

Management's Discussion and Analysis for the First Quarter of Financial Year 2008 ending Mar 31, 2008 for Thai Airways International Public Company Limited and Its Subsidiary

1. Operating Result

For the first quarter of financial year 2008 (January 1 - March 31, 2008), the Company phased out two A300-600s and adjusted flight schedules by suspension its flight on Bandar Seri Bagawan and frequency reduction on Yangon. However, the Company increased its flight frequencies to Beijing and Hyderabad as well as launched its new flight on the route Bangkok - Samui. The Company's passenger production (Available Seat-Kilometer : ASK) increased by 5.5% from last year resulting from an adjustment of the regional and intercontinental route in order to serve growing demand for passenger air transportation. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) increased by 7%. The average cabin factor was 81.6% which is higher than that of 80.4% last year. The average load factor increased to 72% compared with that of 70.3% last year. However, the fuel price in the world market is increasing continuously as well as the Company incurred a loss on foreign currency exchange arising from converting the Company's outstanding loan into Baht terms whereas incurred a gain in last year. These were the main causes resulting in a net profit for the first quarter in the amount of THB 2,216 million or 1.30 baht per share, lower than a net profit THB 4,233 million or 2.49 baht per share of the same quarter last year.

Total revenues from the sale of goods and the rendering of services amounted to THB 54,867 million, which is an increase of THB 5,270 million or 10.6% from 1Q07. The Company's operating expense totalled THB 50,117 million, which is an increase of THB 6,697 million or 15.4%, mainly due to the rise in average jet fuel price of 45.4%, an increase in personnel expense, depreciation from change in estimated useful life of the new aircraft and engine types as well as production expansion. As a result, profit from the sale of goods and the rendering of services was THB 4,750 million, which is a decrease of THB 1,427 million or 23.1% from the same period last year. The loss of THB 664 million on foreign currency exchange, mostly arising from converting the Company's outstanding loan into Baht terms at the end of 1Q08 compared to the gain THB 1,466 million in last year. Profit before tax was THB 3,257 million, which was lower than THB 6,084 million in the same period last year.

Operating results for 1Q08 (January 1 - March 31, 2008) compared with the same period last year as follows :

Unit : million Baht	<u>Jan-Mar</u>		<u>Increase(decrease)</u>	
	2008	2007	MTHB	%
Total revenue from the sale of goods and the rendering of services	54,867	49,597	5,270	10.6
Operating expenses	50,117	43,420	6,697	15.4
Profit from the sale of goods and the rendering of services	4,750	6,177	(1,427)	(23.1)
Gain (Loss) on foreign exchange	(664)	1,466	(2,130)	(145.3)
Profit before income tax	3,257	6,084	(2,827)	(46.5)
Net profit	2,216	4,233	(2,017)	(47.6)
Net profit per share (THB)	1.30	2.49	(1.19)	

Revenue from the sale of goods and the rendering of services was THB 54,867 million, which is an increase of THB 5,270 million or 10.6% from 1Q07.

Revenue from transportation activities was THB 52,489 million, which is an increase of THB 5,340 million or 11.3% from 1Q07. Details are as follows.

- Passenger and excess baggage revenue amounted to THB 45,640 million representing 83.2% of total revenues from the sale of goods and the rendering of services or is an increase of THB 4,883 million or 12% from 1Q07. The main reason is greater number of passengers than last year and also an increase in fuel surcharge collected from passengers.

- Freight and mail revenue amounted to THB 6,849 million, accounted for 12.5% of total revenues from the sale of goods and the rendering of services or is an increase of THB 457 million or 7.2% from 1Q07.

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 maintenance & overhaul services provided to Nok Airlines Company Ltd. and revenue from Thai-Amadeus Southeast Asia Company Limited, amounting to THB 2,378 million, which was nearly the same as 1Q07.

Other income amounted to THB 890 million, which mostly comprised of interest income, gain on sale of aircraft and revenue from passenger airport tax which has not been billed to the Company over 3 years, an increase of THB 453 million or 103.7% from 1Q07.

Expenses The Company's operating expense amounted to THB 50,117 million, which is an increase of THB 6,697 million or 15.4% from 1Q07.

