

## Management's Discussion and Analysis for Fiscal Year Ending September 30, 2007 for Thai Airways International Public Company Limited and Its Subsidiary

### 1. Operating Results

For the fiscal year 2007 (Oct 1, 2006 - Sep 30, 2007), the first year of the Company's services at Suvarnabhumi Airport, the Company has launched its new destinations to Johannesburg in South Africa as well as Hyderabad, Bodhgaya and Varanasi in India. In addition, the Company has increased and improved its both international and domestic flight frequencies to cope with increase in passenger demand as well as the re-operation of Don Mueang Airport for point to point domestic flights. The Company took the delivery of 6 aircraft - 5 Boeing 777-200ER and 1 Airbus A340-500 and phased out 4 aircraft - 2 Airbus A300-600 and 2 Boeing 747-300. Passenger production (Available Seat - Kilometer : ASK) increased by 7.3% from last year. The Company's passenger traffic (Revenue Passenger – Kilometer : RPK) increased by 11.7% from last year.

Nevertheless, the Company severely encounters with a highly competitive airline industry such as the Company's competitive airlines, the rapid growth in low cost airlines, the recession in Thailand and the world's economy, the effect from natural disaster, the continuing high increase in jet fuel price and especially the fluctuation in currency exchange in the fourth quarter of fiscal year 2007. As a result, the Company has a net profit from its 2007 operation amount of 6,342 million baht, which was 2,650 million baht or 29.5% decrease from the previous year. The earning per share was THB 3.73 lower than THB 5.29 of fiscal year 2006.

The Company's revenue from the sale of goods and the rendering of services increased by 13,430 million baht or 7.5% from fiscal year 2006 to 192,037 million baht in fiscal year 2007. Operating expense totaled 179,249 million baht, which is an increase of 9,006 million baht or 5.3% over fiscal year 2006, mainly due to production expansion, the moving base of operation from Donmueang Airport to Suvarnabhumi Airport and also the increase in depreciation from the delivery of new aircraft. As a result, profit from the sale of goods and the rendering of service was 12,788 million baht, which is an increase of 4,424 million baht or 52.9% over fiscal year 2006. However, the gain on foreign currency exchange, mostly arising from converting the Company's outstanding loan into Baht terms at the end of fiscal year 2007 was 4,993 million baht much lower than the year 2006. As a result, the Company's profit before interest and tax amounted to 13,840 million baht, which is 3,433 million baht or 19.9% lower than the previous year. Profit before tax was 9,141 million baht, which was a decrease of 3,681 million baht or 28.7% from the previous year.

#### Summary of operating results for fiscal year 2007 :

<b>Units: million baht</b>	<b>2007</b>	<b>% Change</b>
Revenue from the sale of goods and the rendering of services	192,037	+ 7.5%
Profit from the sale of goods and the rendering of services	12,788	+ 52.9%
Gain on foreign currency exchange	1,185	- 80.8%
Profit before tax	9,141	- 28.7%
Net profit	6,342	- 29.5%
Earnings per share (Baht)	3.73	- 1.56

## Production and Traffic

In fiscal year 2007, the Company launched services to new destinations and increased its flight frequencies in order to satisfy the growing demand for air transport. Passenger production (Available Seat - Kilometer) increased by 7.3% from fiscal year 2006. Passenger traffic (Revenue Passenger - Kilometer) increased 11.7%, higher than passenger production. Cabin factor was 78.5% higher than fiscal year 2006. The details are as follows:

		2007	% Change
Production	(MATK)	11,315	+ 10.2%
Traffic	(MRTK)	7,910	+ 13.0%
Load Factor	(%)	69.9	+ 1.7
Passenger Production	(MASK)	76,830	+ 7.3%
Passenger Traffic	(MRPK)	60,305	+ 11.7%
Cabin Factor	(%)	78.5	+ 3.1
Freight Production	(MADTK)	4,401	+ 16.4%
Freight Traffic	(MRFTK)	2,382	+ 16.3%
Freight Load Factor	(%)	54.1	- 0.1

The number of passengers carried totaled 19.59 million passengers, a 5.5% increase from last year. Operating flight hours clocked was 350,644 hours, 8.1% increase from last year. An average of aircraft utilization increased to 11.6 hours per aircraft per day, compare to 10.8 hours per aircraft per day last year.

## Revenue

In fiscal year 2007, total revenue reached 194,040 million baht, an increase of 11,728 million baht or 6.4% over the previous year. The details are as follows:

Units: Million Baht	2007	% Change
Revenue from Transportation Activities		
- Passenger and Excess Baggage	156,259	+ 9.0%
- Freight	25,737	+ 0.3%
- Mail	992	- 4.2%
Total Revenue from Transportation Activities	182,988	+ 7.6%
Revenue from Other Activities	9,049	+ 6.2%
Total Revenue from the Sale of Goods and the Rendering of Services	192,037	+ 7.5%
Other Income	2,003	- 45.9%
<b>Total Revenue</b>	<b>194,040</b>	<b>+ 6.4%</b>

**Revenue from the sale of goods and the rendering of services** for fiscal year 2007 totaled 192,037 million baht, which is an increase of 13,430 million baht or 7.5% over the previous year. Details are as follows:

**Revenue from transportation activities** amounted to 182,988 million baht, an increase of 12,901 million baht or 7.6% over fiscal year 2006 which consists of:

- Passenger and excess baggage revenue was 156,259 million baht representing 81.4% of total revenues from the sale of goods and the rendering of services or is an increase of 12,858 million baht or 9% increase over the previous year. The main reason is greater number of passengers than last year. Moreover, fuel surcharge collected from passengers increased by 3,261 million baht due to the adjustment in fuel surcharge rate since July, 15 2007.

