

Management's Discussion and Analysis for the Fiscal Year Ending December 31, 2008 for Thai Airways International Public Company Limited and Its Subsidiary

1. Operating Results

For the fiscal year 2008 (January 1- December 31, 2008), the Company continuously encounters crises that adversely affected the operating result such as the continuing sharp rise of jet fuel price which affected airlines industry, the global economic slow down, as well as the political unrest in the country that caused the decreasing number of outbound and inbound travelers to Thailand particularly in 4Q08, the high season. These factors caused a negative impact on the Company's operating result in year 2008 which are summarized as follows:

The Company's total operating revenue amounted to THB 200,118 million, which was an increase of THB 3,209 million or 1.6% from the same period last year. However, the operating expense totaled THB 206,780 million, which was an increase of THB 20,105 million or 10.8% over the same period last year. The increase in operating expense was mainly due to the rise in average jet fuel price of 47%, resulting in fuel and oil expense higher by THB 26,849 million or 42.9% than last year, an increase in depreciation from the change in estimated useful life of the new aircraft and engine types as well as a cost from the Mutual Separation Plan in order to reduce personnel expense in the long run. In contrast, other operating expenses decreased from last year. The Company's loss from the operation amounted to THB 6,662 million, which was lower than a gain from operation of THB 10,234 million last year.

Moreover, the weaken Thai baht at the end of the period caused the Company's foreign currency exchange loss in the amount of THB 4,471 million, which was mostly arising from converting of the Company's outstanding loan into Baht terms. Furthermore, the Company has reserved the damages for Antitrust and Competition cases. The provision is calculated by approximation from the estimated damages figures by the lawyers in each region taking into account the facts that the lawyers are aware, approximately THB 4,290 million. Also, the Company recorded an impairment loss of Airbus A340-500 aircraft, amounting to THB 4,426 million. Consequently, the Company incurred an operating loss before tax amount of THB 23,600 million, lower than a profit of THB 6,338 million last year. The Company's net loss was THB 21,379 million or 12.58 baht per share, which was lower than the net profit of THB 4,368 million or 2.57 baht last year. EBITDA was THB 13,619 million.

Not Including of the loss on foreign currency exchange as well as the reserve of the estimated damages for Antitrust and Competition cases and also the aircraft impairment loss, the Company's loss before tax was THB 10,413 million.

Summary of operating results for fiscal year 2008 as follows:

Units: million baht	2008	2007	% Change
Total operating revenue	200,118	196,909	+ 1.6%
Operating expenses	206,780	186,675	+ 10.8%
Gain(Loss) from the operation	(6,662)	10,234	- 165.1%
Loss on foreign currency exchange	(4,471)	(652)	- 585.7%
Damage arising from Antitrust and Competition Law	(4,290)	-	-
Impairment losses of Airbus A340-500	(4,426)	-	-
Profit(Loss)before finance cost and income tax	(18,114)	11,265	- 260.8%
Profit (Loss) before tax	(23,600)	6,338	- 472.3%
Net profit (Loss)	(21,379)	4,368	- 589.4%
Net Profit (Loss) per share (Baht)	(12.58)	2.57	- 15.1
EBITDA	13,619	28,477	- 52.2%

Production and Traffic

For the fiscal year 2008, the Company's total production (Available Ton - Kilometer : ATK) decreased by 5.1% from the same period last year. Total traffic (Revenue Ton - Kilometer : RTK) decreased by 7.9%. Average load factor decreased from 70.3% last year to 68.2%. Passenger production (Available Seat - Kilometer : ASK) decreased by 3.4% from the same period last year. Passenger traffic (Revenue Passenger - Kilometer : RPK) decreased 8.5%, which was higher than the increase in passenger production. As a result, cabin factor was 74.8%, which was lower than the same period last year. The details are as follows:

		2008	2007	% Change
Production	(MATK)	10,938	11,523	- 5.1%
Traffic	(MRTK)	7,458	8,101	- 7.9%
Load Factor	(%)	68.2	70.3	- 2.1
Passenger Production	(MASK)	75,391	78,048	- 3.4%
Passenger Traffic	(MRPK)	56,377	61,619	- 8.5%
Cabin Factor	(%)	74.8	78.9	- 4.1
Freight Production	(MADTK)	4,152	4,498	- 7.7%
Freight Traffic	(MRFTK)	2,292	2,457	- 6.7%
Freight Load Factor	(%)	55.2	54.6	+ 0.6
No. of Passenger	(million persons)	18.71	19.88	- 5.9%
Flight Hours	(hours)	342,175	356,604	- 4.0%
Average of Aircraft Utilization	(hour/aircraft/day)	11.7	11.8	- 0.8%

