

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

1. Operating Result

The third quarter of fiscal year 2010 (July 1 - September 30, 2010) was the Company's seasonal slow period. Nevertheless, the global economic recovery and the relative calm in the domestic political situation enabled air travel and freight shipment to pick up from previous quarter. The Company's passenger production (Available Seat-Kilometers : ASK) increased by 3.8% over the same quarter last year. The Company's passenger traffic (Revenue Passenger-Kilometers : RPK) increased by 4.9%. The average cabin factor was 74.7%, which is higher than that of 73.9% last year. Freight production (Available Dead Load Ton-Kilometers : ADTK) increased by 20.2% from last year. Freight traffic (Revenue Freight Ton-Kilometers : RFTK) increased by 36.9% from last year. The average freight load factor was 61.3%, which is higher than that of 53.8% last year. Passenger yield including surcharge was 2.47 Baht/RPK, which is an increase of 5.6% from last year. Freight yield was 9.56 Baht/RFTK, which is an increase of 8.6% from last year.

For the third quarter, the Company's total revenue amounted to THB 45,414 million, which was an increase of THB 6,267 million or 16% over 3Q09. Total operating revenue amounted to THB 44,433 million, which was an increase of THB 5,585 million or 14.4% from the same period last year. Total expense, excluding gains (losses) on foreign currency exchange but including share of profits (losses) from investments by equity method and finance cost, totaled THB 42,506 million, which was an increase of THB 2,232 million or 5.5%. In addition, the Company incurred losses of THB 2,773 million on foreign currency exchange due to the depreciation of the Baht against EURO in this quarter, which was nearly the same as last year.

The Company's profits before tax was THB 135 million, compared to losses of THB 3,862 million incurred for the same period last year. However, excluding gains (losses) on foreign currency exchange, the Company's profits before foreign currency exchange and tax was THB 2,908 million, compared to losses of THB 1,127 million last year.

The Company's net profits was THB 136 million or 0.08 baht per share compared to net losses of THB 4,034 million or 2.37 baht per share incurred in the same period last year. EBITDA was THB 8,681 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 8.3 million as compared to expenses booked in accordance with the previous accounting policy.

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

Unit : million Baht	Jul-Sep		Increase(decrease)	
	2010	2009	MTHB	%
Total revenues	45,414	39,147	6,267	16.0
Total costs *	42,506	40,274	2,232	5.5
Profits (Losses) before foreign currency exchange and tax	2,908	(1,127)	4,035	358.0
Gains (Losses) on foreign currency exchange	(2,773)	(2,735)	38	1.4
Profits (Losses) before income tax	135	(3,862)	3,997	103.5
Net profits (losses)	136	(4,034)	4,170	103.4
Net profits (losses) per share (Baht)	0.08	(2.37)	2.45	103.4
EBITDA	8,681	5,543	3,138	56.6

* Excluding gains (losses) on foreign currency exchange but including share of profits (losses) from investments by the equity method and finance costs

Revenues

For the third quarter of fiscal year 2010, the Company's total revenue was THB 45,414 million, which was an increase of THB 6,267 million or 16% from 3Q09. The breakdown is as follows:

Total operating revenue totaled THB 44,433 million, which was an increase of THB 5,585 million or 14.4% over the same period last year. Comprising of:

Revenue from transportation activities was THB 42,574 million, which was an increase of THB 5,509 million or 14.9% over 3Q09. Resulting from:

- Passenger and excess baggage revenues amounted to THB 35,388 million, which was an increase of THB 3,216 million or 10% from 3Q09. The main reasons are as follows:
 - Passenger yield (including fuel and insurance surcharge) was 5.5% higher than last year.
 - Passenger traffic increased by 4.9%
- Freight and mail revenues amounted to THB 7,186 million, which was an increase of THB 2,293 million or 46.9% from 3Q09 due to the
 - Increase in freight and mail traffic by 36.9% over last year, resulting from the global economic recovery brought about the increase in export and import demand. Moreover, the Company has provided block space freighter service, which boosted the effectiveness in sales and space management, especially in passenger carrying aircraft.
 - Freight yield (including fuel and cargo war risk surcharge) was 8.6% 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 1,859 million, which is THB 76 million or 4.3% higher than 3Q09. The increase was mainly due to the revenue from sale of aircraft spare part and increase in cargo handling revenue, resulting from increase in cargo volume.

