

Thai Airways International PCL: Flight To A New Financial Plan

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Abstract

“We want to become a five-star airline, not four-star as is currently the case. Sometimes we have lapsed into trying to compete with low-cost airlines but it’s time to go back up where we belong.”

Dr. Piyasvasti Amranand, President of Thai Airways International PCL, April 28, 2010.

Shortly after the Annual General Meeting of the Shareholders of Thai Airways International Public Company Limited (THAI) on April 28, 2010, Mr. Daniel Castillo (Hypothetical name), Corporate Financial Manager, was charged by the President, Dr. Piyasvasti Amranand, with the preparation of a financial plan with which to fulfill the commitments that the President had just made to the shareholders. The meeting had been a contentious one, with the majority of shareholders having expressed great dissatisfaction with the report on the Company’s performance during the year 2009. In particular, shareholders were highly critical of the Company’s high debt-equity ratio, its loss of market share, and its low dividend payout ratios. They had been insistent in their call for prompt action by the President and management team to improve the airline’s performance.

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In response to the shareholders, the President had stated that he had already devised the broad contours of a plan to enhance the airline's financial position and business performance. He had then proceeded to set forth a tripartite plan that consisted of (a) improved control of expenses through the establishment of a Fuel Hedging Policy to increase the profit margin, (b) a reduction of the debt-to-equity ratio from 4 to 2 in order to strengthen the Company's financial position, and (c) significant investments in aircraft to expand the business and increase capacity. To pursue the plan, the President and management team had placed before the shareholders a proposal that the Company be allowed to issue up to 1,000 million shares (par value = 10 Baht per share) over the course of the third quarter of the year 2010. The shareholders had approved.

With the President's May 1, 2010 assignment of the financing plan task to the Financial Manager, the ball was now in Mr. Castillo's court. He had to devise a comprehensive and detailed financing plan that would enable the President's financial position and business performance objectives to be attained. In addition to the inclusion of equity issuance and a capital restructuring components, the plan was to incorporate an evaluation of the financial improvements anticipated from its implementation (e.g., a comparison of current and forecasted financial performance).

Time was very much of the essence, in that the President had requested the plan be completed in time for Mr. Castillo to present it to the President and management team at the next scheduled meeting on May 10, 2010. Mr. Castillo knew that he had to get started right away.

As he began to pull together his preliminary thoughts about the financing plan, the President's statement to the recently concluded shareholders meeting echoed in his mind: *"The [new shares] offering is an integral part of THAI's commitment to pursue its long-term growth strategy and to maximize shareholder value."* This assertion struck Mr. Castillo as an appropriate point of departure for the task before him.

Keywords: Thai Airways, Financial Plan, Airline Competition

บริษัท การบินไทย จำกัด (มหาชน): เส้นทางสู่การปรับแผนการเงิน

ดนุวงศิน เจริญ
เวสารัช เอื้อมบุญสุข

บทคัดย่อ

“เราต้องการจะเป็นสายการบิน 5 ดาว ไม่ใช่สายการบิน 4 ดาวอย่างที่เป็นอยู่ในตอนนี้ ต่อจากนี้ไป การบินไทยจะเดินต่อและก้าวต่อไปสู่ศตวรรษใหม่อย่างมั่นคงและก้าวขึ้นมาสู่การเป็นสายการบินในระดับแนวหน้าของวงการอุตสาหกรรมการบินโลกอย่างแน่นอน”

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28 เมษายน พ.ศ. 2553

หลังการประชุมใหญ่สามัญผู้ถือหุ้นบริษัท การบินไทย จำกัด (มหาชน) ประจำปี ในวันที่ 28 เมษายน พ.ศ. 2553 นายกานต์ (นามสมมติ) ผู้จัดการฝ่ายการเงินองค์กร ได้รับมอบหมายจาก ดร. ปิยสวัสดิ์ อัมระนันทน์ กรรมการผู้อำนวยการใหญ่ ให้จัดทำแผนทางการเงิน เพื่อให้สอดคล้องกับนโยบายที่คณะกรรมการบริษัทฯ ได้กล่าวตกลงกับผู้ถือหุ้นในที่ประชุม เนื่องจากมีผู้ถือหุ้นเป็นจำนวนมากแสดงความไม่พอใจกับรายงานผลประกอบการของบริษัทฯ ในปี พ.ศ. 2552 จากการที่บริษัทฯ มีอัตราส่วนหนี้ต่อทุนที่สูงมาก และบริษัทฯ มีส่วนแบ่งการตลาดที่ลดลงจากปีก่อน นอกเหนื่อนี้ ผู้ถือหุ้นหลายท่านยังได้แสดงความคิดเห็นในที่ประชุมว่า ปีนี้บริษัทฯ จะยุ่งบันพลังให้ผู้ถือหุ้นน้อยเกินไป ผู้ถือหุ้นจึงเรียกร้องให้คณะกรรมการและผู้บริหารบริษัทฯ จัดทำนโยบายอย่างเร่งด่วนเพื่อปรับปรุงผลการดำเนินงานของบริษัทฯ

ดร. ปิยสวัสดิ์ อัมระนันทน์ ได้กล่าวตอบผู้ถือหุ้นไปว่า บริษัทฯ ได้จัดเตรียมแผนนโยบาย เพื่อจะปรับปรุงผลการดำเนินงานของบริษัทฯ โดยแผนการนี้ประกอบไปด้วย หนึ่ง การเพิ่มผลกำไรด้วยการควบคุมค่าใช้จ่ายให้ลดลงโดยใช้นโยบายป้องกันความเสี่ยงจากความผันผวนของราคา น้ำมัน สอง ลดอัตราหนี้ต่อทุนจาก 4 เท่าเป็น 2 เท่า เพื่อลดความเสี่ยงด้านการเงินและเพิ่มความมั่นคงด้านการเงิน และ สาม ลงทุนในการซื้อเครื่องบินโดยสารเพิ่ม เพื่อขยายกิจการและเพิ่มความสามารถในการรองรับผู้โดยสารได้มากขึ้น ดร. ปิยสวัสดิ์ และคณะกรรมการบริษัทฯ จึงเสนอต่อที่ประชุมผู้ถือหุ้นให้อนุมัติให้บริษัทฯ สามารถออกหุ้นสามัญเพิ่มได้ไม่เกิน 1,000 ล้านหุ้นที่ราคา

พาร์ 10 บาทต่อหุ้น ภายในปี พ.ศ. 2553 เพื่อให้บริษัทมีเงินทุนเพียงพอที่จะปฏิบัติตามแผนดังกล่าวนี้ ซึ่งที่ประชุมก็ได้อนุมัติให้ตามที่เสนอ

ภายหลังการประชุม ดร. ปิยสวัสดิ์จึงได้มอบหมายให้นายกานต์จัดทำแผนทางการเงิน และนำเสนอในการประชุมคณะกรรมการบริษัทฯ ครั้งต่อไป ด้วยหน้าที่ที่ได้รับมอบหมายนี้ นายกานต์ จึงต้องจัดเตรียมแผนทางการเงินอย่างละเอียดรอบคอบเพื่อที่จะให้บริษัทฯ บรรลุเป้าหมายตามที่คณะกรรมการบริษัทฯ ได้วางไว้ เขายังต้องเตรียมแผนการที่บริษัทฯ จะออกหุ้นสามัญ แผนการปรับโครงสร้างเงินทุน และรายงานเพื่อประเมินและเปรียบเทียบว่าผลประกอบการที่คาดว่าจะเป็นนั้นจะดีกว่าผลประกอบการเดิมเท่าไร นายกานต์มีเวลาสองสัปดาห์ในการปฏิบัติภารกิจนี้ เพราะว่า เขายังต้องนำเสนอแผนการและรายงานต่อที่ประชุมคณะกรรมการบริษัทฯ ที่จะมีขึ้นในวันที่ 10 พฤษภาคม พ.ศ. 2553 ในขณะที่เขากำลังจะเริ่มต้นคิดเกี่ยวกับการวางแผนทางการเงินตามที่ได้รับมอบหมายนั้น คำกล่าวของท่านกรรมการผู้อำนวยการใหญ่ในระหว่างการประชุมผู้ถือหุ้นที่เพิ่งผ่านพ้นไปนี้ก็ยังคงดังก้องอยู่ในใจของเขากล่าวว่า

“เงินที่ได้จากการเพิ่มทุน จะนำไปใช้ในการเสริมสภาพคล่อง การจัดหาเครื่องบินใหม่ การเสริมฐานทุนให้แข็งแกร่ง และการชำระ คืนหนี้ การเพิ่มทุนในครั้งนี้เป็นยุทธศาสตร์ที่สำคัญมากในการสร้างความเจริญเติบโต และความมั่นคง ระยะยาวของบริษัทฯ เพื่อเพิ่มผลตอบแทนให้แก่ผู้ถือหุ้นให้สูงที่สุด”

นายกานต์ในฐานะผู้รับผิดชอบในการจัดทำแผนการเงิน รู้สึกได้ถึงความคาดหวังของผู้บริหาร ต่อแผนการเงินที่จะปรับอนาคตของการบินไทยให้กลับมาเป็นผู้นำได้อีกครั้ง

คำสำคัญ: การบินไทย แผนการเงิน การแข่งขันในธุรกิจสายการบิน

Thai Airways International Public Company Limited: Overview & Developmental Highlights

Thai Airways International Public Company Limited (THAI) was the national carrier of the Kingdom of Thailand. It operated domestic, regional and intercontinental flights radiating from its home base in Bangkok to key destinations within Thailand and around the world (See Exhibit 1: THAI Global Routes). THAI was founded on May 1, 1960 (See Exhibit 2: The 1959-2009 Developmental Highlights of THAI) as a joint venture between Thailand's domestic carrier, Thai Airways Company (TAC), and Scandinavian Airlines System (SAS), which provided operations, managerial and marketing expertise, along with training assistance aimed at building a fully independent national airline within the shortest possible time.

Over the course of the following decade and a half, the new airline grew rapidly, and profitably, in both passenger traffic and freight carried. For example, by the end of its fifth year of existence, THAI recorded its first annual profit of 3.9 million Baht. By the end of its tenth year, its annual profit reached US \$ one million and the airline achieved its ambition in serving more destinations around the Asia region than any other carrier. During its second decade, THAI stated to expand its business further by launching the intercontinental service to major cities including Sydney, London, and Frankfurt. By the end of its fifteenth year of operations, THAI's international routes had leapt to twenty destinations in sixteen countries. With each successive five-year period, corporate profits kept pace with the growth in passenger and freight revenues. The joint venture had proved successful well beyond initial expectations.

Beginning in the mid-1970s, Thai government, as a matter of public policy, promulgated a policy whereby the government, on behalf of the Thai people, would assume majority ownership of joint-venture businesses that were considered to be among "the commanding heights of the economy." Thai Airways – the country's "flag carrier" and "face to the world" – fell into that category. Negotiations thus began between the Thai government and SAS to set the terms and conditions of the government's assumption of majority ownership of the Company. These discussions were successfully concluded in late-March 1977, paving the way for the Thai government to acquire 85% of the shares in Thai Airways Company on April 1, 1977. Thus did Thai Airways become majority-owned by the Thai people through their government while the SAS remained as minority owner, holding 15% of the shares.

The Airline continued to grow and prosper over the course of the subsequent fifteen years following the Thai government's assumption of majority control. Several new domestic and international routes were opened, thereby advancing THAI's objective of providing air travel services to all major domestic and international destinations. To further strengthen the carrier's brand in the international market, where competition from the frequently much larger flag carriers from other nations was intense, the management of THAI undertook a number of measures aimed at enhancing the airline's overall competitive posture, particularly in the international segment of the market. These endeavors ranged from instituting a Training Centre, housing A300 and B747 flight simulators, with fully equipped cabin mock-up and classrooms to expanding its customer base by launching its first transpacific flights to Seattle and Los Angeles in 1980 to being among the first airlines to dedicate separate cabins for premium passenger service through the establishment of the Royal Executive Class in 1983.

These and other management initiatives went a long way toward increasing THAI's stature in the air travel marketplace. Indeed, by the late-1980s, THAI ranked 17th in size among world airlines (World Air Transport Statistics, International Air Transport Association – IATA, 1985) and was frequently found on lists of the world's "best" airlines, as rated by both business and leisure travelers. However, maintaining the airline's competitive edge in the continuous battle for passenger (and freight) revenue was becoming an expensive proposition. For example, periodic fleet upgrades to newer, larger, or more fuel-efficient aircraft were enormously expensive undertakings. Notwithstanding the fact that majority ownership by the Thai government afforded the national carrier reasonably ready access to funds for such capital investments, and on favorable terms, Thai governmental officials were increasingly of the view that THAI – like highly successful Singapore Airlines – should compete in the capital markets for access to the funds required to maintain and expand their operations.

Thus, on June 25, 1991, the Thai Cabinet approved a resolution authorizing THAI to list its shares on the Stock Exchange of Thailand (SET), with a first issue of 100 million shares at a par value of 10 Baht per share. Of those 100 million shares, five million shares were reserved for THAI employees, with the remaining 95 million shares offered to the public. The listing of THAI shares on July 19, 1991, with a registered share capital of 14,000 million Baht made the THAI share listing the largest

in the history of the SET. Moreover, the THAI public offering of shares was the single largest such offering ever undertaken in Thailand. With the success of its initial public offering, THAI not only greatly enhanced its ability to continue to hold its own in the international market, but also both greatly expanded the number of shareholders committed to the carrier's continued success and made employee's and the Company's well-being more coincidental by enabling employees to become shareholders.

After being listed on the stock exchange, THAI continued to strengthen its competitiveness by creating customer loyalty through the establishment of a new rewards program for frequent fliers -- i.e., the highly innovative Royal Orchid Plus, which attracted more than 200,000 members from 115 countries during its inaugural year, 1993. Subsequent to the success of this marketing campaign, in the following year, THAI launched its Royal Orchid Plus Gold Card for super frequent flyers. The Royal Orchid Plus received worldwide attention; and over the subsequent decade, THAI experienced a good pace of continuous growth. During its 35th anniversary year (1995), THAI carried 12.8 million passengers, compared to 62,000 passengers during its first year of existence.

Despite the accomplishment of these milestones in the years immediately following the public listing, THAI quickly surmised that it could ill afford to rest on its laurels. First, the global airline industry itself continued to be under severe pressure, as the combination of high operating costs, gyrating demand, and increasingly intense competition constituted ongoing challenges. Second, the speculative attacks that precipitated the Thai currency crisis that began during the first quarter of 1997 had the effect of severely curtailing domestic, as well as regional, air travel demand as the crisis quickly spread from Thailand to envelop nearly all of Southeast Asia. Faced with an increasingly uncertain revenue picture, THAI executives were constrained to undertake a re-evaluation of the airline's strategic plans. With the Baht under severe devaluation pressure as the crisis deepened and spread, THAI could no longer be assured of access to the resources required to maintain a "go-it-alone" posture – at least not in the immediate future. Strategic alliances became the new imperative.

THAI executives entered into discussions with other major international airlines aimed at revenue-enhancing and cost-shaving cooperative arrangements that would benefit the group as a whole. The discussions produced fruit. On May 14, 1997, THAI and four other leading international airlines – namely, Lufthansa German Airlines,

United Airlines, Scandinavian Airlines System, and Air Canada – officially announced the formation of “Star Alliance”, an integrated worldwide air transport network. Partnership between the five carriers formed the strongest airline alliance in the history of commercial aviation with the most extensive network covering major destinations around the world. Being part of this strong global network facilitated and formalized the sharing of aviation resources among member airlines. As a result, it enabled THAI to offer its passengers a full complement of worldwide services and destinations.

During the early-2000s, THAI continued to expand its business in a variety of facets ranging from launching new routes around the region and over different continents to offering creative marketing programs comprising Golf and Honeymoon packages. In the remarkable year 2002, THAI received a record four Gold Awards from the Pacific Asia Travel Association (PATA) for excellence in various aspects of promotion and destination marketing. To maintain its strategic position, THAI decided to redefine and redesign its entire corporate identity and brand image with a comprehensive program for the year 2005 which covered everything from a new aircraft livery, redecoration of cabin interiors, crew uniforms, and all in-flight equipment. Another remarkable year for THAI was when its Royal First Class Lounge in Suvarnabhumi Airport was voted “Best in the World” in the 2007 annual Skytrax World Airline Survey.

