2010 ending March 31, 2010 for Thai Airways International Public Company Limited and Its Subsidiary**

### **1. Operating Result**

There has been stronger demand for air travel and freighter shipment in the first quarter of 2010 with the onset of the global economic recovery since the fourth quarter of 2009, which has led to the increase in passenger and freight traffic over the same period last year. Despite domestic political protest since March 12, 2010, passenger numbers have not been adversely affected this quarter. The Company still observed its winter traffic program flight schedule which has been in effect since October 25, 2009. However, the Company has adjusted its domestic route since March 1, 2010, in cooperation with Nok Air under the Two-Brand Strategy in order to strengthen their competitive edge and service on the Bangkok-Phitsanulok v.v., Chiang Mai-Mae Hong Son v.v. and Bangkok-Ubon Ratchatani v.v. routes are operated by Nok Air while the Company maintains daily flight on the Bangkok-Ubon Ratchatani v.v. route. Freight traffic has been on the recovery in line with the global economic recovery resulted in the increase in exports from Thailand and the Asia Pacific region to Europe. To meet the market demand, the Company has block spaced Boeing 747-300 freighter from Southern Air for period January-March 2010 in order to enhance capacity and test demand before the commencing schedule flight operation with two Boeing 777-200LR at the end of March 2010.

For the first quarter, the Company's passenger production (Available Seat-Kilometers : ASK) increased by 11% over the same quarter last year. The Company's passenger traffic (Revenue Passenger-Kilometers : RPK) increased by 17.7%. The average cabin factor was 81%, which is higher than that of 76.4% last year. Freight production (Available Dead Load Ton-Kilometers : ADTK) increased by 16.2% from last year. Freight traffic (Revenue Freight Ton-Kilometers : RFTK) increased by 54.4% from last year. The average freight load factor was 59.6%, which is higher than that of 44.9% last year. Passenger yield was 2.64 Baht/RPK, which is an increase of 1.9% from last year. Freight yield was 9.27 Baht/RFTK, which is an increase of 5.7% from last year.

For the first quarter, the Company's total revenues amounted to THB 49,806 million in which is an increase of THB 8,536 million or 20.7% over 1Q09. The total operating revenue amounted to THB 48,914 million, which was an increase of THB 8,231 million or 20.2% from the same period last year. Total expenses, including share of losses from investments by equity method and finance cost, totaled THB 38,498 million, which was an increase of THB 5,292 million or 15.9%, mainly due to increased production and 41% increase in average jet fuel price. As a result, profit before tax was THB 11,308 million, which was an increase of THB 3,244 million or 40.2% from the same period last year. Net profit was THB 10,724 million or 6.31 baht per share, which was higher than the net profit of THB 7,869 million or 4.63 baht per share earned in the same period last year. EBITDA was THB 11,469 million.

The Company has changed its accounting policy for recording fixed assets by increasing a value of fixed assets per unit from THB 3,000 to THB 20,000 and up which become effective from January 1, 2010 onwards. As a result, the Company's expenses increased in this period amount of THB 4 million as compared with the previous accounting policy.

Operating results for the first quarter of fiscal year 2010 compared with the same period last year is as follows:

<b>Unit : million Baht</b>	<b>Jan-Mar</b>		<b>Increase(decrease)</b>	
	<b>2010</b>	<b>2009</b>	<b>MTHB</b>	<b>%</b>
Total revenues	49,806	41,270	8,536	20.7
Total costs *	38,498	33,206	5,292	15.9
Gain on foreign currency exchange	5,698	4,609	1,089	23.6
Profit before income tax	11,308	8,064	3,244	40.2
Net profit	10,724	7,869	2,855	36.3
Net profit per share (Baht)	6.31	4.63	1.68	36.3
EBITDA	11,469	9,512	1,957	20.6

\* Including share of losses of investments by the equity method and finance cost

## Revenues

For the first quarter of fiscal year 2010, the Company's total revenue was THB 49,806 million, which is an increase of THB 8,536 million or 20.7% from 1Q09. The breakdown is as follows:

**Total operating revenue** totaled THB 48,914 million, which is an increase of THB 8,231 million or 20.2% over the same period last year. Comprising of:

**Revenue from transportation activities** was THB 46,885 million, which is an increase of THB 8,328 million or 21.6% over 1Q09. Resulting from:

- Passenger and excess baggage revenues amounted to THB 40,631 million, which was an increase of THB 5,966 million or 17.2% from 1Q09. The main reasons are as follows:
  - Passenger traffic increased 17.7% from last year, resulting with increase in production and the global economic recovery, in which increased travel demand.
  - Passenger yield (including fuel and insurance surcharge) was 1.9% higher than last year.
- Freight and mail revenues amounted to THB 6,254 million, which was an increase of THB 2,362 million or 60.7% from 1Q09 due to the
  - Increase in freight and mail traffic by 54.4% over last year, resulting from the global economic recovery, increasing export and import demand. Moreover, the Company has provided block space freighter service, which helps to boost the efficient operation in cargo space.
  - Freight yield (including fuel and cargo war risk surcharge) was 5.7% higher than 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 as well as revenue from Thai-Amadeus Southeast Asia Company Limited, amounting to THB 2,029 million, which is THB 97 million or 4.6% lower than 1Q09. The decrease was mainly due to the reduction of revenue from other customer not customer airlines.

**Interest income** amounted to THB 31 million, which is THB 43 million or 58.1% lower than last year because of lower average deposit rates.

**Other income** amounted to THB 861 million, which was THB 348 million or 67.8% higher than the previous year. The main reasons were:

- Compensation revenue from the delayed delivery of six Airbus A380-800s amounted to THB 353 million.
- Revenue from passenger airport fees, which has not been billed to the Company over 3 year, was THB 205 million higher than last year.
- Gain on sale of assets decreased THB 225 million from last year due to sales of assets for this quarter was only THB 1 million.

