

Management Decision and Analysis of the Consolidated Financial Statement of the First Half 2013

PERFORMANCE ANALYSIS ON THE CONSOLIDATED FINANCIAL STATEMENT

In the second quarter of 2013, East Water Group (the company and its subsidiaries) had total revenue of 1,014.34 Million Baht, increased by 50.38 million Baht or 5.22 percent compared to that of 2012. Net profit of the East Water Group was 391.29 million baht, increased by 12.10 million baht or 3.19 percent YoY. In considering to half year performance of 2013, East Water Group had total revenue of 2,006.32 Million Baht, increased by 150.51 million Baht or 8.11 percent YoY. Net profit of the East Water Group was 761.55 million baht, increased by 57.95 million baht or 8.24 percent YoY. The details of the business performance are shown in Table 1 and 2 below:

Table 1: East Water Group's performance

| Item | Amount (Million Baht) | | Increased (Decreased) | | Amount (Million Baht) | | Increased (Decreased) | |
|--|--------------------------|-------------|--------------------------|---------|--------------------------|-------------|--------------------------|--------|
| | Q2/ 2013 | Q2/ 2012 | M.B | % | 1H/ 2013 | 1H/ 2012 | M.B | % |
| Raw water sales | 720.42 | 668.30 | 52.12 | 7.79 | 1,432.81 | 1,296.13 | 136.68 | 10.54 |
| Tap water sales | 226.13 | 214.12 | 12.01 | 5.60 | 442.21 | 417.41 | 24.80 | 5.94 |
| Revenue from rental, services and others | 6.77 | 81.53 | (14.09) | (17.28) | 131.29 | 142.26 | (10.97) | (7.71) |
| Total Revenue | 1,014.34 | 963.96 | 50.38 | 5.22 | 2,006.32 | 1,855.81 | 150.51 | 8.11 |
| Total COGS and Expenses | 484.86 | 461.28 | 23.58 | 5.11 | 986.08 | 914.97 | 71.11 | 7.77 |
| Profit (loss) before interest and tax | 529.47 | 502.65 | 26.82 | 5.33 | 1,020.24 | 940.83 | 79.41 | 8.44 |
| Net Profit (loss) | 391.29 | 379.15 | 12.14 | 3.20 | 761.55 | 703.59 | 57.95 | 8.32 |

Table 2: Raw and tap water sales

| Item | Amount (M.Cu.M.) | | Increased (Decreased) | | Amount (M.Cu.M.) | | Increased (Decreased) | |
|------------------|---------------------|-------------|--------------------------|------|---------------------|-------------|--------------------------|------|
| | Q2/ 2013 | Q2/ 2012 | M.Cu.M | % | 1H/ 2013 | 1H/ 2012 | M.Cu.M | % |
| Raw water sales* | 68.38 | 66.34 | 2.04 | 3.07 | 135.97 | 132.06 | 3.91 | 2.96 |
| Tap water sales | 17.63 | 17.04 | 0.59 | 3.46 | 34.76 | 33.52 | 1.29 | 3.69 |

Note: *Raw water sold to subsidiary company for tap water sales is exclusive in order to avoid redundant representation

1. Performance Analysis

1.1. Revenue

1.1.1. Raw water sold in second quarter of 2013 increased by 52.12 million baht or 7.79 percent. For first half of 2013, raw water sold had increased by 136.59 Million Baht or 10.54, due to 2 primary reasons;

(1) In second quarter of 2013, Volume of raw water sold increased by 2.04 M.Cu.M. or 3.07 percent from that of 2012 (Volume Sold increased by 3.91 M.Cu.M. or 2.96 percent in 1H/2013), particularly in the Pruek-Dang and Bor-win area (the border of Rayong and Chonburi province) where demand of raw water for industrial and tourism (specifically to Pattaya)

increased by 1.00 M.Cu.M.

(2) Adjusted raw water tariff (based on a recent announcement of raw water tariff 2008-2012, approved in 2008) has increased by average of 4.56 percent in second quarter of 2013 (compared to 7.44 percent in 1H/2013).

1.1.2. In second quarter of 2013, Tap water sales increased by 12.01 million Baht or 5.60 percent YoY (an increase of 24.80 Million Baht or 5.94 percent in 1H/2013) This is because of increasing demand for tap water by 0.59 M.Cu.M. or 3.46 percent (compared to 1.29 M.Cu.M. or 3.62 percent in 1H/2013) and increasing tap water tariff by 2.29 percent (an increase of 2.60 in 1H/2013). It should be noted that tap water tariff is adjusted based on the annual consumer price index.