Alas, after experiencing a decades-long period of prosperity, beginning in 2008, THAI encountered a sudden reversal of fortune with the onset of severe financial difficulties precipitated by a dramatic downward trend in travel demand – a nearly unprecedented decline that resulted from, among other factors, the worsening global financial crunch triggered by the financial crisis that originated in the United States in late-2007, as well as escalating political unrest in Thailand. In addition, THAI’s operating expenses had markedly increased due to the upward trend in oil prices. In consequence of these factors, THAI experienced a loss of 21,379 million Baht during 2008, compared with a 4,368 million Baht profits during 2007. This was the airline’s worst loss since the Asian Financial Crisis of 1997. Concurrently, THAI racked up a range of other dubious honors including a 16-year low in its share price, a split in its public board concerning the tenure of its President, and a ratings downgrade that triggered the deferral of a planned bond issue. To reduce expenses, THAI dumped its ultra long-haul fleet serving several destinations such as New York and Los Angeles. As a result, during this

traumatic period, THAI had grown at a slower pace than regional competitors, Singapore Airlines and Cathay Pacific. THAI management team realized that it was necessary for THAI to undertake an immediate action to bring the airline through its difficulties and restore its luster as being among the best in the world.

In consequence of these challenges, on October 19, 2009, THAI's board of directors announced the appointment of Dr. Piyavasti Amranand as the new President of the airline. (See Exhibit 3: THAI's Management Team & Organization Chart). Not only was the board convinced of Dr. Piyavasti's commitment to THAI's vision of "The first Choice Carrier with Touches of Thai", but to the airline's four mandates as well:

- to offer domestic and international air transportation and related services that are safe, convenient, and of quality to ensure customer satisfaction and trust;
- to be committed to international standards of management efficiency, transparency, and integrity, and to achieve satisfactory operating results in order to maximize benefits for [its] shareholders;
- to create a suitable working environment and offer appropriate salaries and wages as an incentive for staff to learn and work to the fullest of their potential and to take pride in their contribution to the Company's success; and finally
- to be socially responsible, as the national airline.

In Dr. Piyavasti, the board was confident that THAI would be, in short order, back on course in rendering the genre of service that the flying public demanded, thereby putting the airline back on the path of solid business and financial performance that shareholders expected and demanded.

The Global and Local Airlines Industries: Status, Issues, and Trends

Like most other flag carrier airlines in nations around the globe, THAI competed in both the local (national) and the international arenas. THAI executives therefore had to maintain awareness of the contours and dynamics of the airline industry at both levels.

The Global Airlines Industry: Current Status, Salient Issues, and Noteworthy Trends

For all practical purposes, the global airlines industry was coterminous with the membership of the International Air Transport Association (IATA) that was formed in 1945 and was now comprised of some 230 member airlines, accounting for 93% of international air traffic. As the “industry association” for airlines, IATA provided leadership for the industry by, among other things, promulgating various types of regulations pertaining to all aspects of airline operation and providing information and analytical reports concerning industry performance, outlook, and opportunities and threats. Thus, the same forces that impinged on IATA could be said to impact the global airlines industry as a whole. Several facets concerning the industry were of particular importance. (See Exhibit 4: IATA Industry Outlook)

Growth Punctuated by Periods of Acute Financial Distress

Air travel grew at an average rate of 7% per year during the period 1990-2000, however, airlines’ profitability had been closely tied to economic growth and trade. Therefore, this overall growth had been accompanied by periods of acute financial distress. For example, during 1990-1991, the industry suffered losses from both worldwide declines in demand precipitated by the Gulf War and excess capacity in the market due to airlines having over-ordered aircraft in the boom years of the late 1980s.

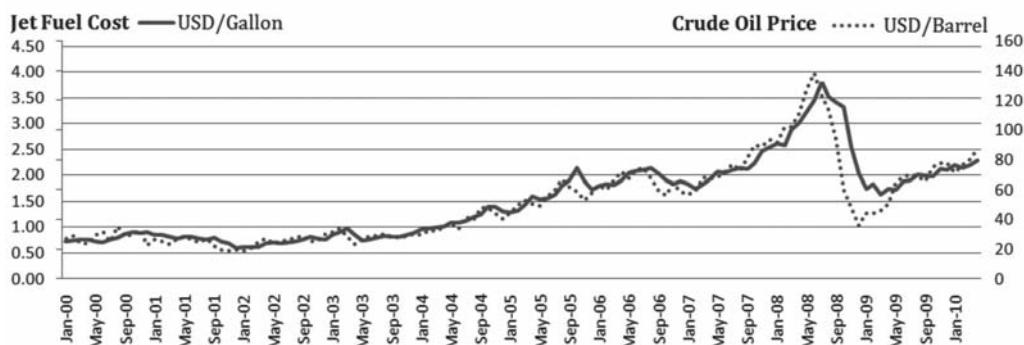
The financial distress precipitated by these events resulted in IATA’s member airlines suffering cumulative net losses of U.S. \$20.4 billion in the years, 1990 through 1994. The subsequent responses taken by individual airlines and groups of airlines to ensure their survival and prosperity soon spread industry-wide, and indeed have continued to shape competitive dynamics in the business.

Efficiency as the New Operational Imperative

Beginning in earnest in the 1990s and continuing through the first decade of the 21st century, airlines pursued a variety of approaches aimed at optimizing operating margins. Many mounted aggressive cost-cutting programs, cutting back on in-flight amenities as well as ground services heretofore made available to airline passengers. Others pursued a concerted focus on reducing capacity growth, thereby curtailing the periodic outbreaks of fratricidal fare wars that left all the participants poorer. Still others focused on increasing load factors (i.e., percentage of occupied

seats to total available seats), thereby attempting to spread the monumental fixed costs of flying an airplane from Point A to Point B, in order to squeeze more marginal revenue out of each flight. (It is noted in passing that one European airline executive's near-desperate quest for increased marginal revenue per flight prompted him to propose – to subsequent public ridicule – the installation of *pay toilets* on all his airline's flights. To date, he has not done so.)

Another concern was that the price of fuel had been rising and still climbing along its upward trend (See Figure 1: Crude Oil Price and Jet Fuel Cost for the Period 2000-2010). IATA expected that the average oil price would be U.S. \$79 per barrel in the year 2010, representing an increase of U.S. \$17 per barrel on the U.S. \$62 average price for 2009.



Sources: Bureau of Transportation Statistics – BTS (Coordination between the Research & Innovative Technology Administration – RITA and the U.S. Department of Transportation - DOT, U.S. Energy Information Administration – EIA)

Figure 1: Crude Oil Price and Jet Fuel Cost for the Period 2000-2010

Apart from the necessity of trying to avoid periodic net operating losses, a number of other factors lay behind this new drive for increased operating efficiency. For example, in many countries, governments' concerns about their own finances, as well as growing recognition of the benefits of privatization, had led to a gradual transfer of airlines ownership from the state to the private sector. In order to appeal to prospective shareholders, the airlines had to become more efficient and competitive. Further, industry deregulation and the subsequent entry of small, low-cost, and nimble carriers added impetus to the drive for increased efficiency as a means by which to cope with increasingly fierce competition.

By the time of the economic recovery in 1996, these and other initiatives enabled the airline industry to return to profitability, with overall IATA airlines' profits of U.S. \$5 billion. However, on the whole, airline executives and shareholders alike could take little comfort in the turn-around, given that overall profits were less than 2% of total revenues – about on par with the net profit margin of *supermarkets* and *grocery stores* in the United States. Adding to the disquiet was the fact that while the industry *as a whole* managed to return to profitability, many individual airlines remained mired in red ink.

Globalization and Consolidation as the Way Forward

The combination of these factors led, in 1997, to the founding of the first global alliance of airlines, the Star Alliance, with THAI as one of the founding members. Other carriers soon followed suit. Within three years of the launching of the Star Alliance, two other competitor groupings had emerged (and for similar reasons) – “SkyTeam” and “OneWorld”, each of which was comprised of a different constellation of major players in the industry. (See Exhibit 5: The Airlines Alliances.) The participants in each of these strategic alliances were very much of the conviction that the future prosperity of the industry lay in the ability of individual airlines to offer passengers a virtually “seamless” travel experience from any point on the globe to any other point. By linking their networks, members of these alliances not only expanded access to their customers, but also created the enabling infrastructure for seamless global travel.

Consolidation of the industry was another trend that was propelled by airline experiences during the 1990s. As a means of effecting maximum coordination between two or more erstwhile competitors, consolidation was variously viewed by industry participants either as an adjunct to the strategic alliances represented by SkyTeam, Star Alliance, and OneWorld (see Table 1: The Three Largest Airlines Alliance) or as an alternative approach to achieving a comparable end result – i.e., creating a seamless travel experience, globally, for their passengers. Thus, while mergers and acquisitions within the airline industry had periodically occurred over the years, beginning in the 1990s and continuing into the first decade of the 21st century, these phenomena were occurring with an ever-increasing frequency, particularly among carriers in the United States and the European Union.

Table 1: The Three Largest Airlines Alliance

	Star Alliance	SkyTeam	Oneworld	Total Industry
Founded	1997	2000	1999	NA
Members	27	11	11	NA
Passengers per year (Million)	623.53	462	328.63	489
Revenue (Billion US \$)	153.51	97.9	99.78	464
Market share	29.3%	20.6%	23.2%	26.9%

Sources: iata.org, oneworld.com, skyteam.com, staralliance.com (Date access: May 31, 2010)

Since late-2008, the commercial airline industry had been under tremendous pressure from a number of serious threats – threats ranging from the global economic slowdown triggered by the financial crisis that originated in the United States in late-2007 to disease outbreaks (that dampened passenger traffic to affected areas of the globe), to threats from terrorism (with increased airports security negatively impacting air travel due to the increased “hassle factor” of getting from the airline check-in counter to the gate). All these factors led to a 2.9% drop in overall travel demand in the year 2009, with Africa and Asia experiencing the largest declines, i.e., 7.8% and 6.8% respectively.

Nevertheless, the outlook was by no means completely bleak. IATA had forecasted that global passenger demand would grow by 5.6% in 2010 – driven by economic recovery in the emerging markets of Asia Pacific and Latin America, whose carriers’ had achieved international passenger growth in January 2010 of 6.5% and 11.0% respectively. As was evident from the strategic and tactical initiatives that the President had presented to the shareholders at the April 28, 2010 Shareholders’ Annual General Meeting, THAI would be endeavoring to be fully prepared to compete vigorously for its fair share of the anticipated upsurge in passenger demand.

The Local (Thai) Airlines Industry: Current Status, Salient Issues, and Noteworthy Trends

The local or domestic airlines industry in Thailand was comprised of those airlines that ferried passengers to and from Thailand. As of the end of the first quarter of 2010, this group totaled 90 different airlines including a subset of several budget airlines flying international routes. In the year 2009, they collectively carried 29.4 million passengers, of whom approximately 80% were tourists on holiday, 15% were on business, and 5% were travelling for other reasons.

In addition to the impacts of trends and forces that affected the global airlines industry (see discussion in section above), THAI, as a participant in the local airlines industry, had to contend with several other factors. Particularly salient among these were the impacts of economic conditions and political strife.

Because a large proportion of international passenger traffic in Thailand was tourists on holiday, the global economic slowdown of 2008-2009 and the domestic political turmoil that had been ongoing since 2006 converged to precipitate an 8.7% decline in passenger traffic in 2009. With a large percentage of tourists originating from Western nations whose economies were particularly hard hit by the global slowdown, leisure-oriented excursions to Thailand became an expendable luxury that some tourists felt they could postpone until home-country economic conditions improved. Further, with Thailand having suffered almost four years of escalating political turmoil – e.g., the unrest leading up to and including the December 2008 seizure of Suvarnabhumi International Airport by the People's Alliance for Democracy (PAD), the so-called “yellow shirts”; the tensions leading up to and including the disruption and forced cancellation of the April 2009 ASEAN Summit by the United Front for Democracy against Dictatorship (UDD), the so-called “red shirts”; and, the events leading up to and including the March-April 2010 seizure and occupation of Bangkok's main governmental and commercial districts by UDD – all these events had prompted many prospective tourists, including the heretofore rapidly growing contingent of Asian tourists, to heed the travel advisories of their home governments and avoid all but essential travel to Thailand until the turmoil subsided.

To be sure, as of late April 2010, the global slowdown was showing some signs of entering the final phase that typically presages the imminent arrival of a global economic rebound. If an economic turnaround were in fact to occur in the near future, it would in all likelihood encourage the resumption of travel plans by those who had earlier postponed travel to Thailand due largely to economic reasons. Offsetting this optimism, however, was the reality of continuing political strife and the threat of more violence – possibilities that accounted for the continuation of the state of emergency in many provinces (including Bangkok) that the government had imposed on April 7, 2010 during the “red-shirt” demonstrations.

Just as the red-shirt imbroglio during April, 2009 and April, 2010 had led to, respectively, a 113,000 and 146,000 decline in the number

of inbound passengers compared to the same period in 2008 [see Table 2: Numbers of Passengers (Inbound and Outbound) at Suvarnabhumi Airport, Thailand], industry observers were warning that further declines were likely in the event of a resumption of the violent demonstrations that had descended on Bangkok's main commercial district in April-May, 2010.

Table 2: Numbers of Passengers (Inbound and Outbound) at Suvarnabhumi Airport, Thailand

	2008		2009		2010		
	Inbound	Outbound	Inbound	Outbound	Inbound	Outbound	
January	1,197,747	1,179,459	1,032,104	947,857	1,814,387	1,233,953	
February	1,196,439	1,169,549	946,545	930,249	1,263,752	1,213,239	
March	1,245,341	1,287,430	1,070,982	1,103,361	1,259,469	1,275,753	
April	1,180,095	1,142,134	1,022,893	995,218	1,045,248	1,066,598	
May	1,059,201	1,044,012	814,131	794,231			
June	1,025,030	945,421	804,759	730,432			
July	1,116,148	1,023,461	963,475	862,095			
August	962,821	911,541	969,772	974,061			
September	800,921	760,713	939,047	872,821			
October	983,091	904,700	1,157,559	1,042,040			
November	851,917	745,612	1,203,678	1,075,187			
December	820,376	632,100	1,374,863	1,164,052			

Source: Royal Thai Police, Immigration Division 2

Further, the local airline industry was not immune to the impact of rising fuel prices that had afflicted the industry as a whole at points in time in recent decades. Dramatic jumps in fuel prices, often in combination with other factors (e.g., economic slowdowns, excess capacity, etc.) could precipitate losses for the local airline industry just as they occasionally did for the global sector of the market. In this connection, IATA's forecast that of a whopping 27.4% increase in the average price of jet fuel in 2010 warranted the attention of all airline participants in the Thai segment of the international air travel market.

To cope with the vagaries of the fuel market, nearly all carriers in the local airlines industry had adopted, or were in the process of adopting, measures such as "hedging" to provide some shield against sudden bursts of price increases. But, there was no gainsaying the fact that the continued

upward march of fuel prices was likely to be determinative in terms of individual airlines' ability to remain viable competitors, as well as the overall business and financial performance of the local airlines industry as a whole.

Also of direct relevance to many carriers in the Thai sector of the international air travel market, including in particular THAI, was the open skies policy of the Association of South East Asian Nations ("ASEAN") that was promulgated at the 9th Summit in October 2003 to stimulate travel demand within the ten-member trade bloc. Scheduled for full implementation in the year 2015, the new policy was almost certain to attract a number of new airlines – traditional "full service" carriers and low-cost, budget airlines alike – into the Thai market. In consequence, competition for incoming and outgoing passengers in the local THAI sector of the international market was destined to become even more intense for all participants. To continue to grow and prosper under the competitive conditions that would pertain in 2015, THAI faced not only the challenge of reversing its slide in Global Airline Ranking (see next section, "Thai Airways International PCL: Operating and Financial Performance Results"), but also the task of developing a strong competitive advantage that other airlines could not easily emulate.

Thai Airways International PCL: Operating & Financial Performance Results

As management anticipated at the outset, fiscal year 2009 had proved to be a very challenging year for THAI, as indeed it had been for most other carriers in the industry. A variety of factors – some anticipated and some totally unforeseen – had posed continuous challenges to THAI management throughout the year. Hence, the Board of Directors and Shareholders alike had approached their respective early-2010 meetings with a mixture of trepidation and cautious optimism, keen to learn how the Company had fared over the course of the previous fiscal year that had ended on December 31, 2009.

Operating and financial performance results for fiscal year 2009 were shared with the THAI Board of Directors and the Shareholders at the Annual General Shareholders' Meeting on April 28, 2010. Members of both bodies were at rapt attention at the point that THAI President, Dr. Amranand, had arisen to approach the speaker's podium.

