

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

1. Operating Result

For the second quarter of financial year 2007 (Jan 1 - Mar 31, 2007), the Company's passenger production (Available Seat-Kilometer:ASK) increased by 8% from 2Q06 due to the increase in flight frequencies to serve growing demand for air travel in both intercontinental and regional routes. In addition, the Company has launched its new destinations to Johannesburg in South Africa as well as Hyderabad, Bodhgaya and Varanasi in India since the first quarter of this financial year. The Company took the delivery of 4 new B777-200ER in November and December 2006 and phased out one A300-600 from its fleet in February 2007. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) increased by 13.1%. Cabin factor increased to 80.4% compared with 76.7% in 2Q06. Load factor increased to 70.3% compared with 68.3% in 2Q06. Passenger yield (THB per Passenger per Kilometer) was THB 2.64 per passenger-kilometer which is a decrease of 3.6% from the same period last year, mainly due to stronger Thai Baht.

Total revenues from the sale of goods and the rendering of services amounted to THB 49,597 million, which is an increase of THB 3,488 million or 7.6% from 2Q06. The Company's operating expense totalled THB 43,420 million, which is an increase of THB 2,896 million or 7.1% due to the expansion of production and also the increase in personnel expenses and other operating expenses at Suvarnabhumi Airport. As a result, profit from the sale of goods and the rendering of services was THB 6,177 million, which is an increase of THB 592 million or 10.6% from 2Q06. The Company's profit before tax amounted to THB 6,084 million, which is THB 2,747 million lower than 2Q06 due to the Company having a gain on foreign currency exchange mostly arising from converting the Company's outstanding loan into Baht terms at 2Q07 amount of THB 1,466 million, which lower than a gain of THB 3,863 million at 2Q06. Consequently, the Company's net profit was THB 4,233 million, which is THB 1,972 million or 31.8% decreased over the previous year. The earning per share was THB 2.49 higher than THB 2.37 in 1Q07 but less than that of THB 3.65 in 2Q06.

Operating results for 2Q07 compared with the same quarter last year as follows :

| Unit : million Baht | Jan-Mar | | Increase(decrease) | |
|---|---------------|---------------|--------------------|---------------|
| | 2007 | 2006 | MTHB | % |
| Total revenue from the sale of goods and the rendering of services | 49,597 | 46,109 | 3,488 | 7.6 |
| Operating expenses | 43,420 | 40,524 | 2,896 | 7.1 |
| Profit from the sale of goods and the rendering of services | 6,177 | 5,585 | 592 | 10.6 |
| Gain on foreign exchange | 1,466 | 3,863 | (2,397) | (62.1) |
| Profit before interest and tax | 7,204 | 10,009 | (2,805) | (28.0) |
| Profit before income tax | 6,084 | 8,831 | (2,747) | (31.1) |
| Net profit | 4,233 | 6,205 | (1,972) | (31.8) |
| Net profit per share (THB) | 2.49 | 3.65 | (1.16) | |

Revenue from the sale of goods and the rendering of services was THB 49,597 million, which is an increase of THB 3,488 million or 7.6% from 2Q06.

Revenue from transportation activities was THB 47,149 million, which is an increase of THB 3,272 million or 7.5% from 2Q06. Details are as follows.

- Passenger and excess baggage revenue amounted to THB 40,757 million, including fuel surcharge collected from passengers in the amount of THB 4,423 million, which is an increase of THB 3,360 million or 9% from 2Q06.

- Freight and mail revenue amounted to THB 6,392 million, including fuel surcharge from Cargo in the amount of THB 994 million, which is a decrease of THB 88 million or 1.4% from 2Q06.

Revenue from other activities amounted to THB 2,448 million, which is an increase of THB 216 million or 9.7% from 2Q06 comprise of

- Revenue from business units such as Technical, Cargo, Ground support equipment and Ground customer services along with Catering amounted to THB 2,140 million, which is an increase of THB 187 million or 9.6% from 2Q06.

- Revenue from other activities amounted to THB 210 million, which is an increase of THB 29 million or 16% from 2Q06, mainly from the lease of aircraft and service fees charge to Nok Airlines Company Ltd.

