

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1/2018

1. ANALYSIS OF FINANCIAL PERFORMANCE

In Q1/2018, East Water Group had total consolidated sales and services income of 1,045.39 million Baht, decreased by 117.85 million Baht or 10.13% compared to Q1/2017 (If excluding construction revenue under concession agreement of 990.07 million Baht, the total consolidated sales and services income would decrease by 74.75 million Baht or 7.02% compared to Q1/2017 due to the declining in raw water sales volume) and Net profit attributable to Equity holders of the parent company was 302.67 million Baht, decreased by 61.26 million Baht or 16.83% compared to Q1/2017

Income statement (MB)	Q1/2017	Q12018	YoY	%
Total Sales and Services revenue	1,163.24	1,045.39	(117.85)	(10.13%)
Raw water revenue	670.98	592.74	(78.24)	(11.66%)
Tap water revenue	346.81	353.51	6.70	1.93%
Rental and services revenue	47.03	43.82	(3.21)	(6.83%)
Construction revenue under Concession Agreements ⁽¹⁾	98.42	55.33	(43.10)	(43.79%)
Costs of Sales and Services	603.30	557.14	(46.16)	(7.65%)
Raw water cost	262.24	247.94	(14.30)	(5.45%)
Tap water cost	205.21	221.60	16.39	7.99%
Rental and services cost	37.43	32.28	(5.15)	(13.77%)
Construction cost under Concession Agreements ⁽¹⁾	98.42	55.33	(43.10)	(43.79%)
Gross profit	559.94	488.25	(71.68)	(12.80%)
Other income	20.48	9.54	(10.94)	(53.41%)
Selling and administrative expenses	96.21	93.90	(2.31)	(2.40%)
Operating profit	484.21	403.89	(80.31)	(16.59%)
Finance cost	36.29	33.63	(2.66)	(7.34%)
Income tax expenses	81.28	64.90	(16.38)	(20.15%)
Net profit	366.63	305.36	(61.27)	(16.71%)
Net profit attributable to owner of the parent	363.92	302.67	(61.26)	(16.83%)
Earnings per share (EPS)	0.22	0.18	(0.04)	(16.83%)

Note: 1) Revenue and Cost that were recognized when there is construction under concession agreements for tap water according to accounting standard TFRIC12

EBITDA (MB)	Q1/2017	Q1/2018	YoY	%
Operating profit	484.21	403.89	(80.31)	(16.59%)
Depreciation	95.25	100.14	4.89	5.13%
Amortization	67.71	73.92	6.22	9.18%
EBITDA	647.16	577.96	(69.21)	(10.69%)

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1/2018

2. ECONOMIC SITUATION

Thai economy in Q1/2018 continually expanded, supported by every economic engine especially merchandise exports, which were driven by global trade recovery and well-performing trading partners' economies. Also, tourism sector robustly expanded, reflected from an increasing number of international tourist arrivals especially Chinese. Meanwhile, level of domestic economic activities gradually increased. Consumption and investment of private sector steadily expanded consistent with the improving consumer confidence and business sentiment, accompanied by growth in public investment which resembled the growth rate from the same period last year. All in all, economic drivers continued to perform well particularly merchandise exports, resulting in 4.6% forecasted economic growth in the first quarter

Economic outlook for Q2/2018 is expected to grow robustly, supported by promising outlook for merchandise exports as well as tourism. A robust global economy will support Thai merchandise exports to grow by 4.8% annually, while number of international tourist arrivals is expected to be 37 million or 7% higher from last year. Other economic growth contributors are also anticipated to perform better especially private investment which will be backed by vigorous export expansion and investment by public sector. Increase in money injection from public investment is expected due to historically large government capital budget as well as mega project investment to support Eastern Economic Corridor (EEC) amounting to more than 1 trillion baht.

3. WATER RESOURCES

As of 27 April 2018, the water supply situation in Chonburi and Rayong province is good. The water continually inflow to the reservoirs. The weather forecast of the Department of Meteorology was expected that the total rainfall in the Eastern part of Thailand will be higher than average by about 15% in May, and move closing to the average level in June. The average water in the reservoirs in Chonburi and Rayong were 56% and 76% of total capacity respectively.

Water Volume (Million Cu.M)	Chonburi		Rayong			
	Bangpra	Nongkho	Dokkrai	Nongplalai	Klongyai	Prasae
Water reserve	68.57	9.08	51.11	139.64	25.83	192.29
Percentage of total capacity	59%	42%	64%	85%	64%	78%
Average (2004-2017)	50.50	9.38	39.90	100.89	23.43	167.24
Above/(below) average (2004-2017)	18.08	(0.30)	11.22	38.76	2.41	25.05

4. SIGNIFICANT EVENTS

As of 14 March 2018, Electricity Generating Public Company Limited ("EGCO") has completed the sale of its 311.44 million shares or 18.72% in East Water to Manila Water (Thailand) Co., Ltd at 16.78 Baht per share or totally 5,226.02 million Baht. As a result of the sale, Mr. Virgilio Jr. Cervantes Revera will represent Manila Water Company Inc. on the Board of Directors of the company and replace Mr. Chaipat Sahasakul, who was the representative from EGCO, effective from 14 March 2018 onwards.