Fiscal Year 2009 Operating Results

As shown in Table 3 below, in the 2009 fiscal year, THAI had fared relatively better on some operating measures than on others. For example, the average “cabin factor” (a major determinant of profitability) over the course of the year had been 73%, marginally worse than the 2008 cabin factor, but appreciably lower than the 2007 high point of 79%. On the more positive side, the results to date in fiscal year 2010 indicated that, if the trend continued, the 2010 average cabin factor was likely to represent a substantial improvement over 2009. Specifically the March 2010 average cabin factor of 78.93% was 2.1% higher than for the same period in fiscal year 2009. Even more encouraging were first-quarter 2010 (January-March) results compared to the first quarter of fiscal year 2009: The average cabin factor of 81% was not only 4.6% higher than the same period in 2009, but also was the highest in the history of THAI.

Table 3: THAI's Key Figures during the Past Five Years

	Unit	2009	2008	2007	2006	2005
Number of Aircraft		90	89	90	87	87
Number of Employee	Persons	25,427	27,193	26,897	26,488	25,769
Cabin Factor*	%	73	74.8	79	75.4	71.5
No. of Passenger	000 persons	18,477	18,710	19,884	18,574	18,133
Flight Hours	Hours	326,008	342,175	356,604	324,336	304,535
Profit (loss) before Tax	Million Baht	8,107	(23,600)	6,338	12,822	9,906

*Cabin Factor = Number of passenger / Number of available seats

Source: Thai Airways International PCL Annual Report 2009

Overall, in fiscal year 2009, THAI had achieved satisfactory operating results, particularly on European routes. The cabin factor for all routes during January and February 2010 was 80.0% and 82.2% respectively, which was the highest in THAI's history as compared to the previous year's 75.2% and 77.0% for the same periods. As shown in Table 2, THAI did see a reduction in passenger numbers on international routes inbound to Thailand during the month of April 2010 as a result of the political rallies in the Ratchaprasong area of central Bangkok. However, offsetting this shortfall to some extent was passenger numbers in the Southern routes in Thailand, where demand remained high.

Fiscal Year 2009 Financial Results

As reported by President and the Board of Directors at the THAI Annual General Shareholders' Meeting on April 28, 2010, financial performance results for fiscal year 2009 had been somewhat mixed,

although mostly on the positive side.

The Company's total revenue was 163,875 million Baht, which was a decrease of 19.1% from the 2008 fiscal year (see Table 4: THAI's Revenues Breakdown 2008-2009). The main reasons for the decrease were the severe price war precipitated by the decline in air traffic demand, as well as the reduction in fuel surcharge revenues due to lower fuel prices.

Table 4: THAI's Revenues Breakdown 2008-2009

(Unit: Million Baht)	2009	2008
Domestic Transportation Revenues	12,346.48	12,166.27
Foreign Transportation Revenues	110,967.67	135,143.74
Other Revenues	40,560.38	55,295.61
Total Revenues	163,874.53	202,605.62

Source: Thai Airways International PCL Annual Report 2009

Offsetting the disappointing revenue results, however, was an even more substantial decrease in expenses. That is, a 32% decline in expenses in fiscal year 2009 (i.e., 150,030 million Baht compared to 220,720 million Baht in 2008), enabled THAI to end the year with a solid profit of 7,344 million Baht – a dramatic turnaround from the 21,379 million Baht loss in the 2008 fiscal year. When this result had been announced, Dr. Amranand and his management received a spontaneous and sustained round of applause from the assembled shareholders. (See Table 5 for a comparison of financial results for fiscal years 2007 through 2009.)

Table 5: THAI's Financial Hilitags during the Past Three Years

		2009	2008	2007
Total Revenue	Million Baht	163,875	202,606	199,921
Total Expense	Million Baht	150,030	220,720	188,656
Operating Profits	Million Baht	13,845	(18,114)	11,265
Net Profits (Losses)	Million Baht	7,344	(21,379)	4,368
Earnings per Share	Baht	4.32	(12.58)	2.57
Dividends per Share	Baht	0.25	-	1.80
Debt to Equity	Times	4.1	4.7	3.1

Source: Thai Airways International PCL Annual Report 2009

(See Exhibit 6: Financial Statements of Thai Airways International PCL and Peers, 2005-2009.)

Shareholder Concerns

In response to the reports on fiscal year 2009 financial performance, the shareholders voiced a number of concerns – particularly, the Company's

high debt-equity ratio, and the loss of market share. In addition to these dissatisfactions, shareholders had voiced some unhappiness over two other matters that arose during the Annual General Meeting.

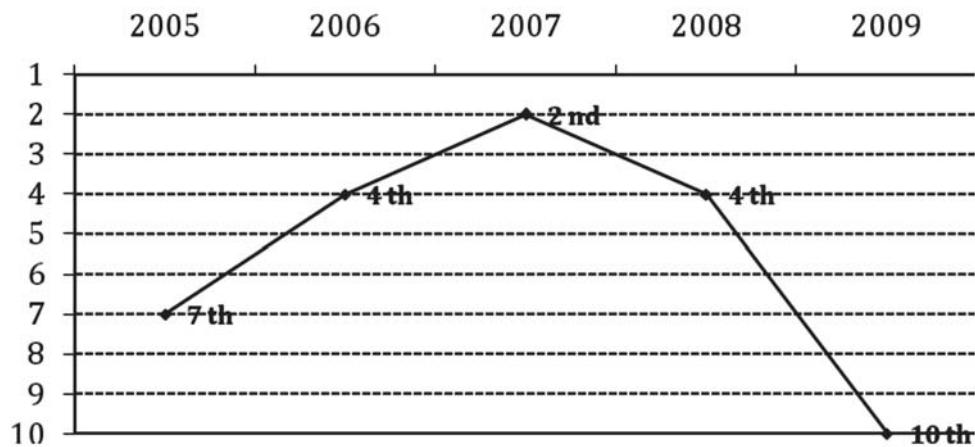
First, despite the impressive improvements in revenue and profits, THAI's Board of Directors had proposed a dividends distribution in the amount of 0.25 Baht per share. This translated into a dividend yield of only 1.02%, based on the market price of 24.50 as of April 28, 2010. (See Exhibit 7: Dividends Payout History, Dividend Policy, Share Information, & SAA Consensus Target Price of THAI). As Mr. Castillo recalled, this dividend distribution proposal was greeted with some consternation from many shareholders, with a few calls from within the groups for the Company to revise the amount of dividends to be paid. However, after the Board of Directors explained that the Company needed internal funds to ensure liquidity and to facilitate further business expansion, the shareholders approved the Board's initial proposal for a dividend distribution of 0.25 Baht per share.

Second, some shareholders expressed alarm over THAI's falling ranking in SkyTrax's Global Airline Ranking, the World Airline Awards™ ranking. Pointing out that THAI had ranked second in the year 2007 and forth in the year 2008, this group of shareholders deplored THAI's further slippage to *tenth* place in 2009. Table 6 below depicts the rankings of the top airlines in 2008 and 2009, while Figure 2 contains a graphic depiction of THAI's rankings during the years 2005 through 2009. (See Exhibit 8: Ranking Criteria of SkyTrax).

Table 6: Airlines of the Year 2009 (Ranking by SkyTrax)

2009	Airline	2008
1	Cathay Pacific Airways	2
2	Singapore Airlines	1
3	Asiana Airlines	5
4	Qatar Airways	7
5	Emirates	9
6	Qantas	3
7	Etihad Airways	10
8	Air New Zealand	8
9	Malaysia Airlines	6
10	Thai Airways International PCL	4

Source: airlinequality.com (Date Access: May 31, 2010)



Source: airlinequality.com (Date Access: June 1, 2010)

Figure 2: Ranking of THAI Airways International PCL (2005-2009)

These operating and financial highlights, along with shareholder expressions of disappointment and concerns, were the backdrop against which the President had put forth the broad contours of a plan to reinvigorate THAI's business and financial performance. As Mr. Castillo knew, central to the President's strategy for reinvigorating THAI's overall performance was the upgrading of the carrier's aircraft fleet, without which the airline would find it difficult, if not impossible, to gain any sort of competitive advantage in the market-place. In addition to crafting a financial plan that would satisfy the financial targets articulated by the President, the plan would necessarily have to address the capital requirements of THAI's aircraft acquisition plans. Hence, to be certain that he understood the full magnitude of capital that would have to be raised, Mr. Castillo decided that he should have a close look at the plan for acquiring aircraft.

Thai Airways International PCL: The Aircraft Acquisition Plan

The management team of THAI was convinced that improved business and financial performance would be possible only if THAI made a major leap forward in aircraft quality because onboard and online customer surveys revealed that the service of flight attendances and the food were excellent but the main reason THAI's rankings have fallen was due to the deterioration in aircraft quality and in-flight entertainment

(IFE). Following are some examples of comments from the SkyTrax Reviews.

“Flight attendants wore genuine smiles and most helpful from storing baggage to assisting on filling out immigration forms. The food was superb and flavorful. One negative thing about this route though is the in-flight entertainment which was just a small, bulky, old fashioned overhead TV hanging above the aisle”

“BKK-LHR on old B747-400 showing its age, seats well worn [with] minimal cushioning, could feel metal frame through the cushion... Trim around windows was loose and in some parts stuck back with tape.”

Thus, as the management team had responded to shareholder concerns about THAI's deteriorating rankings, an investment plan for aircraft improvements was aimed at improving aircraft quality and in-flight entertainment. In order to improve the aircraft quality and in-flight entertainment of THAI, the management team had replied to the shareholders that the Company had been developing the investment plan for aircraft improvements.

As shown in Table 7 below, the average age of THAI's fleet as of the end of fiscal year 2009 was nearly twelve years. Indeed, out of a total of ninety aircraft, only sixteen planes – six Boeing 777s and ten Airbus 340s – were below five years in age.

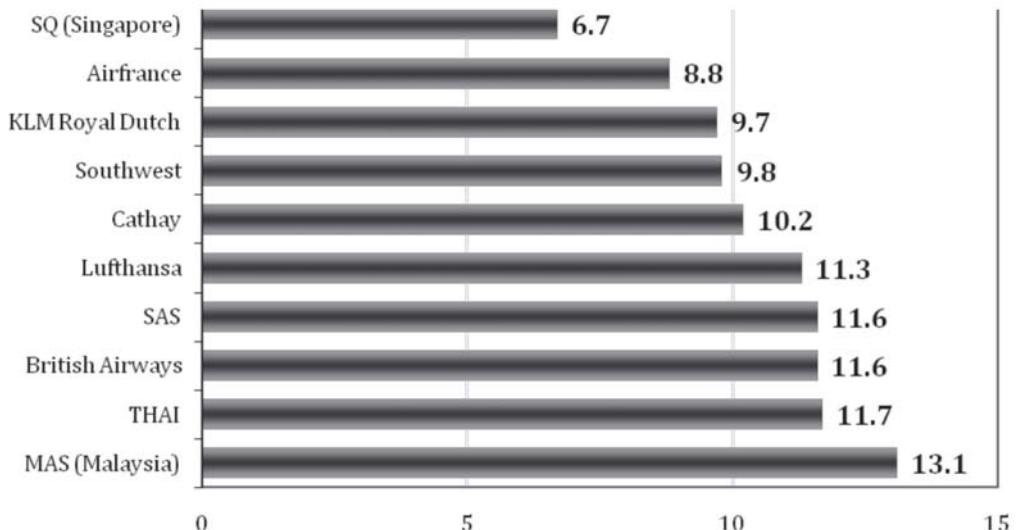
Table 7: Thai Airways International PCL's Fleet Profile as of December 2009

Aircraft Type	Number of Aircraft	Average Age (Year)	Number of Aircraft		
			Owned	Financial Lease	Operating Lease
Long range					
B 747 – 400	18	13.14	13	5	-
B 777 – 300	6	9.60	-	6	-
A 340 – 500	4	3.58	1	3	-
A 340 – 600	6	3.25	-	6	-
B 777 – 200 ER	6	2.32	-	6	-
Medium to long range					
B 777 – 200	7	12.29	5	-	2
A 330 – 300	14	11.10	10	2	2
A 300 – 600	17	16.44	17	-	-
Short range					
B 737 – 400 *	10	15.47	7	-	3
ATR 72	2	19.29	2	-	-
Total	90	11.73	55	28	7
Aircraft utilization 11.1 hours per aircraft per day					

*NOTE: Three B737-400 aircraft had been leased to Nok Air.

Source: Thai Airways International PCL, PowerPoint presentation file, New York, September 9-11, 2009

By contrast, other leading airlines, especially Singapore Airlines which was ranked 1st by SkyTrax, had a younger fleet (average of 6.7 years old), as can be seen in Figure 3. Especially revelatory was the fact that among the leading airlines, only Malaysia Airlines had an older fleet than THAI.



Source: Thai Airways International PCL, PowerPoint presentation file, New York, September 9-11, 2009

Figure 3: Airlines' Fleet Age (Years)

To the management team of THAI, these facts underscored the imperative of upgrading their fleet through a two-pronged strategy of renovating its existing aircraft while also increasing fleet size through the acquisition of new planes. In fact, a program of fleet renovation had already been set in motion. Further, the groundwork for fleet expansion through the acquisition of additional aircraft had also been put in place with the Thai Cabinet's March 30, 2010 approval of THAI management's aircraft acquisition plan. The cabinet had considered that THAI aircraft acquisition plan was following the same direction with the government policy to improve the efficiency of state-enterprise by focusing on service development, and cost control, moreover, supporting the airline industry would have a positive impact on related industries especially travelling and tourisms. With the new aircraft, THAI would have an improvement in aircraft quality and a decrease in fuel cost (new aircraft would be more fuel-efficient) and maintenance costs. For these reasons, the Thai cabinet had approved THAI aircraft acquisition plan with the expectation that the Company would improve its performance within the next five years (2010-2014).

To this end, the Company had already negotiated lease arrangements by which an additional five A330-300 aircraft would be in operation in the year 2010, with six more A380 planes joining the fleet during 2012-2013.

Additionally, with the Board of Directors' recent approval of THAI's "Aircraft Acquisition Plan for Years 2010-2014", a budget totaling nearly 35.5 million Baht would be allocated for continued aircraft acquisitions, as well as for engines and spare parts. Specifically, the budget allocation of nearly 35.5 million Baht was to defray the cost of:

1. Financial leases for seven medium-range aircraft (seat capacity: 300) for regional routes. Allocated investment budget: 31.3 million Baht.
2. Operating leases for eight long-range aircraft (seat capacity: 350) for intercontinental routes. (Lease duration: 10-15 years). Investment budget: 79.2 million Baht.
3. Acquisition of engines and spare parts – two engines for regional routes (investment budget: 0.9 million Baht) and three engines for intercontinental routes (investment budget: 3.3 million Baht).

The Company's overall fleet strategy revolved around the objective of improving fleet efficiency. It was to be achieved by carefully matching the number of aircraft to market demand, which by ensuring an optimal fleet size would reduce both carbon emissions and overall maintenance expenses.

THAI management had projected that the combined effects of financing the aircraft acquisition and capital restructuring plan would be a funding gap of 50,000 million Baht over the five-year period, 2010-2014. Of this amount, the Company preliminarily planned to raise 20 billion through the issuance of equity and 30 billion through the issuance of long-term debt but was still uncertain as to whether or not this would be the optimum allocation. For aircraft acquisition, the Company planned to use the 12-year debt financing collateralized by aircraft, with the debt value be equal to 80% of the collateral value.

Thai Airways International PCL: The Financing Plan: Objectives, Financing Requirements, and Targets

As earlier indicated, THAI's ambitious plans for the near-term future would require a substantial infusion of new capital. However, as the president and Board of Directors had explained at the 2010 Annual General Meeting when seeking shareholder approval of the proposal to increase the Company's registered capital by 1,000 million Baht, the capital increase was a crucial first step toward enhancing the carrier's

competitive vitality and facilitating the restoration of THAI's competitive advantage.

Objectives

The increase in capital, that the president and Board had declared, would result in a much stronger capital structure – thus improving THAI's liquidity and solvency, as well as affording the Company ready access to sufficient capital to take advantage of both current and future business opportunities. In the context of what had become, and would most likely remain, an ever-more challenging international airline industry, the increased capitalization would enable the Company to better compete and sustain growth, which would ultimately add value for the Company's shareholders.

More specifically, the president and Board of Directors had articulated several core objectives underlying the capital raising plan. They were as follows:

1. To ensure that the Company had the ability to make necessary investments, expand its business and remain financially competitive in the long-term;
2. To ensure that the Company had sufficient cash to meet its debt obligations on their due dates;
3. To strengthen its capital structure and ensure appropriate matching of funds to the life of the particular asset so as to enable THAI to once again be at the forefront of the global airline industry; and,
4. To ensure sufficient and appropriate liquidity to support operations, maintain financial stability, and ensure financial flexibility during periods of high volatility in the airline industry.