- Revenue from Thai's subsidiary, Thai-Amadeus Southeast Asia Company Limited, amounted to THB 98 million, which is almost the same amount as 2Q06.

Other income amounted to THB 437 million, including THB 182 million gains on sales of A300-600, which is a decrease of THB 304 million or 41% from 2Q06 mainly due to the recognition of revenue from passenger tax which has not been billed to the Company.

Expenses The Company's operating expense for 2Q07 amounted to THB 43,420 million, which is an increase of THB 2,896 million or 7.1% from 2Q06. Significant changes include :

- Personnel expense amounted to THB 7,057 million, which is an increase of THB 419 million or 6.3% from 2Q06 resulting from an annual salary increment.

- Fuel cost of THB 14,017 million, a decrease of THB 324 million or 2.3% from 2Q06 due to average fuel price was almost the same as last year. However, the Thai baht strength partially offset fuel cost that paid in other currencies although fuel consumption has been increased from production expansion.

- Flight operations expenses amounted to THB 10,879 million, which is an increase of THB 1,738 million or 19% from 2Q06 mainly due to the production expansion.

- Depreciation amounted to THB 4,383 million, which is an increase of THB 469 million or 12% due to the Company took deliveries of new aircraft. In addition, depreciation of other fixed assets has been increased, resulting from an investment at Suvarnabhumi Airport.

- Lease of aircraft and spare parts expense was of THB 1,709 million, which is an increase of THB 360 million or a 26.7% mainly due to leasing of additional cargo block space in order to better serve cargo demand especially on insufficient capacity routes.

- Other operating expense amounted to THB 1,578 million, which is an increase of THB 254 million or 19.2% from 2Q06 due to building and office rental as well as running cost at Suvarnabhumi Airport.

A gain on foreign exchange of THB 1,466 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 2Q07, lower than THB 3,863 million at the end of 2Q06. The difference was THB 2,397 million.

Other expenses amounted to THB 913 million, which is an increase of THB 682 million over 2Q06 mainly arising from a reserve for obsolete aircraft spare parts to be disposed and impairment of aircraft spare parts.

The Company's profit from the sale of goods and the rendering of services for the first half - year of fiscal year 2007 (Oct. 1' 06 - Mar. 31' 07) totalled THB 11,618 million, which is an increase of THB 741 million or 6.8% from 2Q06. However, net profit totalled THB 8,259 million, which is a decrease of THB 1,755 million or 17.5% from 2Q06 mainly due to the gain on foreign exchange, mostly from converted the Company's outstanding foreign currency loans in to baht terms at the end of 2Q07 less than last year. Earnings per share decreased to THB 4.86 from THB 5.89 in 2Q06.

Operating results for the first half - year of fiscal year 2007 compared to the same period last year as follows :

| Unit : million Baht | First half-year (Oct-Mar) | | Increase (decrease) | |
|---|---------------------------|---------------|---------------------|---------------|
| | 2007 | 2006 | MTHB | % |
| Total revenue from the sale of goods and the rendering of services | 97,970 | 91,987 | 5,983 | 6.5 |
| Operating expenses | 86,352 | 81,110 | 5,242 | 6.5 |
| Profit from the sale of goods and the rendering of services | 11,618 | 10,877 | 741 | 6.8 |
| Gain on foreign exchange | 3,130 | 5,247 | (2,117) | (40.3) |
| Profit before interest and tax | 14,170 | 16,609 | (2,439) | (14.7) |
| Profit before income tax | 11,883 | 14,283 | (2,400) | (16.8) |
| Net profit | 8,259 | 10,014 | (1,755) | (17.5) |
| Net profit per share (THB/share) | 4.86 | 5.89 | (1.03) | |

