

Management's Discussion and Analysis for the Third Quarter of Financial Year 2007 ending June 30, 2007 for Thai Airways International Public Company Limited and Its Subsidiary

1. Operating Result

For the third quarter of financial year 2007 (April 1 - June 30, 2007), the Company took the delivery of an additional aircraft, A340-500, and also phased out three aircraft, one A300-600 and two B747-300. In addition, the Company has increased its significant flight frequencies such as Chengdu , Kolkata , Islamabad , Brisbane , New York and Los Angeles. The Company's passenger production (Available Seat-Kilometer:ASK) increased by 8.1% from 3Q06 due to the Company launched its new destinations as well as increased the existing flight frequencies to serve growing demand for air travel in both intercontinental and regional routes since 1Q07. The Company's passenger traffic (Revenue Passenger-Kilometer : RPK) increased by 9.3%. The average cabin factor was 75.1% which is higher than 74.2% last year. The average load factor increased to 67.8% compared with 67.6% in 3Q06. Passenger yield (THB per Passenger per Kilometer) was THB 2.48 per passenger-kilometer which is lower than that of THB 2.53 per passenger-kilometer last year. In addition, the Company has transferred point to point domestic flights from Suvarnabhumi Airport to Don Mueang Airport since March 25, 2007 except for connecting flight to international routes still operate at Suvarnabhumi Airport.

Total revenues from the sale of goods and the rendering of services amounted to THB 44,529 million, which is an increase of THB 2,415 million or only 5.7% from 3Q06. The significant reason was the strong Thai baht which affected the revenue earned in foreign currencies, lower after converting to Thai baht. The Company's operating expense totalled THB 44,415 million, which is an increase of THB 3,260 million or 7.9% mainly due to the expansion of production. As a result, profit from the sale of goods and the rendering of services was THB 114 million, lower than a profit THB 959 million in 3Q06. The Company's profit before tax amounted to THB 123 million, including the gain on foreign currency exchange, mostly arising from converting the Company's outstanding loan into Baht terms at the end of 3Q07 amount of THB 1,416 million, as well as interest expenses amount of THB 1,199 million. The Company's net profit was THB 68 million, which is THB 405 million or 85.6% decreased from the same period last year. The earning per share was THB 0.04 lower than THB 0.28 in 3Q06.

Operating results for 3Q07 compared with the same quarter last year as follows :

Unit : million Baht	<u>Apr-Jun</u>		<u>Increase(decrease)</u>	
	2007	2006	MTHB	%
Total revenue from the sale of goods and the rendering of services	44,529	42,114	2,415	5.7
Operating expenses	44,415	41,155	3,260	7.9
Profit from the sale of goods and the rendering of services	114	959	(845)	(88.1)
Gain (Loss) on foreign exchange	1,416	(1,107)	2,523	227.9
Profit before interest and tax	1,322	1,721	(399)	(23.2)
Profit before income tax	123	665	(542)	(81.5)
Net profit	68	473	(405)	(85.6)
Net profit per share (THB)	0.04	0.28	(0.24)	

Revenue from the sale of goods and the rendering of services was THB 44,529 million, which is an increase of THB 2,415 million or 5.7% from 3Q06.

Revenue from transportation activities was THB 42,401 million, which is an increase of THB 2,236 million or 5.6% from 3Q06. Details are as follows.

- Passenger and excess baggage revenue amounted to THB 35,886 million, including fuel surcharge collected from passengers in the amount of THB 4,066 million, which is an increase of THB 2,333 million or 7% from 3Q06. That was partly from the strong Thai baht, which affected the revenue earned in foreign currencies lower after converting to Thai baht.

- Freight and mail revenue amounted to THB 6,515 million, including fuel surcharge from Cargo in the amount of THB 1,024 million, which is a decrease of THB 97 million or 1.5% from 3Q06. The main reason is a strong competition that caused unavoidable pricing strategy application to increase cargo volume. Moreover, the stronger Thai baht is also the effect.

Revenue from other activities amounted to THB 2,128 million, which is an increase of THB 179 million or 9.2% from 3Q06 comprise of

- Revenue from business units such as Technical, Cargo, Ground support equipment and Ground customer services along with Catering amounted to THB 1,844 million, which is an increase of THB 186 million or 11.2% from 3Q06.

- Revenue from other activities, mainly from the lease of aircraft and service fees charge to Nok Airlines Company Ltd. amounted to THB 202 million, nearly the same amount as 3Q06.

- Revenue from Thai's subsidiary, Thai-Amadeus Southeast Asia Company Limited, amounted to THB 82 million, which is almost the same amount as 3Q06.

Other income amounted to THB 450 million, which is a decrease of THB 1,499 million or 76.9% from 3Q06. This is mainly due to a gain on sale of one A300-600 amount of THB 152 million in this year, which is lower than a gain on sales of three MD11 amount of THB 1,528 million in last year. Moreover, the Company recognized revenue from passenger tax, which had not been billed to the Company as revenue in this period.

Expenses The Company's operating expense for 3Q07 amounted to THB 44,415 million, which is an increase of THB 3,260 million or 7.9% from 3Q06. Significant changes include :

- Personnel expense amounted to THB 7,318 million, which is an increase of THB 315 million or 4.5% from 3Q06. This is mainly due to an annual salary increment and increase in overtime payment from operations at Suvarnabhumi Airport.

- Fuel cost of THB 14,409 million, a decrease of THB 393 million or 2.7% from 3Q06. This is due to stronger Thai baht, partially offset fuel cost that paid in other currencies as well as fuel price decreased by 2% compared with last year although fuel consumption increased from production expansion.

