

Thai Beverage Public Company Limited

Management Discussion and Analysis

The Company has completed the acquisition of Pacific Spirits (UK) Limited, a holding company which owns and operates five distilleries in Scotland and Best Spirits Company Limited, which engages in the distribution of Chang Beer and third-party Chinese wines in Hong Kong at end of October 2006. The consolidated financial statements for the year ended 31 December 2005 has been restated to include the assets, liabilities, and operations of both acquired companies to be the same as for the year ended 31 December 2006 for comparison.

Group

For the year ended 31 December 2006, total sales revenue of the Company was Baht 97,798 million, increased 3.1% or Baht 2,895 million from Baht 94,903 million in the previous year, mainly due to higher sales revenue from our beer/water business of about 10.3%, which compensated for lower sales revenue from the spirits business, which was down about 2.6%.

Gross profit was Baht 28,473 million, a decrease of Baht 1,242 million or 4.2% mainly due to the decrease in the sales revenue from the spirits business and the higher cost of molasses, while the gross profit margin of our beer/water business was slightly higher. The higher cost of molasses was caused by dry weather in 2005, which caused the sugarcane crop, from which molasses is made, to drop considerably in 2006 and led to higher prices. Heavy rainfall in 2006 should reverse this situation somewhat in 2007.

Earnings before interest, tax, depreciation and amortization (EBITDA) were Baht 20,598 million, a decrease of Baht 656 million or 3.1% mainly due to the decrease in the spirits business sales volume and gross profit margin while free goods for sales promotion of beer/water business decreased to 8% of total beer and water sales volume.

Net profit was Baht 10,055 million, down by Baht 282 million or 2.7% mainly due to the reduction of the spirits business profit while interest expense decreased.

Unit: Million Baht

Year 2006												
	Beer/Water	% to Sales	Spirits	% to Sales	Alcohol	% to Sales	Related	% to Sales	Eliminate	% to Sales	Total	% to Sales
Sales	46,641	100.0	51,428	100.0	1,205	100.0	7,155	100.0	(8,631)	100.0	97,798	100.0
Cost of sales	35,609	76.3	33,002	64.2	995	82.6	6,365	89.0	(6,646)	77.0	69,325	70.9
Gross profit	11,032	23.7	18,426	35.8	210	17.4	790	11.0	(1,985)	23.0	28,473	29.1
Selling and administrative expenses	6,932	14.9	7,170	13.9	177	14.7	454	6.3	(2,049)	23.7	12,684	13.0
Operating profit	4,100	8.8	11,256	21.9	33	2.7	336	4.7	64	(0.7)	15,789	16.1
Other income/Interest income	68	0.1	124	0.2	4	0.3	52	0.7	(91)	1.1	157	0.2
EBIT	4,168	8.9	11,380	22.1	37	3.1	388	5.4	(27)	0.3	15,946	16.3
Interest expenses	303	0.6	1,187	2.3	51	4.2	31	0.4	(4)	0.0	1,568	1.6
Income tax	1,897	4.1	2,277	4.4	8	0.7	141	2.0	-	-	4,323	4.4
Net Profit	1,968	4.2	7,916	15.4	(22)	(1.8)	216	3.0	(23)	0.3	10,055	10.3
Depreciation	2,027	4.3	2,283	4.4	126	10.5	216	3.0	-	-	4,652	4.8
EBITDA	6,195	13.3	13,663	26.6	163	13.5	604	8.4	(27)	0.3	20,598	21.1

Year 2005

	Beer/Water	% to Sales	Spirits	% to Sales	Alcohol	% to Sales	Related	% to Sales	Eliminate	% to Sales	Total	% to Sales
Sales	42,277	100.0	52,811	100.0	869	100.0	6,633	100.0	(7,687)	100.0	94,903	100.0
Cost of sales	32,549	77.0	32,062	60.7	471	54.2	6,068	91.5	(5,962)	77.6	65,188	68.7
Gross profit	9,728	23.0	20,749	39.3	398	45.8	565	8.5	(1,725)	22.4	29,715	31.3
Selling and administrative expenses	6,984	16.5	7,343	13.9	166	19.1	462	7.0	(1,774)	23.1	13,181	13.9
Operating profit	2,744	6.5	13,406	25.4	232	26.7	103	1.6	49	(0.6)	16,534	17.4
Other income/Interest income	175	0.4	128	0.2	13	1.5	26	0.4	(54)	0.7	288	0.3
EBIT	2,919	6.9	13,534	25.6	245	28.2	129	1.9	(5)	0.1	16,822	17.7
Interest expenses	386	0.9	1,264	2.4	42	4.8	51	0.8	(1)	0.0	1,742	1.8
Income tax	1,330	3.1	3,282	6.2	52	6.0	79	1.2	-	-	4,743	5.0
Net Profit	1,203	2.8	8,988	17.0	151	17.4	(1)	(0.0)	(4)	0.1	10,337	10.9
Depreciation	1,919	4.5	2,288	4.3	121	13.9	104	1.6	-	-	4,432	4.7
EBITDA	4,838	11.4	15,822	30.0	366	42.1	233	3.5	(5)	0.1	21,254	22.4