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

Assets As at 2Q07 (March 31, 2007), the Company's total assets were THB 262,342 million, an increase of THB 13,308 million or 5.3% from the end of fiscal year 2006 (September 30, 2006). The current and non-current assets accounted for 19.3% and 80.7% of total assets, respectively consisting of :

| | March 31, 2007 | | September 30, 2006 | |
|-----------------------------------|----------------|-------------------|--------------------|-------------------|
| | MTHB | % of total assets | MTHB | % of total assets |
| Current assets | 50,539 | 19.3 | 45,703 | 18.4 |
| Property, plant and equipment-net | 204,073 | 77.8 | 196,030 | 78.7 |
| Other non-current assets | 7,730 | 2.9 | 7,301 | 2.9 |

Current assets increased by THB 4,836 million or 10.6% due to an increase in cash and cash equivalent in the amount of THB 2,684 million or 29.3% and trade account receivables-net in the amount of THB 1,171 million or 7%, resulting from the increasing sales. Other current assets also increased by THB 1,008 million or 6.9%.

Property, plant and equipment-net increased by THB 8,043 million or 4.1%, mainly due to more aircraft in fleet.

Liabilities The Company's total liabilities as at 2Q07 totalled THB 191,222 million, which is an increase of THB 7,869 million or 4.3% from fiscal year-end 2006. These comprise of :

| | March 31, 2007 | | September 30, 2006 | |
|--|----------------|------------------------|--------------------|------------------------|
| | MTHB | % of total liabilities | MTHB | % of total liabilities |
| Current liabilities (excluding current portion of long-term loans) | 67,336 | 35.2 | 60,440 | 33.0 |
| Long-term debt | 119,204 | 62.4 | 118,417 | 64.6 |
| Staff pension fund | 4,682 | 2.4 | 4,496 | 2.4 |

Current liability excluding current portion of long-term loans increased from fiscal year-end 2006 by THB 6,896 million or 11.4% mainly due to an increase in short-term loans.

Long-term debt as at 2Q07 were THB 119,204 million including current portion of long-term loans of THB 8,896 million which is an increase by THB 787 million or 0.7% from fiscal year-end 2006. The increase was caused by the increase in financial lease of aircraft totaling THB 9,629 million. However, the long-term loans and promissory notes decreased by THB 8,317 million and THB 525 million respectively.

Shareholders' Equity As at 2Q07, the Company's shareholders' equity amounted to THB 71,120 million, an increase of THB 5,439 million or 8.3% from fiscal year-end 2006 due to the increase in net profit net of dividend payment.

Liquidity Cash and cash equivalents as at 2Q07 amounted to THB 11,859 million, an increase of THB 2,684 million from the beginning of fiscal year. Net cash from and used in each activities are as follows :

- Net cash from operating activities amounted to THB 12,108 million.
- Net cash used in investing activities amounted to THB 16,699 million mainly from acquisition in new aircrafts.
- Net cash from financing activities amounted to THB 7,377 million. This includes net cash received from short-term loans of THB 4,176 million and long-term loan of THB 6,576 million. However, the Company paid dividend in amount of THB 2,842 million and repaid promissory note in amount of THB 525 million.

Change in Accounting Policy

To comply with the Announcement of Federation of Accounting Profession No. 26/2549 and 32/2549, the Company has changed its accounting policy since October 1, 2006, regarding the investment in subsidiary and associated companies of the Company's financial statements which formerly recorded by equity method to record by cost method, using historical cost as the original cost.

This adjustment caused net profit on the Company income statement to differ from that reported in the Consolidated income statement. This is because the Company's income statements did not include share of income from investments accounted for under equity method but recognized revenue from investment in subsidiary and associated companies whenever receiving dividend.

After restating, the Company's net profit for the three-month and six-month period ended March 31, 2007 to be decreased by THB 81 million and THB 33 million, respectively and also the Consolidated's net profit for three-month and six-month period ended March 31, 2006 to be decreased by THB 67 million and THB 79 million, respectively.

The cumulative effect of the change in accounting policy has been presented under the heading of "Cumulative effect of change in accounting policy for investments by cost method" in the Company statements of changes in shareholders' equity as at October 1, 2006 and 2005 decreased by THB 917 million and THB 760 million, respectively.

This change in accounting policy affected transaction related to the investment in subsidiary and associated of the Company's financial statements only. Nevertheless, it has no effect on the Consolidated financial statements preparation and also the other factors related to business operation.
