

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

### 1. Operating Result

For the third quarter of financial year 2008 (July 1 - September 30, 2008), the fuel price in the world market rose continuously to the highest level in August 2008 and began to fall in September 2008. The Company has adjusted its flight schedules on regional and intercontinental routes to suit the situation and market by suspension of its flight to New York and frequency reduction to Los Angeles, Hyderabad, Singapore, Jakarta, Chengdu, Kunming, Beijing, Guangzhou, Karachi and Lahore.

The Company's passenger production (Available Seat-Kilometer : ASK) decreased by 4.6% from the same period last year. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) decreased by 13.5% over the same period due to widening political turmoil in the country since the end of August 2008 affecting the number of outbound and inbound travelers to Thailand. Consequently, the average cabin factor decreased to 73.2% compared to that of 80.7% last year. The average load factor decreased from 71.1% last year to 68.1% as at 3Q08.

The Company's total revenues from the sale of goods and the rendering of services for the third quarter of financial year 2008 amounted to THB 53,669 million, which is an increase of THB 4,635 million or 9.5% from 3Q07. Operating expense totalled THB 56,876 million, which is an increase of THB 10,277 million or 22%, due to a 79.2% rise in average fuel price , resulting in fuel cost higher by THB 10,748 million or 68.2% than last year. Personnel expenses increased from 3Q07 mainly resulting from a reserve for a Mutual Separation Plan to reduce personnel expense in the long run. In addition, the change in estimated useful life of the new aircraft and engine types caused increase in depreciation. As a result, the Company's loss from the operation amounted to THB 3,207 million. Nevertheless, the Company gained a foreign currency exchange in the amount of THB 4,734 million, which was mostly arising from converting the Company's outstanding loan into Baht terms at the end of 3Q08. As a result, the Company's profit before finance costs and income tax was THB 1,691 million, which was THB 1,896 million higher than the same quarter last year. The Company's net gain was THB 426 million or 0.25 baht per share, which was higher than a net loss of THB 971 million or 0.57 baht per share of the same quarter last year. Operating profit before depreciation and amortization (EBITDA) was THB 1,881 million.

**Operating results for 3Q08 (July 1 - September 30, 2008) compared with the same period last year as follows:**

Unit : million Baht	<u>Jul-Sep</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
<b>Total operating revenue</b>	<b>53,669</b>	<b>49,034</b>	<b>4,635</b>	<b>9.5</b>
Operating expenses	56,876	46,599	10,277	22.1
<b>Gain(Loss) from the operation</b>	<b>(3,207)</b>	<b>2,435</b>	<b>(5,642)</b>	<b>(231.7)</b>
Gain(Loss)on foreign exchange	4,734	(3,359)	8,093	240.9
<b>Profit(Loss)before finance cost and income tax</b>	<b>1,691</b>	<b>(205)</b>	<b>1,896</b>	<b>n/a</b>
Profit(Loss)before tax	368	(1,418)	1,786	126.0
<b>Gain(Loss)</b>	<b>426</b>	<b>(971)</b>	<b>1,397</b>	<b>143.9</b>
Gain(Loss) per share (THB)	0.25	(0.57)	0.82	
EBITDA	1,881	7,082	(5,201)	(73.4)

## Revenue

Total revenue amounted to THB 54,158 million, which was an increase of THB 4,352 million or 8.7% from 3Q07 as detailed:

Unit : million Baht	Jul-Sep		Increase(decrease)	
	2008	2007	MTHB	%
Revenue from transportation activities	51,396	46,589	4,807	10.3
Other activities	<u>2,273</u>	<u>2,445</u>	<u>(172)</u>	<u>(7.0)</u>
<b>Total operating revenue</b>	<b>53,669</b>	<b>49,034</b>	<b>4,635</b>	<b>9.5</b>
Interest income	81	196	(115)	(58.7)
Other revenue	<u>408</u>	<u>576</u>	<u>(168)</u>	<u>(29.2)</u>
<b>Total Revenue</b>	<b><u>54,158</u></b>	<b><u>49,806</u></b>	<b><u>4,352</u></b>	<b><u>8.7</u></b>

**Operating Revenue** was THB 53,669 million, which was an increase of THB 4,635 million or 9.5% from 3Q07.

**Revenue from transportation activities** was THB 51,396 million, which was an increase of THB 4,807 million or 10.3% from 3Q07 was derived from

- Passenger and excess baggage revenue excluding fuel surcharge collected from passenger decreased but the fuel surcharge revenue for the period increased by THB 6,477 million from 3Q07, which was insufficient to offset the sharp increase in fuel price. However, passenger and excess baggage revenue totalled THB 43,951 million, which was THB 4,089 million or 10.3% higher than 3Q07.