Subsequently, a majority in excess of 90% of the shareholders approved the increase in the Company's registered capital from 16,989,009,500 to 26,989,009,500 Baht by issuing up to 1,000 million new ordinary shares at a par value of 10 Baht per share. Afterwards, Dr. Amranand had commented:

“Although shareholders approved the issue of up to 1 billion new shares, not all of them will be needed, given the sharp advance in the stock price, which could rise even further if the political crisis ends. We’re confident the shares will

attract new investors, thanks to the improvement in the aviation industry. Many institutional investors have expressed interest in the sector."

Financing Requirements and Targets

As the president had made explicit when he assigned Mr. Castillo the task of preparing the detailed financing plan, the plan would necessarily have to include equity issuance, capital restructuring, and evaluation of the projected financial performance. The president had further made clear that he and the management team would expect the financing plan to be in line with the financing requirements and targets that they had established at the April 19, 2010 meeting. In this connection, Mr. Castillo was given to understand that there were two essential Financing Requirements: 1) A long-term financing target of 35 billion Baht; and 2) A reduction in short-term financing with the remaining balance of 4 billion Baht. The planning premises that Mr. Castillo was to employ in preparing 2010 projections were as follows (Table 8):

Table 8: Financing Targets

Revenue increase	15-20%
Fuel expense increase	30-40%
Non-Fuel expense increase	5-10%
EBITDA increase	15-19%
Target Debt/Equity Ratio	2 : 1

Mr. Castillo believed that, although the 2010 financing targets as presented in Table 8 were reasonably achievable, he also understood that THAI's actual revenue, expenses, and profits would be greatly influenced by factors and forces totally outside the carrier's ability to control. Thus, THAI's new blueprint for rejuvenating its competitive vitality was not without its risks.

Other Considerations

In pursuing the earlier-outlined strategic thrust, the airline would unavoidably face the prospect of a number of business risks. These included risks emanating from heavy reliance on the Thai tourism industry, fuel price fluctuation, currency exchange fluctuation, and interest rate fluctuation.

Risk Related to the Thai Tourism Industry

THAI's business was directly related to the health of Thailand's tourism industry in that the majority (i.e., approximately 80%) of its passengers were tourists travelling to and from various locales in Thailand. As a result, there was direct correlation between the growth of THAI and that of the Thai tourism industry. The main external factor affecting the Thai tourism industry was the global economic crisis, and the main internal factor was the ongoing political unrest in Thailand. While there were hopeful signs that the global economic slowdown of 2008-2009 was gradually coming to an end, signs were few that the ongoing political unrest – unrest that had intensified during March and April 2010 – was abating. Continued unrest was almost certain to reduce the number of tourist passengers on THAI flights, with each increment of decline posing a potentially grave threat to THAI's revenues and overall financial health.

Risk from Fuel Price fluctuations

The cost of fuel was the largest portion of THAI's operating expense; and, with fuel prices fluctuating widely (e.g., between US \$55 to 85 per barrel in 2009), the uncertainties surrounding the periodic gyrations in fuel prices constituted a major risk.

In order to mitigate the impact of the fluctuations in fuel prices on the airline's profit performance, THAI had instituted a hedging policy -- the Fuel Price Risk Management Policy -- to insulate the Company's operating results and thereby prevent risks to shareholders and stakeholders. Through this policy, continuous, systematic fuel risk management was put into effect for not less than 20% and not more than 80% of the average fuel consumption per month taken in a fiscal year. The duration of contracts under the hedging policy ranged from 1 to 18 months, with crude or jet kerosene as underlying assets; and, the instrument mix could be basic options and/or collars and swaps. The current outstanding obligation of 3.75 million barrels (approximately 17% of annual fuel consumption) was to expire in June 2010, with the range of US \$74-90 per barrel. Thus, if the fuel price fell below US \$74 per barrel, the company would have to pay; but, if the fuel price rose above US \$90 per barrel, the Company would be compensated by the amount of the difference.

Risk from Currency Exchange Fluctuations

THAI's revenues came from over 40 different currencies, mainly in US Dollars, Thai Baht, Euros, and Japanese Yen. This fact introduced an element of ongoing exchange rate risk in that "prices" of various currencies changed daily (most often *multiple times per day*) in response to market demand and supply. To manage the foreign exchange (FX) risk, the Company had instituted a foreign exchange rate risk management policy whereby it borrowed in the currency in which the Company was "long" in terms of net revenue in order to have a natural hedge through increased repayment of debt. In consequence of this policy, at the end of 2009, the Company's outstanding debt was in four currencies – US \$, EUR, JPY, and THB – and in the proportions of 2%, 39%, 11%, and 48%, respectively. Increased Baht borrowings had also mitigated the FX risk exposure. While there had been no cross currency swaps done during the year 2009, the Company had a policy to stand ready to enter cross currency swaps if necessary.

Risk from Interest Rate Fluctuations

Because THAI issued a portion of its debt with floating interest rates, the Company incurred the risk of potentially harmful impacts on profits arising out of interest rate fluctuations. To manage the risk, the Company closely followed the money market and stood ready to enter interest rate swaps (IRS). In the year 2009, THAI's outstanding fixed-to-float debt ratio after entering into six IRS transactions was 50:50. Two IRS were in JPY and were to expire in 2013; the other four were in EUR and were to expire in 2017.

As of the end of the year 2009, the Company had 750 million Baht of outstanding promissory notes with a floating interest rate computed by adding 2.9-3% per annum to the interest rate on six-month fixed deposits at the Government Saving Bank. The Company's weighted average interest rate is presented in the following table.

Table 9: Weighted Average Interest Rate

Currency	Weighted Average Interest Rate (%)	Floating (Million Baht)		Fixed (Million Baht)		Total (Million Baht)
		Short-term	Long-term	Short-term	Long-term	
US \$	4.31	862.15	846.27	2,374.62	1,840.67	5,423.71
JPY	1.32	3,411.08	13,449.29	-	-	16,860.37
EUR	1.57	23,241.26	24,343.21	7,399.20	4,530.24	59,513.91
THB	4.77	28,360.00	568.00	39,690.00	6,900.00	75,518.00
Total		66,473.81	28,607.45	50,804.49	11,430.24	157,315.99

Source: Thai Airways International PCL Annual Report 2009

Collectively, all four types of risk had in common the fact that they were largely beyond the ability of THAI to influence or control. THAI's only real leverage was that of *managing* the risks, as each of them had the potential to impact significantly the airline's ability to achieve its objectives. Consequently, THAI's Executive Management Board, Risk Management Committee, and Board of Directors received regular updates on these corporate risks in order to be kept abreast of any developments warranting actions to mitigate any potentially negative impact that these risks might precipitate.

A Propitious Time for Planning

On May 1, 2010, the same day that Mr. Castillo received his special assignment, he and other members of the THAI staff had joined the President, Dr. Piyasvasti Amranand, at a celebratory religious ceremony commemorating THAI's 50th Anniversary. At the press conference following the ceremony, Dr. Amranand had left Mr. Castillo and other THAI employees greatly inspired.

Pointing out THAI celebrated an anniversary on the 1st of May *every* year, Dr. Amranand went on to declare that, of course, this year was special. It marked THAI's "Golden Jubilee", its 50th Anniversary as the national carrier of the Kingdom of Thailand. He reminded the staff and the general public alike that for 50 years, THAI had projected the flag and prestige of the Thai nation as a "flying ambassador" around the world. The history of THAI over the past 50 years had been a story of growth and success, he declared. Then, recalling that propitious day of May 1, 1960, when THAI's first flight (a Douglas DC-6B) took off from Bangkok with 60 passengers bound for Hong Kong, Taipei and Tokyo, the President remarked that few could have visualized that, by 2010, THAI would have a fleet of 90 aircraft and carry almost 20 million passengers annually.

Thus, for Mr. Castillo, May 1, 2010 had been a day to remember – for the commemorative ceremony of earlier in the day, as well as for the President's assignment of the special task of preparing a detailed financing plan for presentation to President and his management team. Equipped with the financial objectives and projected targets stated by the President, as well as information from the Annual General Meeting and the Board of Directors' Meeting, Mr. Castillo was confident that he would be able to develop a feasible and realistic financing plan for THAI and make a convincing presentation to the President and the management team at the May 10, 2010 meeting.

The events of THAI's 50th Anniversary events still reverberating in his mind, Mr. Castillo could not help but feel great pride and satisfaction in working for such an iconic Thai company. Moreover, he was pleased that with this assignment he would be an active (and visible) participant and contributor in the development of plans aimed at ensuring the continued prosperity of Thai Airways International PCL for many years into the future. This thought having been savored for a brief moment, Mr. Castillo felt a surge of energy as he eagerly turned his attention to the task at hand.

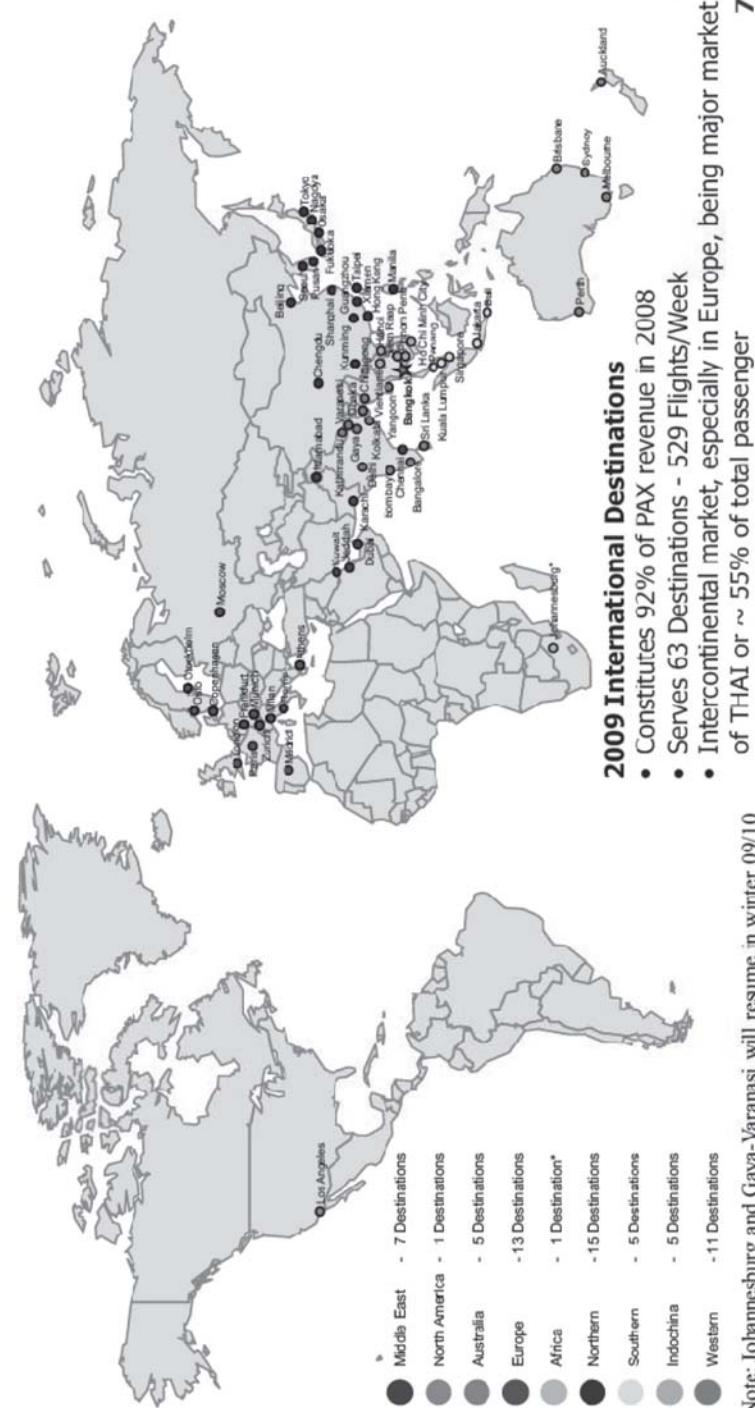
Exhibit 1: Thai Airways International PCL Global Routes

Thai Airways International flies to the following airports

- Auckland International Apt (AKL)
- Mataram (AMI)
- Alor Island (ARD)
- Stockholm Arlanda Apt (ARN)
- Athens Eleftherios Venizelos Intl. Apt (ATH)
- Bangkok (BKK)
- Bangalore (BLR)
- Bima (BMU)
- Brisbane (BNE)
- Mumbai (BOM)
- Guangzhou (CAN)
- Kolkata (CCU)
- Paris Charles de Gaulle Apt (CDG)
- Chiang Rai (CEI)
- Chittagong (CGP)
- Jakarta Soekarno-Hatta Apt (CGK)
- Colombo Bandaranaike Apt (CMB)
- Chiang Mai (CNX)
- Copenhagen Apt (CPH)
- Chengdu (CTU)
- Dhaka (DAC)
- Delhi (DEL)
- Moscow Domodedovo Apt (DME)
- Bali (DPS)
- Dubai (DXB)
- Ende (ENE)
- Rome Fiumicino Apt (FCO)
- Frankfurt International Apt (FRA)
- Fukuoka (FUK)
- Gaya (GAY)
- Hanoi (HAN)
- Hat Yai (HDY)
- Mae Hong Son (HGN)
- Hong Kong International Apt (HKG)
- Phuket (HKT)
- Hyderabad (HYD)
- Seoul Incheon Intl Apt (ICN)
- Islamabad (ISB)
- Jeddah (JED)
- Johannesburg International (JNB)
- Krabi (KBV)
- Karachi (KHI)
- Khon Kaen (KKC)
- Osaka Kansai International Airport (KIX)
- Kunming (KMG)
- Kupang (KOE)
- Kathmandu (KTM)
- Kuala Lumpur International Airport (KUL)
- Kuwait (KWI)
- Los Angeles International Apt (LAX)
- Labuan Bajo (LBJ)
- Lahore (LHE)
- London Heathrow Apt (LHR)
- Chennai (MAA)
- Madrid Barajas Apt (MAD)
- Muscat (MCT)
- Melbourne Airport (MEL)
- Manila Ninoy Aquino International Apt (MNL)
- Maumere (MOF)
- Munich International Airport (MUC)
- Milan Malpensa Apt (MXP)
- Nagoya Chubu Centrair International Apt (NGO)
- Tokyo Narita Apt (NRT)
- Beijing Capital Apt (PEK)
- Penang (PEN)
- Perth (PER)

- Phitsanulok (PHS)
- Phnom Penh (PNH)
- Busan (PUS)
- Shanghai Pu Dong Apt (PVG)
- Yangon (RGN)
- Ho Chi Minh City (SGN)
- Singapore Changi Apt (SIN)
- Sydney Kingsford Smith Apt (SYD)
- Tambolaka (TMC)
- Taipei Chiang Kai Shek Intl Apt (TPE)
- Ubon Ratchathani (UBP)
- Surat Thani (URT)
- Koh Samui (USM)
- Udon Thani (UTH)
- Vientiane (VTE)
- Waingapu (WGP)
- Xiamen (XMN)
- Zurich Airport (ZRH)

International & Domestic Destinations





Domestic

- Constitutes 8% of passenger revenue
- Service spans 12 destinations with 329 flights/Week
- Suvarnabhumi as a single hub
- Possible to have international connection flight at Phuket & Chiang Mai Airports
- THAI launched double daily flights to Samui in 2008

Source: Thai Airways International PCL Annual Report 2009

Exhibit 2: The 1959-2009 Developmental highlights of THAI

1959 - In August 1959, Thai Airways Company (TAC) entered into a partnership with the Scandinavian Airlines System (SAS) to create a dynamic new international airline for Thailand. The Thai Government through TAC held 70 percent and SAS 30 percent of shares in Thai Airways International Company Limited, registered with a capital investment of USD 100,000 (2 million baht).

1960 - On May 1st, a propeller-driven Douglas DC-6B with a full load of 60 passengers took off from Bangkok International Airport en route to Hong Kong, Taipei and Tokyo. This first flight launched THAI's services, which during the first year, linked Bangkok with 11 Asian destinations and utilised a fleet of 3 DC-6B aircraft.

1962 - A 99-seat Convair 990 Coronado jet, the fastest civil airliner at the time, joined the fleet. Their Majesties The King and Queen of Thailand participated in the inaugural flights and flew THAI on various State Visits. THAI's investment capital was increased from 2 million to 40 million baht.

1964 - THAI upgraded its fleet, adding its first ultra-modern, 72 seats French-built Caravelle SE-210 jet. The airline continued to grow, carried its 100,000th passengers and opened flights to Osaka.

