

Management's Discussion and Analysis for the First Quarter of Financial Year 2007 ending December 31, 2006 for Thai Airways International Public Company Limited and Its Subsidiary

1. Operating Result

For the First Quarter of financial year 2007 (Oct 1 – Dec 31, 2006), the Company took the delivery of 4 new B777-200ER. In order to meet growing demand for air travel, frequencies were increased on intercontinental routes such as New York, Los Angeles, Zurich, Madrid, Munich, Stockholm, Rome, Moscow, Sydney, Melbourne, Brisbane, and Perth and also regional routes such as Chengdu, Ho Chi Minh City, Yangon, Guangzhou, and Vientiane. In addition, the Company has launched its new destinations to Johannesburg in South Africa as well as Hyderabad, Bodhgaya and Varanasi in India. As a result, passenger production (Available Seat - Kilometer : ASK) increased by 3.5% from 1Q06. The Company's passenger traffic (Revenue Passenger - Kilometer : RPK) increased by 11.6%. Cabin factor increased to 77.8% compared with 72.1% from 1Q06. Load factor also increased from 67.2% last year to 70.4% as at 1Q07.

Total revenues from the sale of goods and the rendering of services amounted to THB 48,373 million, which is an increase of THB 2,495 million or 5.4% from 1Q06 regardless of a stronger Thai Baht, revenue earned in foreign currency was lower after converted to Thai baht. The Company's operating expense totalled THB 42,932 million, which is an increase of THB 2,346 million or 5.8% mainly due to the increase in depreciation charges and additional expenses related to increasing production as well as personnel expenses and also other operating expenses at Suvarnabhumi Airport. As a result, profit from the sale of goods and the rendering of services was THB 5,441 million, which is an increase of THB 149 million or 2.8% from 1Q06. The gain of THB 1,664 million on foreign exchange was mostly due to a stronger Thai bath, reduced the Company's outstanding foreign currency loans in baht terms at the end of 1Q07. Consequently, the Company's profit before interest and tax amounted to 6,967 million baht, which is 367 million baht or 5.6% higher than 1Q06.

The Company's net profit before tax for 1Q07 was THB 5,799 million, which is an increase of THB 347 million or 6.4% from 1Q06. Net profit was THB 4,026 million, which is a 216 million baht or 5.7% increase over the previous year. The earning per share was THB 2.37 compared to THB 2.24 in 1Q06.

Operating results for 1Q07 compared with the same quarter last year as follows :

Unit : million Baht	Oct-Dec		Increase(decrease)	
	2006	2005	MTHB	%
Total revenue from the sale of goods and the rendering of services	48,373	45,878	2,495	5.4
Operating expenses	42,932	40,586	2,346	5.8
Profit from the sale of goods and the rendering of services	5,441	5,292	149	2.8
Gain on foreign exchange	1,664	1,384	280	20.2
Profit before interest and tax	6,967	6,600	367	5.6
Profit before income tax	5,799	5,452	347	6.4
Net profit	4,026	3,810	216	5.7
Net profit per share (THB)	2.37	2.24	0.13	

Revenue from the sale of goods and the rendering of services was THB 48,373 million, which is an increase of THB 2,495 million or 5.4% from 1Q06 comprise of

Revenue from transportation activities was THB 46,237 million, which is an increase of THB 2,618 million or 6% from 1Q06. Details are as the follows :

- Passenger and excess baggage revenue amounted to THB 39,164 million, including fuel surcharge collected from passengers in the amount of THB 4,414 million, which is an increase of THB 2,753 million or 7.6% from 1Q06.

- Freight and mail revenue amounted to THB 7,073 million, including fuel surcharge from Cargo in the amount of THB 1,142 million, which is a decrease of THB 135 million or 1.9% from 1Q06.

Revenue from other activities amounted to THB 2,136 million, which is a decrease of THB 123 million or 5.4% from 1Q06 include :

- Revenue from business units such as Technical, Cargo, Ground support equipment and Ground customer services along with Catering amounted to THB 1,835 million, which is a decrease of THB 157 million or 7.9% from 1Q06.

- Revenue from other activities amounted to THB 215 million, which is an increase of THB 30 million or 16.1% from 1Q06.

- Revenue from Thai's subsidiary, Thai-Amadeus Southeast Asia Company Limited, amounted to THB 86 million, which is a decrease of THB 4 million or 4.9%.

Other income amounted to THB 201 million, which is an increase of THB 106 million or 111.6% from 1Q06 because of the rise in interest income and gains on sales of assets.

Expenses The Company's operating expense for 1Q07 amounted to THB 42,932 million, which is an increase of THB 2,346 million or 5.8% from 1Q06. Significant changes include :

- Personnel expense amounted to THB 7,690 million, which is an increase of THB 1,025 million or 15.4% from 1Q06 resulting from an annual salary increment and a payment of vacation compensation for frontline staff who could not take a leave.

