

## Management's Discussion and Analysis for the period from October 1 to December 31, 2007 for Thai Airways International Public Company Limited and Its Subsidiary

On December 27, 2006, the resolution of the Annual General Shareholders' Meeting for the year 2006 approved the Company to change its accounting period from October 1 ending September 30 of the following year to January 1 ending December 31, calendar year, beginning fiscal year 2008. The change is to facilitate not only the evaluations of corporate governance but also the communication with related organizations and outsiders as well as for comparative purposes for both quarterly and annual performance with other listed companies and other airlines on the fiscal year basis. The Company registered with the Department of Business Development, Ministry of Commerce, to change its accounting period and has already received approval for such change from the Revenue Department. Consequently, the Company had to prepare financial statements for the period from October 1 to December 31, 2007, which was the accounting period between the old fiscal year 2007 (October 1, 2006 - September 30, 2007) and the new fiscal year 2008 (January 1, 2008 - December 31, 2008).

Management's Discussion and Analysis for the accounting period from October 1 to December 31, 2007 for Thai Airways International Public Company Limited and its subsidiary, audited financial statement, compares with the reviewed financial statement for the same period of year 2006 (which is the first quarter of fiscal year 2007).

### 1. Operating Results

For the period from October 1 to December 31, 2007, the Company took delivery of 1 new B777-200ER and increased its flight frequency to Moscow, Sydney, Ho Chi Minh City, Seoul, Pusan, Bodhgaya and Varanasi. As a result, passenger production (Available Seat - Kilometer : ASK) increased by 6.4% over the same period last year. The Company's passenger traffic (Revenue Passenger - Kilometer : RPK) increased by 9%. Average cabin factor increased from 77.8% to 79.6% from the same period last year.

The Company's revenue from the sale of goods and the rendering of services totaled 53,493 million baht, which is an increase of 5,120 million baht or 10.6% from the same period last year. Operating expense totaled 49,769 million baht, which was an increase of 6,837 million baht or 15.9% over the same period last year, mainly due to the rise in average jet fuel price of 30.2%, increase in personnel expense from a salary increment, higher welfare fee reserve as well as production expansion. As a result, profit from the sale of goods and the rendering of service was 3,724 million baht, which was lower than a profit of 5,441 million baht in the same period last year. Moreover, the loss on foreign currency exchange was 176 million baht compared to the gain of 1,664 million baht from the same period last year. The Company's profit before tax was 2,696 million baht, which was lower than a profit of 5,800 million baht in the same period last year.

The Company's net profit for the period from October 1 to December 31, 2007 was 1,839 million baht or 1.08 baht per share, which was lower than the net profit posted for the same period last year. However, the same period last year, the Company reserved annual staff welfare fee at the lower rate than this period, while actual payment was equivalent to the reserve rate in this period. Moreover, the gain on foreign currency exchange, mostly arising from converting the Company's outstanding loan into Baht terms at the end of fiscal year 2006 was 1,840 million baht higher than this period. Excluding the reserve of welfare fee and the gain or loss on foreign currency exchange, the Company's performance for the period from October 1 to December 31, 2007 would be nearly to the same period last year despite a 30.2% increase in jet fuel price.

A summary of operating results for the audited financial statements for the period October 1, to December 31, 2007, is compared with the reviewed financial statements of the same period last year as follows:

Units: million baht	2007	2006	% Change
Revenue from the sale of goods and the rendering of services	53,493	48,373	+ 10.6%
Profit from the sale of goods and the rendering of services	3,724	5,441	- 31.6%
Gain (Loss) on foreign currency exchange	(176)	1,664	- 110.6%
Profit before tax	2,696	5,800	- 53.5%
Net profit	1,839	4,026	- 54.3%
Earnings per share (Baht)	1.08	2.37	- 1.29

## Production and Traffic

For the period from October 1, to December 31, 2007, the Company's total production (Available Ton - Kilometer : ATK) increased by 7.4% from the same period last year. Total traffic (Revenue Ton - Kilometer : RTK) increased by 9.9%. Average load factor increased from 70.4% last year to 72%. Passenger production (Available Seat - Kilometer : ASK) increased by 6.4% from the same period last year. Passenger traffic (Revenue Passenger - Kilometer : RPK) increased 9%, higher than passenger production. As a result, cabin factor was 79.6% higher than the same period last year. The details are as follows:

		2007	2006	% Change
Production	(MATK)	2,959	2,754	+ 7.4%
Traffic	(MRTK)	2,131	1,939	+ 9.9%
Load Factor	(%)	72.0	70.4	+ 1.6
Passenger Production	(MASK)	19,998	18,795	+ 6.4%
Passenger Traffic	(MRPK)	15,928	14,618	+ 9.0%
Cabin Factor	(%)	79.6	77.8	+ 1.8
Freight Production	(MADTK)	1,160	1,062	+ 9.2%
Freight Traffic	(MRFTK)	669	594	+ 12.6%
Freight Load Factor	(%)	57.7	56.0	+ 1.7
No. of Passenger	(million persons)	5.29	4.99	+ 6.0%
Flight Hours	(hours)	91,887	83,846	+ 9.6%
Average of Aircraft Utilization	(hour/aircraft/day)	12.1	11.4	+ 6.1%