- Freight revenue was 25,737 million baht, almost the same as last year. That accounted for 13.4% of total revenues from the sale of goods and the rendering of services.

The Company's yield excluding insurance and fuel surcharge decreased from fiscal year 2006. The major causes were mainly due to the increase in intensity of competition. As well as a stronger Thai baht, revenue earned in foreign currency was lower after converted to Thai baht. Details are as follows:

		<b>2007</b>	<b>% Change</b>
System-wide	(Baht/RTK)	19.87	- 5.7%
Passenger	(Baht/RPK)	2.24	- 3.4%
Freight	(Baht/RFTK)	8.58	-14.2%

**Revenue from other activities** was 9,049 million baht, an increase of 529 million baht or 6.2% over last year.

- Revenue from business units - Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services totaled 7,869 million baht, an increase of 481 million baht or 6.5% over the previous year.

- Revenue from Thai-Amadeus Southeast Asia Company Limited, a 55% subsidiary, contributed 360 million baht, which was nearly the same as last year.

- Revenue from other activities totaled 820 million baht, an increase of 48 million baht or 6.2% over the previous year, mainly deriving from the lease of aircraft and providing services to Nok Airlines Company Ltd.

**Other Income** was 2,003 million baht, a decrease of 1,702 million baht or 45.9% from the previous year. This comprised of 621 million baht in interest income, an increase of 304 million baht or 95.9% from the previous year and other income decreased to 1,382 million baht, which is 2,006 million baht or 59.2% lower than the previous year. This was mainly due to the gain on sales of 2 Airbus A300-600 and 1 Boeing 747-300 aircraft totaling 442 million baht, which is lower than last year gain on sales of 4 MD-11 aircrafts in amount of 2,095 million baht.

## Expenses

**Total operating expenses** amounted to 179,249 million baht, which is 9,006 million baht or a 5.3% higher than the previous year. Details are as follows:

<b>Units: million baht</b>	<b>2007</b>	<b>% Change</b>
Operating expenses :		
Personnel	32,635	+ 6.2%
Fuel and oil	58,893	- 1.8%
Cost of inventories and supplies	9,997	- 2.0%
Lease of aircraft and spare parts	6,768	+ 24.5%
Flight operation	41,557	+ 10.3%
Depreciation	17,751	+ 14.4%
Marketing	3,198	+ 2.6%
Insurance	1,016	- 33.0%
Remuneration to board of directors	25	- 4.0%
Other operating expenses	7,409	+ 22.6%
<b>Total operating expenses</b>	<b>179,249</b>	<b>+ 5.3%</b>

The change in operating expenses can be summarized as follows:

- Personnel expense totaled 32,635 million baht, which is an increase of 1,905 million baht or 6.2% over previous year mostly resulting from an annual salary increment.

- Fuel cost was 58,893 million baht, a decrease of 1,106 million baht or 1.8% from the previous year caused by the Thai baht strength partially offset fuel cost that paid in other currencies. Although, average fuel price was almost the same as last year and also fuel consumption has been increased from production expansion.

- Lease aircraft equipment 6,768 million baht, an increase of 1,334 million baht or 24.5% mainly due to leasing of additional cargo block space in order to better serve cargo demand especially on insufficient capacity routes.

- Flight operation expenses, mostly from maintenance and overhaul cost for aircraft and engines, passenger service expense and ground operation expense, totaled 41,557 million baht, which was an increase of 3,897 million baht or 10.3% from last year due to an expansion of production.

- Depreciation was 17,751 million baht, an increase of 2,237 million baht or 14.4% from delivery of new aircrafts. In additional, depreciation of other fixed assets has been increased, resulting from an investment at Suvarnabhumi Airport.

- Insurance expense was 1,016 million baht, a decrease of 500 million baht or 33.0% from the previous year from the reduction in insurance premium.

- Other operating expenses totaled 7,409 million baht, an increase of 1,364 million baht or 22.6% from last year due to the moving base of operation from Donmueang Airport to Suvarnabhumi Airport.

Gain on foreign currency exchange for fiscal year 2007 amounted to 1,185 million baht, which included a gain on foreign currency exchange arising from a risk management of foreign loans during a stronger baht amount of 654 million baht, a 4,993 million baht lower than a gain of 6,178 million baht in fiscal year 2006.

Other expenses amounted to 2,157 million baht, which is an increase of 1,003 million baht or a 86.9% over the previous year arising from a reserve for obsolete aircraft spare parts to be disposed and impairment of aircraft spare parts.