The resolution of the Annual General Shareholders Meeting for the year 2017 on 23 April 2017 had approved the dividend payment of 0.47 Baht per share (Dividend for the year 2016 was 0.47 Baht per share) or totally 781.95 million Baht for the fiscal year of 2017. This amount of dividend consists of an interim dividend of 0.23 Baht per share (based on the operating result from January – June 2017) paid on 26 September 2017, and dividend for the second half operating results (July – December 2017) at 0.24 Baht per share which will be paid on 18 May 2018.

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1/2018

5. Raw Water Business

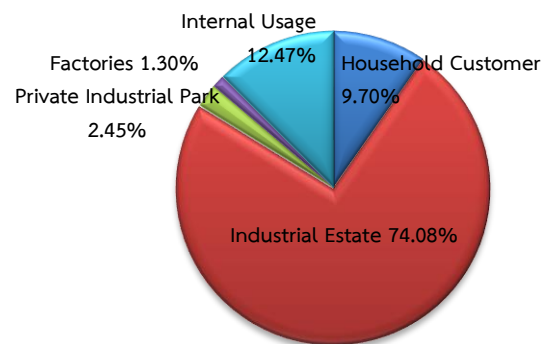
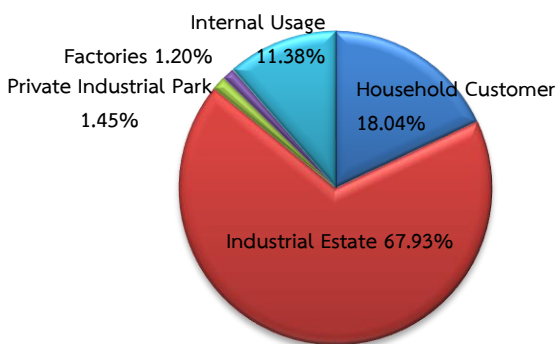
Raw water revenue in Q1/2018 was 592.74 million Baht, decreased by 78.24 million Baht or 11.66% compared to Q1/2017. Total water sales volume was 54.21 million Cu.M. (excluding internal usage for tap water production of 7.72 million Cu.M.), decreased by 7.81 million Cu.M., or 12.59% due to the declining in raw water sales volume of the household customers. The average raw water tariff stayed at 10.93 Baht per Cu.M., increased by 0.12 Baht per Cu.M., or 1.07% compared to Q1/2017, due to the declining in the portion of household customers, who paid lower tariffs than other customer groups.

Raw Water Volume (Million Cu.M)	Q1/2017	Q1/2018	YoY	%
Total distribution volume	69.98	61.93	(8.05)	(11.50%)
Internal usage for tap water	7.96	7.72	(0.24)	(3.01%)
Net Raw Water Sales Volume	62.01	54.21	(7.81)	(12.59%)

Raw Water Distribution by Customer Group (Internal usage for tap water production is included)

Jan – Mar 2017 = 69.98 million Cu.M.

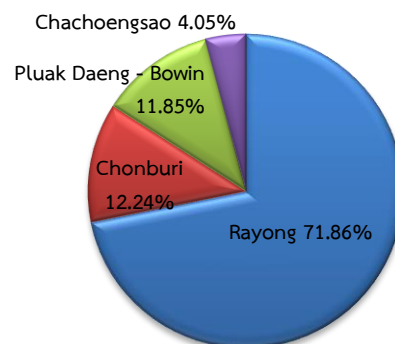
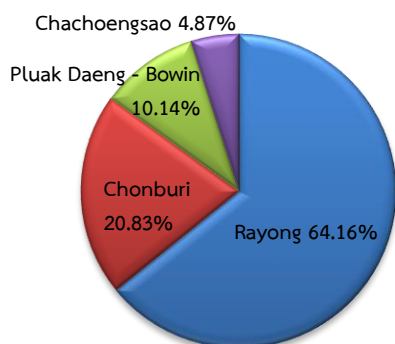
Jan – Mar 2018 = 61.93 million Cu.M.



Raw Water Distribution by Area (Internal usage for tap water production is included)

Jan – Mar 2017 = 69.98 million Cu.M.

Jan – Mar 2018 = 61.93 million Cu.M.



EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1/2018

Gross Profit of Raw Water Business for Q1/2018 was 344.81 million Baht, decreased by 63.93 million Baht or 15.64% compared to Q1/2017 due to the decreasing of household customers and increasing in some expenses such as maintenance. However, gross profit margin just slightly dropped to 58.17% since the company was able to save the electricity cost from stop transferring water from Nongplalai reservoir to Chonburi to be consistent with the lower demand in Chonburi area.