1966 - With a fleet of 5 sleek Caravelle SE-210s, THAI enjoyed the distinction of being the first all-jet airline in Asia. The cockpit crew that initially consisted mainly of expatriates from SAS was gradually replaced by Thai pilots.

1967 - The one millionth passenger was carried. THAI pioneered its highly profitable Bali route. This insightful move established THAI as an innovative airline, supportive of regional development.

1970 - When their 10-year contract expired, TAC and SAS signed a cooperation agreement for another 7 years. That year, THAI introduced faster and more economical DC9-41 and DC8-33 aircraft. Royal Orchid Holidays, THAI's innovative travel programme, was created to give travellers individual flexibility yet group cost savings and convenience.

1971 - THAI's first intercontinental route was launched, linking Bangkok to Sydney via Singapore. A new Cargo Terminal was opened at Bangkok

International Airport. In its first year, it handled around 2,000 tons of cargo.

1972 - THAI inaugurated its second intercontinental route, this time linking Copenhagen. The first computer-controlled flight simulator for training DC8-33 pilots was housed in the new Flight Crew Training Centre. THAI operated a popular Coffee Shop and deluxe Restaurant at Bangkok International Airport.

1973 - Long haul services to Frankfurt and London were inaugurated developing Bangkok as a major hub and gateway between Europe and Asia. THAI managed the Bangkok International Airport's spacious new Tax Free shop.

1974 - Rome was added to the routenet. THAI launched its computerised reservations system. The airline's local and overseas staff now exceeded 3,000 making the airline one of Thailand's largest employers.

1976 - THAI's flights connecting Bangkok to Amsterdam, Paris and Athens, launched the year before, grew quickly in popularity. Passengers flying from Europe stopped over in Bangkok on their way to Australia or to other Asian cities.

1977 - After 17 successful years, the partnership between TAC and SAS ended. SAS shares were sold back to the Thai Airways International was now entirely Thai owned and managed. Backed by a routenet covering 3 continents, experienced staff and full operational support, Thailand's flag carrier was ready to take on the world.

1978 - With the surge in air travel to Thailand and around the world, THAI made the decision to upgrade its fleet with more wide bodied aircraft. The 223-seat Airbus A300-B4s joined the wide -bodied DC-10-30s and improved long haul travel in terms of passenger and cargo capacity as well as passenger comfort.

1979 - Four brand new Airbus A300s were purchased to serve THAI's regional routes. Two Boeing 747-200 jumbo jets, with seating capacity of 371, were also purchased so that THAI could offer non-stop flights between Bangkok and Europe. The company moved into its 26-rai Head Office complex on Vibhavadi Rangsit Road, bringing all functions and departments together for the first time.

1980 - With the arrival of the jumbo jets, THAI was now ready for trans-Pacific services to North America. Los Angeles became THAI's gateway city into the U.S. At the same time THAI increased its operations to the Middle East.

1981 - THAI pioneered the North Pacific Bangkok-Seattle route. It expanded its routenet into the People's Republic of China by serving Canton. During that year, the company's share capital was increased to 1,100 million baht.

1982 - To better manage its growth, THAI reassessed and consolidated its fleet and operations. Pool agreements on strategic routes were concluded with other airlines. Though the devaluation of the Thai baht affected revenues, THAI still posted a pre-tax profit of 26.3 million baht for fiscal year 1981/82.

1983 - THAI's Royal Executive Class was introduced on regional routes, setting a new standard in airline comfort and convenience. Business Class passengers enjoyed separate cabins, roomy armchair seating, lounges and privileged services. The airline bought equity in Bangkok Aviation Fuel Services Limited (BAFS), Royal Orchid Hotel and the Airport Hotel.

1984 - THAI's efforts to promote provincial destinations in Thailand intensified. Chiang Mai, already linked as an intermediate stop on Hong Kong flights, was serviced with daily turnaround flights from Bangkok. Phuket and Hat Yai were added as intermediate stops on the Singapore route.

1985 - A new Maintenance Centre at Bangkok International Airport was built, enabling THAI to perform heavy maintenance on its wide-bodied aircraft in Bangkok. The facility was later expanded to a three-bay hangar able to accommodate two 747 jumbo jets and a narrow-bodied aircraft simultaneously. That year also saw the opening of THAI's (cargo Village), one of the largest cargo facilities in Southeast Asia at that time. Its 43,000 sq.m. Terminal handled freight shipments for THAI flights and those of 28 other airlines.

1986 - THAI launched its Stockholm flight. The middle Eastern network was further expanded. The first branch of THAI's popular Airport Restaurant was opened at the new Chiang Mai International Airport Terminal.

1987 - New Domestic and International Passenger Terminals were built at Bangkok International Airport to cater for "Visit Thailand Year 1987." THAI provided 80 percent of all passengers handling services in the new terminals. The "Visit Thailand Year" campaign proved a huge success for the nation and the nation's flag carrier. Auckland and Madrid were added as new destinations.

1988 - THAI and its parent company, TAC, merged into a single airline, bringing together domestic and international air operations. With the addition of TAC's 11 aircraft, the combined fleet now consisted of 41 aircraft. The routenet comprised 48 cities in 35 countries around the world plus a network of 23 cities in Thailand.

1989 - THAI launched "Discover Thailand" promotional fares to stimulate inbound travel and further developed "Eurng Luang" domestic tours as well as gave full support to "Thailand Arts and Crafts". A brand new Flight Kitchen, one of the largest and most modern in Asia, was opened at Bangkok International Airport, with an initial production capacity of 20,000 meals per day.

1990 - There was much to celebrate on THAI's 30th anniversary. It was the second most profitable year in the Company's history. THAI recorded a profit before-tax of 6,753.6 million baht 8.3 million passengers were carried, the highest number ever recorded. Early that year, THAI took delivery of its first Boeing 747-400, which remains the largest commercial aircraft in passenger service.

1991-1992 - THAI became a full partner of AMADEUS Global Distribution System, a vast computerised network for reservations information that linked 98 airlines and over 47,500 travel agents worldwide. THAI's privatisation process began. 100 million of the company's shares were listed on the stock Exchange of Thailand, the country's largest share.

1993 - The 10 millionth passengers flew on THAI. The airline's frequent flyer programme, Royal Orchid Plus was successfully launched. By the end of the first year, over 200,000 passengers from 115 countries had registered.

1994 - On 20 May 1994, THAI was formally registered as Thai Airways International Public Company Limited. Three new destinations were added: Shanghai, Lahore and Nakhon Phanom (domestic).

1995 - In order to streamline operations and improve efficiency, THAI hired international management consultants to help re-engineer the company. THAI's Re-engineering Team focused on 3 key areas-Operations, Customer Services, and Administration and Information Technology. The new vision statement, "The First Choice Carrier. Smooth as Silk. First time. Every time." Created the framework for a common sense of purpose.

1996 - The first Boeing 777-200, with 358 seats, the widest cabin and tallest headroom of all twin-engine aircraft, joined the fleet. This aircraft was the first of its kind in the world to be powered by Rolls Royce Trent 800 engines. The technical department was honoured by a visit by H.M.Queen Elizabeth II of England to mark this event. THAI's homepage on the Internet located at www.thaiairways.com was launched.

1997 - THAI and 4 of the world's major airlines joined together to form the Star Alliance, the largest airline consortium in the world. Being part of this strong global network enabled THAI to offer its passengers a world of services and destinations. In 1997 THAI provided major sponsorship and official carrier support to the 13th Asian Games in Bangkok.

1998 - The devaluation of the baht became a stimulus for tourism to Thailand. Ever the staunch promoter of Thailand and its tourism industry, THAI threw its support behind the "Amazing Thailand 1998/99" campaign. Thai's floral float under the "Amazing Thailand" theme at the world televised "Rose Parade" in Pasadena, California, was awarded one of the top prizes.

1999 - THAI joined the nation in commemorating His Majesty the King's 72nd Birthday Anniversary. This message was emblazoned on THAI's entire fleet and one Boeing 747-400 aircraft was completely repainted with a graphic rendition of the Suphannahong, the Royal Barge. This was THAI's way of showing to the world the pride and honour that all Thai people feel towards their King and country.

2000 - THAI continues to grow and flourish. These first forty years of THAI have told of a remarkable success story. This year and in the years ahead, THAI will continue to operate with insight and innovation, expanding its network to cover more international and domestic destinations, providing passengers with increasingly modern and comfortable aircraft, saving the Kingdom of Thailand and the people of the world with the highest standards of air service and safety. The legend that is THAI continues on.

2001 - THAI implemented the Customer Relationship Management (CRM) system to further enhance standard of service in accommodating customers' demand and maximizing their satisfaction. THAI also expanded cooperation at both domestic and regional level through global alliances to strengthen the airline's competitive edge and increase market shar.

2002 - THAI introduced 4 new destinations - Mumbai, Chengdu, Busan and Kuwait. This year, THAI achieved the highest net profit ever and operated with profitability for 38 consecutive years.

2003 - THAI introduced Royal e-Service, a comprehensive service to allow greater convenience for passengers when selecting their preferred flights, making seat reservation, issuing tickets, and check-in. Passengers are also able to perform a range of self services via this electronic system. Following the principle of good governance, THAI launched an e-Auction system for the Company's procurement process to help reduce cost and create transparency.

2004 - THAI signed a contract with InterBrand Co.,Ltd to develop the Company's new Corporate identity, THAI introduced new Premium Customer Service for its First and Business Class passengers, offering added travel convenience and comfort. THAI invested 39% shares in "Nok Air", a joint ventured low cost airline.

2005 - THAI celebrated 45th year of sucessful operations with the launch of its new identity, focusing on three main 3 main themes : High Trust, World Class and Thai Touch. The New Corporate Identity embodies the concept of Ayatana, the 6 sensory perceptions of sight, taste, smell, hearing, touch and feelings from the heart. To expand THAI's network, THAI signed a code share agreement with Air New Zealand and Air Madagascar. Social contribution activities this year included an opening of a library and providing financial aid for HIV infected children at Grada House, Lopburi province.

2006 - In commemoration of the 60th Anniversary of His Majesty the King's Accession to the Throne, THAI launched the Thai Grand Season Campaign 2006 to attract tourists to Thailand to celebrate this auspicious occasion with the Thai people. On 28th September, THAI successfully transferred its operations to the new Suvarnabhumi Airport. In promoting domestic tourism, THAI introduced a unique marketing campaign of "THAI Value Card", offering special ticket price to passengers travelling on domestic routes to which THAI operates.

2007 - The first full year of operations at Suvarnabhumi Airport since its openning on September 28, 2006. THAI recommenced its domestic services at Don Muang Airport. As a result, THAI operated THAI city Air Terminal to provide an alternative check-in point for domestic passengers without

flight connections flying out of Don Muang Airport. In order to facilitate passengers seeking to go on pilgrimage for merit making, THAI launched flights to Hyderabad, Bodgaya and Varanasi. Also, THAI launched direct services from Bangkok-Johannesburg.

2008 - THAI commenced direct flight to Samui Island, Surat Thani. THAI received numerous awards especially its number 2 ranking for its First Class Lounge from Skytrax. Thai also received the Best Intercontinental Airline award for the 4th consecutive year from the Norwegian travel industry. THAI took the initiative in revamping the company's website in favor of the customer's convenience both in reservation process and information access at the facility.

2009 - THAI introduced new destination – Oslo, Norway which is the 59th destination in 34 countries operated by THAI in response with the increasing demand of passengers travelling to several destinations worldwide. This year was regarded to be the leading year of THAI with numerous awards from the various international institutions, for instance; the second rank under the category of Best Asian Carrier from Gold Awards and the second rank in Best Intercontinental Airlines regarding to the announcement in Grand Travel Award Ceremony. THAI also received Trusted Brands Platinum Award 2009 from Reader's Digest for 10 consecutive years. In addition, THAI's *Royal First Class Lounge* at Suvarnabhumi Airport ranked the Best in Skytrax 2009.

Source: thaiairways.com (Date Access: May 31, 2010)

Exhibit 3: THAI's Management Team & Organization Chart



**Mr. Piyasvasti Amranand,
Director, Board of Directors
President, Management Team**

Joined THAI since Oct 19, 2009, experienced in Formulating and implementing Thailand's energy policy during his work in the government sector, which continued throughout his term as Energy Minister.

Education: Ph. D., Economics, London School of Economics, U.K.

Experiences:

- Chairman of the Advisory Panel to the CEO., Kasikorn Bank Public Company Limited
- Minister of Energy
- Chairman, Kasikorn Asset Management Company Limited

Present Positions:

- Chairman of Advisory Panel, Energy for Environment Foundation
- Member of the Council, Thailand Environment Institute
- Member of the Council of Trustee, Thailand Development Research Institute



**Mr. Ampon Kittiampon
(Chairman, Board of Directors)**

Education: Ph.D., Applied Economics, Clemson University, South Carolina, U.S.A.

Experienceds:

- Deputy Permanent Secretary, Ministry of Agriculture and Cooperatives
- Secretary General, Office of the National Economic and Social Development Board

Present Positions

- Member of the Board, The Bank of Thailand (BOT)
- Director, Chairman of Remuneration and Nomination Committee, PTT Public Company Limited
- Director and Chairman of Nomination and Remuneration Committee, PTT Aromatics and Refining (Thailand) Public Company Limited

Flg.Off. Norahuch Ployyai

Executive Vice President, Operations Department,
Joined THAI since May 8, 1978.

Experienced in Flight Operation Department, Standards
and General Administration.



Mr. Kaweepan Raungpaka

Executive Vice President, Finance and Accounting
Department,

Joined THAI since July 15, 1977.

Experienced in Finance and Accounting, Investor Relations
and Personnel Management Department.



Flt.Lt. Montree Jumrieng

Managing Director (Executive Vice President Level),
Technical Department,

Joined THAI since October 2, 1988.

Experienced in Flight Operation Department and
Personnel Management Department.



Mr. Pandit Chanapai

Executive Vice President, Human Resources and General
Management Department,

Joined THAI since November, 1983.

Experienced in Marketing and Sale Management.



Mr. Pruet Boobphakam

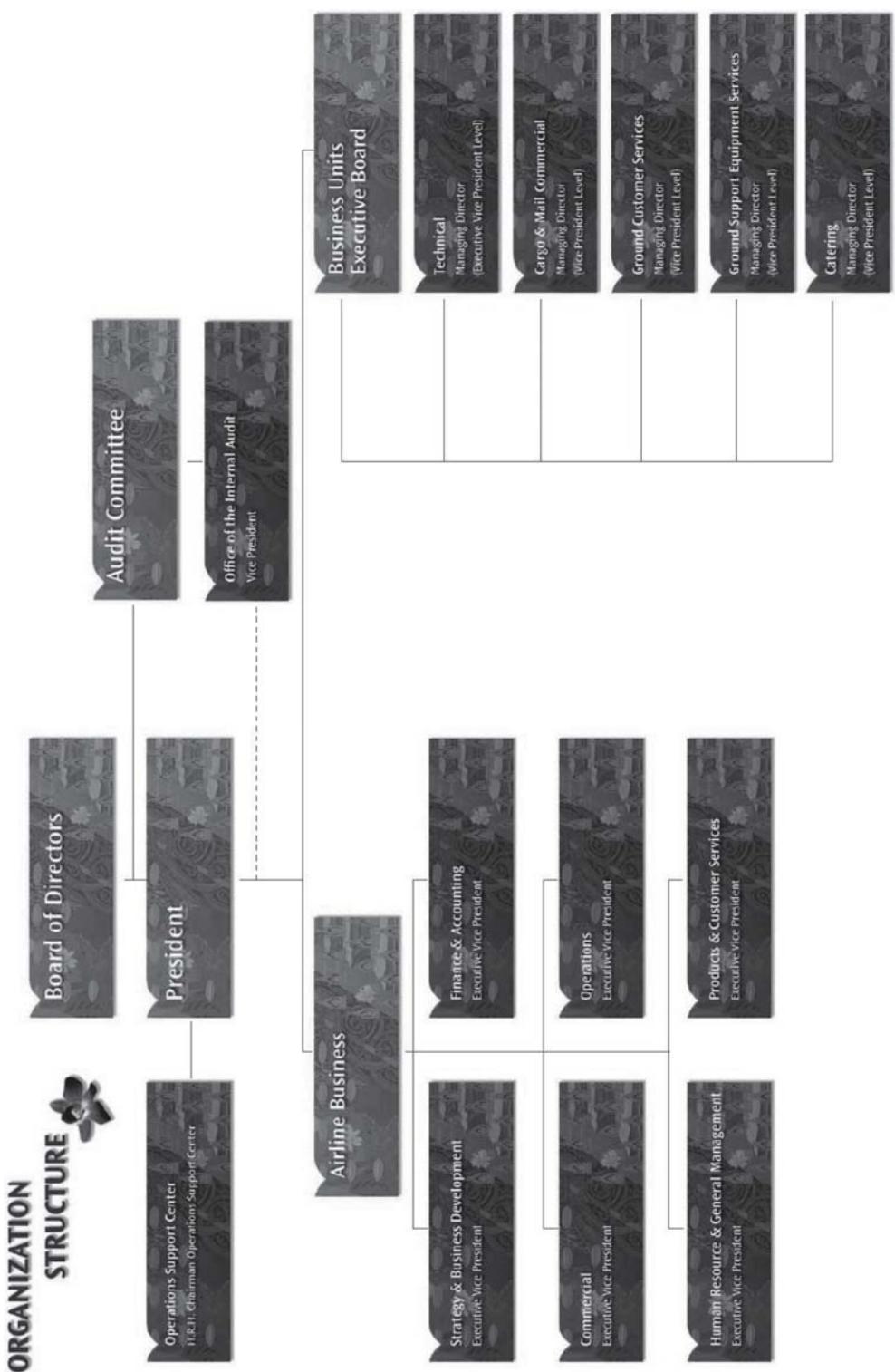
Executive Vice President, Commercial Department,

Joined THAI since July 30, 1984.