Revenue

Due to the crisis that affected the Company's performance, total revenues for the year 2008 was THB 202,605 million, an increase of only THB 2,684 million or 1.3% over the same period last year. The details are as follows:

Units: million baht	2008	2007	% Change	
Revenue from Transportation Activities				
- Passenger and Excess Baggage	164,319	160,558	+	2.3%
- Freight and Mail	26,754	27,035	-	1.0%
Total Revenue from Transportation Activities	191,073	187,593	+	1.9%
Revenue from Other Activities	9,045	9,316	-	2.9%
Total Operating Revenue	200,118	196,909	+	1.6%
Interest Income	493	745	-	33.8%
Other Incomes	1,994	2,267	-	12.0%
Total Revenues	202,605	199,921	+	1.3%

Total operating revenue totaled THB 200,118 million, which is an increase of THB 3,209 million or 1.6% over the same period last year. Details are as follows:

Revenue from transportation activities amounted to THB 191,073 million, an increase of THB 3,480 million or 1.9% over the same period last year. Resulting from:

- Passenger and excess baggage revenue excluding fuel surcharge collected from passenger decreased as a result of the decrease in number of passenger while fuel surcharge revenue increased by THB 14,230 million from last year, which was insufficient to offset the higher fuel cost of THB 26,849 million. Consequently, the total passenger and excess baggage revenue amounted to THB 164,319 million, and increase of THB 3,761 million or 2.3% from last year.

- Freight and Mail revenue was THB 26,754 million, which was a decrease of THB 281 million or 1% from the same period last year, resulting from lower in freight traffic.

The Company's yield excluding insurance and fuel surcharge are as follows:

		2008	2007	% Change	
System-wide	(Baht/RTK)	19.90	19.86	+	0.2%
Passenger	(Baht/RPK)	2.28	2.25	+	1.3%
Freight	(Baht/RFTK)	8.13	8.38	-	3.0%

Revenue from other activities mostly comprised of revenue from business units, such as Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services, revenue from aircraft leased and providing maintenance & overhaul services to Nok Air and revenue from Thai-Amadeus Southeast Asia Company Limited, totaled THB 9,045 million, which was a decrease of THB 271 million or 2.9% from last year. The decrease was mainly due to the decreased number of inbound and outbound travelers to and from Thailand and also the reduction of revenue from Nok Air.

Interest income amounted to THB 493 million, which was THB 252 million or 33.8% lower than last year resulting from a decrease in cash.

Other incomes amounted to THB 1,994 million, which was THB 273 million or 12% lower than the previous year due to the gain on sales of 2 Airbus A300-600, totaling THB 370 million, which is lower than last year gain on sales of 4 aircraft, 2 Airbus A300-600 and 2 Boeing 747-300 aircraft in amount of THB 560 million and also gain on sales of engines and spare part, totaling THB 193 million.

Expenses

Total expenses amounted to THB 220,720 million, which was THB 32,064 million or 17% higher than the same period last year. A summary of operating expenses is as follows:

Units: million baht	2008	2007	% Change
Operating expenses :			
- Personnel	30,607	33,114	- 7.6%
- Fuel and oil	89,460	62,611	+ 42.9%
- Flight service expenses	19,938	20,155	- 1.1%
- Inventories and supplies	8,827	9,850	- 10.4%
- Crew expenses	6,542	6,746	- 3.0%
- Aircraft maintenance and overhaul costs	10,848	11,837	- 8.4%
- Depreciation and amortisation	20,281	18,243	+ 11.2%
- Lease of aircraft and spare parts	3,651	6,758	- 46.0%
- Sales and advertising cost	6,932	7,265	- 4.6%
- Insurance	751	894	- 16.0%
- Other operating expenses	8,922	9,176	- 2.8%
- Remuneration to board of directors	21	26	- 19.2%
Total operating expenses	206,780	186,675	+ 10.8%
Other expenses	688	1,430	- 51.9%
Loss (gains) on foreign currency exchange	4,471	652	+585.7%
Damage arising from Antitrust and Competition Law	4,290	-	-
Impairment losses of Airbus A340-500	4,426	-	-
Share of loss (profit) from investments by the equity method	65	(101)	- 164.4%
Total expenses	220,720	188,656	+ 17.0%