Increase(Decrease)

	Beer/Water	%	Spirits	%	Alcohol	%	Related	%	Eliminate	%	Total	%
Sales	4,364	10.3	(1,383)	(2.6)	336	38.7	522	7.9	(944)	12.3	2,895	3.1
Cost of sales	3,060	9.4	940	2.9	524	111.3	297	4.9	(684)	11.5	4,137	6.3
Gross profit	1,304	13.4	(2,323)	(11.2)	(188)	(47.2)	225	39.8	(260)	15.1	(1,242)	(4.2)
Selling and administrative expenses	(52)	(0.7)	(173)	(2.4)	11	6.6	(8)	(1.7)	(275)	15.5	(497)	(3.8)
Operating profit	1,356	49.4	(2,150)	(16.0)	(199)	(85.8)	233	226.2	15	30.6	(745)	(4.5)
Other income/Interest income	(107)	(61.1)	(4)	(3.1)	(9)	(69.2)	26	100.0	(37)	68.5	(131)	(45.5)
EBIT	1,249	42.8	(2,154)	(15.9)	(208)	(84.9)	259	200.8	(22)	440.0	(876)	(5.2)
Interest expenses	(83)	(21.5)	(77)	(6.1)	9	21.4	(20)	(39.2)	(3)	300.0	(174)	(10.0)
Income tax	567	42.6	(1,005)	(30.6)	(44)	(84.6)	62	78.5	-	-	(420)	(8.9)
Net Profit	765	63.6	(1,072)	(11.9)	(173)	(114.6)	217	(21,700.0)	(19)	475.0	(282)	(2.7)
Depreciation	108	5.6	(5)	(0.2)	5	4.1	112	107.7	-	-	220	5.0
EBITDA	1,357	28.0	(2,159)	(13.6)	(203)	(55.5)	371	159.2	(22)	440.0	(656)	(3.1)

The Beer, Soda & Drinking Water Business

Sales revenue was Baht 46,641 million, an increase of Baht 4,364 million or 10.3% mainly due to the increase of low alcohol beer sales volumes. Total sales volume of beer rose 12.0% to 923.0 million litres which derived from domestic sales of 916.2 million litres and export sales of 6.8 million litres. Low alcohol beer sales volume was 101.9 million litres, which increased from 2005 by 90.5 million litres. The sales volume of soda was 12.6 million litres and the sales volume of drinking water was 42.6 million litres, a decline of 18.7% and 1.4% respectively.

Gross profit of Baht 11,032 million increased by Baht 1,304 million, or 13.4%, mainly due to the increase of sales volume and lower product costs stemming from sharing fixed costs, through higher production volumes and the lower price for malt, compensating for the higher cost of fuel oil and electricity.

EBITDA of Baht 6,195 million increased by Baht 1,357 million or 28.0% mainly due to the increase of sales and gross profit margin and the decrease in the marketing expense for free goods for sales promotion which helped to cover higher employee expenses, freight and vehicle expenses. The free beer volume for sales promotion as a percentage of total sales volume decreased from 11.8% on average in 2005 to 8.0% in 2006.

Net Profit of Baht 1,968 million increased by Baht 765 million or 63.6% mainly due to the increase of sales as mentioned and the decrease of interest expense caused by the reduction in the Company's debt when it repaid short-term loans using the IPO proceeds.

The Spirits Business

Sales revenue was Baht 51,428 million, lower than in 2005 by Baht 1,383 million or 2.6% mainly due to a decrease in the sales volume of both white and brown spirits. The Company was severely affected in 2006 by the increase on excise tax on certain types of brown spirits in September 2005. When stock of Sangsom, the Company's flagship brand, was depleted at the end of 2005, the price of a bottle rose from Baht 150 to Baht 190 leading to a sharp drop in sales. Sangsom is over 40% of the entire brown spirit market in Thailand. Although foreign brands were affected to the same extent, the Company will take some time to recover. To overcome this problem, the Company re-launched a brand called Hong Thong in April 2006. While this has seen remarkable progress, it has still not compensated for the loss of sales of Sangsom by the end of 2006. However, Sangsom is seeing some recovery. The Company also launched a new brown spirit called Blend 285 in October 2006. This was well-accepted by consumers and, if current growth continues, it will become a significant contributor to the recovery of the brown spirits business over time.

Total sales volume of spirits dropped 5.9% to 457.1 million litres which derived from domestic sales of 456.4 million litres and export sales of 0.7 million litres. White spirits sales volume of 367.5 million litres showed a decrease of 1.3%. Brown spirits sales volume of 89.6 million litres showed a decrease of 20.7% due to the abovementioned lower demand arising from the sales price increase that resulted from the increase in excise tax.

Gross profit of Baht 18,426 million decreased by Baht 2,323 million or 11.2%, mainly due to the decrease of sales volume and the higher price of molasses (a raw material used in the production), fuel oil and electricity. The outlook for molasses in 2007 is for higher production due to better crops resulting from heavy rainfall in 2006. This should lead to lower costs to the Company.