Experienced in Marketing, Sale Management and
Cargo&Mail Commercial.



Source: Thaiairways.org (Date Access: May 31, 2010)



Source: Thai Airways International PCL Annual Report 2009

Exhibit 4: IATA Industry Outlook

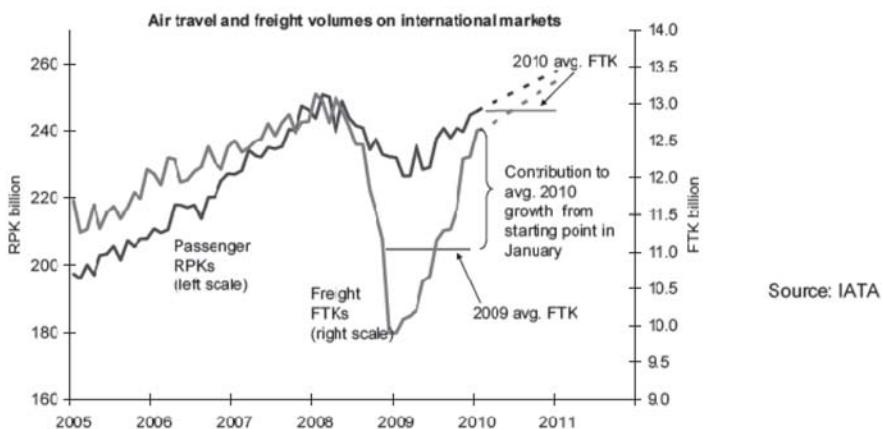


FINANCIAL FORECAST

March 2010

RECOVERY PICKS UP PACE BUT STILL 2-SPEED

- Airline markets rose strongly at the end of last year and early in 2010, but growth remains concentrated in the emerging markets of Asia, Latin America and the Middle East, with benefits accruing mainly to airlines in these regions; highlighting the problems caused by ownership rules. Airlines in the large developed markets of Europe and North America face much more sluggish market growth. This 2-speed recovery in economies, freight and travel markets is reflected in the divergent performance of airlines in different regions. Helped by the strong year end we have cut our estimate of 2009 net losses from US\$11 billion to US\$9.4 billion. More significantly we now forecast smaller losses in 2010 of US\$2.8 billion, compared to our previous forecast of US\$5.6 billion; with the largest improvements benefiting airlines in Asia and Latin America.



- One notable change has been to average traffic growth, which is now expected to be much stronger in 2010 – with a 5.6% rise in air travel volumes and a 12% rise in air freight – mostly due to the very strong recent gains, as the chart above demonstrates. In addition forecasts for economic growth in 2010 have been revised up, with the notable exception of Europe; causing airlines in this region to be the poorest performing.

System-wide global commercial airlines	2007	2008	2009E	2010F	2007	2008	2009E	2010F
	EBIT margin, %	revenues			Net profits, \$ billion			
Global	3.9%	-1.6%	-0.1%	1.6%	12.9	-15.9	-9.4	-2.8
including exceptional items					14.7	-30.0	-9.4	-2.8
Regions								
North America	5.5%	-1.8%	1.3%	1.9%	3.7	-9.5	-3.1	-1.8
including exceptional items					5.5	-24.3	-3.1	-1.8
Europe	4.0%	0.1%	-1.9%	-0.6%	6.4	0.1	-3.8	-2.2
including exceptional items					6.4	-0.9	-3.8	-2.2
Asia-Pacific	2.9%	-4.7%	0.0%	3.7%	3.0	-5.0	-2.7	0.9
including exceptional items					3.0	-9.0	-2.7	0.9
Middle East	0.0%	1.0%	-0.9%	0.2%	-0.1	-0.3	-0.5	-0.4
Latin America	2.0%	2.3%	3.9%	4.1%	0.1	-1.2	0.8	0.8
including exceptional items					0.1	-1.5	0.8	0.8
Africa	1.0%	-0.9%	-1.7%	-0.6%	-0.2	-0.1	-0.2	-0.1

Source: ICAO data to 2007-8. IATA estimates for 2009 and forecasts for 2010.

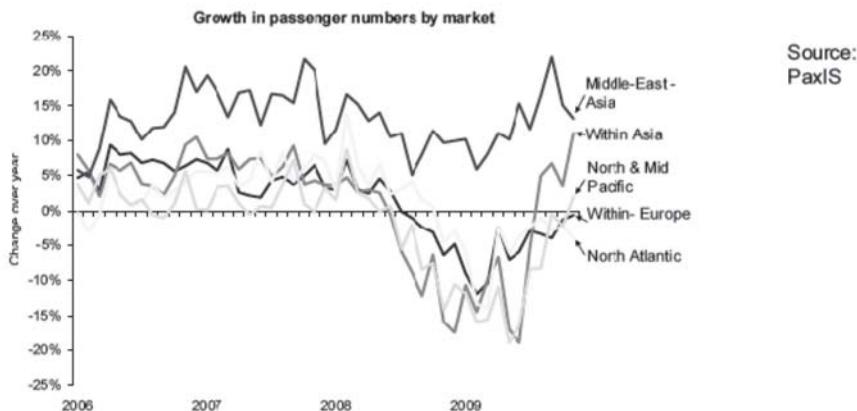
Exceptional items include revaluations of goodwill associated with restructuring and of 'mark to market' fuel hedging.

IATA Economics www.iata.org/economics

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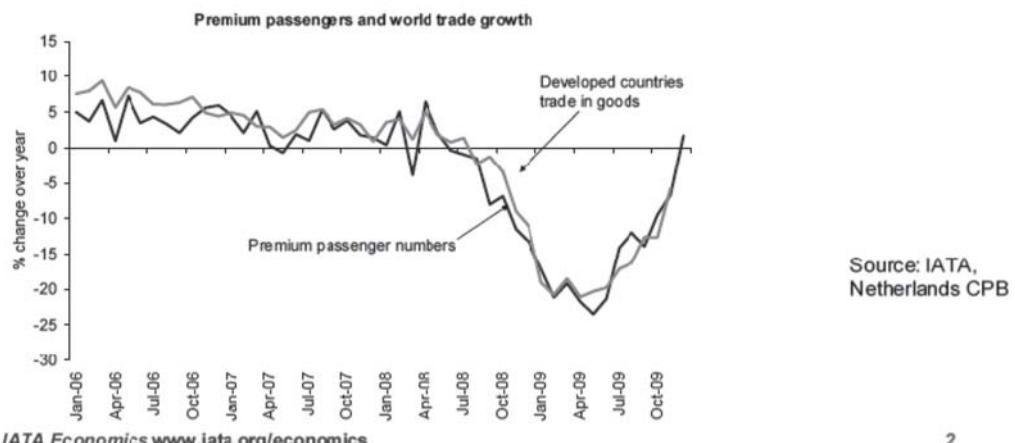
DEMAND REVIVAL UNEVEN ACROSS REGIONS

As one of the most cyclical industries it is not surprising that the financial performance of airlines is closely tied to economic growth in the network areas they serve. But it is unique to this industry that those network areas are tied to local conditions. Although there has been further development of alliance co-operation, joint ventures and some mergers & acquisitions it is the case that airlines are still highly dependent on the traffic generated by their local economies and trade lanes. This is in contrast to many of the companies listed on major stock exchanges that generate their earnings from across the globe; these companies are not restricted by the market and ownership rules that constrain airlines. As a result the airlines doing well in today's environment are those in Asia and Latin America where economic growth has revived the most. The weakest markets in the chart below are clearly across the North Atlantic and within Europe, where the economic recovery has faltered, under pressure from consumer debt and still weak bank balance sheets.



PREMIUM DECLINE CYCLICAL BUT STILL WEAK

Travel has diverged dramatically by seat class as well as market. Economy travel is within a few percentage points of its early 2008 peak levels. Premium travel remains 17% below. The concern had been that this was a permanent shift by business travelers to cheaper seats. The good news is that the decline in premium appears to be due to the unprecedented cyclical decline in world trade and financial markets, and some upturn is evident, as the chart below indicates. The bad news is that the cyclical upturn is not expected to regain the pre-'Great Recession' trend line, given debt problems in the West. Moreover, yields may have suffered some structural decline. Business travelers still want full service on long-haul, but corporate buyers are not prepared to pay as much. Premium yields have picked up but are still 20% below early 2008 levels.



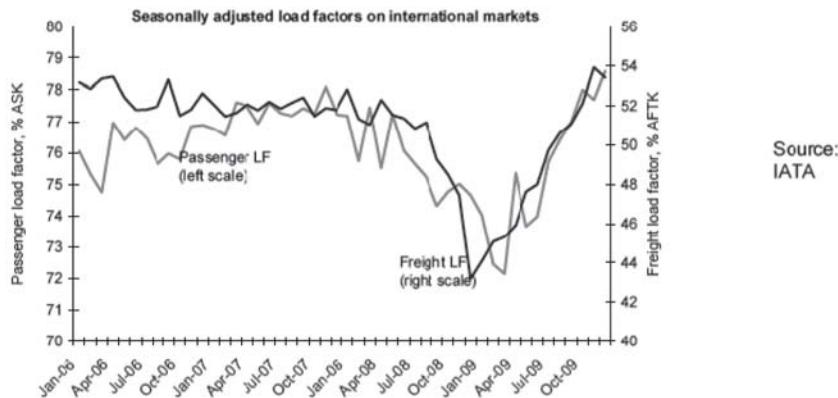
- Growth rates on most travel and freight markets are going to be much higher than expected just a few months ago because of the high starting point effect illustrated in the chart on the front page. But the stimulus, or not, of economic growth through 2010 is also shown in strong regional differences. Double figures market growth is likely this year in the emerging markets of Asia, Latin America and the Middle East. But the larger, developed, markets of Europe and North America are expected to show relatively weak growth. Even so underlying growth of 3% in these regions will be boosted by 50-100% in 2010 as a result of the January starting point generated by the end-2009 upturn.

System-wide global commercial airlines	2007	2008	2009E	2010F	2007	2008	2009E	2010F
	Traffic (TKP), % change over year				Capacity (ATK), % change over year			
Global	5.2	-0.1	-5.2	7.3	5.2	0.7	-4.9	4.0
Regions								
North America	3.5	-4.3	-6.1	6.2	3.2	-3.4	-7.4	3.3
Europe	2.1	0.9	-8.7	4.2	3.5	2.9	-5.6	-1.0
Asia-Pacific	7.8	-0.2	-3.2	12.0	6.9	0.6	-7.4	7.3
Middle East	16.4	3.6	8.5	15.2	14.5	4.7	11.1	14.5
Latin America	9.9	3.3	0.0	12.2	6.9	3.2	1.3	8.1
Africa	4.5	5.1	-5.4	7.4	5.8	7.2	1.6	7.8

Source: ICAO data to 2008. IATA 2009 estimates, 2010 forecasts. Dom. and int. traffic. Includes pax and cargo by weight.

RECORD LOAD FACTORS AS CAPACITY LAGS

- Capacity cuts lagged the downturn in demand, with the exception of the US domestic market in late 2008 and early 2009. Load factors fell sharply. In a highly capital intensive industry high asset utilization is critical for profitability. Losses mounted. However, the subsequent capacity cuts were unusually deep and durable. As a result the recent upturn in demand for both air travel and freight has led to a sharp rise in load factors to record levels, on average.



- Tighter supply-demand conditions on some markets, particularly those originating in Asia, are pulling fares and cargo rates higher. Airlines in those regions are seeing the benefits. But both fares and cargo yields are still 10-20% lower than early 2008 levels. Moreover, it remains to be seen whether these conditions of relatively scarce capacity will persist. There are 1,400 jets and turboprops scheduled to be delivered this year which, if no aircraft were taken out of service, would add 5-6% to the fleet. The other potential source of additional capacity is from the underutilized existing fleet. The chart below shows that there has been a pick-up in single aisle aircraft utilization, on short haul markets, but twin-aisle utilization remains 7-8% down on early 2008 levels. We have become slightly more positive on yields in 2010 as a result of stronger demand, but latent capacity remains an overhang that will limit the upside for yields this year.
- Low long-haul utilization also suggests that these markets will be the most difficult in which to restore profitability. But there is also significant geographical difference underneath these aggregate trends. Short/medium haul markets in Asia and Latin America have picked up while utilization in US domestic markets has been boosted by capacity cuts. This will help profitability to recover. North Atlantic markets are

facing weak demand but capacity is being cut substantially at both ends. Long haul air freight originating from Asia has risen so sharply that there is a shortage of capacity.



GETTING INTO SHAPE FOR THE UPTURN

Stronger economic growth is boosting revenues but it is also pulling oil prices up. In line with the futures curve we have raised our 2010 forecast for oil prices from US\$75 a barrel to US\$79. Airlines need to take out other costs now before labor and other markets tighten to the point where this becomes impossible. Unions are already pushing back at attempts to improve working practices. Restructuring of capacity will be part of this process and there is a lot of alliance and merger activity. But without active loosening of ownership restrictions along the lines suggested by Agenda for Freedom it is hard to see much real progress being made. Cyclical conditions are now improving but the structural challenges to financial sustainability remain.

System-wide global commercial airlines	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010F
REVENUES, \$ billion	307	306	322	379	413	465	510	564	479	522
% change	-6.4	-0.5	5.2	17.7	9.1	12.6	9.6	10.5	-15.0	8.8
Passenger	239	238	249	294	323	365	398	439	367	395
Cargo	39	38	40	47	48	53	59	64	49	56
Traffic volumes										
Passenger growth, t/kp, %	-2.3	-1.0	1.4	16.7	7.0	5.4	5.7	0.4	-2.9	5.6
Passenger numbers, millions	1640	1639	1691	1888	2022	2124	2281	2271	2206	2330
Cargo growth, t/kp, %	-6.0	8.7	3.9	7.9	0.4	3.9	4.0	-1.2	-11.1	12.0
Freight tonnes, millions	28.8	31.4	33.5	36.7	37.6	39.8	41.8	40.5	35.0	40.3
World economic growth, %	2.2	2.7	2.8	4.2	3.4	4.0	3.8	1.7	-2.2	2.8
Passenger yield %	-4.4	0.3	3.3	1.0	2.7	7.4	3.0	9.9	-14.0	2.0
Cargo yield %	1.9	-9.5	2.0	7.4	2.4	6.9	5.9	10.2	-14.2	3.1
EXPENSES, \$ billion	319	311	323	376	409	450	490	573	480	513
% change	0.5	-2.7	4.0	16.2	8.9	10.1	8.8	16.9	-15.2	7.0
Fuel	43	40	44	65	91	107	134	189	113	132
% of expenses	13	13	14	17	22	24	27	33	24	26
Crude oil price, Brent, \$/b	24.7	25.1	28.8	38.3	54.5	65.1	73.0	99.0	62.0	79.0
Non-Fuel	270	270	279	311	310	343	356	304	307	302
cents per alk (non-fuel unit cost)	39.4	39.0	39.2	39.5	38.6	40.1	39.6	42.4	42.6	42.6
% change	0.9	-1.0	0.7	0.6	-2.1	3.9	-1.4	7.2	0.5	0.0
Break-even weight load factor, %	61.3	61.9	60.9	61.9	62.0	61.3	60.8	63.8	62.6	63.6
Weight load factor achieved, %	59.0	60.9	60.7	62.5	62.6	63.3	63.3	62.8	62.6	64.6
OPERATING PROFIT, \$ billion	-11.8	-4.8	-1.4	3.3	4.3	15.0	19.9	-8.9	-0.4	8.2
% margin	-3.8	-1.6	-0.4	0.9	1.0	3.2	3.9	-1.6	-0.1	1.6
NET PROFIT, \$ billion	-13.0	-11.3	-7.5	-5.6	-4.1	3.6	12.9	-15.9	-9.4	-2.8
% margin	-4.2	-3.7	-2.3	-1.5	-1.0	0.8	2.5	-2.8	-2.0	-0.5

Source: ICAO data to 2008. IATA 2009 estimates and 2010 forecasts. Excludes exceptional accounting items and mark-to-market fuel hedging losses from net profits

IATA Economics www.iata.org/economics

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Source: iata.org (Date Access: May 31, 2010)

Exhibit 5: The Airlines Alliances

An airline alliance is an agreement between two or more airlines to cooperate on a substantial level. The three largest passenger alliances are the Star Alliance, SkyTeam and Oneworld. Alliances provide a network of connectivity and convenience for international passengers and international packages. Alliances also provide convenient marketing branding to facilitate travelers making inter airline codeshare connections within countries. This branding goes as far as to even include unified aircraft liveries among member airlines.

