

Management's Discussion and Analysis for Fiscal Year Ending September 30, 2006 for Thai Airways International Public Company Limited and Its Subsidiary

1. Operating Results

The Company has increased its international flight frequencies to cope with increased passenger demand and the launch of new destinations such as Moscow in Russia and Islamabad in Pakistan. In the first quarter of fiscal year 2006, the Company took the delivery of 4 aircraft - 3 Airbus A340-600 and 1 Airbus A340-500 and sold 4 MD-11 aircraft in the third and fourth quarters. Passenger production (Available Seat - Kilometer : ASK) increased by 2.5% from increased aircraft utilization. The Company's passenger traffic (Revenue Passenger - Kilometer : RPK) increased by 8.1%. The Company posted satisfactory financial performance for fiscal year 2006 despite encountering increased competition in the commercial airline industry including the rapid route expansion of low cost airlines, the political tensions abroad, jet fuel price having increased price by 25% and the fluctuation in currency exchange. For the fourth quarter of fiscal year 2006, in preparation for moving the Company's base of operations to Suvarnabhumi Airport at end of September 2006, additional costs were incurred. Despite these challenges, the Company was able to post a net profit of 8,992 million baht, which was a 32.7% or 2,215 million baht increase over the previous year. The earning per share was THB 5.29 compared to THB 4.00 in fiscal year 2005.

Revenue from the sale of goods and the rendering of services increased by 16,119 million baht or 9.9% from fiscal year 2005 to 178,607 million baht in fiscal year 2006. Because of a stronger Thai Baht, revenue earned in foreign currency was lower after translation into baht terms. Operating expense totalled 170,243 million baht, which is an increase of 18,579 million baht or 12.3% over fiscal year 2005 as a result of 30.1% increase in fuel expense and 17.9% increase in depreciation. From better cost control measures, personnel expense increased by 6.5% while other operating expenses were at similar levels or saw a slight decrease from fiscal year 2005. As a result, profit from the sale of goods and the rendering of service was 8,364 million baht. The Company also realized a gain on sale of aircraft in the amount of 2,095 million baht, plus a foreign exchange gain of 6,178 million baht arising from the translation of the Company's outstanding foreign currency loans into baht terms at the end of fiscal year 2006. As a result, the Company's profit before interest and tax amounted to 17,273 million baht, which is 3,038 million baht or 21.3% higher than the previous year. Profit before tax was 12,822 million baht, which was an increase of 2,916 million baht or 29.4% over the previous year.

Summary of operating results for fiscal year 2006 :

Units: million baht	2006	% Change
Revenue from the sale of goods and the rendering of services	178,607	+9.9%
Profit from the sale of goods and the rendering of services	8,364	-22.7%
Gain on foreign currency exchange	6,178	+320.3%
Profit before tax	12,822	+29.4%
Net profit	8,992	+32.7%
Earnings per share (Baht)	5.29	+1.29

Production and Traffic

In fiscal year 2006, the Company launched services to new destinations and increased its flight frequencies to North American, European and Regional routes in order to satisfy the growing demand for air transport. Passenger production (Available Seat - Kilometer) increased from fiscal year 2005. Passenger traffic (Revenue Passenger - Kilometer) increased at a higher rate than passenger production. Cabin factor was higher than fiscal year 2005. The details are as follows:

		2006	% Change
Production	(MATK)	10,269	+4.9%
Traffic	(MRTK)	7,001	+6.6%
Load Factor	(%)	68.2	+1.1
Passenger Production	(MASK)	71,594	+2.5%
Passenger Traffic	(MRPK)	53,989	+8.1%
Cabin Factor	(%)	75.4	+3.9
Freight Production	(MADTK)	3,780	+8.2%
Freight Traffic	(MRFTK)	2,048	+3.1%
Freight Load Factor	(%)	54.2	-2.7

The number of passengers carried totalled 18.57 million passengers, a 2.4% increase from last year. Operating flight hours clocked was 324,366, a 6.5% increase from last year. An average of aircraft utilization was 10.8 hours per aircraft per day, an increase from 10.4 hours per aircraft per day from last year.

