

## Management's Discussion and Analysis for the Year Ending December 31, 2009 for Thai Airways International Public Company Limited and Its Subsidiary

### 1. Operating Results

With the onset of the various crises during 2009 bearing affect on the Company's operations and financial performance in 2008, the Company enacted an immediate Business Turnaround Plan to mitigate the impact through adjustment of its operations and ensuring sufficient liquidity for the year 2009. The plan focused on revenue enhancement, cost optimization, rationalizing investments as well as managing liquidity. The Company adhered to its turnaround plan and made necessary adjustments along the way to meet the challenges during 2009. As a result, the Company was able to return to profitability and was able to acquire funding that was in line with its capital needs to restructure its debts and increase liquidity in accordance with the turnaround plan.

During the fiscal year 2009 (January 1- December 31, 2009), the Company faced ongoing global economic recession since 2008, the outbreaks of influenza A (H1N1) affected global air travel demand which in turn affected the global commercial airline industry in the second quarter, the domestic political unrest in the country at the end of year 2008 and as well as a riot during the Song Kran Festival, April 2009. The above factors bore negative impact on the Company's operating results for the first nine-months of 2009. Reduction of flight frequency on regional and intercontinental routes was made in response to declining demand for air travel and the changing operating environment. However, with the Norwegian market having strong potential for travelers coming to the Kingdom, the Company launched its direct flights from Bangkok to Oslo, Norway. With the expected global economic recovery beginning to take foothold in the fourth quarter and thus recovering air travel demand, including higher demand during high season, the Company gradually increased its flight frequency as planned which coincided with the increase in number of passengers. Moreover, by also focusing on revenue enhancement and particularly cost optimization as per the Business Turnaround Plan, the Company's 2009 financial performance had returned to profitability. Summary of fiscal year 2009 financial performance are as follows:

	2009	2008	%Change	
Total revenues	163,875	202,606	-	19.1%
Total expenses	155,768	226,206	-	31.1%
Gains (Losses) on foreign currency exchange	3,167	(4,471)	+	170.8%
Profits (Losses) before income tax expenses	8,107	(23,600)	+	134.4%
Net profits (losses)	7,344	(21,379)	+	134.4%
Net profits (losses) per share (Baht)	4.32	(12.58)	+	134.3%
EBITDA	30,297	13,619	+	122.5%

The Company's total operating revenue amounted to THB 163,875 million, which was a decrease of THB 38,731 million or 19.1% from the same period last year. The main reasons for the decrease were the tough pricing environment caused by the decline in air traffic demand and lower fuel surcharge rates reflecting the lower fuel price. Total expense of THB 155,768 million is a decrease of THB 70,438 million or 31.1% from the same period last year in which impairment loss for Airbus A340-500 aircraft and reserves against applicable charges for Antitrust and Competition cases were included. The reduction of total expense was mainly due to the decrease in average jet fuel price, the decline in production and traffic, savings derived from cost reduction as per the Business Turnaround Plan and the ongoing cost control measures implemented since last year. In addition, the Company recorded gains on foreign currency exchange whereas the Company incurred a loss last year.

As a result, net profit was THB 7,344 million or 4.32 baht per share, compared to a net loss of THB 21,379 million or 12.58 baht per share over the same period last year. EBITDA was THB 30,297 million, which is THB 16,678 million higher than last year.

### Production and Traffic

		2009	2008	% Change
Production	(MATK)	10,499	10,938	- 4.0%
Traffic	(MRTK)	6,908	7,458	- 7.4%
Load Factor	(%)	65.8	68.2	- 2.4
Passenger Production	(MASK)	72,031	75,391	- 4.5%
Passenger Traffic	(MRPK)	52,593	56,377	- 6.7%
Cabin Factor	(%)	73.0	74.8	- 1.8
Freight Production	(MADTK)	4,016	4,152	- 3.3%
Freight Traffic	(MRFTK)	2,092	2,292	- 8.7%
Freight Load Factor	(%)	52.1	55.2	- 3.1
No. of Passenger	(million persons)	18.48	18.71	- 1.2%
Flight Hours	(hours)	326,008	342,175	- 4.7%
Average of Aircraft Utilization	(hour/aircraft/day)	11.2	11.7	- 4.3%

As the Company faced many difficulties which caused demand for air travel and air freight traffic to decline, the Company adjusted its flight frequencies to better reflect demand. For the fiscal year 2009, the Company's total production (Available Ton - Kilometer : ATK) decreased by 4% from the same period last year. Total traffic (Revenue Ton - Kilometer : RTK) decreased by 7.4%. Average load factor decreased from 68.2% last year to 65.8%, passenger production (Available Seat - Kilometer : ASK) decreased by 4.5% and passenger traffic (Revenue Passenger - Kilometer : RPK) decreased 6.7% while cabin factor was 73.0%, slightly lower than 74.8% over the same period last year.