Share of net profit from associated companies was 123 million baht, a decrease of 133 million baht or 52% from last year due to net loss in Donmueang International Airport Hotel Co., Ltd. The net loss was from a decrease in revenue because of the moving operation of main airport to Suvarnabhumi. Moreover, Suvarnabhumi Airport Hotel Co., Ltd. incurred more loss and also a decrease in profit from Royal Orchid Holiday Hotel (Thailand) Plc. Co., Ltd.

Interest expense totaled 4,699 million baht, an increase from last year of 248 million baht or 5.6% mainly due to the increase in loan amount and interest rate. However, the Company has managed an interest rate risk by entering into Interest Rate Swap from floating to fixed interest rate during a downward interest rate. As a result, the Company's interest expense declined by approximately 540 million baht.

## 2. Financial Position

### Assets

At the end of fiscal year 2007 (September 30, 2007), the Company's total assets were 272,086 million baht, which was an increase of 23,052 million baht or 9.3% from the end of fiscal year 2006 (September 30, 2006). Current and non-current assets accounted for 21.9% and 78.1% of total assets, respectively consisting of :

	<u>September 30, 2007</u>		<u>September 30, 2006</u>	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	59,499	21.9	45,702	18.4
Property, plant and equipment-net	204,714	75.2	196,031	78.7
Other non-current assets	7,873	2.9	7,301	2.9

Current assets increased by 13,797 million baht or 30.2% mainly due to an increase in cash and cash equivalent in the amount of 11,409 million baht or 124.3%. Moreover, trade account receivables-net also increased in the amount of 1,371 million baht or 8.3% resulting from increase sales and also inventories and supplies-net amounted to 743 million baht or 14.1%

Property, plant and equipment-net increased by 8,683 million baht or 4.4%. The increase was mainly due to the acquisition of 6 new aircraft - 1 Airbus A340-500 and 5 Boeing 777-200ER and also phased out 4 old aircraft - 2 Airbus A300- 600 and 2 Boeing 747-300.

## Liabilities

The Company has total liabilities as at the end of fiscal year 2007 totaling 202,858 million baht, which is an increase of 19,505 million baht or 10.6% from the end of fiscal year 2006 which consist of :

	<u>September 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)	73,824	36.4	60,440	33.0
Long-term debts	124,262	61.3	118,417	64.6
Staff pension fund	4,772	2.3	4,496	2.4

Current liability excluding current portion of long-term loans increased from fiscal year-end 2006 by 13,384 million baht or 22.1% due to an increase in short-term loan in the form of Euro Commercial Paper (ECP). This loan was a standby loan during the Company was looking for more appropriate loan. In addition, unearned transportation revenue also increased due to growth sales.

Long-term debt as at September 30, 2007 including the current portion of long-term loans totaled 124,262 million baht increased by 5,845 million baht or 4.9% from fiscal year-end 2006 due to an increase in financial lease for acquiring new aircraft in the amounts of 15,238 million baht while long-term loan and promissory notes decreased by 8,343 million baht and 1,050 million baht, respectively.

## Shareholders' Equity

As of fiscal year-end 2007, Shareholders' Equity totaled 69,228 million baht, which is an increase of 3,547 million baht or 5.4% from the end of fiscal year 2006 resulting from an increase in net operating profit net of dividend payment, which from the result of year 2006.

Capital structure as of September 30, 2007 consisted of total liabilities of 202,858 million baht or 74.6% and shareholders' equity of 69,228 million baht or 25.4%. Debt to Equity Ratio as of September 30, 2007 was 2.93 times.

## Liquidity

Cash and cash equivalents as at the end of fiscal year 2007 (September 30, 2007) totaled 20,584 million baht increased from the beginning of fiscal year 2007 (October, 1 2006) amount of 11,409 million baht. Net cash from and used in other activities are as follows :

- Net cash from operating activities amounted to 27,524 million baht.
- Net cash used in investing activities amounted to 20,896 million baht mainly from aircraft investment.
- Net cash from financing activities amounted to 4,665 million baht consisting of net acquiring from long-term loans 1,997 million baht and short-term loan 6,567 million baht less dividend payment of 2,845 million baht and repayment of promissory note 1,050 million baht.

For the fiscal year 2007 the Company's credit rating by Thai Rating and Information Services Co., Ltd. (TRIS) for its promissory notes remained at AA-. This means the Company's promissory notes and bonds are of investment grade with very low risk and the Company has substantial ability to meet its loan and interest obligation. Credit rating trend is stable.

### **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 investment in subsidiary and associated companies in the Company's financial statements as of September, 30 2007 was 927 million baht which decreased by 908 million baht. Shareholder's equity in the Company statements of changes in shareholders' equity presented under the heading of "Cumulative effect of change in accounting policy for investments by cost method" as at October 1, 2006 and 2005 decreased by 917 million baht and 760 million baht, respectively. Consequently, the Company's net profit for the year ended September 30, 2007 and 2006 increased by 8 million baht and decreased by 156 million baht, 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.

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