- Flight operations expenses amounted to THB 11,585 million, an increase of THB 2,128 million or 22.5% from 3Q06 which mainly caused by overhaul and maintenance , passenger services , navigation fee and ground operation due to the production expansion.

- Depreciation amounted to THB 4,470 million, which is an increase of THB 618 million or 16% due to the Company took the delivery 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 1,684 million, which is an increase of THB 429 million or a 34.2% mainly due to the lease of additional cargo block space in order to better serve cargo demand especially on insufficient capacity routes.

- Insurance expense was THB 115 million, a decrease of THB 255 million or 68.9% from the previous year from the reduction in insurance premium.

- Other operating expense amounted to THB 1,611 million, which is an increase of THB 296 million or 22.5% from 3Q06 due to the increase in building and office rental as well as running cost at Suvarnabhumi Airport.

A gain on foreign exchange of THB 1,416 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 3Q07, which is THB 2,523 million higher than at the end of 3Q06.

Other expenses amounted to THB 655 million, which is an increase of THB 491 million over 3Q06 mainly arising from a reserve for obsolete aircraft spare parts to be disposed and impairment of aircraft spare parts.

Interest expense was THB 1,199 million, which is an increase of THB 143 million or 13.5% mainly due to the increase in outstanding loans.

The operating results for the nine-month period of fiscal year 2007 started from October 1, 06 - June 30, 07. The Company's profit from the sale of goods and the rendering of services totalled THB 11,732 million, nearly the same as last year. Nevertheless, net profit totalled THB 8,327 million, which is a decrease of THB 2,160 million or 20.6% from 3Q06. The major reasons are gain on sale of aircraft in this year is lower by THB 1,211 million from last year and a reserve for obsolete aircraft spare parts to be disposed and impairment of aircraft spare parts totalled of THB 1,270 million. Earnings per share decreased to THB 4.90 from THB 6.17 in 3Q06.

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

Unit : million Baht	<u>Nine-Month Period</u> <u>(Oct-Jun)</u>		<u>Increase (decrease)</u>	
	2007	2006	MTHB	%
Total revenue from the sale of goods and the rendering of services	142,500	134,101	8,399	6.3
Operating expenses	130,768	122,264	8,504	7.0
Profit from the sale of goods and the rendering of services	11,732	11,837	(105)	(0.9)
Gain on foreign exchange	4,546	4,139	407	9.8
Profit before interest and tax	15,492	18,331	(2,839)	(15.5)
Profit before income tax	12,006	14,949	(2,943)	(19.7)
Net profit	8,327	10,487	(2,160)	(20.6)
Net profit per share (THB)	4.90	6.17	(1.27)	

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

Assets As at 3Q07 (June 30, 2007), the Company's total assets were THB 262,937 million, an increase of THB 13,903 million or 5.6% from the end of fiscal year 2006 (September 30, 2006). The current and non-current assets accounted for 18.7% and 81.3% of total assets, respectively consisting of :

	<u>June 30, 2007</u>		<u>September 30, 2006</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	49,146	18.7	45,703	18.4
Property, plant and equipment-net	206,096	78.4	196,030	78.7
Other non-current assets	7,695	2.9	7,301	2.9

Current assets increased by THB 3,443 million or 7.5% due to an increase in cash and cash equivalent in the amount of THB 3,558 million or 38.8%.

Property, plant and equipment-net increased by THB 10,066 million or 5.1%, mainly due to the Company took the delivery of five new aircraft, four B777-200ER and one A340-500 and also phased out four old aircraft, two A300-600 and two B747-300.

Liabilities The Company's total liabilities as at 3Q07 totalled THB 191,741 million, which is an increase of THB 8,388 million or 4.6% from fiscal year-end 2006. These comprise of :

	<u>June 30, 2007</u>		<u>September 30, 2006</u>	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	67,745	35.3	60,440	33.0
Long-term debt	119,280	62.2	118,417	64.6
Staff pension fund	4,716	2.5	4,496	2.4

Current liability excluding current portion of long-term loans increased from fiscal year-end 2006 by THB 7,305 million or 12.1% mainly due to an increase in short-term loans in Euro Commercial Paper (ECP) term to repay long-term loan, prior to acquiring further appropriate financing. The increase in unearned transportation revenue from sales growth is another crucial factor.

Long-term debt as at 3Q07 were THB 119,280 million including current portion of long-term loans of THB 15,022 million which is an increase by THB 863 million or 0.7% from fiscal year-end 2006. The increase was caused by the increase in liabilities under financial leases totalling THB 10,177 million. However, the long-term loans and promissory notes decreased by THB 8,489 million and THB 825 million respectively.

Shareholders' Equity As at 3Q07, the Company's shareholders' equity amounted to THB 71,196 million, an increase of THB 5,515 million or 8.4% from fiscal year-end 2006 due to net profit after dividend payment.

Liquidity Cash and cash equivalents as at 3Q07 amounted to THB 12,733 million, an increase of THB 3,558 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 18,259 million.
- Net cash used in investing activities amounted to THB 20,085 million mainly from acquisition in new aircrafts.
- Net cash from financing activities amounted to THB 5,411 million. This includes net cash received from long-term loans, THB 2,518 million and short-term loans, THB 6,567 million. However, the Company paid dividend amount of THB 2,845 million and repaid promissory note amount of THB 825 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 and nine-month period ended June 30, 2007 increased by THB 69 million and THB 36 million respectively and also the Company's net profit for three and nine-month period ended June 30, 2006 decreased by THB 23 million and THB 101 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.
