

**Management’s Discussion and Analysis for the Third Quarter of Fiscal Year 2009 ended September 30, 2009 for Thai Airways International Public Company Limited and Its Subsidiary**

**1. Operating Results**

In the third quarter of fiscal year 2009 (July 1 - September 30, 2009), the Company took delivery of one Airbus A330-300 in July 2009 to ~~serve its regional routes replacing Airbus A300-600.~~

Moreover, the global economic recession continues to ~~bear adverse~~ ~~impact on the~~ airline industry slowing down international travel. As a result, the Company adjusted its capacity to better reflect demand. The Company’s passenger production (Available Seat-Kilometer : ASK) decreased by 3.3% compared to the same period last year. The Company’s passenger traffic (Revenue Passenger-Kilometer : RPK) decreased by only 2.3%. The decrease in passenger traffic is lower than the decrease in passenger production due to the ~~Company’s~~ proactive marketing strategy ~~resulting in a slight~~ increase in average cabin factor to 73.9% from 73.2% last year. But because of the ~~heavy price competition,~~ the passenger yield excluding fuel surcharge was 1.94 Baht/RPK, which was 17.1% lower than the same period last year.

The Company’s total revenues amounted to THB 39,147 million which was a decrease of THB 15,011 million or 27.7% from 3Q08. Total operating revenues amounted to THB 38,848 million, which was a decrease of THB 14,821 million or 27.6% from the same period last year. The main reasons ~~for the decrease were the~~ ~~tough pricing~~ ~~environment and the~~ lower fuel surcharge rate reflecting the lower fuel price~~.~~ Total expenses including finance costs totaled THB 43,009 million which was a decrease of THB 10,781 million or 20%, mainly due to the 50.1% decrease in average jet fuel price, a decline in production and passenger traffic, saving derived from cost reduction ~~under the Business Turnaround Plan and the ongoing cost control measures implemented 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 terms at the end of the period in the amount of THB 2,735 million, whereas the Company gained ~~THB 4,734 million~~ for the same period last year. As a result, net losses were THB 4,034 million or 2.37 baht per share, compared to net profits of THB 426 million or 0.25 baht per share of the same period last year. EBITDA was THB 5,523 million, which is THB 3,670 million higher than last year.

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

Unit : million Baht	Jul.-Sep.		Increase(decrease)	
	2009	2008	MTHB	%
Total revenues	39,147	54,158	(15,011)	(27.7)
Gains (Losses) on foreign currency exchange	(2,735)	4,734	(7,469)	(157.8)
Profits (Losses) before income tax expenses	(3,862)	368	(4,230)	
Net profits (losses)	(4,034)	426	(4,460)	
Net profits (losses) per share (Baht)	(2.37)	0.25	(2.62)	
EBITDA	5,523	1,853	3,670	198.1

Formatted

## Revenues

For the third quarter of fiscal year 2009, the Company's total revenues was THB 39,147 million, which was a decrease of THB 15,011 million or 27.7% from 3Q08. Summary of the key items is -as follows:

**Total operating revenues** totaled THB 38,848 million, which is a decrease of THB 14,821 million or 27.6% from the same period last year, comprising of the followings:

**Revenue from transportation activities** was THB 37,065 million, which is a decrease of THB 14,331 million or 27.9% from 3Q08 due to

- Passenger and excess baggage revenues amounted to THB 32,172 million, which is a decrease of THB 11,779 million or 26.8% from 3Q08. The main reasons are as follows:

- Passenger yield was 17.1% lower than last year, resulting from -proactive marketing strategies to increase cabin factor
- Fuel surcharge revenue decreased from last year due to the decrease of fuel price caused reduction in fuel surcharge rate
- Passenger traffic decreased from last year,- reflecting lower global travel demand
- Freight and mail revenues amounted to THB 4,894 million, which is a decrease of THB 2,551 million or 34.3% from 3Q08 due to
  - Economic recession caused the decline in export and import inducing the decreased freight and mail traffic.
  - Price competition has -caused freight yield to decline dramatically- year on 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 Limited and revenue from Thai-Amadeus Southeast Asia Company Limited, amounting to THB 1,783 million, which is THB 490 million or 21.6% lower than 3Q08. The main reasons are customer airlines decreased their flight frequencies and their number of passengers also decreased.