Operating Expenses The Company's operating expense amounted to THB 206,780 million, which was an increase of THB 20,105 million or 10.8% from last year. Significant changes in operating expense included:

- Fuel and oil expense was THB 89,460 million, including fuel hedging compensation in amount of THB 5,286 million, which was an increase of THB 26,849 million or 42.9% from the same period last year. The increase mainly caused by the rise in average fuel price by 47% from the same period last year.

- Depreciation and amortization amounted to THB 20,281 million, which was an increase of THB 2,038 million or 11.2% mainly due to the change in the estimated useful life of new aircraft and engine types from 20 years to 15 years, amounting to THB 1,387 million as well as an increase in number of aircraft.

- Lease of aircraft and spare part amounted to THB 3,651 million, a decrease of THB 3,107 million or 46% from last year which was mainly due to the cancellation of cargo block space, the decrease of 3 operating lease aircraft as well as the reduction in a lease rate of aircrafts from extending the lease contract.

- Personnel expense totaled THB 30,607 million, including Mutual Separation Plan expenses in amount of THB 1,300 million, which was a decrease of THB 2,507 million or 7.6% from the same period last year. The decrease was mainly due to the suspension of annual staff welfare fee payment this year whereas the annual staff welfare fee payment for the previous year was 3 times monthly salary.

- Aircraft maintenance and Overhaul costs amounted to THB 10,848 million, a decrease of THB 989 million or 8.4% from last year, which was mainly the result of acquiring the Total Care Agreement for Rolls Royce Trent 500 engines.

Other operating expenses decreased from last year, which was mainly due to cost control measure to cope with an impact from the crises.

Other expenses amounted to THB 688 million, which was a decrease of THB 742 million or 51.9% from last year mainly due to a decrease in the reserve for obsolete aircraft spare parts to be disposed.

Loss on foreign currency exchange amounted to THB 4,471 million was mostly due to the weaken Thai baht particularly against JPY currency at the end of the period, causing foreign currency exchange loss from the converting of the outstanding loan into Baht terms.

Damages arising from Antitrust and Competition Law The Company has reserved the damages and fines for the Antitrust and Competition cases. The provision is calculated by approximation from the estimated damages figures by the lawyers in each region taking into account the facts that the lawyers are aware, approximately THB 4,290 million.

Impairment Losses of Airbus A340-500 The Company recorded impairment Loss of 4 Airbus A340-500. It appears that an appraisal value of those aircraft is lower than the net book value in the amount of THB 4,426 million. The Company's Board of Director has a resolution to decommission and sell 4 Airbus A340-500 aircraft, non-stop flights to New York and Los Angeles. The Company has ceased the New York flights since July 1, 2008. In the meantime, such aircraft are on the sale process.

Share of loss from investment by equity method was THB 65 million compared with share of profit amounting to THB 101 million in the same period last year. Crucial factors were recognizing loss from Nok Airlines Company Limited and Suvarnabhumi Airport Hotel Company Limited.

Finance cost was THB 5,485 million, comprising of interest expense and bank charges, which was an increase of THB 558 million or 11.3% mainly due to increase in loan amount along with the rise in average interest rate. However, the Company manages its interest rate risk by entering into Interest Rate Swaps from long term floating into fixed interest rate during a low interest rate environment. As a result, the Company was able to reduce its interest expense by THB 230 million.

2. Financial Position

Assets

As at December 31, 2008, the Company's total assets were THB 259,534 million, a decrease of THB 20,741 million or 7.4% from as at December 31, 2007. The current and non-current assets accounted for 16.3% and 83.7% of total assets, respectively consisting of :

	December 31, 2008		December 31, 2007	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	42,181	16.3	65,229	23.3
Property, plant and equipment-net	207,064	79.8	207,153	73.9
Other non-current assets	10,289	3.9	7,893	2.8

Current assets decreased by THB 23,048 million or 35.3% mainly due to a decrease in cash and cash equivalents in the amount of THB 18,282 million, trade account receivable - net in the amount of THB 2,950 million and tax refund in the amount of THB 1,272 million.

