

Management's Discussion and Analysis for the Second Quarter of Fiscal Year 2009 ending June 30, 2009 for Thai Airways International Public Company Limited and Its Subsidiary

1. Operating Result

In the second quarter of fiscal year 2009 (April 1 - June 30, 2009), which is the low season period, the Company was impacted by the global economic recession that continues to affect the airlines industry. The outbreaks of influenza A (H1N1), which slows down the international travels and domestic political unrest during the Song Kran Festival also impacted the Company. As a result, the Company reduced its flight frequencies on regional and intercontinental routes to be in line with the market situation and those crises. However, the Company launched its direct flight from Bangkok to Oslo, Norway in order to serve the existing and potential demand. The Company's passenger production (Available Seat-Kilometer : ASK) decreased by 11.2% from last year. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) decreased by 22.7%. The average cabin factor was 66.2%, which is lower than that of 76.1% last year. The average load factor dropped to 60.2% compared with that of 69.7% last year. Passenger yield was 2.37 Baht/RPK, which 11.6% lower than last year. Freight yield was 8.62 Baht/RFTK, which is a decrease of 23.5% from last year. The main reason was from severe price competition.

The Company's total revenues amounted to THB 34,629 million which is a decrease of THB 16,231 million or 31.9% from 2Q08. The total operating revenues amounted to THB 34,362 million, which is a decrease of THB 15,932 million or 31.7% from the same period last year. The total expenses, including financial costs, totaled THB 39,923 million, which is a decrease of THB 21,303 million or 34.8%, mainly due to the 56.5% decrease in average jet fuel price, a decline in production and passenger traffic and outcome from cost reduction, according to the Business Turnaround Plan and the ongoing cost control measures since last year. In addition, the Company recorded loss on foreign currency exchange, arising from translation of the Company's liabilities and assets in foreign currency into Baht term at the end of period, in the amount of THB 1,822 million. As a result, net losses were THB 5,403 million or 3.18 baht per share, which is lower than net losses of THB 9,254 million or 5.45 baht per share of the same period last year. EBITDA was THB 2,941 million, which is THB 2,358 million higher than last year.

Operating results for the second quarter of fiscal year 2009 compared to the same period last year as follows:

Unit : million Baht	<u>Apr.-Jun.</u>		<u>Increase(decrease)</u>	
	2009	2008	MTHB	%
Total revenues	34,629	50,860	(16,231)	(31.9)
Losses on foreign currency exchange	(1,822)	(5,029)	(3,207)	(63.8)
Losses before income tax expenses	(5,294)	(10,366)	(5,072)	(48.9)
Net losses	(5,403)	(9,254)	(3,851)	(41.6)
Net losses per share (Baht)	(3.18)	(5.45)	(2.27)	(41.6)
EBITDA	2,941	583	2,358	

Revenues

For the second quarter of fiscal year 2009, the Company's total revenues were THB 34,629 million, which is a decrease of THB 16,231 million or 31.9% from 2Q08. The summaries are as follows:

Total operating revenues totaled THB 34,362 million, which is a decrease of THB 15,932 million or 31.7% from the same period last year. Comprising of:

Revenue from transportation activities was THB 32,457 million, which is a decrease of THB 15,355 million or 32.1% from 2Q08. The decrease was caused by the following factors:

- Passenger and excess baggage revenues amounted to THB 28,262 million, which is a decrease of THB 12,406 million or 30.5% from 2Q08. The main reasons are the decrease in passenger traffic, aligned with market situation, and the decrease in passenger yield from last year due to price competition as well as the decrease in average fuel surcharge rate from last year.

- Freight and mail revenues amounted to THB 4,195 million, which is a decrease of THB 2,949 million or 41.3% from 2Q08, due to the decrease in freight and mail traffic as well as dramatically decrease in freight yield from last year.