Significant changes of operating expense included :

- Fuel cost of THB 19,563 million, an increase of THB 5,547 million or 39.6% from 1Q07. The main reason were the rise in average jet fuel price of 45.4% as well as an increase in fuel consumption from production expansion whereas the US dollar is weaken against Thai baht partially offset fuel cost.
- Personnel expense amounted to THB 7,932 million, which is an increase of THB 875 million or 12.4% from 1Q07. The main reason is an annual salary increment and a salary increment in accordance with the cabinet's resolution.
- Flight operations expenses amounted to THB 11,375 million, an increase of THB 756 million or 7.1% from 1Q07 which mainly caused by overhaul and maintenance , passenger services , navigation fee and ground operation due to the production expansion.
- Depreciation amounted to THB 4,969 million, which is an increase of THB 586 million or 13.4% due to the change in the estimated useful life of new aircraft and engine types, amounting to THB 344 million as well as the delivery of new aircraft.
- Lease of aircraft and spare parts expense was of THB 1,163 million, which is a decrease of THB 546 million or a 31.9% mainly due to the termination of cargo block space lease.

Loss on foreign currency exchange amounted to THB 664 million, which was mostly due to net exchange loss arising from translating the Company's outstanding EURO and JPY currency loans into Baht term at the end of the period less foreign exchange gain arising from managing currency exchange risk in the amount of THB 119 million on outstanding foreign currency denominated loans, compared with a gain on foreign currency exchange amount of THB 1,466 million in 1Q07.

Other expenses amounted to THB 272 million, which is a decrease of THB 641 million from 1Q07 mainly arising from a reserve for obsolete aircraft spare parts to be disposed and impairment of aircraft spare parts in last year.

Share of loss from associated companies by equity method was 44 million baht compared with share of profit amounting to 63 million baht in the same period last year. Crucial factors were loss incurred by Nok Airlines Company Limited.

Interest expense was THB 1,378 million, which is an increase of THB 258 million or 23% mainly due to the increase in outstanding loans.

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

Assets As at 1Q08 (March 31, 2008), the Company's total assets were THB 272,019 million, a decrease of THB 8,256 million or 2.9% from as at December 31, 2007. The current and non-current assets accounted for 22.5% and 77.5% of total assets, respectively consisting of :

	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	61,241	22.5	65,229	23.3
Property, plant and equipment-net	203,023	74.6	207,153	73.9
Other non-current assets	7,755	2.9	7,893	2.8

Current assets decreased by THB 3,988 million or 6.1% due to a decrease in cash and cash equivalent. Property, plant and equipment-net decreased by THB 4,130 million or 2%.

Liabilities The Company's total liabilities as at 1Q08 (March 31, 2008) totalled THB 201,806 million, which is a decrease of THB 10,444 million or 4.9% from as at December 31, 2007. These comprise of :

	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	MTHB	% of liabilities	MTHB	% of liabilities
Current liabilities (excluding current portion long-term loans)	64,172	31.8	73,192	34.5
Long-term debt	132,561	65.7	134,086	63.2
Staff pension fund	5,073	2.5	4,972	2.3

Current liability excluding current portion of long-term loans decreased from December 31, 2007 by THB 9,020 million or 12.3% mainly due to repayment of short-term loan and a decrease in accrued dividends.

Long-term debt as at March 31, 2008 were THB 132,561 million including current portion of long-term loans of THB 24,649 million which is a decrease by THB 1,525 million or 1.1% from as at December 2007. The decrease was mainly caused by the reduction in liabilities under financial leases.

Shareholders' Equity As at 1Q08, the Company's shareholders' equity amounted to THB 70,213 million, an increase of THB 2,188 million or 3.2% from December 31, 2007 due to net profit from operation.

Liquidity Cash and cash equivalents as at March 31, 2008 amounted to THB 18,368 million, a decrease of THB 7,445 million from the beginning of the period (January 31, 2008). Net cash from and used in each activities are as follows :

- Net cash from operating activities amounted to THB 4,265 million.
- Net cash used in investing activities amounted to THB 283 million mainly from investment in engines and ground handling equipments .
- Net cash used in financing activities amounted to THB 11,371 million. This includes repayment of short-term loan, long-term loan and promissory note amount of THB 4,962 million, THB 2,254 million and THB 225 million, respectively. In addition, the Company paid interest amount of THB 839 million and dividend amount of THB 3,091 million.