- Fuel cost of THB 14,708 million, an increase of THB 223 million or 1.5% from 1Q06 due to 2.8% increase in average fuel price and higher fuel consumption from the increase in production. However, the Thai bath strength against other foreign currencies partially offset the higher fuel cost.

- Lease of aircraft and spare parts expense was of THB 1,699 million, which is an increase of THB 271 million or a 19% mainly due to leasing more cargo block space from other airlines in order to serve demand from Europe.

- Depreciation amounted to THB 4,274 million, which is an increase of THB 441 million or 11.5% due to additional new aircraft and fixed assets at Suvarnabhumi Airport.

- Marketing expense was THB 807 million, which is an increase of THB 134 million or 19.9% from 1Q06 resulting from an increase in advertising and public relations expense to launch the new destinations as well as sales commission expenses.

- Other operating expense amounted to THB 1,456 million, which is an increase of THB 292 million or 25.1% from 1Q06 due to the increase in running cost at Suvarnabhumi Airport.

A gain on foreign exchange of THB 1,664 million was mostly due to an exchange gain arising from converting the Company's outstanding foreign currency loans into Baht terms at the end of 1Q07, higher than THB 1,384 million in 1Q06.

Other expenses amounted to 323 million baht, which is an increase of 143 million baht or a 79.4% over 1Q06 arising from reserve for loss on aircraft spare parts that are to be disposed.

Interest expense was THB 1,167 million, which is an increase of THB 19 million or 1.7% due to the increase in short-term loans.

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

Assets As at 1Q07 (December 31, 2006), the Company's total assets were THB 262,862 million, an increase of THB 13,828 million or 5.6% from the end of fiscal year 2006 (September 30, 2006). The current and non-current assets accounted for 18.4% and 81.6% of total assets, respectively.

	December 31, 2006		September 30, 2006	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	48,469	18.4	45,703	18.4
Property, plant and equipment-net	207,051	78.8	196,030	78.7
Other non-current assets	7,342	2.8	7,301	2.9

Current assets increased by 2,766 million baht or 6.1% mainly due to an increase in cash and cash equivalent in the amount of 3,193 million baht or 34.8% and also trade account receivables-net in the amount of 1,545 million baht or 9.3%. While other current assets decrease by 1,857 million baht or 12.8%.

Property, plant and equipment-net increased by THB 11,021 million or 5.6%. The increase was mainly due to the acquisition of 4 B777-200ER aircraft in this quarter.

Liabilities The Company's total liabilities as at 1Q07 totalled THB 195,991 million, which is an increase of THB 12,638 million or 6.9% from fiscal year-end 2006. That comprise of :

	December 31, 2006		September 30, 2006	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	68,564	35.0	60,440	33.0
Long-term debt	122,795	62.6	118,417	64.6
Staff pension fund	4,632	2.4	4,496	2.4

Current liability excluding current portion of long-term loans increased from fiscal year-end 2006 by 8,124 million baht or 13.4% mainly due to an increase in short-term loans.

Long-term debt as at 1Q07 including current portion of long-term loans of THB 8,883 million increased THB 4,378 million or 3.7% from fiscal year-end 2006. The increase resulted from the increase in financial lease of aircraft totalling THB 12,893 million but long-term loans and promissory notes decreased by THB 8,516 million.

Shareholders' Equity As at 1Q07, the Company's shareholders' equity amounted to THB 66,871 million, an increase of THB 1,190 million or 1.8% from fiscal year- end 2006 mainly due to the increase in net profit net of dividend payment.

Liquidity Cash and cash equivalents as at 1Q07 amounted to THB 12,368 million, an increase of THB 3,193 million from the beginning of fiscal year. Net cash from and used in other activities are as follows :

- Net cash from operating activities amounted to THB 5,321 million.
- Net cash used in investing activities amounted to THB 15,274 million mainly from acquisition in new aircraft.
- Net cash from financing activities amounted to THB 13,240 million. This includes cash received from short-term loans of THB 7,472 million and long-term long THB 17,173 million. However the Company repaid loans in the aggregate amount of THB 11,406 million.

Change in Accounting Policy

In the three - month period ended December 31, 2006, the Company has changed its accounting policy regarding the investment in subsidiary and associated company of the Company's financial statements which formerly recorded by equity method to record by cost method. This is to comply with the announcement of Federation of Accounting Profession No. 26/2549 and 32/2549. The Company restated its 2006 financial statement as thought the Company had consistency followed the new policy. After restating, net profit for the there - month period ended December 31, 2006 and 2005 increased by THB 48.05 million and decreased by THB 12 million, respectively. As a result, retained earning of the Company as at October 1, 2006 and 2005 decreased by THB 917 million and THB 760 million, respectively.