**Interest income** amounted to THB 31 million, which is THB 50 million or 61.7% lower than last year, resulting from a decrease in deposit rates.

**Other income** amounted to THB 267 million, which is THB 141 million or 34.6% lower than previous year, mainly due to- the revenue from passenger airport fees, which has not been billed to the Company over 3 year, is lower than 3Q08.

## Expenses

For the third quarter of fiscal year 2009, the Company's total expenses, excluding financial costs, amounted to THB 41,558 million which was THB 10,849 million or 20.7% lower than the same period last year. However,- total expenses excluding a loss on foreign currency exchange amounted to THB 38,823 million, THB 18,318 million or was 32.1% lower than last year.

Significant changes in operating expenses include:

- Fuel and oil expenses amounted to THB 12,710 million, which was THB 13,797 million or 52.1% lower than 3Q08. The main reasons were:

- A decrease in average jet fuel price by 50.1% from 3Q08
- A 2.8% decrease in fuel consumption from reduced production

- Personnel expenses amounted to THB 6,771 million, which was a decrease of THB 2,145 million or 24.1% from 3Q08. The decrease was mostly a result of:

- The Mutual Separation Plan implemented last year
- Cost reduction achieved under the Business Turnaround Plan -reducing overtime pay as well as suspending annual salary increment

- Flight service expenses amounted to THB 4,551 million, a decrease of THB 389 million or 7.9% from 3Q08. This was mainly caused by the decrease in number of flights.

- Cockpit and cabin crew expenses amounted to THB 1,230 million, a decrease of THB 400 million or 24.5% from last year. This was mainly due to the decrease in number of flights and cost-saving achieved under the Business Turnaround Plan.

- Aircraft maintenance and overhaul costs amounted to THB 2,105 million, a decrease of THB 345 million or 14.1% from last year, which was mainly the result of the Total Care Agreement for Rolls Royce Trent 500 and Trent 800 engines.

- Lease of aircraft and spare parts expenses were THB 237 million, which is a decrease of THB 779 million or 76.7% mainly due to the decrease of four operating lease aircraft and lease rate from better condition negotiation of the extended agreement for operating lease aircraft.

- Sales and advertising costs amounted to THB 1,615 million, a decrease of THB 95 million or 5.6% from 3Q08. The decrease was caused by the decline in advertising expenses, achieved under the Business Turnaround Plan.

Other Operating expenses decreased from 3Q08- achieved mainly due to -cost control to reach the target of Company's Business Turnaround Plan.

**Losses on foreign currency exchange** amounted to THB 2,735 million, which was mostly due to -translation of the Company's outstanding loans in Euro and Yen currencies into Baht terms at the end of the period, whereas the Company recognized a gain of THB 4,734 million- last year.

**Finance costs** were THB 1,424 million, which was an increase of THB 101 million or 7.6% mainly due to the increase in outstanding loans- over 3Q08.

**The operating results for the first nine-month of fiscal year 2009 (January 1, - September 30, 2009)**, the Company's net losses totaled THB 1,569 million or 0.92 baht per share, while net losses of THB 6,612 million or 3.89 baht per share was incurred in the same period last year. This is because the decrease of operating expenses was higher than the decrease- in operating revenue. Contributing to the dramatic drop in cost was the 50.5% decrease- in average jet fuel price -and the Company- being able to achieve its cost reduction target- without sacrificing safety standard and service quality. EBITDA was THB 17,978 million, THB 6,209 million higher than last year.

