

## **Management's Discussion and Analysis for the Second Quarter of Financial Year 2010 ending June 30, 2010 for Thai Airways International Public Company Limited and Its Subsidiary**

### **1. Operating Result**

The second quarter of fiscal year 2010 (April 1 - June 30, 2010) was the Company's seasonal slow period along with the impact of volcano eruption in Iceland caused the Company to cancel flights from/to many cities in Europe during Apr 15 - 22, 2010 causing reduced of passengers traveling. Further adversely affecting the number of outbound and inbound travelers to Thailand was the domestic political protest. However, freight shipment was less affected due to the global economic recovery resulting in the increase in exports and import demand.

The Company leased three Boeing777-300ER aircraft from Jet Airways for a three-year term where they were put into service beginning June 2010 on high demand primary routes such as Bangkok – Paris and Bangkok – Tokyo as well as on other routes in Asia. The Company also re-launched its 4 weekly direct flights Bangkok - Johannesburg since June 2, 2010 to extend its worldwide network and to increase passenger convenience and also to focus on revenue generation from freight traffic on this route.

For the second quarter of fiscal year 2010, the Company's passenger production (Available Seat-Kilometers : ASK) increased by 2.6% over the same quarter last year. The Company's passenger traffic (Revenue Passenger-Kilometers : RPK) increased by 0.1%. The average cabin factor was 64.6%, which is lower than that of 66.2% last year. Freight production (Available Dead Load Ton-Kilometers : ADTK) increased by 16.6% from last year. Freight traffic (Revenue Freight Ton-Kilometers : RFTK) increased by 55.8% from last year. The average freight load factor was 64.8%, which is higher than that of 48.5% last year. Passenger yield was 2.52 Baht/RPK, which is an increase of 6.3% from last year. Freight yield was 9.63 Baht/RFTK, which is an increase of 11.7% from last year.

For the second quarter, the Company's total revenue amounted to THB 39,634 million, which was an increase of THB 5,005 million or 14.5% over 2Q09. Total operating revenue amounted to THB 38,759 million, which was an increase of THB 4,397 million or 12.8% from the same period last year. Total expense, excluding gain (loss) on foreign currency exchange but including share of losses from investments by equity method and finance cost, totaled THB 41,913 million, which was an increase of THB 3,812 million or 10%, mainly due to 46.6% increase in average jet fuel price. There was also a gain on foreign currency exchange of THB 4,391 million in 2Q10 as compared to a loss of THB 1,822 million last year.

The Company's profit before tax was THB 2,112 million, compared to a loss of THB 5,294 million incurred in the same period last year. Net profit was THB 1,552 million or 0.91 baht per share, which compared to the net loss of THB 5,403 million or 3.18 baht per share incurred in the same period last year. EBITDA was THB 3,186 million.

The Company has changed its accounting policy for recording fixed assets by increasing the value of fixed assets from THB 3,000 to THB 20,000 and above per item effective from January 1, 2010 onwards. As a result, the Company's expenses for the period increased THB 7.4 million as compared to expenses booked in accordance the previous accounting policy.

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

Unit : million Baht	<u>Apr-Jun</u>		<u>Increase(decrease)</u>	
	2010	2009	MTHB	%
Total revenues	39,634	34,629	5,005	14.5
Total costs *	41,913	38,101	3,812	10.0
Gain (Loss) on foreign currency exchange	4,391	(1,822)	6,213	341.0
Profit (Loss) before income tax	2,112	(5,294)	7,406	139.9
Net profit (loss)	1,552	(5,403)	6,955	128.7
Net profit (loss) per share (Baht)	0.91	(3.18)	4.09	128.6
EBITDA	3,186	2,965	221	7.5

\* Excluding gain (loss) on foreign currency exchange but including share of gain of investments by the equity method and finance cost

## Revenues

For the second quarter of fiscal year 2010, the Company's total revenue was THB 39,634 million, which was an increase of THB 5,005 million or 14.5% from 2Q09. The breakdown is as follows:

**Total operating revenue** totaled THB 38,759 million, which was an increase of THB 4,397 million or 12.8% over the same period last year. Comprising of:

**Revenue from transportation activities** was THB 37,058 million, which was an increase of THB 4,601 million or 14.2% over 2Q09. Resulting from:

- Passenger and excess baggage revenues amounted to THB 29,879 million, which was an increase of THB 1,617 million or 5.7% from 2Q09. The main reasons are as follows:

- Passenger yield (including fuel and insurance surcharge) was 6.3% higher than last year.
- Passenger traffic increased by 0.1%

- Freight and mail revenues amounted to THB 7,179 million, which was an increase of THB 2,984 million or 71.1% from 2Q09 due to the

- Increase in freight and mail traffic by 55.8% over last year, resulting from the global economic recovery, increasing export and import demand. Moreover, the Company has provided block space freighter service, which helped boost operational efficiency in managing cargo space.
- Freight yield (including fuel and cargo war risk surcharge) was 11.7% 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 1,701 million, which is THB 204 million or 10.7% lower than 2Q09. The decrease was mainly due to the reduction of customer airlines' flight frequencies and number of their passenger. Moreover, aircraft and engines maintenance and overhaul revenue of Technical Services was lower than last year.

**Interest income** amounted to THB 33 million, which is THB 8 million or 19.5% lower than last year.

**Other income** amounted to THB 842 million, which was THB 616 million or 272.6% higher than the previous year. The main reasons were:

- Compensation revenue from the delayed delivery of six Airbus A380-800s amounted to THB 367 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.

## **Expenses**

For the second quarter of fiscal year 2010, the Company's total expenses, excluding gain (loss) on foreign currency exchange but including share of gain of investments by the equity method and finance cost, amounted to THB 41,913 million, which was THB 3,812 million or 10.0% higher than the same period last year. Significant changes of operating expense included:

- Fuel cost amounted to THB 13,801 million, which was an increase of THB 4,201 million or 43.8% from 2Q09. The main reasons were the increase in average jet fuel price of 46.6% as well as fuel consumption of 4.6% from the production expansion.

- Personnel expense amounted to THB 7,411 million, which is an increase of THB 574 million or 8.4% from 2Q09. The increase was as a result of the annual salary increment, the compensation payment for cabin crew who joined Golden Handshake Schemes, and the reserve for the increase in compensation payment for retirement staff of year 2009 and 2010. The increase reserve was according to the Cabinet Resolution to increase the compensation payment for retirement staff with over 15 years of employment from 8 to 10 months, effective from September 2009.

- Flight service expenses amounted to THB 4,520 million, an increase of THB 254 million or 6% from 2Q09, which was mainly resulting from the increase in freight shipment flight service expenses.

- Aircraft maintenance and overhaul costs amounted to THB 2,034 million, a decrease of THB 1,258 million or 38.2% from last year, which was mainly from less aircraft and engines due for overhaul than last year.

- Lease of aircraft and flight equipment expenses amounted to THB 1,011 million, an increase of THB 716 million or 242.7%, which was due to the Company had leased two Boeing 777-200LRF aircraft since March 2010 for freight service and three Boeing 777-300ER aircraft since end of May 2010 for passenger service.

**Gain on foreign currency exchange** amounted to THB 4,391 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, whereas the Company incurred loss of THB 1,822 million last year.

**Finance cost** was THB 1,263 million, which was a decrease of THB 160 million or 11.2%. 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.

**The operating results for the first half of fiscal year 2010 (January 1 - June 30, 2010),** the Company's net profit totalled THB 12,276 million or THB 7.23 per share, which was higher than the net profit of THB 2,465 million or THB 1.45 per share last year. The crucial reasons were the global economic recovery since the end of 2009, which has led stronger demand for air travel and freighter shipment in 2010. Despite the impact of the domestic political protest and eruption of volcano in 2Q10, the Company's revenue was higher than the first half - year of fiscal year 2009. Furthermore, the Company gained on foreign currency exchange in the amount of THB 10,090 million, which was THB 7,302 million higher than last year. EBITDA was THB 14,671 million, which was THB 2,166 million than last year.