## **Expenses**

For the first quarter of fiscal year 2010, the Company's total expenses amounted to THB 38,498 million, which was THB 5,292 million or 15.9% higher than the same period last year.

Significant changes of operating expense included:

- Fuel cost amounted to THB 14,292 million, which was an increase of THB 3,356 million or 30.7% from 1Q09. The main reasons were the increase in average jet fuel price of 41% as well as fuel consumption of 12.8% from the production expansion.
- Personnel expense amounted to THB 7,422 million, which is an increase of THB 665 million or 9.8% from 1Q09. The increase was as a result of the annual salary increment and the vacation compensation payment.
- Flight service expenses amounted to THB 4,988 million, an increase of THB 796 million or 19% from 1Q09, which mainly caused by the increase in number of flights and passengers.
- Aircraft maintenance and overhaul costs amounted to THB 2,749 million, an increase of THB 1,003 million or 57.4% from last year, which was mainly from more engines due for overhaul than last year. As a result, the cost of maintenance and overhaul was higher by approximately THB 440 million than last year. The balance was the credit received from the Total Care Agreement for Rolls Royce Trent 500 last year.
- Inventories and supplies amounted to THB 2,381 million, an increase of THB 338 million or 16.5% from the same period last year due to the increase in meal cost for passengers with a higher number of passengers and also the increase in expenses for in-flight product development.

**Gain on foreign currency exchange** amounted to THB 5,698 million, which was mostly due to the translation of the Company's outstanding EURO currency loans into Baht term at the end of the period.

**Finance cost** was THB 1,345 million, which was a decrease of THB 104 million or 7.2%. The main reasons were that most of interest rates were floating rate, which declined from last year. Along with the appreciation of the Baht resulted in the interest expenses paid in foreign currency was lower after converted to Thai Baht.

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

**Assets** As at end of 1Q10 (March 31, 2010), the Company's total assets were THB 278,063 million, an increase of THB 6,369 million or 2.3% from as at December 31, 2009. The current and non-current assets accounted for 19.2% and 80.8% of total assets, respectively consisting of:

	March 31, 2010		December 31, 2009	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	53,464	19.2	47,288	17.4
Property, plant and equipment-net	213,581	76.8	213,505	78.6
Other non-current assets	11,018	4.0	10,901	4.0

Current assets increased by THB 6,176 million or 13.1% due to an increase in cash and cash equivalent. Property, plant and equipment-net increased by THB 76 million. In this quarter the Company's liabilities under financial leases increased from the delivery of two Airbus A330-300 on March 29, 2010, in which is pending entering the fleet awaiting installation of economy class seats. Other non-current assets increased by THB 117 million or 1.1%, which was mainly due to the increase in loan guarantee premiums, in which recorded as deferred charge, resulting from those aircraft delivery.

**Liabilities** The Company's total liabilities as at end of 1Q10 (March 31, 2010) totaled THB 214,075 million, which was a decrease of THB 4,375 million or 2% from as at December 31, 2009. These comprise of:

	March 31, 2010		December 31, 2009	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	54,688	25.5	54,961	25.2
Long-term loans	150,648	70.4	154,900	70.9
Other non-current liabilities	8,739	4.1	8,589	3.9

Current liabilities (excluding current portion of long-term loans) decreased from December 31, 2009 by THB 273 million or 0.5% due to a decrease in unearned transportation revenues and deferred income.

Long-term loans as at March 31, 2010 totaled THB 150,648 million, including current portion of long-term loans of THB 37,481 million, which is a decrease by THB 4,252 million or 2.7% from December 31, 2009. The reason was the decrease of liabilities under financial leases in the amount of THB 3,269 million, long-term loans in the amount of THB 758 million and promissory note in the amount of THB 225 million.

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

### Shareholders' Equity

As at end of 1Q10, the Company's shareholders' equity amounted to THB 63,988 million, an increase of THB 10,744 million or 20.2% from December 31, 2009 due to the net profit from operation.

Interest Bearing Debt to Equity Ratio as at March 31, 2010 was 2.35 times, which was lower than the 2.93 times as of December 31, 2009.

### Liquidity

Cash and cash equivalents as at March 31, 2010 amounted to THB 18,412 million, an increase of THB 4,112 million from the beginning of the period (January 1, 2010). Net cash from and used in each activities are as follows:

- Net cash from operating activities amounted to THB 10,118 million.
- Net cash used in investing activities amounted to THB 904 million mainly due to advance payment in Airbus A380-800.
- Net cash used in financing activities amounted to THB 4,856 million, comprising of net repayment of long term in the amount of THB 2,051 million, short-term loans repayment in the amount of THB 1,116 million, promissory note repayment in the amount of THB 225 million as well as cash paid for loan interest in the amount of THB 1,464 million.

### Financial Ratios

		<b>Jan-Mar 2010</b>	<b>2009</b>
Operating Profit Margin	(%)	12.78	10.91
Net Profit Margin	(%)	21.92	19.34
Return on Total Assets	(%)	3.90	3.03
Return on Equity	(%)	18.30	15.79
Interest Bearing Debt to Equity	(times)	2.35	2.77
Debt Service Coverage Ratio (DSCR) <sup>1)</sup>	(times)	2.04	2.00
Interest Coverage Ratio <sup>2)</sup>	(times)	8.53	6.56

Note :1) Debt Service Coverage Ratio = EBITDAR/(Long-term loan Repayment+Interest Expense+Lease of Aircraft and Spare Parts)

2) Interest Coverage Ratio = EBITDA/Interest Expense

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