- Freight and mail revenue amounted to THB 7,445 million, which was an increase of THB 718 million or 10.7% from 3Q07.

**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 2,273 million, which was a decrease of THB 172 million or 7.0% from 3Q07 mainly due to the decreased number of inbound and outbound passenger to and from Thailand.

**Interest income** amounted to THB 81 million, which was THB 115 million or 58.7% lower than 3Q07 resulting from a decrease in cash.

**Other income** amounted to THB 408 million, which was THB 168 million or 29.2% lower than the previous year where the Company gained from the sale of one B747-300 aircraft.

## Expense

Total expense amounted to THB 52,467 million, which was an increase of THB 2,456 million or 4.9% from 3Q07.

Unit : million Baht	Jul-Sep		Increase(decrease)	
	2008	2007	MTHB	%
Operating expenses	56,876	46,599	10,277	22.1
Other expenses	265	83	182	219.3
Loss(Gain) on foreign exchange	(4,734)	3,359	(8,093)	(240.9)
Share of loss(profit) from investments by the equity method	<u>60</u>	<u>(30)</u>	<u>90</u>	<u>300.0</u>
<b>Total expense</b>	<b><u>52,467</u></b>	<b><u>50,011</u></b>	<b><u>2,456</u></b>	<b><u>4.9</u></b>

**Operating Expenses** The Company's operating expense amounted to THB 56,876 million, which was an increase of THB 10,277 million or 22.1% from 3Q07. Significant changes in operating expense included:

- Fuel and oil cost of THB 26,507 million, an increase of THB 10,748 million or 68.2% from 3Q07. The main reason was the rise in average jet fuel price of 79.2%, although fuel consumption decreased from reduction of production.

- Personnel expense amounted to THB 9,171 million, which was an increase of THB 909 million or 11% from 3Q07 mainly due to a reserve for a Mutual Separation Plan.

- Depreciation and amortization amounted to THB 5,088 million, which was an increase of THB 441 million or 9.5% mainly due to the change in the estimated useful life of new aircraft and engine types from 20 years to 15 years.

- Lease of aircraft and spare parts expense were THB 1,016 million, which was a decrease of THB 708 million or a 41.1% mainly due to the cancellation of cargo block space and the decrease in 1 operating lease aircraft as well as the decrease in a lease rate of 2 aircrafts from extending the leases.

- Aircraft maintenance and Overhaul costs amounted to THB 2,077 million, a decrease of THB 475 million or 18.6% from 3Q07 which was mainly the result of acquiring the Total Care Agreement for Rolls Royce Trent 500 engines.

Other operating expenses decreased from 3Q07, resulting from cost control measure to cope with the high fuel price crisis. Cost of inventories and supplies decreased by THB 207 million or 8.7% from 3Q07. Flight services expenses decreased by THB 118 million or 2.3%. Sales and advertising cost decreased by THB 74 million or 4.1%. Crew expenses decreased by THB 48 million or 2.9%. Other operating expenses also decreased by THB 179 million or 7.1%.

**Other expenses** amounted to THB 265 million, which was an increase of THB 182 million from 3Q07 mainly arising from a record of impairment in value of Nok Airlines Company Limited.

**Gain on foreign currency exchange** amounted to THB 4,734 million, which was mostly due to a net exchange gain arising from translation of the Company's outstanding EURO currency loans into Baht terms at the end of the period whereas last year there was a loss of THB 3,359 million.

**Share of loss from investment by equity method** amounted to THB 60 million, mainly resulting from recognizing loss from Nok Airlines Company Limited whereas the Company recognized a gain of THB 30 million in last year.

**Finance cost** was THB 1,323 million, comprising of interest expense and bank charges, which was an increase of THB 110 million or 9.1% mainly due to higher interest expense resulting from the strengthening of the EURO against the Thai Baht along with the rise in average interest rate.