**Operating results for the first half of fiscal year 2010 (January 1 - June 30, 2010) compared to the same period last year** as follows:

Unit : million Baht	<u>Jan-Jun</u>		<u>Increase(decrease)</u>	
	2010	2009	MTHB	%
Total revenues	89,440	75,899	13,541	17.8
Total costs *	86,110	75,917	10,193	13.4
Gain (Loss) on foreign currency exchange	10,090	2,788	7,302	261.9
Profit (Loss) before income tax	13,420	2,770	10,650	384.5
Net profit (loss)	12,276	2,465	9,811	398.0
Net profit (loss) per share (Baht)	7.23	1.45	5.78	398.6
EBITDA	14,671	12,505	2,166	17.3

\* Excluding gain (loss) on foreign currency exchange but including share of gain of investments by the equity method and finance cost

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

**Assets** As at end of 2Q10 (June 30, 2010), the Company's total assets were THB 264,189 million, a decrease of THB 7,505 million or 2.8% from as at December 31, 2009. The current and non-current assets accounted for 16.6% and 83.4% of total assets, respectively consisting of:

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	43,936	16.6	47,288	17.4
Property, plant and equipment-net	209,458	79.3	213,505	78.6
Other non-current assets	10,795	4.1	10,901	4.0

Current assets increased by THB 3,352 million or 7.1% mainly due to a decrease in cash and cash equivalent. Property, plant and equipment-net decreased by THB 4,047 million from as at December 31, 2009, resulting from depreciation. Other non-current assets decreased by THB 106 million or 1%.

**Liabilities** The Company's total liabilities as at end of 2Q10 (June 30, 2010) totaled THB 199,123 million, which was a decrease of THB 19,327 million or 8.8% from as at December 31, 2009. These comprise of:

	<u>June 30, 2010</u>		<u>December 31, 2009</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	50,924	25.6	54,961	25.2
Long-term loans	139,443	70.0	154,900	70.9
Other non-current liabilities	8,756	4.4	8,589	3.9

Current liabilities (excluding current portion of long-term loans) decreased from December 31, 2009 by THB 4,037 million or 7.3% due to a decrease in unearned transportation revenues and deferred income.

Long-term loans as at June 30, 2010 totaled THB 139,443 million, including current portion of long-term loans of THB 27,555 million, which is a decrease by THB 15,457 million or 10% from December 31, 2009. The reason was the decrease of liabilities under financial leases in the amount of THB 10,203 million, debentures in the amount of THB 3,455 million long-term loans in the amount of THB 1,274 million and promissory notes in the amount of THB 525 million.

Other non-current liabilities, comprising of staff pension fund and long-term provisions increased by THB 167 million or 1.9%.

### **Shareholders' Equity**

As at end of 2Q10, the Company's shareholders' equity amounted to THB 65,066 million, an increase of THB 11,822 million or 22.2% from December 31, 2009 due to the net profit from operation.

Interest Bearing Debt to Equity Ratio as at June 30, 2010 was 2.14 times, which was lower than the 2.93 times as of December 31, 2009.

### **Liquidity**

Cash and cash equivalents as at June 30, 2010 amounted to THB 9,858 million, a decrease of THB 4,442 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 11,252 million.
- Net cash used in investing activities amounted to THB 1,585 million mainly from aircraft rotatable spare parts.
- Net cash used in financing activities amounted to THB 14,187 million, comprising of net repayment of long term loans in the amount of THB 5,478 million, debenture repayment in the amount of THB 3,455 million, short-term loans repayment in the amount of THB 1,116 million, promissory notes repayment in the amount of THB 525 million, cash paid for loan interest in the amount of THB 3,133 million, dividend payment for the Company's shareholders in the amount of THB 423 million as well as dividend payment for minority interest of the Company's subsidiary in the amount of THB 57 million.

## Financial Ratios

		Jan-Jun	
		2010	2009
Operating Profit Margin	(%)	4.95	3.01
Net Profit Margin	(%)	14.00	3.28
Return on Total Assets	(%)	4.58	0.95
Return on Equity	(%)	20.75	5.23
Interest Bearing Debt to Equity	(times)	2.14	3.19
Debt Service Coverage Ratio (DSCR) <sup>1)</sup>	(times)	1.00	1.34
Interest Coverage Ratio <sup>2)</sup>	(times)	5.63	4.35
Book value	(Baht)	38.30	28.45

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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