Revenue from other activities mostly comprised of revenue from business units; Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services, revenue from lease of aircraft and maintenance & overhaul services provided to Nok Airlines Company Ltd. and revenue from Thai-Amadeus Southeast Asia Company Limited, amounting to THB 1,905 million, which is THB 577 million or 23.2% lower than 2Q08. The main reasons are the decrease in number of customer airlines' flights and passengers.

Interest income amounted to THB 41 million, which is THB 76 million or 65% lower than last year, resulting from a decrease in average cash and cash equivalent as well as deposit rates.

Other income amounted to THB 226 million, which is THB 223 million or 49.7% lower than previous year, mainly due to the fact that the revenue from passenger airport tax, which has not been billed to the Company over 3 year, is lower than 2Q08.

Expenses

For the second quarter of fiscal year 2009, the Company's total expenses amounted to THB 38,531 million, which is THB 21,403 million or 35.7% lower than the same period last year. However, the total expenses, excluding a loss on foreign currency exchange, amounted to THB 36,709 million, THB 18,196 million or 33.1% lower than last year.

Significant changes in operating expenses include:

- Fuel and oil expenses amounted to THB 9,600 million, which is a decrease of THB 13,957 million or 59.2% from 2Q08. The main reasons were the decrease in average jet fuel price and the decrease in fuel consumption as a result of production reduction.

- Personnel expenses amounted to THB 6,837 million, which is a decrease of THB 1,183 million or 14.8% from 2Q08. The decrease was mostly a result of the Mutual Separation Plan last year and the decrease in overtime payment as well as annual salary increment suspension according to the Company's Business Turnaround Plan.

- Flight service expenses amounted to THB 4,266 million, a decrease of THB 1,096 million or 20.4% from 2Q08. This was mainly caused by the decrease in number of flights and passengers.

- Cockpit and cabin crew expenses amounted to THB 1,279 million, a decrease of THB 500 million or 28.1% from last year. This was mainly due to the decrease in number of flights and cost according to cost reduction measures of the Business Turnaround Plan.

- Lease of aircraft and spare parts expenses were THB 295 million, which is a decrease of THB 483 million or 62.1% mainly due to the decrease in number of operating lease aircraft and lease rate.

- Sales and advertising costs amounted to THB 1,554 million, a decrease of THB 583 million or 27.3% from 2Q08. The decrease caused by the lower sale expenses, according to sale reduction.

Other Operating expenses decreased from 2Q08, which was mainly due to a cost control to reach the target of Company's Business Turnaround Plan.

Losses on foreign currency exchange amounted to THB 1,822 million, which was mostly due to the translation of the Company's liabilities and assets in foreign currency into Baht term at the end of the period, whereas the Company incurred loss of THB 5,029 million in last year.

Finance costs were THB 1,423 million, which is an increase of THB 116 million or 9% mainly due to the increase in outstanding loans from 2Q08.

The operating results for the first half-year of fiscal year 2009 (January 1, - June 30, 2009), the Company's net profits totaled THB 2,465 million or 1.45 baht per share, while a net losses of THB 7,038 million or 4.14 baht per share was incurred in the first half last year. The crucial reasons were the 51.4% decrease in average jet fuel price and outcome from cost control and reduction as well as a gain on foreign currency exchange in the amount of THB 2,788 million, while for the same period last year the Company recorded loss on foreign currency exchange in the amount of THB 5,691 million. EBITDA was THB 12,453 million, which is THB 2,535 million higher than last year.