Revenue

In fiscal year 2006, total revenue reached 182,312 million baht, an increase of 17,391 million baht or 10.5% over the previous year. The details are as follows:

Units: Million Baht	2006	% Change
Revenue from Transportation Activities		
- Passenger and Excess Baggage	143,401	+11.0%
- Freight	25,650	+5.0%
- Mail	1,036	-4.0%
Total Revenue from Transportation Activities	170,087	+9.9%
Revenue from Other Activities	8,520	+9.9%
Total Revenue from the Sale of Goods and the Rendering of Services	178,607	+9.9%
Other Income	3,705	+52.2%
Total Revenue	182,312	+10.5%

Revenue from the sale of goods and the rendering of services for fiscal year 2006 totalled 178,607 million baht, which is an increase of 16,119 million baht or 9.9% over the previous year. Details are as follows:

Revenue from transportation activities amounted to 170,087 million baht, an increase of 15,355 million baht or 9.9% over fiscal year 2005 which consists of:

- Passenger and excess baggage revenue was 143,401 million baht representing 80.3% of total revenues from the sale of goods and the rendering of services or is an increase of 14,167 million baht (including the collection of passenger fuel surcharge of 9,062 million baht) or is an 11% increase over the previous year.

- Freight revenue was 25,650 million baht, which constituted 14.4% of total revenues from the sale of goods and the rendering of services increased by 1,231 million baht (including the collection of cargo fuel surcharge of 1,533 million baht) or a 5.0% increase over the previous year.

- Mail revenue was 1,036 million baht, a decrease of 43 million baht or 4.0% over the previous year.

The Company's yield excluding insurance and fuel surcharge decreased from fiscal year 2005. The major causes were mainly the result of increased intensity of competition and a stronger Thai baht. Details are as follows:

		2006	% Change
System-wide	(Baht/RTK)	21.08	-3.1%
Passenger	(Baht/RPK)	2.32	-3.7%
Freight	(Baht/RFTK)	10.00	-4.3%

Revenue from other activities was 8,520 million baht, an increase of 764 million baht or 9.9% over last year.

- Revenue from business units - Aircraft Maintenance Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services totalled 7,388 million baht, an increase of 720 million baht or 10.8% over the previous year.

- Revenue from Thai-Amadeus Southeast Asia Company Limited, a 55% subsidiary, contributed 360 million baht, which was a decrease of 43 million baht or a 10.7% reduction from last year.

- Revenue from other activities totalled 772 million baht, an increase of 86 million baht or 12.5% over the previous year, coming mainly from the lease of aircraft and providing services to Nok Airlines Company Ltd.

Other Income was 3,705 million baht, an increase of 1,271 million baht or 52.2% over the previous year. This comprised of 317 million baht in interest income, a decrease of 46 million baht or 12.7% from the previous year and other income increased to 3,388 million baht, which is 1,317 million baht higher or 63.6% over the previous year. This was mainly due to the gain on sales of the 4 MD-11 aircraft totalling 2,095 million baht and recognition of revenue from passenger tax which have not been billed to the Company.

Expenses

Total operating expenses amounted to 170,243 million baht, which is an 18,579 million baht or a 12.3% increase over the previous year. Details are as follows:

Units: million baht	2006	% Change
Operating expenses :		
Personnel	30,730	+6.5%
Fuel and oil	59,999	+30.1%
Cost of inventories and supplies	10,202	+4.8%
Lease of aircraft and spare parts	5,435	-3.8%
Flight operation	38,393	+4.5%
Depreciation	15,515	+17.9%
Marketing	3,116	-18.5%
Insurance	1,516	-20.3%
Remuneration to board of directors	26	-35.0%
Other operating expenses	5,311	-6.0%
Total operating expenses	170,243	+12.3%

The change in operating expenses can be summarized as follows:

- Fuel cost was 59,999 million baht, an increase of 13,898 million baht or 30.1% over the previous year due to a 25.2% increase in average fuel price and increased fuel consumption arising from frequency enhancement and route expansion.

- Flight operations such as flight per diem and accommodation of cockpit and cabin crews, navigation fees, airport fees, handling fees, maintenance and overhaul aircraft and engines, and reservation expenses totalled 38,393 million baht, which was an increase of 1,649 million baht or 4.5% from last year due to an expansion of production and increase in number of passengers.

- Personnel expense totalled 30,730 million baht, which was an increase of 1,877 million baht or 6.5% over previous year resulting from an annual salary increment, a salary base adjustment according to the Resolution of a Cabinet as well as a payment of welfare award which was higher than the previous year.

- Depreciation was 15,515 million baht, an increase of 2,360 million baht or 17.9% from acquiring 4 new aircraft in the first quarter.

- Marketing expense was 3,116 million baht, a decrease of 709 million baht or 18.5% resulting from a decrease in advertising, public relations and sales commission expenses.

- Insurance expense was 1,516 million baht, a decrease of 386 million baht or 20.3% from the previous year from the reduction in insurance premium.