1.1.3. Revenue from rental, services and others is significantly decreased during second quarter of 2013 by 13.76 Million Baht or 16.87 percent due to the completion of Phatumthani-Rangsit tap water loss improvement contract ended in October 2012.

1.2. Costs and Expenses

1.2.1. Costs of sales and Gross profit margin

Table 3: Costs, Expenses and Profit (Q2/2013)

| Item | Amount (Million Baht) | | | | Amount increased (decreased) | |
|-------------------------------------|-----------------------|-------|---------|-------|------------------------------|---------|
| | Q2/2013 | % | Q2/2012 | % | M. Baht | % |
| Revenue | 1,014.34 | 100 | 963.96 | 100 | 50.38 | 5.22 |
| Cost of goods and Service Sold | 402.92 | 39.60 | 355.56 | 34.81 | 47.36 | 13.31 |
| Gross Profit | 611.42 | 60.27 | 608.40 | 63.11 | 3.02 | 0.49 |
| Selling and Administrative expenses | 81.93 | 8.07 | 105.72 | 10.96 | (23.79) | (22.50) |
| EBIT | 529.49 | 52.20 | 502.65 | 52.14 | 26.84 | 5.33 |
| Financial costs | 28.05 | 2.76 | 18.56 | 1.92 | 9.49 | 51.13 |
| EBT | 501.42 | 49.43 | 484.09 | 50.21 | 17.33 | 3.57 |
| Income taxes | 110.12 | 10.82 | 104.90 | 10.88 | 5.22 | 4.97 |
| Net Profit | 391.29 | 38.57 | 379.19 | 39.33 | 12.1 | 3.19 |

Table 4: Costs, Expenses and Profit (1H/2013)

| Item | Amount (Million Baht) | | | | Amount increased (decreased) | |
|-------------------------------------|-----------------------|---------|----------|---------|------------------------------|---------|
| | 1H/2013 | % | 1H/2012 | % | M. Baht | % |
| Revenue | 2,006.32 | 100 | 1,855.81 | 100 | 150.51 | 8.11 |
| Cost of goods and Service Sold | 856.84 | 42.70 | 710.48 | 38.28 | 146.36 | 20.60 |
| Gross Profit | 1,200.77 | 59.84 | 1,145.30 | 61.71 | 55.47 | 4.84 |
| Selling and Administrative expenses | 180.53 | 8.99 | 204.49 | 11.01 | (23.96) | (11.71) |
| EBIT | 1,020.81 | 50.87 | 940.83 | 50.69 | 79.98 | 8.50 |
| Financial costs | 56.34 | 2.80 | 36.84 | 1.98 | 19.50 | 52.93 |
| EBT | 964.54 | 48.07 | 903.98 | 48.71 | 60.56 | 6.69 |
| Income taxes | (202.35) | (10.08) | (200.39) | (10.79) | 1.96 | (0.97) |
| Net Profit | 761.54 | 37.95 | 703.59 | 37.91 | 57.95 | 8.23 |

The gross profit for second quarter of 2013 is at 60.27 percent of total revenue (59.84 percent in 1H/2013), which is slightly declined from 63.11 percent YoY, due to;

- (1) higher depreciation expense by 7.60 million Baht or 9.91 percent on new acquired assets (an increase of 16.94 Million Baht or 11.21 percent), specifically from Nong Pla Lai – Mattaput III pipeline which has been completed since September 2012
- (2) Higher electricity costs on pumping of raw water pumping from Rayong to Chonburi province by 27.18 percent (compared to an increase of 29.80 percent in 1H/2013);
 - a. The Float Time - based on Electricity Automatic Adjustment Mechanism (Ft.) costs has increased by 0.46 Bath per unit contributed to overall electricity costs in the second quarter of 2013 by 9.86 percent (to an increase of 14.41 percent in 1H/2013).
 - b. Higher demand of raw water in Chonburi province required East Water Group to pump more water from Nong-Plalai reservoir to Non-Kho Reservoir by 2.36 M.Cu.M., which caused electricity expense to rise by 17.32 percent in the first half of 2013 , against that of 2012 (5.32 M.Cu.M. or rose by 15.40 percent in 1H/2013).

1.2.2. Selling and Administrative Expenses in the second quarter of 2013 was 81.93 million baht, decreased by 23.79 million baht or -22.50 percent (Total Selling and Administration in 1H/2013 was 180.53 Million Baht, declined by 23.96 Million Baht or -11.71 percent). This is mainly because of slower public relations and CSR expenses by 4.08 (7.30 Million Baht in 1H/2013) and 0.87 million Baht (6.49 Million Baht in 1H/2013) respectively.