- **The operating results for the first nine-month of fiscal year 2008 (January 1 - September 30, 2008)**, the Company's loss from the operation totalled THB 3,292 million, whereas the Company earned a profit of THB 6,791 million in the same period last year. The Company's net loss totalled THB 6,612 million or 3.89 baht per share, while a net profit of THB 2,532 million or 1.49 baht per share was earned last year. The crucial reasons were the 65.7% 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 and the increase in personnel expense resulting from a reserve for a Mutual Separation Plan as well as the decrease in passenger traffic (RPK).

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

Unit : million Baht	<u>Jan-Sep</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
<b>Total operating revenue</b>	<b>158,807</b>	<b>143,389</b>	<b>15,418</b>	<b>10.8</b>
Operating expenses	162,099	136,598	25,501	18.7
<b>Profit (Loss) from the operation</b>	<b>(3,292)</b>	<b>6,791</b>	<b>(10,083)</b>	<b>(148.5)</b>
Loss on foreign exchange	957	477	480	100.6
<b>Profit(Loss)before finance cost and income tax</b>	<b>(2,733)</b>	<b>7,181</b>	<b>(9,914)</b>	<b>(138.1)</b>
Profit(Loss)before income tax	(6,741)	3,650	(10,391)	(284.7)
<b>Profit(Loss)</b>	<b>(6,612)</b>	<b>2,532</b>	<b>(9,144)</b>	<b>(361.1)</b>
Profit(Loss)per share (THB)	(3.89)	1.49	(5.38)	
EBITDA	11,849	20,338	(8,489)	(41.7)

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

**Assets** As at 3Q08 (September 30, 2008), the Company's total assets were THB 259,721 million, a decrease of THB 20,554 million or 7.3% from as at December 31, 2007. The current and non-current assets accounted for 17.7% and 82.3% of total assets, respectively consisting of :

	<u>September 30, 2008</u>		<u>December 31, 2007</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	45,844	17.7	65,229	23.3
Property, plant and equipment-net	205,831	79.2	207,153	73.9
Other non-current assets	8,046	3.1	7,893	2.8

Current assets decreased by THB 19,385 million or 29.7% mainly due to a decrease in cash and cash equivalents.

**Liabilities** The Company's total liabilities as at 3Q08 (September 30, 2008) totalled THB 199,083 million, which was a decrease of THB 13,167 million or 6.2% from as at December 31, 2007. These comprise of:

	<u>September 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)	72,459	36.4	73,191	34.5
Long-term debt	121,746	61.1	134,087	63.2
Staff pension fund	4,878	2.5	4,972	2.3

Current liability excluding current portion of long-term loans decreased from December 31, 2007 by THB 732 million mainly due to a decrease in accrued dividends, accrued income taxes, unearned transportation revenues and other current liabilities. However, short-term loan, accrued expenses and short term provision, which was from a reserve for Mutual Separation Plan had been increased.

Long-term debt as at September 30, 2008 were THB 121,746 million including current portion of long-term loans of THB 19,046 million which was a decrease by THB 12,341 million or 9.2% from as at December 31, 2007. The decrease was mainly the result of repayment of debenture, liabilities under financial leases and promissory note.

**Shareholders' Equity** As at 3Q08, the Company's shareholders' equity amounted to THB 60,639 million, a decrease of THB 7,386 million or 10.8% from December 31, 2007 due to net loss from operation.

**Liquidity** Cash and cash equivalents as at September 30, 2008 amounted to THB 6,124 million, a decrease of THB 19,689 million from the beginning of the period (January 1, 2008). Net cash from and used in each activities are as follows:

- Net cash from operating activities amounted to THB 11,971 million.
- Net cash used in investing activities amounted to THB 13,104 million mainly used for advance payment of aircraft and repurchasing the operating lease aircraft.
- Net cash used in financing activities amounted to THB 18,430 million. This included repayment of debenture, long-term loan and promissory notes amount of THB 6,000 million, THB 6,810 million and THB 750 million, respectively. In addition, loan interest in the amount of THB 3,535 million and dividend in the amount of THB 3,873 million were paid by the Company. However, there was net cash received from short-term loans in this period, amounting to THB 2,538 million.

#### **The restatement of Financial Statements for 3 and 9 - month periods ending September 30, 2008 and 2007**

The Company has restated its financial statement for 3 month and 9 - month periods ending September 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 nine-month periods ended September 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 increase in net profits of the Company financial statements for the three and nine-month periods ended September 30, 2007 amount of THB 1,014 and 216 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.)

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