## Revenue

For the period from October 1, to December 31, 2007, total revenue was 54,311 million baht, an increase of 5,736 million baht or 11.8% over the same period last year. The details are as follows:

Units: million baht	2007	2006	% Change
Revenue from Transportation Activities			
- Passenger and Excess Baggage	43,834	39,164	+ 11.9%
- Freight	7,195	6,789	+ 6.0%
- Mail	270	284	- 4.9%
Total Revenue from Transportation Activities	51,299	46,237	+ 10.9%
Revenue from Other Activities	2,194	2,136	+ 2.7%
Total Revenue from the Sale of Goods and the Rendering of Services	53,493	48,373	+ 10.6%
Other Income	818	202	+ 305.0%
<b>Total Revenue</b>	<b>54,311</b>	<b>48,575</b>	<b>+ 11.8%</b>

**Revenue from the sale of goods and the rendering of services** totaled 53,493 million baht, which is an increase of 5,120 million baht or 10.6% over the same period last year. Details are as follows:

**Revenue from transportation activities** amounted to 51,299 million baht, an increase of 5,062 million baht or 10.9% over the same period last year. Resulting from:

- Passenger and excess baggage revenue was 43,834 million baht representing 81.9% of total revenues from the sale of goods and the rendering of services, which is an increase of 4,670 million baht or 11.9% over the same period last year. The main reason is from the greater number of passengers over last year and fuel surcharge collection also increased.

- Freight revenue was 7,195 million baht, accounting for 13.5% of total revenues from the sale of goods and the rendering of services, which is an increase of 406 million baht or 6% from the same period last year.

The Company's yield excluding insurance and fuel surcharge are as follows:

		2007	2006	% Change	
System-wide	(Baht/RTK)	20.39	20.52	-	0.6%
Passenger	(Baht/RPK)	2.35	2.32	+	1.3%
Freight	(Baht/RFTK)	8.30	9.09	-	8.7%

**Revenue from other activities** was 2,194 million baht, an increase of 58 million baht or 2.7% over the same period last year.

- Revenue from business units - Technical Services, Cargo and Mail Commercial, Ground Support Equipment Services, Ground Customer Services, and Catering Services totaled 1,913 million baht, an increase of 78 million baht or 4.3% over the same period last year.

- Revenue from Thai-Amadeus Southeast Asia Company Limited, a 55% subsidiary, contributed 100 million baht, an increase of 13 million baht or 14.9% over the same period last year.

- Revenue from other activities totaled 181 million baht, a decrease of 34 million baht or 15.8% from the same period last year, mainly deriving from the reduction in maintenance & overhaul services revenue provided to Nok Airlines Company Ltd.

Other Income was 818 million baht, an increase of 616 million baht or 305% from the same period last year. The increase is the result of an increase in interest income amounting to 240 million baht, gain on sales of aircraft totaling 118 million baht and gain on sales of engines and spare part totaling 193 million baht. Moreover, the Company recognized revenue from passenger airport tax, which had not been billed to the Company as revenue exceeding 3 years period.

## Expenses

**Total operating expenses** amounted to 49,769 million baht, which is 6,837 million baht or 15.9% higher than the same period last year. A summary of operating expenses is as follows:

Units: million baht	2007	2006 <sup>1</sup>	% Change
Operating expenses :			
- Personnel	9,319	7,690 <sup>2</sup>	+ 21.2%
- Fuel and oil	18,427	14,708	+ 25.3%
- Inventories and supplies	2,383	2,544	- 6.3%
- Lease of aircraft and spare parts	1,625	1,699	- 4.4%
- Flight operation	10,720	9,219	+ 16.3%
- Depreciation	4,673	4,274	+ 9.3%
- Marketing	704	807	- 12.8%
- Insurance	226	349	- 35.2%
- Remuneration to board of directors	18	16	+ 12.5%
- Other operating expenses	1,674	1,626	+ 3.0%

<b>Total operating expenses</b>	<b>49,769</b>	<b>42,932</b>	<b>+ 15.9%</b>
---------------------------------	---------------	---------------	----------------

Remark <sup>1</sup> Operating expenses for the same period of the year 2006, which compared above, has reclassified accounting items related temporary wages as well as outsource wages. These two items previously included in flight operation are presented in other operating expenses. This is to conform with the classification of accounting items in the current period. However, this does not affect to net profit or shareholders' equity.

<sup>2</sup> Personnel expense for the period October to December 2006 reserved staff welfare fee at 0.25 times monthly salary but the actual staff welfare fee was at 0.75 times monthly salary, equivalent to the reserve rate at the same period in year 2007.

Significant changes in operating expenses are summarized as follows:

- Fuel and oil expense was 18,427 million baht, an increase of 3,719 million baht or 25.3% from the same period last year mainly caused by the rise in average fuel price by 30.2% from the same period last year and also an increase in fuel consumption from production expansion.