For fiscal year 2009, the Company took delivery of 3 Airbus A330-300 aircraft in the months of April, May and July to serve its regional routes as replacement for aircraft to be phased out while another 3 Airbus A330-300 aircraft that took delivery at the end of December is pending entering the fleet awaiting installation of economy class seats which have been delayed by the seat manufacturer for their inability to produce the safety standard certificate for formal authorization by the respective governing body. Compensation is being sought from the seat manufacturer while the Company is running parallel the alternative to seek another supplier to provide the aircraft seat in the event that the current manufacturer fails to deliver.

## Revenue

Total revenues for the year 2009 was THB 163,875 million, a decrease of THB 38,731 million or 19.1% from the same period last year. Details are as follows:

Units: million baht	2009	2008	% Change
Revenue from Transportation Activities			
- Passenger and Excess Baggage	134,479	164,319	- 18.2%
- Freight and Mail	19,348	26,754	- 27.7%
Total Revenue from Transportation Activities	153,827	191,073	- 19.5%
Revenue from Other Activities	7,776	9,045	- 14.0%
Total Operating Revenue	161,603	200,118	- 19.2%
Interest Income	178	493	- 63.9%
Other Incomes	2,094	1,995	+ 5.0%
<b>Total Revenues</b>	<b>163,875</b>	<b>202,606</b>	<b>- 19.1%</b>

**Total operating revenue** was THB 161,603 million, a decrease of THB 38,515 million or 19.2% from the same period last year. Details are as follows:

**Revenue from transportation activities** amounted to THB 153,827 million, a decrease of THB 37,246 million or 19.5% from the same period last year. Resulting from:

- Passenger and excess baggage revenue including fuel and insurance surcharge collected from passengers totaled THB 134,479 million, a decrease of THB 29,840 million or 18.2% from :
  - Passenger yield having decreased 10.1% from last year from the tough pricing environment. As a result, the Company adjusted marketing strategies to stimulate sales and maintain its market share.
  - Fuel surcharge revenue decreased in the amount of THB 9,449 million from last year due to the decrease in fuel price, which brought down the amount of fuel surcharge.
  - Passenger traffic decreased from last year, reflecting lower global air travel demand.
- Freight and mail revenues amounted to THB 19,348 million, which is a decrease of THB 7,406 million or 27.7% from last year due to
  - Freight yield decreased 12.3% from last year due to price competition.
  - Fuel surcharge revenue decreased by THB 3,504 million from last year due to the decrease of fuel price causing fuel surcharge rates to drop.
  - Economic recession pushed down exports and imports decreasing freight and mail volume.

The Company's yield excluding fuel and insurance surcharge are as follows:

		2009	2008	% Change
System-wide	(Baht/RTK)	17.99	19.90	- 9.6%
Passenger	(Baht/RPK)	2.05	2.28	- 10.1%
Freight	(Baht/RFTK)	7.13	8.13	- 12.3%

**Revenue from other activities** mostly comprised of revenue from business units, such as Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services, and revenue from Thai-Amadeus Southeast Asia Company Limited, totaled THB 7,776 million, which was a decrease of THB 1,269 million or 14% from last year. The decrease was mainly due to the decreased number of inbound and outbound travelers to and from Thailand and also the reduction of customer airlines' flight frequencies.

**Interest income** amounted to THB 178 million, which was THB 315 million or 63.9% lower than last year resulting from the decrease in deposit rate.

**Other income** amounted to THB 2,094 million, which was THB 99 million or 5.0% higher than the previous year. The main reasons were :

- Compensation revenue from the delayed delivery of six Airbus A380-800s amounted to THB 738 million.
- Revenue from passenger airport fees, which has not been billed to the Company over 3 year, was THB 413 million lower than last year.
- Gain on sale of assets decreased THB 141 million from last year.

