

**Management's Discussion and Analysis for the Second Quarter of Financial Year 2008 ending June 30, 2008 for Thai Airways International Public Company Limited and Its Subsidiary**

**1. Operating Result**

For the second quarter of financial year 2008 (April 1 - June 30, 2008), the Company has adjusted its flight schedules in regional and intercontinental routes to cope with the low season period and a sharp rise in the jet fuel price, which adversely effected the operation of an airlines industry. The jet fuel price has risen 73% over 2Q07. The Company has increased its flight frequency to Ho Chi Minh City , Chennai , Colombo , Delhi , Jakarta , Nagoya , Melbourne and Athens as well as reduced its flight frequency to Yangon , Singapore , Seoul , Busan , Auckland and Moscow. In addition, the Company has suspended its flight to Bodhgaya and Varanasi.

The Company's passenger production (Available Seat-Kilometer : ASK) increased by 2.5% from the same period last year. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) increased by 4% over the same period. The average cabin factor increased to 76.1% compared with that of 75.1% last year. The average load factor increased from 67.8% last year to 69.7% as at 2Q08.

Due to the rapid and continuous rise in fuel price, fuel cost was THB 9,149 million or 63.5% higher than last year. The change in estimated useful life of the new aircraft and engine types caused increase in depreciation. Moreover, the Company incurred a foreign currency exchange loss in the amount of THB 5,029 million which was mostly arising from translation of the Company's outstanding loan into Baht terms at the end of 2Q08, due to weaken Thai bath against EURO and JPY. As a result, the Company's net loss for the second quarter was THB 9,238 million or 5.45 baht per share compared to a net loss of THB 417 million or 0.25 baht per share of the same quarter last year. The Company's total operating revenues amounted to THB 50,293 million, which is an increase of THB 5,785 million or 13% from 2Q07. Operating expense totalled THB 54,744 million, which is an increase of THB 9,254 million or 20.3%. The Company incurred an operating loss amount of THB 4,451 million, which is higher than the loss of THB 982 million in the same quarter last year.

**Operating results for 2Q08 (April 1 - June 30, 2008) compared with the same period last year as follows:**

Unit : million Baht	<u>Apr-Jun</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
<b>Total operating revenue</b>	<b>50,293</b>	<b>44,508</b>	<b>5,785</b>	<b>13.0</b>
Operating expenses	54,744	45,490	9,254	20.3
<b>Loss from the operation</b>	<b>(4,451)</b>	<b>(982)</b>	<b>(3,469)</b>	<b>(353.3)</b>
Gain(Loss)on foreign exchange	(5,029)	1,417	(6,446)	(454.9)
<b>Profit(Loss)before financial expenses and income tax</b>	<b>(9,060)</b>	<b>610</b>	<b>(9,670)</b>	n/a
Profit(Loss)before tax	(10,366)	(588)	(9,778)	n/a
<b>Loss</b>	<b>(9,238)</b>	<b>(417)</b>	<b>(8,821)</b>	n/a
Loss per share (THB)	(5.45)	(0.25)	(5.20)	

## Revenue

Total revenue amounted to THB 50,859 million, which is an increase of THB 5,689 million or 12.6% from 2Q07 as detailed:

Unit : million Baht	<u>Apr-Jun</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
Revenue from transportation activities	47,812	42,344	5,468	12.9
Other activities	<u>2,481</u>	<u>2,164</u>	<u>317</u>	<u>14.6</u>
<b>Total operating revenue</b>	<b>50,293</b>	<b>44,508</b>	<b>5,785</b>	<b>13.0</b>
Interest income	117	163	(46)	(28.2)
Other revenue	<u>449</u>	<u>499</u>	<u>(50)</u>	<u>(10.0)</u>
<b>Total Revenue</b>	<b><u>50,859</u></b>	<b><u>45,170</u></b>	<b><u>5,689</u></b>	<b><u>12.6</u></b>

**Operating Revenue** was THB 50,293 million, which was an increase of THB 5,785 million or 13% from 2Q07.

**Revenue from transportation activities** was THB 47,812 million, which is an increase of THB 5,468 million or 12.9% from 2Q07 resulting from

- Passenger and excess baggage revenue amounted to THB 40,668 million, which was an increase of THB 4,815 million or 13.4% from 2Q07. The main reason is the greater number of passengers than last year as well as the increase in fuel surcharge collected from passengers.

- Freight and mail revenue amounted to THB 7,144 million, which is an increase of THB 653 million or 10.1% from 2Q07.

**Revenue from other activities** mostly comprised of revenue from business units, Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services, revenue from providing maintenance & overhaul services to Nok Airlines Company Ltd. and revenue from Thai-Amadeus Southeast Asia Company Limited, amounting to THB 2,481 million, which was an increase of THB 317 million or 14.6% from 2Q07.