Property, plant and equipment-net decreased by THB 89 million or 0.04%, which was mainly due to the impairment loss of A340-500 aircraft in the amount of THB 4,426 million. Furthermore, the Company took the delivery of 1 new Airbus A340-600, repurchasing 2 operating lease aircraft, Boeing 747-400 and 1 Boeing 777-200, and advance payment in Airbus A330-300 and A380-800.

Liabilities

The Company's total liabilities as at December 31, 2008 totaled THB 213,652 million, which was an increase of THB 1,402 million or 0.7% from as at December 31, 2007. These comprise of:

	December 31, 2008		December 31, 2007	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	79,307	37.1	73,191	34.5
Long-term debt	125,693	58.8	134,087	63.2
Staff pension fund and Contingent Liability	8,652	4.1	4,972	2.3

Current liability (excluding current portion of long-term loans) increased from December 31, 2007 by THB 6,116 million or 8.3% mainly due to an increase in short term loan whereas accrued dividends and unearned transportation revenues had been decreased.

Long-term debt as at December 31, 2008, including current portion of long-term loans, were THB 125,693 million which was a decrease by THB 8,394 million or 6.3% from as at December 31, 2007. The decrease was mainly from repayment of debenture, liabilities under financial leases from acquiring aircraft and promissory note.

Contingent liabilities totaled THB 3,874 million, which was mostly from estimated damages and penalty charges from the violation of Antitrust or Competition Law in case the Company is guilty.

Shareholders' Equity

As at December 31, 2008, the Company's shareholders' equity amounted to THB 45,882 million, a decrease of THB 22,143 million or 32.6% from December 31, 2007 due to net loss from operation and dividends payment for the operating result of the period October 1, - December 31, 2007.

Capital structure as of December 31, 2008 consisted of total liabilities of THB 213,652 million or 82.3% and shareholders' equity of THB 45,882 million or 17.7%. Debt to Equity Ratio as of December 31, 2008 was 4.66 times.

Liquidity

The impact of the crises strongly diverted the Company's operating result for the fiscal year 2008 from target which affecting cash flows from operation. Moreover, the Company had burden in loan repayment, investment and other obligations. At the beginning of the fiscal year (January 1, 2008), the Company had cash and cash equivalent in the amount of THB 25,813 million, which maintained the Company's liquidity. In the forth quarter which is normally the high season, where the Company transports great number of passenger and obtains high cash flows from operation, but the political unrest in the country affected the Company's operation and also the liquidity. As a result, the Company had to acquire short-term loan in order to strengthen the Company's liquidity. Cash and cash equivalents as at December 31, 2008 amounted to THB 7,531 million, a decrease of THB 18,282 million from the beginning of the period. Net cash from and used in each activities are as follows:

- Net cash from operating activities amounted to THB 11,371 million.
- Net cash used in investing activities amounted to THB 20,309 million mainly used for advance payment of Airbus A330-300 and A380-800 aircraft and repurchasing the operating lease aircraft, 2 Boeing 747-400 and 1 B777-200.
- Net cash used in financing activities amounted to THB 9,283 million. This included net repayment of THB 10,821 million in long-term loan and THB 4,500 million in debenture. In addition, promissory notes, loan interest and dividend were paid in the amount of THB 1,050 million, THB 5,619 million and THB 3,873 million, respectively. However, there was net cash received from short-term loans in this period, amounting to THB 16,580 million.

The Company has reviewed business and investment plans to solve the liquidity problems. An business plan improvement has been developed to cope with current circumstances in which emphasizes on cash flow enhancement through increasing quality of revenue, managing more appropriate expenditure, improving investment plan, and restructuring debt and capital structure to suit the investment plan.

The restatement of Financial Statements for fiscal year ending December 31, 2008 and 2007

The Company has restated its financial statement for fiscal year ending December 31, 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 same accounting period of the financial statements for the year ended December 31,2008. 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 recognized 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 fiscal year ended December 31, 2007 in the amount of THB 216 million 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.)