Benefits can consist of:

- An extended and optimized network: this is often realised through code sharing agreements. Many alliances started as only a code sharing network.
- Cost reduction from sharing of:
 - Sales offices
 - Maintenance facilities
 - Operational facilities, e.g. catering or computer systems.
 - Operational staff, e.g. ground handling personnel, at check-in and boarding desks.
 - Investments and purchases, e.g. in order to negotiate extra volume discounts.
- Traveler benefits can include:
 - Lower prices due to lowered operational costs for a given route.
 - More departure times to choose from on a given route.
 - More destinations within easy reach.
 - Shorter travel times as a result of optimised transfers.
 - A wider range of airport lounges shared with alliance members
 - Faster mileage rewards by earning miles for a single account on several different carriers.
 - Round-the-world tickets, enabling travelers to fly over the world for a relatively low price.

Membership and market data for the largest airline alliances (as of December 2008)

	Star Alliance 27 members Founded 1997	SkyTeam 11 members Founded 2000	Oneworld 11 members Founded 1999	Rest of Industry (selected major non-aligned carriers)
Passengers per year	623.53 million	462 million	328.63 million	489 million (most destinations are served by some non-aligned carrier)
Destinations	1167	905	673	
Revenue (Billion US\$)	153.51	97.9	99.78	113
Market share	29.3%	20.6%	23.2%	26.9%
Participants¹	Members (JP) Adria Airways 2004 (AC) Air Canada founder (CA) Air China 2007 (NZ) Air New Zealand 1999 (NH) ANA 1999 (OZ) Asiana Airlines 2003 (OS) Austrian Airlines 2000 (KF) Blue1 2004 (BD) BMI 2000 (SN) Brussels Airlines 2009 (CO) Continental 2009 (OU) Croatia Airlines 2004 (MS) EgyptAir 2008 (LO) LOT Polish Airlines 2003 (LH) Lufthansa founder (SK) SAS founder (FM) Shanghai Airlines 2007 (SQ) Singapore Airlines 2000 (SA) South African Airways 2006 (JK) Spanair 2003 (LX) Swiss International Air Lines 2006 (JJ) TAM Airlines	Members (SU) Aeroflot 2006 (AM) Aeroméxico founder (UX) Air Europa 2007-associate (AF) Air France (founder) (AZ) Alitalia 2001 (CZ) China Southern 2007 (OK) Czech Airlines 2001 (DL) Delta founder (KQ) Kenya Airways 2007-associate (KL) KLM 2004 (KE) Korean Air founder (VV) Future Members (RO) TAROM 2010-associate (VN) Vietnam Airlines 2010 (ME) MEA 2010-associate (MU) China Eastern 2011 Former Members (CO) Continental Airlines 2004-2009, changed to Star Alliance (CM) Copa Airlines 2007-2009 (NW) Northwest International Air Lines Merged with Delta	Members (AA) American Airlines founder (BA) British Airways founder (CX) Cathay Pacific (CU) founder (AY) Finnair 1999 (IB) Iberia 1999 (JL) Japan Airlines 2007 (LA) LAN 2000 (MA) Malév 2007 (MX) Mexicana 2009 (QF) Qantas (founder) (RJ) Royal Jordanian 2007 Future Members (S7) S7 Airlines 2010 (IT) Kingfisher 2010 (ME) MEA 2011 Former Members (CP) Canadian Airlines 1999-2001, acquired by Air Canada	Americas (AR) Aerolineas Argentinas (AS) Alaska Airlines (AV) Avianca (CU) Cubana (G3) Gol Transportes Aéreos (TA) Grupo TACA (HA) Hawaiian Airlines (B6) JetBlue (FL) AirTran (WN) Southwest (WS) Westjet Europe / C.I.S. (EI) Aer Lingus (VV) Aerovit (AB) Air Berlin (KM) Air Malta (CY) Cyprus Airways (FI) Icelandair (JU) Jat Airways (DY) Norwegian Air Shuttle (FV) Rossiya (UN) Transaero (VS) Virgin Atlantic Africa & Middle East (AH) Air Algérie

2010	(W3)
(TP) TAP Portugal	Arik Air
2005	(LY)
(TG) Thai Airways	El Al Airlines
International	(EK)
founder	Emirates
(TK) Turkish Airlines	(ET)
2008	Ethiopian Airlines
(UA) United Airlines	(EY)
founder	Etihad Airways
(US) US Airways	(GF)
2004	Gulf Air
	(QR)
Future Members	Qatar Airways
(A3) Aegean	(SV)
Airlines/Olympic Air	Saudi Arabian Airlines
2010	Asia
(AI) Air India	(CI)
2010	China Airlines
Former Members	(HU) Hainan Airlines
(AN) Ansett Airlines	(9W)
1999-2001, defunct	Jet Airways
(MX) Mexicana	(GA)
2000-2004, later	Garuda Indonesia
joined Oneworld	(MH)
(RG) Varig	Malaysia Airlines
1997-2007, ejected	(PK)
	Pakistan International
	Airlines
	(PR)
	Philippine Airlines

Source: staralliance.com, skyteam.com, oneworld.com (Date Access: May 31, 2010)

Exhibit 6: Financial Statements of Thai Airways International PCL & Peers in the past 5 years (2005-2009)

FINANCIAL HIGHLIGHTS



	Consolidated		
	2009 (Jan-Dec)	2008 (Jan-Dec)	2007 (Jan-Dec)

Statement of Income

Total Revenue	(Million Baht)	163,875	202,606	199,921
Total Expense	(Million Baht)	150,030	*220,720	188,656
Profit (Loss) before Finance Costs and Income Tax Expense	(Million Baht)	13,845	(18,114)	11,265
Net Profit (Loss)	(Million Baht)	7,344	(21,379)	4,368

* Including reserved for potential damages arising from Antitrust and Competition Law as well as an impairment loss on aircraft value in the amount of THB 4,290 million and THB 4,426 million, respectively.

Balance Sheets

Total Assets	(Million Baht)	271,694	259,534	280,275
Total Liabilities	(Million Baht)	218,450	213,652	212,250
Shareholders' Equity	(Million Baht)	53,244	45,882	68,025

Shares

Issued and Paid-up Share Capital	(Million Shares)	1,698.90	1,698.90	1,698.90
Par Value	(Baht)	10.00	10.00	10.00
Earnings Per Share	(Baht)	4.32	(12.58)	2.57
Dividend Per Share	(Baht)	-	-	1.80

Financial Ratios

Net Profit to Total Revenues	(%)	4.5	(10.6)	2.2
Return on Total Assets	(%)	2.8	(7.9)	1.7
Return of Equity	(%)	14.8	(37.5)	6.5
Total Debt to Equity	(%)	4.1	4.7	3.1

Note: Due to the change in the accounting period to a calendar year (January 1 - December 31) the Company restated the financial statement for the year 2008 in order to compare with the change in accounting period, beginning on or after 2009

REVENUE STRUCTURE



Details of the Company's total revenue are as follows:

1. Revenue from passengers and excess baggage for each route including charter flights
2. Revenue from freight by weight, type, size and destination
3. Revenue from mail
4. Revenue from business units and support activities
5. Revenue from subsidiaries
6. Other income

	2009		2008		2007	
	MTHB	%	MTHB	%	MTHB	%
Revenue from domestic transportation						
Passengers and excess baggage	15,177	9.26	16,080	7.94	13,434	6.72
Freight	378	0.23	376	0.18	392	0.19
Mail	1	-	3	-	-	-
Revenue from other activities - domestic						
Business Units	6,821	4.17	7,976	3.94	8,156	4.08
Supporting	574	0.35	692	0.34	787	0.39
Total operating revenue - domestic	22,951	14.01	25,127	12.40	22,769	11.38
Revenue from international transportation						
Passengers and excess baggage	119,302	72.80	148,238	73.19	147,124	73.55
Freight	18,148	11.08	25,464	12.57	25,665	12.83
Mail	822	0.50	911	0.45	978	0.49
Total operating revenue - international	138,272	84.38	174,613	86.21	173,767	86.87
Revenue from subsidiary						
Thai-Amadeus Southeast Asia Co., Ltd.	380	0.23	378	0.19	373	0.19
Total operating revenue	161,603	98.62	200,118	98.80	196,909	98.44
Other income						
Share of profit from associated companies	(9)	(0.01)	(65)	(0.03)	101	0.05
Interest income	178	0.11	493	0.24	745	0.37
Others	2,094	1.28	1,994	0.99	2,267	1.14
Total other income	2,263	1.38	2,422	1.20	3,113	1.56
Total revenue	163,866	100.00	202,540	100.00	200,022	100.00

BALANCE SHEETS



THAI AIRWAYS INTERNATIONAL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY
AS AT DECEMBER 31, 2009 AND 2008

Units : Baht

Notes	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
ASSETS				
Current Assets				
Cash and cash equivalents	8.1	14,299,680,924	7,445,516,395	14,064,775,967
Temporary investments		350,000,000	530,000,000	-
Trade accounts receivable-net	8.2	15,307,562,527	15,828,787,561	15,229,390,710
Inventories and supplies-net	8.3	6,197,959,528	6,779,288,740	6,197,959,528
Prepaid expenses and deposits		4,460,219,285	4,707,223,683	4,454,258,206
Other current assets	8.4	6,672,942,805	6,831,132,790	6,636,287,703
Total Current Assets		47,288,365,069	42,121,949,169	41,471,555,409
Non-Current Assets				
Investment in associates	8.5.1	1,240,961,713	1,337,095,375	723,520,500
Investment in subsidiary	8.5.1	-	-	8,250,000
Other long-term investments	8.5.2	86,413,463	87,996,063	86,413,463
Property, Plant and Equipment-Net	8.7	213,505,196,888	207,063,975,232	213,483,314,774
Intangible assets-net	8.8	651,908,453	807,891,935	646,822,436
Assets for sales		883,280,235	-	883,280,235
Deferred income tax assets	8.9	5,730,814,300	6,405,772,675	5,718,494,474
Other non-current assets	8.10	2,307,147,036	1,710,260,678	2,306,773,221
Total Non-Current Assets		224,405,722,088	217,412,991,958	223,856,869,103
Total Assets		271,694,087,157	259,534,941,127	258,223,920,162

The accompanying notes are an integral part of these financial statements.

BALANCE SHEETS



THAI AIRWAYS INTERNATIONAL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY
AS AT DECEMBER 31, 2009 AND 2008

Units : Baht

Notes	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Bank overdrafts and short-term loans from financial institutions	8.11	-	16,930,000,000	-
Trade accounts payable		6,584,444,469	6,573,066,423	6,579,114,979
Current portion of long-term liabilities				
Debentures	8.15	10,955,290,000	7,500,000,000	10,955,290,000
Long-term loans from related parties	8.12	2,072,000,000	572,000,000	2,072,000,000
Long-term loans from others	8.12	400,000,000	-	400,000,000
Liabilities under finance leases	8.13	11,312,930,437	10,153,590,708	11,312,930,437
Promissory notes from related parties	8.14	500,000,000	650,000,000	500,000,000
Promissory notes from others	8.14	250,000,000	400,000,000	250,000,000
Short-term loans from related parties	8.11	1,116,109,440	4,558,272,000	1,116,109,440
Short-term provisions	8.18.5	458,200,000	458,200,000	458,200,000
Other current liabilities				
Accrued expenses		13,629,235,002	15,757,105,163	13,607,050,871
Accrued dividends		70,615,864	71,253,242	70,615,864
Accrued income taxes		32,134,145	34,188,813	-
Unearned transportation revenues		24,950,135,646	30,262,520,143	24,950,135,646
Deferred income	8.16	1,979,762,723	-	1,979,762,723
Others	8.17	6,140,644,300	4,662,994,685	6,116,204,661
Total Current Liabilities		80,451,502,026	98,583,191,177	80,367,414,621
Non-Current Liabilities				
Long-term liabilities				
Debentures	8.15	29,334,710,000	35,500,000,000	29,334,710,000
Long-term loans from related parties	8.12	9,446,672,000	4,831,296,000	9,446,672,000
Long-term loans from others	8.12	22,600,000,000	-	22,600,000,000
Liabilities under finance leases	8.13	68,028,272,475	65,335,908,882	68,028,272,475
Promissory notes from related parties	8.14	-	500,000,000	-
Promissory notes from others	8.14	-	250,000,000	-
Staff pension fund	8.29	4,708,607,486	4,777,978,683	4,708,607,486
Long-term provisions	8.18	3,880,336,949	3,874,319,870	3,880,336,949
Other non - current liabilities		26,914	114,222	-
Total Non-Current Liabilities		137,998,625,824	115,069,617,657	137,998,598,910
Total Liabilities		218,450,127,850	213,652,808,834	218,366,013,531
Shareholders' Equity				
Share capital	8.20			
Authorized				
1,700.00 million ordinary shares par value of Baht 10 each		17,000,000,000	17,000,000,000	17,000,000,000
Issued and paid-up				
1,698.90 million ordinary shares par value of Baht 10 each		16,989,009,500	16,989,009,500	16,989,009,500
Premium on ordinary shares		15,637,625,278	15,637,625,278	15,637,625,278
Retained earnings				
Appropriated				
Legal reserve	8.21	1,700,000,000	1,700,000,000	1,700,000,000
Unappropriated		18,619,766,346	11,276,187,481	17,746,892,908
Total Company Shareholders' Equity		52,946,401,124	45,602,822,259	52,073,527,686
Minority Interests		297,558,183	279,310,034	-
Total Shareholders' Equity		53,243,959,307	45,882,132,293	52,073,527,686
Total Liabilities and Shareholders' Equity		271,694,087,157	259,534,941,127	270,439,541,217
<i>The accompanying notes are an integral part of these financial statements.</i>				

STATEMENTS OF INCOME



THAI AIRWAYS INTERNATIONAL PUBLIC COMPANY LIMITED AND ITS SUBSIDIARY

For the years ended December 31, 2009 and 2008

Units : Baht

Notes	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
Revenues				
Revenues from Sale or Revenues from Services				
Passenger and excess baggage	134,479,296,254	164,318,701,819	134,479,296,254	164,318,701,819
Freight	18,525,307,811	25,840,755,700	18,525,307,811	25,840,755,700
Mail	822,754,186	912,990,339	822,754,186	912,990,339
Other activities	7,775,384,234	9,045,532,774	7,395,296,568	8,667,504,802
Total Revenues from Sale or Revenues from Services	161,602,742,485	200,117,980,632	161,222,654,819	199,739,952,660
Other Income				
Interest income	178,067,252	493,287,861	164,924,864	478,228,682
Others	8.23	2,093,717,478	1,994,352,142	2,248,356,186
Total Other Income	2,271,784,730	2,487,640,003	2,413,281,050	2,619,146,369
Total Revenues	163,874,527,215	202,605,620,635	163,635,935,869	202,359,099,029
Expenses				
Fuel and oil	47,014,753,162	89,459,872,853	47,014,753,162	89,459,872,853
Personnel	26,191,239,889	30,534,030,465	26,135,364,671	30,505,809,960
Management benefit expenses	8.22	60,916,443	93,395,719	59,401,478
Flight service expenses		17,691,615,362	19,938,599,141	17,691,615,362
Crew expenses		5,243,530,868	6,542,134,756	5,243,530,868
Aircraft maintenance and overhaul costs		10,320,750,374	10,847,783,197	10,320,750,374
Depreciation and amortisation expenses		21,023,460,156	20,281,081,576	21,008,481,119
Lease of aircraft and spare parts		1,531,697,470	3,650,964,476	1,531,697,470
Inventories and supplies		8,496,583,764	8,826,777,548	8,496,583,764
Selling and advertising expenses		6,221,182,125	6,932,244,544	6,177,708,638
Insurance expenses		760,064,787	751,270,159	760,064,787
Damages arising from Antitrust/ Competition Law	8.18.5	-	4,290,169,870	-
Impairment losses of assets		529,056,765	4,749,840,736	529,056,765
Other expenses	8.24	8,103,657,883	9,285,303,024	8,056,875,218
Losses (gains) on foreign currency exchange		(3,167,360,443)	4,471,388,154	(3,166,632,320)
Total Expenses	150,021,148,605	220,654,856,218	149,859,251,356	220,669,466,543
Share of losses (profits) of investments by the equity method		8,562,792	65,137,572	-
Profits (Losses) before Finance Costs and Income Tax Expenses	13,844,815,818	(18,114,373,155)	13,776,684,513	(18,310,367,514)
Finance costs		5,737,562,830	5,485,264,531	5,737,562,830
Profits (Losses) before Income Tax Expenses	8,107,252,988	(23,599,637,686)	8,039,121,683	(23,795,632,045)
Net tax expenses (tax income)	8.25	691,425,974	(2,285,253,584)	621,712,450
Net Profits (Losses)	7,415,827,014	(21,314,384,102)	7,417,409,233	(21,450,365,404)
Profits (Losses) Attributable to:				
Equity holders of the parent		7,343,578,865	(21,379,451,415)	7,417,409,233
Minority interests		72,248,149	65,067,313	-
Basic Earnings per Share	8.27	4.32	(12.58)	4.37
Net profits (losses) per share				

The accompanying notes are an integral part of these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.4 Property, Plant and Equipment and Depreciation

3.4.1 Aircraft and aircraft under finance leases

3.4.1.1 Aircraft and aircraft under finance leases are stated at cost, including where applicable (engines and other flight equipment), as well as cost of decoration incurred prior to the aircraft being placed into service but excluding passenger seats and the first estimated overhaul cost, less any concessions for the acquisition of aircraft. Depreciation is calculated on a straight-line basis over an estimated useful life of 20 years with a residual value of 10% of cost. As for the aircraft and aircraft under finance leases, which the Company has taken the delivery since the fiscal year of 2006/07, and the existing aircraft having the same as those aircraft type are calculated the depreciation on a straight-line basis over the estimated useful life of 15 years with a residual value of 10% of cost.