## Expense

Total expense amounted to THB 155,768 million, which was THB 70,438 million or 31.1% lower than the same period last year. A summary of operating expenses is as follows:

Units: million baht	2009	2008	% Change
Fuel and oil	47,015	89,460	- 47.4%
Personnel	26,191	30,534	- 14.2%
Remuneration for Board of Directors	61	94	- 35.1%
Flight service expenses	17,692	19,939	- 11.3%
Cockpit and cabin crew expenses	5,243	6,542	- 19.9%
Aircraft maintenance and overhaul costs	10,321	10,848	- 4.9%
Depreciation and amortization	21,023	20,281	+ 3.7%
Lease of aircraft and spare parts	1,532	3,651	- 58.0%
Inventories and supplies	8,496	8,827	- 3.7%
Sales and advertising cost	6,221	6,932	- 10.2%
Insurance	760	751	+ 1.2%
Damages arising from Antitrust/Competition Law	-	4,290	- 100.0%
Impairment of assets	529	4,750	- 88.9%
Other expenses	8,104	9,285	- 12.7%
Loss (gains) on foreign currency exchange	(3,167)	4,471	- 170.8%
Finance costs	5,738	5,486	+ 4.6%
Share of loss (profit) from investments by the equity method	9	65	- 86.2%
<b>Total Expenses</b>	<b>155,768</b>	<b>226,206</b>	<b>- 31.1%</b>

Significant changes in year 2009 expenses include:

**Fuel and oil expense** amounted to THB 47,015 million, including compensation from fuel hedging of THB 1,286 million, was THB 42,445 million or 47.4% lower than last year. The main reasons were:

- A decrease in average jet fuel price by 44.4% from last year
- A 5.7% decrease in fuel consumption from reduced production

**Personnel expenses** amounted to THB 26,191 million, which was a decrease of THB 4,343 million or 14.2% from last year. The main reasons were:

- The expense from Mutual Separation Plan implemented the previous year amounted to THB 1,300 million. This plan also have an impact on the decrease of the year 2009 personnel expenses.
- Cost reduction achieved under the Business Turnaround Plan by managing and controlling overtime work, which enabled the decrease in overtime payment.

**Flight service expenses** amounted to THB 17,692 million was a decrease of THB 2,247 million or 11.3% from last year. The reduction was mainly the result of the decrease in production and better terms negotiated on services sourced by the Company both domestically and internationally as part of the cost control measures undertaken in the Business Turnaround Plan.

**Cockpit and cabin crew expenses** amounted to THB 5,243 million, a decrease of THB 1,299 million or 19.9% from last year. This was mainly due to the decrease in production and cost savings achieved under the Business Turnaround Plan, such as the reduction of cockpit and cabin crew's layover period.

**Lease of aircraft and spare parts expenses** were THB 1,532 million, a decrease of THB 2,119 million or 58% mainly due to the decrease in number of operating lease aircraft and decrease in lease rates for operating leased aircraft better terms and conditions obtained from negotiating the extension of aircraft lease.

**Impairment losses of assets** were THB 529 million, which is a decrease of THB 4,221 million or 88.9% from last year. The Company recorded impairment loss of rotatable aircraft spare parts and engines totalled THB 529 million in year 2009 while the Company recorded impairment loss of 4 Airbus A340-500 in year 2008 for which their appraisal value were lower than the net book value in the amount of THB 4,426 million.

**Other expenses** amounted to THB 8,104 million, which was a decrease of THB 1,181 million or 12.7% from last year mainly due to the other operating expenses, such as office rental and utilities cost, transportation expenses as well as concession fees decreased from last year.

**Gain on foreign currency exchange** amounted to THB 3,167 million was mostly due to the stronger Thai baht against core currencies at the end of the period, resulting in foreign currency exchange gain from converting outstanding foreign currency loan to Baht terms.

**Finance costs** were THB 5,738 million, which was an increase of THB 252 million or 4.6% mainly due to the increase in outstanding loans over last year.

**Share of loss from investment by equity method** was THB 9 million is THB 56 million lower than last year. The Company recognized share of profit from Bangkok Aviation Fuel Services Public Company Limited and Phuket Air Catering Company Limited, amounting to THB 103 million. However, the Company recognized loss from Royal Orchid Hotel (Thailand) Public Company Limited, Donmuang Internation Airport Hotel Company Limited and Suvarnabhumi Airport Hotel Company Limited, amounting to THB 112 million.

## 2. Financial Position

### Assets

As at December 31, 2009, the Company's total assets were THB 271,694 million, an increase of THB 12,159 million or 4.7% from as at December 31, 2008. The current and non-current assets accounted for 17.4% and 82.6% of total assets, respectively consisting of :

	December 31, 2009		December 31, 2008	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	47,288	17.4	42,122	16.2
Property, plant and equipment-net	213,505	78.6	207,064	79.8
Other non-current assets	10,901	4.0	10,349	4.0

Current assets increased by THB 5,166 million or 12.3% mainly due to an increase in cash and cash equivalents in the amount of THB 6,854 million.