1.2.3. Financial cost in second quarter of 2013 was 28.05 million baht (56.34 Million Baht in 1H/2013), increased by 9.49 million Baht or 51.13 percent (19.50 Million Baht or 52.9 percent in 1H/2013). This is because of initially recording interest payment of Nong Plalai – Mabtaput III pipeline system since November 2012. Total interest payment in this project during second quarter of 2013 was 17.56 Million Baht (25.69 Million Baht in 1H/2013).

1.2.4. Income tax was 110.12 million Baht in second quarter of 2013 (202.35 Million Baht in 1H/2013), increased by 5.22 million Baht or 0.97 percent (1.96 Million Baht or 4.97 percent in 1H/2013) due to government policy on lower income tax rate from 23 percent to 20 percent. Thus, East Water Group benefited from this policy by 15.04 Million Baht (28.94 million Baht in 1H/2013).

1.2.5. Net Profit of East Water Group in the second quarter of 2013 was 321.29 million baht (761.54 Million Baht in 1H/2013), increased by 12.10 million baht or 3.19 percent YoY (57.95 million baht or 8.23 percent in 1H/2013).

2. Statements of Financial Position

Table 4: Summary of East Water Group's financial positions

| No. | Item | (Million Baht) | | Increased (Decreased) | |
|-----|-------------------|----------------------------------|--------------------------------------|-----------------------|--------|
| | | As of June 31 st 2013 | As of December 31 st 2012 | Million Baht | % |
| 1. | Total Assets | 12,719.91 | 12,440.08 | 279.83 | 2.24 |
| 2. | Total Liabilities | 5,012.52 | 5,119.62 | (107.10) | (2.09) |
| 3. | Total Equities | 7,707.38 | 7,320.46 | 386.92 | 5.28 |

2.1. Assets

As of June 30th 2013, total asset was 12,719.91 million Baht, increased by 279.83 million Baht or 2.24 percent, due to increase in net fixed assets by 309.66 million Baht, as a result of Bangpra pumping project and Tabma Reservoir project were partially recorded in the work in progress by 115.25 and 139.76 Million Baht, respectively. Pipeline replacement project and tap water treatment facility project in Chonburi also recorded 35.77 and 105.44 Million Baht respectively.

2.2. Liabilities

As of June 30th 2013, total liabilities of East Water Group were 5,012.50 million Baht, decreased by 107.10 million Baht or -2.09 percent, due to lower balance of outstanding debt by 94.57 million Baht (from debt repayment of 352.50 million Baht against borrowing 254.75 million Baht for Bangpra and Tabma projects).

2.3. Owners' Equity

As of June 30th 2013, Owner's equity were 7,707.38 million Baht, increased by 386.92 million Baht or 5.28 percent, due to net profit of 762.19 Million Baht after dividend payout at 399.24 million Baht from the first half of 2013.

3. Cash Flow Analysis

Table 6: Summary of East Water Group's Cash Flow

| No. | Item | Amount (Million Baht) | | Increased (Decreased) |
|-----|--|-----------------------|----------------|--------------------------|
| | | 1H/2013 | 1H/2012 | Million Baht |
| 1. | Operation Cash flow | 854.60 | 848.18 | 6.42 |
| 2. | Investing cash flow | (382.65) | (840.61) | 511.96 |
| 3. | Financial cash flow | (543.24) | (58.54) | (484.70) |
| 4. | Net increase of cash and equivalent | (17.28) | (50.97) | 33.69 |
| 5. | B/F | 238.47 | 128.69 | 109.78 |
| 6. | C/F | 221.18 | 77.71 | 143.47 |

East Water Group maintained positive operation cash flow. When triangulated with financial and investment cash flow, net cash flow in the first half of 2013 reduced by 17.28 million Baht due to loan repayment on major investment projects mentioned above.

4. Key Financial Ratio

Table 7: Key Financial Ratio

| Item | 1H/2013 | 1H/2012 |
|--|---------|---------|
| <u>Profitability ratio</u> | | |
| Gross profit/ total revenue (%) | 59.85% | 61.71% |
| Net profit/ total revenue (%) | 37.95% | 39.61% |
| Return on Equity (ROE) (%) | 17.39% | 17.75% |
| Return on Assets (ROA) (%) | 10.29% | 11.16% |
| <u>Financial structure and liability ratio</u> | | |
| Debt to Equity ratio | 0.65 | 0.69 |
| Debt Service Coverage ratio (DSCR) (time) | 3.22 | 2.58 |

In comparison between first half of 2013 and 2012, East Water Group generated gross profit and net profit margin at 59.85 and 37.95 percent of total revenue. The group of company managed to stabilize percentage of Return of Equity (ROE) and Return on Assets (ROA) at 17.39 and 10.29 percent respectively, although it came to a period of high investment on reservoirs, pipeline system, in responding to higher raw water demands.