3.4.2 Aircraft spare parts are stated at cost on the acquisition date and depreciated on a straight-line basis over an estimated useful life of 5-20 years.

3.4.3 Other fixed assets are stated at cost on the acquisition date or on the date of completion of construction and depreciated on a straight-line basis over an estimated useful life of 5-30 years.

8.7 Property, Plant and Equipment – Net

	Consolidated					Units : Million Baht	
	Aircraft	Aircraft under finance leases	Aircraft spare parts	Land, buildings and Improvements	Other plant and equipment	Total	
Accumulated depreciation							
As at January 1, 2009	83,695.72	32,991.75	19,347.37	9,600.35	20,119.67	165,754.86	
- Depreciation	6,569.30	9,158.71	2,158.76	752.32	2,022.23	20,661.32	

The Company uses buildings and equipment that are now fully depreciated with historical cost of THB 39,528.03 million including the leasehold buildings amount of THB 3,924.16 million.

8.8 Intangible Assets-net

	Units : Million Baht	
	Consolidated	The Company
- Amortisation	254.30	253.70

Source: Thai Airways International PCL Annual Report 2009

Financial Statements of THAI's peers (*Source: Thompson Reuters Database*)

(Unit: Million SGD)

Singapore Airlines Ltd	2009	2008	2007	2006
Revenue	15,996.300	15,972.500	14,494.400	13,341.100
Operating Result (Profit and Loss)	945.000	2,124.500	1,315.000	1,225.400
Net Profit Or Loss	1,146.800	2,136.900	2,202.400	1,309.500
Common Stock Dividends	468.200	1,185.900	1,245.200	551.300
Average Shares	1,184.700	1,216.000	1,233.600	1,217.927
Total Assets	24,818.500	26,515.200	25,992.000	23,369.500
Current Liabilities	5,918.700	5,867.500	5,258.400	4,842.500
Long Term Debt	1,392.900	1,599.200	1,805.800	1,824.400
Minority Interests (Balance Sheet)	559.800	503.700	443.300	396.300
Shareholders Equity	13,930.600	15,125.200	15,100.000	13,470.600

(Unit: Million HKD)

Cathay Pacific Airways Ltd	2009	2008	2007	2006	2005
Revenue	66,978.000	86,563.000	75,358.000	60,783.000	50,909.000
Operating Result (Profit and Loss)	5,733.000	-7,561.000	7,739.000	5,218.000	4,143.000
Net Profit Or Loss	4,864.000	-8,472.000	7,210.000	4,272.000	3,468.000
Common Stock Dividends	393.000	118.000	3,305.000	3,305.000	1,623.000
Average Shares	3,934.000	3,934.000	3,938.000	3,526.000	3,377.000
Total Assets	113,824.000	115,046.000	118,042.000	102,731.000	78,254.000
Current Liabilities	29,811.000	32,755.000	27,394.000	24,723.000	17,579.000
Long Term Debt	34,814.000	36,025.000	32,490.000	25,792.000	18,892.000
Minority Interests (Balance Sheet)	147.000	120.000	178.000	152.000	283.000
Shareholders Equity	42,238.000	36,709.000	50,549.000	45,386.000	34,968.000

(Unit: Million AUD)

Qantas Airways Ltd	2009	2008	2007	2006	2005
Revenue	13,017.000	14,246.000	14,032.000	12,580.200	11,524.200
Operating Result (Profit and Loss)	181.000	1,408.000	965.100	671.200	914.300
Net Profit Or Loss	123.000	970.000	672.800	480.000	689.300
Common Stock Dividends	117.000	664.100	512.800	427.300	376.700
Retained Profit Or Loss	0.000	304.900	159.800	52.200	311.800
Average Shares	2,089.286	1,977.551	1,976.800	1,927.700	1,869.200
Total Assets	20,049.000	19,700.000	19,493.700	19,183.300	18,390.400
Current Liabilities	6,714.000	7,604.000	6,939.200	5,427.000	5,031.700
Long Term Debt	4,895.000	3,573.000	4,210.900	5,334.800	5,599.700
Deferred Liabilities	533.000	423.000	445.300	479.700	443.300
Minority Interests (Balance Sheet)	44.000	4.000	4.900	4.900	4.200
Shareholders Equity	5,721.000	5,731.000	5,634.900	6,076.200	5,525.700

(Unit: Million NZD)

Air New Zealand Ltd	2009	2008	2007	2006	2005
Revenue	4,609.00	4,667.00	4,279.00	3,805.00	3,616.00
Operating Result (Profit and Loss)	7.00	304.00	266.00	150.00	235.00
Net Profit Or Loss	21.00	218.00	221.00	96.00	180.00
Common Stock Dividends	69.00	106.00	162.00	50.00	50.00
Average Shares	1,061.00	1,055.00	1,022.00	1,000.00	799.07
Total Assets	5,045.00	5,023.00	4,666.00	4,785.00	4,092.00
Current Liabilities	1,759.00	1,707.00	1,576.00	1,581.00	1,220.00
Long Term Debt	1,132.00	1,170.00	1,275.00	1,113.00	809.00
Deferred Liabilities	164.00	116.00	91.00	94.00	99.00
Shareholders Equity	1,605.00	1,577.00	1,388.00	1,594.00	1,541.00

(Unit: Million MYR)

Malaysian Airline Systems Bhd	2009	2008	2007	2006	2005
Revenue	11,309.855	13,980.571	13,756.523	12,216.909	8,956.849
Operating Result (Profit and Loss)	534.873	303.047	560.959	-347.294	-1,121.381
Pretax Profit Or Loss	461.990	264.661	840.911	-74.654	-1,232.946
Net Profit Or Loss	493.106	245.575	811.321	-135.272	-1,251.603
Average Shares	2,053.599	2,053.504	1,802.458	1,718.778	1,707.397
Total Assets	8,517.541	10,071.596	10,061.981	7,025.882	6,283.459
Current Liabilities	5,497.253	4,887.350	5,256.045	5,135.934	4,259.623
Long Term Debt	2,272.692	985.577	859.672	0.000	0.000
Minority Interests (Balance Sheet)	11.869	11.278	11.056	15.246	13.152
Shareholders Equity	677.651	4,127.622	3,876.817	1,873.425	2,009.857

(Unit: Million KRW)

Asiana Airlines Inc	2009	2008	2007	2006	2005
Revenue	3,476,506.792	3,818,769.462	3,265,098.254	3,127,556.012	2,769,785.598
Operating Profit & Loss	-236,680.743	-52,677.753	171,613.109	126,983.895	57,560.573
Net Profit Or Loss	-266,316.179	-227,169.497	106,255.751	130,614.598	31,254.262
Common Stock Dividends	0.000	0.000	26,275.611	26,275.611	0.000
Average Shares	175.172	175.171	175.171	175.171	175.171
Total Assets	5,814,972.151	5,990,244.307	4,127,367.326	3,836,803.507	3,563,161.201
Current Liabilities	2,533,297.004	2,411,545.003	1,209,187.033	1,039,885.399	1,056,997.677
Long Term Debt	2,128,744.536	2,362,811.792	1,561,034.129	1,538,469.875	1,386,704.040
Deferred Liabilities	71,128.053	68,913.027	60,590.790	51,216.842	37,544.320
Shareholders Equity	731,791.365	786,101.315	1,104,091.332	1,016,162.438	907,267.967

Exhibit 7: Dividends Payout History, Dividend Policy, Share Information, SAA Consensus Target Price of THAI**Dividends Payout History**

Date	X-Date	Payment Date	Dividend Type	Dividend (Baht/Share)
26/02/10	31/03/10	27/05/10	Cash Dividend	0.25
18/03/09			No Dividend	0.00
25/02/08	18/04/08	09/05/08	Cash Dividend	0.45
26/11/07	07/01/08	25/01/08	Cash Dividend	1.80
22/11/06	05/01/07	26/01/07	Cash Dividend	1.65
23/11/05	03/01/06	20/01/06	Cash Dividend	1.50

Dividend Policy

THAI's dividend policy is to pay an annual dividend of not less than 25% of profit before consideration of gain/loss from foreign currency exchange on the Company's consolidated financial statements and is subject to consideration of future investment plans and other relevant factors.

Share Information

Number of shares Authorized	1,700 million shares (as from 13 December 2000)
Issued	1,698,900,950 shares (as of 10 January 2008)
Paid up Capital	16,989,009,500 Baht
Floating Stock	46.21% Stock
Date of Listing	23 July 1992

Shareholders (As of the April 2, 2009 Share Register Book closure date)

Ranking	Name of Shareholders	Number of Shares	Percentage
1	Ministry of Finance	866,997,841	51.033
2	Vayupak Fund 1 by MFC Asset Management Pcl.	145,458,350	8.562
3	Vayupak Fund 1 by Krung Thai Asset Management Pcl.	145,458,350	8.562
4	Thai NVDR Company Limited	76,521,546	4.504
5	Government Saving Bank	46,409,885	2.732
6	Mellon Bank, N.A.	26,156,136	1.540
7	Citibank Nominees Singapore PTE. LTD.-UBS AG London Branch-NRB	16,224,700	0.955
8	NORTRUST Nominees Limited-NTGS	15,079,700	0.888
9	Social Security Office	14,826,600	0.873
	Total paid up capital	1,698,900,950	100.00
	Thai Shareholders	1,564,274,985	92.08
	Foreign Shareholders	134,625,965	7.92

SAA Consensus Target Price (As of April 2010, for the End of Year 2010)

Broker	Target Price (Baht)	Net Profit (million Baht)
US	24.80	7,192
SCB	26.00	11,079
KIMENG	28.00	7,218
KS	28.00	9,026
TNS	28.00	7,060
SCIBS	30.00	11,114
TRINITY	31.00	8,575
DBSV	33.50	14,465
TSC	35.00	5,915
KTZ	-	8,703

Source: settrade.com (Date Access: May 31, 2010)

Exhibit 8: Ranking Criteria of SkyTrax

The World Airline Awards™ are based on the World Airline Survey by Skytrax, the Trusted, Independent, Global Airline Awards.

The Awards are recognised around the world, and renowned for being the only truly global, Independent passenger survey of airline standards. The survey does not receive any outside or third-party sponsorship, with all funding to cover survey costs coming from the Research Division of SKYTRAX. The World Airline Awards have gained worldwide esteem and respect through the strict adherence to the original Survey purpose that was drawn up by SKYTRAX in 1998 - to conduct studies that offered a global coverage, and to publish results without recourse to any hidden agendas or seeking commercial gain.

The survey measures over 35 different aspects of passenger satisfaction for each airline's product and service standards - evaluating the 'typical' travel experience across both Airport and Onboard environments. Operating since 1999, the survey is held in highest esteem for its clarity of process and rigorously applied rules of complete independence.

The World Airline Survey is regarded as the primary benchmarking tool for Passenger Satisfaction levels of airlines throughout the world - constituting a unique survey format based upon analysis of both business and leisure travellers, and across all cabin travel types (First / Business / Premium Economy & Economy class passengers). Award winners are selected by the airline industry's most important audience - it's customers.

World Airline Awards - the Survey methodology

Worldwide survey interviews totalled 17.94 million - with more than 100 different passenger nationalities participating. For the award of the year 2010, the survey was operated over a 10 month period (July 2009 to April 2010), during which time air travellers completed a wide range of survey nominations - for the Airline of the Year title, together with regional and other award categories.

- Passenger Interviews completed online
- Business Research Group / Travel Panel
- Corporate Travel Questionnaire
- Telephone Interviews
- Selected Telephone Passenger Interviews

Product and Service factors ranked by customers in the survey included:

GROUND / AIRPORT	ONBOARD : PRODUCT	ONBOARD : STAFF SERVICE
<ul style="list-style-type: none">• Standard of Airline web site• Online Booking service• Online check-in services• Airport Ticket Counters• Waiting times at Check-in• Quality of Check-in service• Self Check-in options• Boarding Procedures• Pre-boarding for families• Friendliness of Ground staff• Efficiency of Ground Staff• Transfer services• Arrival services• Baggage Delivery• Handling Delays	<ul style="list-style-type: none">• Cabin Seat comfort• Cabin Cleanliness• Toilet Cleanliness• Cabin Lighting / Ambience• Cabin Temperatures• Cabin Comfort amenities• Reading Materials• Airline magazine• Inflight Entertainment standards• Audio/Movie programming• AVOD options• Quality of Meals• Quantity of Food served• Meal Choices• Selection of Drinks / Pay bar formats	<ul style="list-style-type: none">• Assistance during Boarding• Friendliness of Staff• Service Attentiveness / Efficiency• Consistency of Service across different flights• Staff Language skills• Meal service efficiency• Availability thru Flight / Cabin presence• PA announcements• Assisting families with children• Problem solving Skills• General Staff Attitudes• Staff Grooming

Additional research included detailed back-up interviews amongst a representative sample of Survey respondents. This research was to investigate respondent reasons for Best Airline nominations, and prime satisfaction drivers when using an airline.

Data weighting was applied to provide nomination equity when evaluating airlines of different size. Data weighting used passenger numbers for airlines featured in the Survey.

ONLINE VOTING & DISQUALIFICATION

All online Survey interviews are screened to identify and monitor ISP / user information and delete all duplicate / multiple entries. The Skytrax poll-breaker program applies pattern-checking to all survey interviews. This identifies all nominations that follow similar rating patterns, or duplicating earlier entries - especially important to ensure that virtual private network users cannot submit multiple or misleading entries. The net result of the Skytrax "poll-breaker" program was that some 3.08 per cent of total responses

were ruled ineligible in this 2009/2010 World Airline Survey, to ensure maximum accuracy of final results.

No financial payment was made to any survey interviewees, and the cost of the Survey is funded by Skytrax, with no third party financial sponsorship or support.

SURVEY INCENTIVE

A survey “prize incentive” was offered to respondents participating in this 2009/2010 World Airline Survey. A series of survey prizes were awarded during the project. Survey prizes are supplied by Skytrax, no financial assistance or sponsorship is supplied by any airport or third party.

IMPORTANT NOTE

Skytrax are unable to provide more information to general enquiries, other than that supplied in these Survey pages.

Source: worldairlineawards.com (Date Access: May 31, 2010)

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