Property, plant and equipment-net increased by THB 6,441 million or 3.1%, which was mainly due to the Company taking delivery of new 6 Airbus A330-300 and exercised purchasing option on 1 Boeing 777-200 aircraft.

### Liabilities

The Company's total liabilities as at December 31, 2009 totaled THB 218,450 million, which was an increase of THB 4,797 million or 2.2% from as at December 31, 2008. These comprise of:

	December 31, 2009		December 31, 2008	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	54,961	25.2	79,307	37.1
Long-term loans	154,900	70.9	125,693	58.8
Other non-current liabilities	8,589	3.9	8,653	4.1

Current liability (excluding current portion of long-term loans) decreased from December 31, 2008 by THB 24,346 million or 30.7% as follows:

- The Company restructured its debts by acquiring long-term loans to repay short-term loans. Therefore, short-term loans decreased by THB 20,372 million.
- Unearned transportation revenue, mostly from ticket sales revenue for which The Company received payment but transportation service has not been rendered decreased by THB 5,313 million. The main reason was a decrease in ticket purchased caused by the various crises.
- Accrued expenses decreased by THB 2,128 million.

Long-term loans as at December 31, 2009, including current portion of long-term loans, totaled THB 154,900 million which was an increase of THB 29,207 million or 23.2% over December 31, 2008. The increase was mainly from debt restructuring, in which the Company acquired long-term loans to partly repay short-term loans to mitigate liquidity concerns. Furthermore, the Company received loans on financial lease agreements for 6 aircraft.

Other non-current liabilities as at December 31, 2009 totaled THB 8,589 million, which decreased by THB 64 million or 0.7% from as at December 31, 2008.

### Shareholders' Equity

As at December 31, 2009, the Company's shareholders' equity amounted to THB 53,244 million, an increase of THB 7,362 million or 16% from December 31, 2008 from net profit earned.

Capital structure as of December 31, 2009 consisted of total liabilities of THB 218,450 million or 80.4% and shareholders' equity of THB 53,244 million or 19.6%.

### Liquidity

The Company's funding is in line with its capital needs as stated in the Company's Immediate Business Turnaround Plan to restructure its debts and enhance financial liquidity. Adjustments were made to the Turnaround Plan as necessary to adapt to changing operating environment along with action plans. The next phase of the Plan is currently ongoing.

Cash and cash equivalents as at December 31, 2009 amounted to THB 14,300 million, an increase of THB 6,854 million from the beginning of the period (January 1, 2009). Net cash from and used in each activity is as follows:

- Net cash from operating activities amounted to THB 28,523 million.
- Net cash used in investing activities amounted to THB 14,472 million, which was mainly from an advance payment of Airbus A330-300, A380-800 and their engines, a payment of 6 Airbus A330-300, an exercised purchasing option of 1 Boeing 777-200 operating lease aircraft.
- Net cash used in financing activities amounted to THB 7,085 million, comprising of
  - Cash received from issuing debentures of THB 4,790 million
  - Net cash received from long-term loans in the amount of THB 22,484 million
  - Repayment of short-term loans, amounting to THB 20,323 million
  - Repayment of debentures, totaling THB 7,500 million
  - Repayment of promissory notes, cash paid for loan interest and dividend payment of subsidiary company, aggregating THB 6,535 million.

### Financial Ratios

		2009	2008
Operating Profit Margin	(%)	5.74	(3.33)
Net Profit Margin	(%)	4.54	(10.68)
Return on Total Assets	(%)	2.76	(7.92)
Return on Equity	(%)	14.82	(37.54)
Interest Bearing Debt to Equity	(times)	2.93	3.21
Debt Service Coverage Ratio (DSCR) <sup>1)</sup>	(times)	1.13	0.47
Interest Coverage Ratio <sup>2)</sup>	(times)	5.28	2.48

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

## **Contractual Obligation**

1. The Company has a payment obligation to purchase aircraft amount of THB 39,109 million consisting of 2 A330-300 aircraft expected to take delivery in March 2010 and 6 A380-800 expected to take delivery during the year 2012-2013.

2. The Company has obligations from entering into operating leases amount of USD 171.88 million or approximately to THB 5,761 million (exchange rate USD 1 : THB 33.5168) consisting of 3 B737-400, 2 B777-200, and 2 A330-300 aircraft. These operating leases will be expired during the year 2014-2018.

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