Operating results for the first half - year of fiscal year 2009 (January 1 – June 30, 2009) compared to the same period last year as follows:

Unit : million Baht	<u>Jan.-Jun.</u>		<u>Increase(decrease)</u>	
	2009	2008	MTHB	%
Total revenues	75,899	106,711	(30,812)	(28.9)
Gains (Losses) on foreign currency exchange	2,788	(5,691)	8,479	149.0
Gains (Losses) before income tax expenses	2,770	(7,109)	9,879	139.0
Net profits (losses)	2,465	(7,038)	9,503	135.0
Net profits (losses) per share (Baht)	1.45	(4.14)	5.59	135.0
EBITDA	12,453	9,918	2,535	25.6

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

Assets As at the end of 2Q09 (June 30, 2009), the Company's total assets were THB 261,274 million, an increase of THB 1,740 million or 0.7% from as at December 31, 2008. The current and non-current assets accounted for 15.5% and 84.5% of total assets, respectively. These assets comprise of:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	40,404	15.5	42,118	16.2
Property, plant and equipment-net	210,861	80.7	207,064	79.8
Other non-current assets	10,009	3.8	10,352	4.0

Current assets decreased by THB 1,714 million or 4.1% mainly due to a decrease in trade account receivables, according to sale reduction. Property, plant and equipment-net increased by THB 3,797 million or 1.8%, which was mainly due to the Company took the delivery of two Airbus A330-300s on April and May 2009. Other non-current assets decreased by THB 343 million or 3.3%, which was mainly due to the decrease in deferred income taxes.

Liabilities The Company's total liabilities as at the end of 2Q09 (June 30, 2009) totaled THB 212,945 million, which is a decrease of THB 707 million or 0.3% from as at December 31, 2008. These comprise of:

	<u>June 30, 2009</u>		<u>December 31, 2008</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term debts)	68,723	32.3	79,307	37.1
Long-term debts	135,494	63.6	125,693	58.8
Other non-current liabilities	8,728	4.1	8,652	4.1

Current liabilities (excluding current portion of long-term debts) decreased from December 31, 2008 by THB 10,584 million or 13.3% due to short-term loan repayment and a decrease in unearned transportation revenues and accrued expenses.

Long-term debts as at June 30, 2009 were THB 135,494 million. This includes current portion of long-term debts of THB 23,505 million, which is an increase by THB 9,801 million or 7.8% from as at December 31, 2008. The increase resulted from the increase in debentures, amounting to THB 4,790 million, and increase in long-term loans, amounting to THB 7,928 million while liabilities under financial leases and promissory notes decreased by THB 2,392 million and THB 525 million, respectively.

Other non-current liabilities, comprising of staff pension fund and long-term provisions was as nearly amount as last year.

Shareholders' Equity As at the end of 2Q09, the Company's shareholders' equity amounted to THB 48,329 million, an increase of THB 2,447 million or 5.3% from December 31, 2008, due to the net profit from operation.

Interest Bearing Debt to Equity Ratio as at June 30, 2009 was 3.19 times, decreased from 3.21 times of December 31, 2008.

Liquidity Cash and cash equivalents as at June 30, 2009 amounted to THB 9,136 million, an increase of THB 1,641 million from the beginning of the period (January 1, 2009). Net cash from and used in each activities are as follows:

- Net cash from operating activities amounted to THB 8,746 million.
- Net cash used in investing activities amounted to THB 9,537 million mainly due to advance payment of Airbus A380-800s, A330-300s and engines as well as repurchasing of one Boeing 777-200 operating lease and also aircraft payment of two Airbus A330-300s.
- Net cash from financing activities amounted to THB 2,510 million, comprising of cash received from debentures in the amount of THB 4,790 million and from net long-term loans in the amount of THB 3,628 million. There is repayment of short-term loans and promissory notes as well as interest payment for aggregate of THB 5,853 million, and also dividend payment for minority shareholders of subsidiary company in the amount of THB 54 million.

The Company's funding is in line with its capital needs as stated in the Company's Immediate Business Turnaround Plan to restructure its debts and enhance financial liquidity. The Plan has already been approved by the Company's Board of Directors and submitted to the Cabinet for the acknowledgement. The Company had already received part of these loans. As for the acquisition of the four Airbus A330-300s to be delivered to the Company starting from July until December 2009, the Company has already acquired loans of which Export Credit Agencies (ECAs) is a guarantor.