**Operating results for the first nine - month of fiscal year 2009 (January 1 -- September 30, 2009) compared to the same period last year are as follows:**

Unit : million Baht	Jan.-Sep.		Increase(decrease)	
	2009	2008	MTHB	%
Total revenues	115,045	160,868	(45,823)	(28.5)
Gains (Losses) on foreign currency exchange	52	(957)	1,009	105.4
Profits (Losses) before income tax expenses	(1,091)	(6,741)	5,650	83.8
Net profits (losses)	(1,569)	(6,612)	5,043	76.3
Net profits (losses) per share (Baht)	(0.92)	(3.89)	2.97	76.3
EBITDA	17,978	11,769	6,209	52.8

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

**Assets** As at the end of 3Q09 (September 30, 2009), the Company's total assets were THB 263,838 million, an increase of THB 4,304 million or 1.7% from as at December 31, 2008. The current and non-current assets accounted for 16.6% and 83.4% of total assets, respectively. These assets comprise of:

	September 30, 2009		December 31, 2008	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	43,654	16.6	42,113	16.2
Property, plant and equipment-net	210,337	79.7	207,064	79.8
Other non-current assets	9,847	3.7	10,357	4.0

Current assets increased by THB 1,541 million or 3.7% mainly due to an increase in cash and cash equivalents. Property, plant and equipment-net increased by THB 3,273 million or 1.6%, which comprise of three Airbus A330-300 aircraft delivered in April, May and July 2009, exercising option to purchase one B777-200, minus the increase in accumulated depreciation. Other non-current assets decreased by THB 510 million or 4.9%, which was mainly due to the decrease in deferred income taxes.

**Liabilities** The Company's total liabilities as at the end of 3Q09 (September 30, 2009) totaled THB 219,524 million, which was an increase of THB 5,872 million or 2.7% over December 31, 2008. These comprise of:

	September 30, 2009		December 31, 2008	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	64,458	29.4	79,307	37.1

Long-term loans	146,291	66.6	125,693	58.8
Other non-current liabilities	8,775	4.0	8,652	4.1

Current liabilities (excluding current portion of long-term loans) decreased from December 31, 2008 by THB 14,849 million or 18.7% due to short-term loan repayment and a decrease in unearned transportation revenues and accrued expenses.

Long-term loans as at September 30, 2009 were THB 146,291 million. This includes current portion of long-term loans of THB 24,826 million, an increase of THB 20,598 million or 16.4% from December 31, 2008. These comprise of:

- A new debentures issuance, amounting to THB 4,790 million
- An increase in long-term loans of THB 19,641 million
- A decrease in liabilities under financial leases, amounting to THB 3,083 million
- A repayment of promissory notes, amounting to THB 750 million

Other non-current liabilities, comprising of staff pension fund and long-term provisions was similar in amount to that of last year.

**Shareholders' Equity** As at the end of 3Q09, the Company's shareholders' equity amounted to THB 44,314 million, a decrease of THB 1,568 million or 3.4% from December 31, 2008, resulting from net losses from operations.

**Liquidity** Cash and cash equivalents as at September 30, 2009 amounted to THB 12,209 million, an increase of THB 4,773 million from the beginning of the period (January 1, 2009). Net cash from and used in each activity is as follows:

- Net cash from operating activities amounted to THB 17,762 million.
- Net cash used in investing activities amounted to THB 12,583 million mainly from
  - An advance payment of Airbus A380-800s, A330-300s and their engines
  - A payment of three Airbus A330-300s
  - A repurchasing of one Boeing 777-200 operating lease aircraft
- Net cash used in financing activities amounted to THB 330 million, comprising of
  - Cash received from issuing debentures of THB 4,790 million
  - Net cash received from long-term loans in the amount of THB 12,557 million
  - Repayment of short-term loans and promissory notes as well as interest payment aggregating THB 17,623 million
  - Dividend payment to minority shareholders of subsidiary company in the amount of THB 54 million.

The Company's funding had been in line with its capital needs as stated in the Company's Business Turnaround Plan to restructure its debts and enhance financial liquidity. The Plan has been adjusted to cope with current situation and attached with implementation plan. In addition, the next phase of the Plan is still on process.

### Financial Ratios

		Jan-Sep	
		2009	2008
Operating Profit Margin	(%)	2.09	(2.12)
Net Profit Margin	(%)	(1.38)	(4.16)
Interest Bearing Debt to Equity	(times)	3.53	2.13
Interest Coverage Ratio <sup>1)</sup>	(times)	4.19	2.94

Note : 1) Interest Coverage Ratio = EBITDA/Interest Expense

-----