**Interest income** amounted to THB 117 million, which was THB 46 million or 28.2% lower than 2Q07 resulting from a decrease in cash.

**Other income** amounted to THB 449 million, which was THB 50 million or 10% lower than the previous year in which the Company gained from the sale of one Airbus A300-600.

## Expense

Total expense amounted to THB 59,919 million, which was an increase of THB 15,359 million or 34.5% from 2Q07.

Unit : million Baht	<u>Apr-Jun</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
Operating expenses	54,744	45,490	9,254	20.3
Other expenses	160	510	(350)	(68.6)
Gain (Loss) on foreign exchange	5,029	(1,417)	6,446	454.9
Share of profits from investments by the equity method	<u>(14)</u>	<u>(23)</u>	<u>9</u>	<u>39.1</u>
<b>Total expense</b>	<b><u>59,919</u></b>	<b><u>44,560</u></b>	<b><u>15,359</u></b>	<b><u>34.5</u></b>

**Operating Expenses** The Company's operating expense amounted to THB 54,744 million, which was an increase of THB 9,254 million or 20.3% from 2Q07. Significant changes in operating expense include:

- Fuel and oil cost of THB 23,558 million, an increase of THB 9,149 million or 63.5% from 2Q07. The main reason was the rise in average jet fuel price of 73% as well as an increase in fuel consumption from production expansion whereas the depreciation of US dollar against Thai baht partially offset fuel cost.

- Depreciation and amortization amounted to THB 5,060 million, which was an increase of THB 566 million or 12.6% mainly due to the change in the estimated useful life of new aircraft and engine types, amounting to THB 345 million as well as the delivery of new aircraft.

- Personnel expense amounted to THB 8,165 million, which was an increase of THB 78 million or 1% from 2Q07. The main reason is the 3 months welfare fees payment in last year, however only 1 month welfare fees has been reserved for this year.

- Handling and Flight services expenses along with crew expenses amounted to THB 7,140 million, an increase of THB 495 million or 7.4% from 2Q07 caused by the increase in number of passengers and flight frequencies.

- Sales and advertising expenses amounted to THB 2,137 million, an increase of THB 182 million or 9.3% from 2Q07 caused by the increase in sales.

- Lease of aircraft and spare parts expense were THB 778 million, which was a decrease of THB 900 million or a 53.6% mainly due to the termination of cargo block space lease as well as a decrease in number of aircraft in operating lease.

- Aircraft maintenance and Overhaul costs amounted to THB 2,978 million, a decrease of THB 464 million or 13.5% from 2Q07 which was mainly the result of acquiring the Total Care Agreement for Rolls Royce Trent 500.

**Other expenses** amounted to THB 160 million, which was a decrease of THB 350 million from 2Q07 mainly arising from a reserve for obsolete aircraft spare parts to be disposed and impairment of aircraft spare parts in last year.

**Loss on foreign currency exchange** amounted to THB 5,029 million, which was mostly due to a net exchange loss arising from translation of the Company's outstanding EURO and JPY currency loans into Baht terms at the end of the period whereas last year there was a gain of THB 1,417 million.

**Share of profits from associated companies by equity method** amount to THB 14 million, which was a decrease of THB 9 million from 2Q07 mainly resulting from recognizing loss from Nok Airlines Company Limited in 1Q08.

**Financial expense** was THB 1,306 million, comprising of interest expense and commission fee, which is an increase of THB 108 million or 9% mainly due to the rise in average interest rate.

**The operating results for the first half-year of fiscal year 2008 (January 1 - June 30, 2008)**, the Company's loss from the operation totalled THB 84 million, whereas the Company earned a profit of THB 4,356 million in 2Q07. The Company's net loss totalled THB 6,998 million or 4.14 baht per share, while a net profit of THB 3,530 million or 2.06 baht per share was earned in 2Q07. The crucial reasons were the 60% increase in average jet fuel price and the increase in depreciation resulting from change in estimated useful life of the new aircraft and engine types as well as a loss on foreign currency exchange in the amount of THB 5,691 million caused by a net exchange loss arising from translation of the Company's outstanding foreign currency loans into Baht terms at the end of the period, while for the same period last year the Company gained THB 2,882 million.