- Personnel expense totalled 9,319 million baht, which is an increase of 1,629 million baht or 21.2% over the same period last year mostly resulting from an annual salary increment and a salary increment in accordance with the cabinet's resolution as well as higher reserve for welfare fee. But the actual annual staff welfare fee for the previous year was equivalent to the reserve rate in this period.

- Flight operation expenses totaled 10,720 million baht, which was an increase of 1,501 million baht or 16.3% from the same period last year mostly coming from the increase in maintenance and overhaul cost for aircraft and engines, passenger service expense and ground operation expense resulting from increase in production.

- Depreciation was 4,673 million baht, an increase of 399 million baht or 9.3% over the same period last year. This was mainly due to delivery of new aircrafts.

- Insurance expense was 226 million baht, a decrease of 123 million baht or 35.2% from the same period last year from the reduction in insurance premium.

Loss on foreign currency exchange amounted to 176 million baht was mostly due to net exchange loss arising from translating the Company's outstanding euro currency loans into baht at the end of the period, less foreign exchange gain arising from managing currency exchange risk in the amount of 666 million baht on outstanding foreign currency denominated loans. However, gain on foreign currency exchange in the same period last year was 1,664 million baht.

Other expenses, mostly comprised of credit card commission fee and reserve for impairment of aircraft spare parts to be disposed amounted to 235 million baht which was a decrease of 88 million baht or a 27.2% over the same period last year.

Share of loss from associated companies by equity method was 15 million baht compared with share of profit amounting to 7 million baht in the same period last year. Crucial factors were lower operating profit or greater losses incurred by some associated companies.

Interest expense totaled 1,395 million baht, an increase from the same period last year of 228 million baht or 19.5% mainly due to the increase in loan amount and slightly higher interest cost. However, the Company manages its interest rate risk by entering into Interest Rate Swaps from long term floating into fixed interest rate during a low interest rate environment. As a result, the Company was able to reduce its interest expense by 111 million baht.

## **2. Financial Position**

### **Assets**

As of December 31, 2007, the Company's total assets were 280,275 million baht, which was an increase of 8,189 million baht or 3% from September 30, 2007. Current and non-current assets accounted for 23.3% and 76.7% of total assets, respectively consisting of :

	December 31, 2007		September 30, 2007	
	MTHB	% of total assets	MTHB	% of total assets
Current assets	65,229	23.3	59,499	21.9
Property, plant and equipment-net	207,153	73.9	204,714	75.2
Other non-current assets	7,893	2.8	7,873	2.9

Current assets increased by 5,730 million baht or 9.6% mainly due to an increase in cash and cash equivalent in the amount of 5,229 million baht or 25.4%. Moreover, trade account receivables-net also increased in the amount of 794 million baht or 4.4% resulting from increased sales.

Property, plant and equipment-net increased by 2,439 million baht or 1.2%. The increase was mainly due to the acquisition of 1 new Boeing 777-200ER.

### Liabilities

The Company has total liabilities as at December 31, 2007 totaling 212,250 million baht, which is an increase of 9,392 million baht or 4.6% from the September 30, 2007 which consist of :

	December 31, 2007		September 30, 2007	
	MTHB	% of total liabilities	MTHB	% of total liabilities
Current liabilities (excluding current portion of long-term loans)	73,192	34.5	73,824	36.4
Long-term debts	134,086	63.2	124,262	61.3
Staff pension fund	4,972	2.3	4,772	2.3

Long-term debt as at December 31, 2007 including the current portion of long-term loans totaled 134,086 million baht an increase of 9,824 million baht or 7.9% from September 30, 2007 due to a 7,500 million baht increase in debenture and another 2,646 million baht from the increase in financial lease from acquiring new aircraft, while long-term loans and promissory notes decreased by 322 million baht.

### Shareholders' Equity

As at December 31, 2007, shareholders' equity totaled 68,025 million baht, which is a decrease of 1,203 million baht or 1.7% from September 30, 2007 resulting from dividend payment for fiscal year 2007's operating results (October 1, 2006 - September 30, 2007), amounting to 3,058 million baht which was higher than net profit of period October 1, - December 31, 2007.

Capital structure as of December 31, 2007 consisted of total liabilities of 212,250 million baht or 75.7% and shareholders' equity of 68,025 million baht or 24.3%. Debt to equity ratio as of December 31, 2007 was 3.12 times.

### Liquidity

Cash and cash equivalents as at December 31, 2007 totaled 25,813 million baht, a 5,229 million baht increase from the period beginning October 1, 2007. Net cash from and used in other activities are as follows:

- Net cash from operating activities amounted to 10,247 million baht.
- Net cash used in investing activities amounted to 4,388 million baht mainly for aircraft investment.
- Net cash used in financing activities amounted to 661 million baht consisting of repayment of short-term loans, promissory notes and long-term loans in the amount of 7,238 million baht, 300 million baht and 622 million baht, respectively. The Company also received cash from a debenture issuance totaling 7,500 million baht.