- Other operating expenses totalled 5,311 million baht, a decrease of 342 million baht or 6.0% from last year due to more effective cost control.

Gain on foreign currency exchange for fiscal year 2006 amounted to 6,178 million baht, which is higher than a gain of 1,470 million baht in fiscal year 2005. Due to a stronger Thai baht at the end of fiscal year 2006 - foreign currency loans denominated in USA, JPY and EUR decreased in Baht value.

Other expenses amounted to 1,154 million baht, which is an increase of 578 million baht or a 100.3% over the previous year arising from an adjustment of impairment loss on aircraft spare parts that are to be disposed.

Share of net profit from associated companies was 256 million baht, an increase of 129 million baht or 101.6% from last year due to an increase in profit from Nok Airlines Company Ltd. and Bangkok Aviation Fuel Services Public Company Ltd.

Interest expense totalled 4,451 million baht, an increase from last year of 122 million baht or 2.8%. In managing interest rate risk arising from fluctuation in interest rates, the Company entered into euro denominated interest rate swap agreements by changing a floated to fixed interest rate in an environment of interest rates trending upwards. As a result, the Company's interest expense declined by approximately 270 million baht despite the increase in short-term loans and interest expense on debentures over the previous year.

2. Financial Position

Assets

At the end of fiscal year 2006 (September 30, 2006), the Company's total assets were 249,034 million baht, which was an increase of 17,396 million baht or 7.5% from the end of fiscal year 2005 (September 30, 2005). Current and non-current assets accounted for 18.4% and 81.6% of total assets, respectively consisting of :

	September 30, 2006		September 30, 2005	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	45,702	18.4	44,148	19.1
Property, plant and equipment-net	196,031	78.7	180,983	78.1
Other non-current assets	7,301	2.9	6,507	2.8

Current assets increased by 1,554 million baht or 3.5% mainly due to an increase in trade account receivables-net in the amount of 1,146 million baht or 7.4% resulting from increase sales while inventories and supplies-net amounted to 902 million baht or 6.6% but cash and cash equivalent decreased by 755 million baht or 7.6%.

Property, plant and equipment-net increased by 15,048 million baht or 8.3%. The increase was mainly due to the acquisition of 1 new A340-500 and 3 A340-600 aircraft, which were added to the Company's fleet in the first quarter as well as an investment in assets at Suvarnabhumi Airport.

Liabilities

The Company has total liabilities as at the end of fiscal year 2006 totaling 183,353 million baht, which is an increase of 10,927 million baht or 6.3% from the end of fiscal year 2005 which consist of :

	September 30, 2006		September 30, 2005	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	60,440	33.0	47,018	27.3
Long-term debts	118,417	64.6	120,865	70.1
Staff pension fund	4,496	2.4	4,543	2.6

Current liability excluding current portion of long-term loans increased from fiscal year-end 2005 by 13,422 million baht or 28.5% mainly due to an increase in short-term loans of 5,606 million baht, unearned transportation revenues of 6,336 million baht as well as trade account payables of 1,429 million baht.

Long-term debt as at September 30, 2006 including the current portion of long-term loans totaled 118,417 million baht decreased by 2,448 million baht or 2.0% from fiscal year-end 2005 due to a decrease in long-term loans and promissory notes in the amounts of 7,509 million and 1,050 million baht, respectively. Financial lease increased by 6,111 million baht.

Shareholders' Equity

As of fiscal year end 2006, Shareholders' Equity totalled 65,681 million baht, which is an increase of 6,469 million baht or 10.9% from the end of fiscal year 2005 resulting from an increase in net operating profit net of dividend payment.

Capital structure as of September 30, 2006 consisted of total liabilities of 183,353 million baht or 73.6% and shareholders' equity of 65,681 million baht or 26.4% of total liabilities and shareholder equity. The debt to equity ratio was 2.79x compared to 2.91x from fiscal year 2005.

Liquidity

Cash and cash equivalents as at the end of fiscal year 2006 (September 30, 2006) totalled 9,175 million baht, which is a decrease of 755 million baht from the beginning balance as of October 1, 2005. Net cash from and used in other activities are as follows :

- Net cash from operating activities amounted to 22,805 million baht.
- Net cash used in investing activities amounted to 13,070 million baht mainly investing in aircraft, aircraft spare parts, and Suvarnabhumi Airport.
- Net cash used in financing activities amounted to 10,551 million baht consisting of the repayment of long-term loans and promissory notes of 14,752 million baht and dividend payment of 2,567 million baht. The Company also received cash from loans totalling 6,772 million baht.