**Operating results for the first half - year of fiscal year 2008 (January 1 - June 30, 2008) compared to the same period last year as follows:**

Unit : million Baht	<u>Jan-Jun</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
<b>Total operating revenue</b>	<b>105,139</b>	<b>94,355</b>	<b>10,784</b>	<b>11.4</b>
Operating expenses	105,223	89,999	15,224	16.9
<b>Profit (Loss) from the operation</b>	<b>(84)</b>	<b>4,356</b>	<b>(4,440)</b>	<b>(101.9)</b>
Gain(Loss)on foreign exchange	(5,691)	2,882	(8,573)	(297.5)
<b>Profit(Loss)before financial expenses and income tax</b>	<b>(4,424)</b>	<b>7,385</b>	<b>(11,809)</b>	<b>(159.9)</b>
Profit(Loss)before income tax	(7,109)	5,066	(12,175)	(240.3)
<b>Profit(Loss)</b>	<b>(6,998)</b>	<b>3,530</b>	<b>(10,528)</b>	<b>(298.2)</b>
Profit(Loss)per share (THB)	(4.14)	2.06	(6.20)	

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

**Assets** As at 2Q08 (June 30, 2008), the Company's total assets were THB 264,122 million, a decrease of THB 16,153 million or 5.8% from as at December 31, 2007. The current and non-current assets accounted for 18.2% and 81.8% of total assets, respectively consisting of :

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	47,965	18.2	65,229	23.3
Property, plant and equipment-net	208,195	78.8	207,153	73.9
Other non-current assets	7,962	3.0	7,893	2.8

Current assets decreased by THB 17,264 million or 26.5% mainly due to a decrease in cash and cash equivalents.

Property, plant and equipment-net increased by THB 1,042 million or 0.5%.

**Liabilities** The Company's total liabilities as at 2Q08 (June 30, 2008) totalled THB 203,924 million, which is a decrease of THB 8,326 million or 3.9% from as at December 31, 2007. These comprise of:

	<u>June 30, 2008</u>		<u>December 31, 2007</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	70,712	34.7	73,192	34.5
Long-term debt	128,088	62.8	134,086	63.2
Staff pension fund	5,124	2.5	4,972	2.3

Current liability excluding current portion of long-term loans decreased from December 31, 2007 by THB 2,480 million or 3.4% mainly due to a decrease in short-term loan and accrued dividends. However, unearned transportation revenues increased due to rise in transportation revenue.

Long-term debt as at June 30, 2008 were THB 128,088 million including current portion of long-term loans of THB 19,157 million which is a decrease by THB 5,998 million or 4.5% from as at December 31, 2007. The decrease was mainly the result of repayment of debenture.

**Shareholders' Equity** As at 2Q08, the Company's shareholders' equity amounted to THB 60,198 million, a decrease of THB 7,827 million or 11.5% from December 31, 2007 due to net loss from operation.

**Liquidity** Cash and cash equivalents as at June 30, 2008 amounted to THB 7,113 million, a decrease of THB 18,700 million from the beginning of the period (January 31, 2008). Net cash from and used in each activities are as follows:

- Net cash from operating activities amounted to THB 11,770 million.
- Net cash used in investing activities amounted to THB 10,349 million mainly used for advance payment of aircraft and repurchasing the operating lease aircraft.
- Net cash used in financing activities amounted to THB 20,056 million. This includes repayment of short-term loan, debenture, long-term loan and promissory notes amount of THB 2,462 million, THB 6,000 million, THB 4,524 million and THB 525 million, respectively. In addition, loan interest in the amount of THB 2,679 million and dividend in the amount of THB 3,866 million were paid by the Company.

### **The restatement of Financial Statements for 3 months and 6 months period ending June 30, 2008 and 2007**

The Company has restated its financial statement for 3 months and 6 months period ending June 30, 2008 and 2007. The summary is as follows.

1. The Company has reclassified the items in income statement to comply with Thai Accounting Standard No. 35 (revised 2007) "Presentation of Financial Statements", which is effective for the accounting periods beginning on or after January 1, 2008. The Company restated its income statements for the year 2007 (January 1 2007-December 31, 2007) for comparative purpose by separate disclosure categories and amounts for each items.(details are in the Notes to the Financial Statements No.6)

2. Due to the change in accounting period, the Company restated the previous financial statements in order to compare with the same accounting period of the financial statements for the three and six-month period ended June 30,2008. Therefore, the Company adjusted the recognition of war risk insurance and fuel surcharge in passenger and excess baggage revenues to match the period in which transactions incurred. Moreover, the Company adjusted taxes collected from passenger, which the outstanding balances were over 3 years and were recognised in accounting period from October 1, 2006 to September 30, 2007 and October 1 to December 31, 2007, as average revenues in each quarter. In addition, the Company adjusted welfare fees as average expenses in each quarter as well as relevant company income taxes. The asserted adjustments resulted in the decrease in net profits of the Company financial statements for the three and six-month periods ended June 30, 2007 amount of THB 498 and 798 million, respectively, as well as unappropriated retained earning as at January 1, 2007 decreased by THB 216 million. (details are in the Notes to the Financial Statements No.1)