Interest income amounted to THB 43 million, which is THB 12 million or 38.7% higher than last year.

Other income amounted to THB 938 million, which was THB 670 million or 250% higher than the previous year. The main reasons were:

- Compensation revenue from the delayed delivery of six Airbus A380-800s amounted to THB 371 million.
- Revenue from passenger airport fees, which has not been billed to the Company over 3 year, was THB 204 million higher than last year.

Expenses

For the third quarter of fiscal year 2010, the Company's total expenses, excluding gain (loss) on foreign currency exchange but including share of profits (losses) of investments by the equity method and finance cost, amounted to THB 42,506 million, which was THB 2,232 million or 5.5% higher than the same period last year. Significant changes of operating expense included:

- Fuel cost amounted to THB 13,941 million, which was an increase of THB 1,231 million or 9.7% from 3Q09. The main reasons were the increase in average jet fuel price of 12.3% as well as fuel consumption of 4.7% from the expansion of the production, whereas the US dollar is weaken against Thai baht partially offset fuel cost.

- Personnel expenses amounted to THB 6,881 million, which is an increase of THB 110 million or 1.6% from 3Q09. The main reason was increase in overtime payment according to the production.

- Lease of aircraft and flight equipment expenses amounted to THB 1,240 million, an increase of THB 1,002 million or 421%, 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.

- Inventories and supplies amounted to THB 2,328 million, an increase of THB 209 million or 9.9% from the same period last year due to the improvement of quality service both in up-lift meal and in-flight entertainment, aligned with the Company's strategy. Moreover, material cost from aircraft maintenance and retrofit was higher than last year.

- Impairment losses of assets were THB 447 million, which is a increase of THB 395 million from last year mostly from record of impairment loss of rotatable aircraft engines.

Losses on foreign currency exchange amounted to THB 2,773 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 2,735 million last year.

Finance costs amounted to THB 1,314 million, which was a decrease of THB 110 million or 7.7%. The main reason was less outstanding debt at the end of period than last year. Moreover, the appreciation of the Baht reduced interest expenses paid in foreign currency.

The operating results for the first nine-month of fiscal year 2010 (January 1 - September 30, 2010), the Company's net profits totalled THB 12,413 million or THB 7.25 per share, which was higher than the net losses of THB 1,569 million or THB 0.92 per share last year. The crucial reasons were the global economic recovery since the end of 2009, which has led to stronger demand for air travel and freighter shipment in 2010, despite the impact of the domestic political protest and eruption of volcano in 2Q10. With, the relative calm in domestic political situation in 3Q10, the Company's revenue rose regardless of the stronger Thai Baht. The Company's revenue was higher than the first nine-month of fiscal year 2009 in the amount of THB 19,809 million or 17.2%. Furthermore, the Company gained on foreign currency exchange in the amount of THB 7,317 million, which was THB 7,264 million higher than last year. EBITDA totalled THB 23,352 million, which increased by THB 5,303 million from the same period last year.

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

Unit : million Baht	Jan-Sep		Increase(decrease)	
	2010	2009	MTHB	%
Total revenues	134,854	115,045	19,809	17.2
Total costs *	128,616	116,189	12,427	10.7
Profits (Losses) before foreign currency exchange and income tax	6,238	(1,144)	7,382	-
Gains (Losses) on foreign currency exchange	7,317	53	7,264	-
Profits (Losses) before income tax	13,554	(1,091)	14,645	-
Net profits (losses)	12,413	(1,569)	13,982	-
Net profits (losses) per share (Baht)	7.25	(0.92)	8.17	-
EBITDA	23,352	18,049	5,303	29.4