EBITDA of Baht 13,663 million decreased by Baht 2,159 million or 13.6%, mainly due to the decrease of sales and gross profit margin and higher employee expense, freight and vehicle expenses. Free brown spirits' volume used for sales promotion as a percentage of domestic sales volume of brown spirits increased from 2.1% by average in 2005 to 2.7% in 2006.

Net Profit of Baht 7,916 million decreased by Baht 1,072 million, or 11.9%, mainly due to the decrease of sales and gross profit margin as mentioned although the decrease of interest expense.

Industrial Alcohol Business Segment

Sales revenue was Baht 1,205 million reflected an increase of Baht 336 million or 38.7%, mainly due to the increase of Ethanol sales volume, which helped to partially compensate for the decrease of Alcohol 95 sales volume. Sales volume of Ethanol was 46.6 million litres, which increased by 124.1% and the average sales price was Baht 24.94 per litre, which increased by 42.3% over that of 2005. Overall sales volume for all industrial alcohol products in 2006 was 48.3 million litres, or a 9.3% decrease from 53.2 million litres in 2005.

Gross profit of Baht 210 million decreased by Baht 188 million, or 47.2%, mainly due to high product cost arising from higher molasses prices and energy costs.

EBITDA of Baht 163 million decreased by Baht 203 million or 55.5% mainly due to the decrease of gross profit margin and higher administration expenses arising from higher employee expense.

Net Loss was Baht 22 million while net profit for 2005 was Baht 151 million, a change of 114.6% mainly due to the decrease of gross profit margin as mentioned and the increase of interest expense.

Related Business Segment

Sales revenue was Baht 7,155 million increased by Baht 522 million or 7.9% mainly due to income from commercials during the live broadcast of the FIFA World Cup 2006 in Q2, other sports marketing activities and inter-segment supply of raw materials and packaging materials.

Gross profit of Baht 790 million increased by Baht 225 million, or 39.8%, mainly due to the increase of sales and effective cost control.

EBITDA of Baht 604 million increased by Baht 371 million or 159.2% mainly due to the increase of sales and gross profit margin.

Net Profit was Baht 216 million while net loss for 2005 was Baht 1 million mainly due to the increase of sales and gross profit margin as mentioned and the decrease of interest expense.

Financial Position

Assets

Total assets as at end of December 2006 was Baht 85,580 million, a decrease of Baht 1,558 million, or 1.8%, compared with the end of 2005. Current assets decreased by Baht 2,814 million, mainly due to the decrease in cash and cash equivalents, prepaid excise tax, and finished goods. Non-current assets increased by Baht 1,256 million, mainly due to advance payment of royalties to spirits experts.

Liabilities

Total liabilities as at end of December 2006 was Baht 33,026 million decreased by Baht 22,397 million, or 40.4%, mainly due to the re-payment of loans from financial institutions with cash received from the May 2006 Initial Public Offering (IPO) and the July 2006 sale of over-allotment shares.

The maturity of loans and bonds are as follows.

	Unit: Million Baht
Within Dec 31, 2007	12,753
Between Jan 1, 2008 – Sep 29, 2008	6,755
Total	19,508

Shareholders' Equity

Total shareholders' equity as at the end of December 2006 was Baht 52,554 million, an increase of Baht 20,839 million, or 65.7%, mainly due to the increase of share capital from the IPO amounting to Baht 3,110 million, and the premium on common shares after the IPO expense amounting to Baht 17,216 million. Net

profit was Baht 10,055 million. Dividend paid was Baht 8,042 million from profit for the year 2005 and partial for the year 2006.

Liquidity

Cash and cash equivalents as at December 31, 2006, was Baht 1,920 million. The net decrease from the beginning of the period was Baht 1,478 million. Details of activities are as follows.

	Unit: Million Baht
Net cash provided by operating activities	14,172
Net cash used in investing activities	(5,383)
Net cash used in financing activities	(10,244)
Adjustment from financial statement translation	(23)
Net decrease in cash and cash equivalents in period	(1,478)
Cash and cash equivalents at beginning of period	3,398
Cash and cash equivalents at end of period	1,920

Net cash provided by operating activities of Baht 14,172 million was mainly derived from net income of Baht 10,055 million and adjusted with non cash items, such as depreciation and amortization, of Baht 4,652 million, while working capital decreased by Baht 98 million and advance payment to experts amounted to Baht 2,000 million.

Net cash used in investing activities of Baht 5,383 million was mainly due to the investment activities in property, plant and equipment of Baht 4,039 million.

Net cash used in financing activities of Baht 10,244 million was mainly due to a dividend paid of Baht 8,042 million and the decrease in bank overdrafts and short-term loans from financial institutions of Baht 33,405 million by repayment with money from the IPO and over-allotment shares of Baht 20,326 million and the increase of long-term loans and bonds by Baht 11,668 million.

Financial Ratios

	Dec.31, 06	Dec.31, 05
Current Ratio (times)	1.28	0.66
Total Debt to Equity Ratio (times)	0.63	1.75
Net asset value per share (Baht)	2.21	1.44
Total Debt to EBITDA (times)	0.95	1.94
Funds from Operations (FFO) to Total Debt (%)	75.39	35.81