* Excluding gains (losses) on foreign currency exchange but including share of profits (losses) 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 3Q10 (September 30, 2010), the Company's total assets were THB 281,264 million, an increase of THB 9,570 million or 3.5% from as at December 31, 2009. The current and non-current assets accounted for 22.2% and 77.8% of total assets, respectively consisting of:

	September 30, 2010		December 31, 2009	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	62,554	22.2	47,288	17.4
Property, plant and equipment-net	207,701	73.9	213,505	78.6
Other non-current assets	11,009	3.9	10,901	4.0

Current assets increased by THB 15,266 million or 32.3% mainly due to an increase of THB 13,385 million in cash and cash equivalent from share offering. Property, plant and equipment-net decreased by THB 5,804 million from as at December 31, 2009, resulting from depreciation. Other non-current assets increased by THB 108 million or 1%.

Liabilities The Company's total liabilities as at end of 3Q10 (September 30, 2010) totaled THB 201,188 million, which was a decrease of THB 17,262 million or 7.9% from December 31, 2009. These comprise of:

	<u>September 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)	51,269	25.5	54,961	25.2
Long-term loans	141,097	70.1	154,900	70.9
Other non-current liabilities	8,822	4.4	8,589	3.9

Current liabilities (excluding current portion of long-term loans) decreased from December 31, 2009 by THB 3,692 million or 6.7% resulting from the Company repaying whole lot of short-term loans at the beginning of this year. Moreover, unearned transportation revenues decreased from last year.

Long-term loans as at September 30, 2010 totalled THB 141,097 million, including current portion of long-term loans of THB 27,433 million, which is a decrease by THB 13,803 million or 8.9% from December 31, 2009. The reason was the decrease of liabilities under financial leases in the amount of THB 10,726 million, debentures in the amount of THB 3,455 million and promissory notes in the amount of THB 750 million, whereas increase in long-term loan in the amount of THB 1,128 million.

Other non-current liabilities, comprising of staff pension fund and long-term provisions increased by THB 233 million or 2.7%.

Shareholders' Equity

As at end of 3Q10, the Company's shareholders' equity amounted to THB 80,076 million, an increase of THB 26,832 million or 50.4% from December 31, 2009 due to the Company gained profit from the operation. In addition, the Company increased its capital in the amount of THB 15,000 million by sales 483.9 million additional ordinary shares at 31 Baht per share. This has raised the Company's registered share capital to THB 26,989 million, issues and paid-up shares capital to THB 21,828 million and premium on share capital to THB 25,660 million.

Interest Bearing Debt to Equity Ratio as at September 30, 2010 was 1.76 times, which was lower than the 2.93 times as of December 31, 2009.

Liquidity

Cash and cash equivalents as at September 30, 2010 amounted to THB 27,685 million, which was an increase of THB 13,385 million from the beginning of the period (January 1, 2010). Net cash from and used in each activity is as follows:

- Net cash from operating activities amounted to THB 19,417 million.
- Net cash used in investing activities amounted to THB 5,119 million mainly from advanced payment of 7 Airbus A330-300 which will be delivery in year 2011-2013 and also aircraft rotatable spare parts.

- Net cash used in financing activities amounted to THB 834 million, comprising of net repayment of long term loans in the amount of THB 5,924 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 750 million, cash paid for loan interest in the amount of THB 3,970 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. However, the Company received cash from sale of additional ordinary shares in the amount of THB 14,861 million.

Financial Ratios

		Jan-Sep	
		2010	2009
Operating Profit Margin	(%)	6.07	2.15
Net Profit Margin	(%)	9.40	(1.38)
Return on Total Assets	(%)	4.49	(0.60)
Return on Equity	(%)	18.62	(3.48)
Interest Bearing Debt to Equity	(times)	1.76	3.53
Debt Service Coverage Ratio (DSCR) ¹⁾	(times)	1.18	1.28
Interest Coverage Ratio ²⁾	(times)	5.95	4.20
Book value	(Baht)	46.79	26.08

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