Major costs of raw water business (MB)	Q1/2017	Q1/2018	YoY	%
Raw Water Revenue	670.98	592.74	(78.24)	(11.66%)
Costs of Raw Water	262.24	247.94	(14.30)	(5.45%)
Raw Water	34.47	33.58	(0.89)	(2.59%)
Electricity	111.18	81.12	(30.05)	(27.03%)
Depreciation	72.35	74.33	1.98	2.73%
Maintenance	10.55	20.18	9.64	91.38%
Others	33.69	38.72	5.03	14.94%
Gross Profit	408.74	344.81	(63.93)	(15.64%)
Gross Profit Margin	60.92%	58.17%		

6. Tap Water Business

Tap water revenue in Q1/2018 was 353.51 million Baht, increased by 6.70 million Baht or 1.93% compared to Q1/2017. Total tap water sales volume was 23.82 million Cu.M., increased by 0.36 million Cu.M. or 1.54% compared to Q1/2017.

Tap water sales volume (Million Cu.M)	Q1/2017	Q1/2018	YoY	%
Tap water sales volume	5.22	5.21	(0.00)	(0.08%)
Tap water sales volume Subsidiary	18.24	18.60	0.37	2.01%
Total tap water sales volume	23.45	23.82	0.36	1.54%

Gross Profit of Tap Water Business for Q1/2018 was 131.91 million Baht, decreased by 9.69 million Baht or 6.84% compared to Q1/2017, representing a slightly lower gross profit margin to 37.32%. The reasons were a higher raw water cost as the company had purchased raw water from private source as well as the rising of depreciation and amortization by 8.49 million Baht from the amortized assets under concession agreements.

Major Costs of Tap Water Business(MB)	Q1/2017	Q1/2018	YoY	%
Tap Water Revenue	346.81	353.51	6.70	1.93%
Costs of Tap Water	205.21	221.60	16.39	7.99%
Raw Water	37.53	42.38	4.85	12.93%
Electricity	35.36	35.67	0.30	0.86%
Chemical	5.02	6.03	1.01	20.15%
Payroll & Outsource Expenses	45.55	47.16	1.61	3.53%
Depreciation	72.64	81.13	8.49	11.69%
Others	9.11	9.23	0.12	1.33%
Gross Profit	141.60	131.91	(9.69)	(6.84%)
Gross Profit Margin	40.83%	37.32%		

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1/2018

7. Financial Position Analysis

Financial Position (MB)	As of 31 Dec 2017	As of 31 Mar 2018	Increased (Decreased)	%
Total Assets	19,482.62	19,582.80	100.18	0.51%
Total Liabilities	9,052.71	8,848.38	(204.34)	(2.26%)
Equity	10,429.91	10,734.42	304.51	2.92%
- Equity attributable to owners of the parents	10,242.56	10,544.38	301.82	2.95%

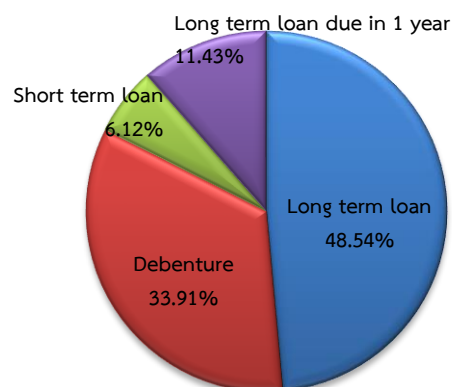
1) Assets At the end of March 2018, total assets were 19,582.80 million Baht, increased by 100.18 million Baht or 0.51% from the end of the year 2017 due to changes in the following items:

- Cash and short term investment was 537.33 million Baht, increased by 106.82 million Baht due to the cash from operation during Q1/2018, net off with loan repayment as schedule in March 2018 by 560 million Baht.
- Intangible assets were 3,684.17 million Baht, decreased by 18.56 million Baht from the amortizing of intangible assets.

2) Liabilities At the end of March 2018, total liabilities were 8,848.38 million Baht, decreased by 204.34 million Baht or 2.26% from the end of the year 2017 due to changes in the following items:

- Short term loans from financial institutions were 433.00 million Baht, increased by 350.00 million Baht from the end of the year 2016 because the company had drawdown additional short term loan for working capital management.
- Long term loans from financial institutions were 3,432.40 million Baht, decreased by 560.00 million Baht from the repayment of long term loan as schedule in an amount of 560.00 million Baht.

Interest Bearing Debt total 7,071.26 million Baht



Note: According to the debentures and long-term loan agreements, the company was required to maintain its D/E ratio of not higher than 2.0 times. For the long-term loan agreements, there is additional condition to maintain DSCR of not less than 1.1 times.

3) Shareholder's Equity As of March 2018, Shareholders' equity attributable to owners of the parent was 10,544.38 million Baht, increased by 301.82 million Baht or 2.95% from the end of the year 2017, basically from the net profit of Q1/2018.

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q1/2018

8. Liquidity Analysis and Source of Fund Sufficiency

In Q1/2018, the company had beginning cash and cash equivalents of 37.48 million Baht, whereby during the financial period, net cash was increased by 14.22 million Baht. This comprised of the following items:

1) Net cash received from Operating Activities totaling Baht 478.68 million Baht from the net income netting off with the changes in assets and liabilities from operations

2) Net cash used in Investment Activities amounted to 232.94 million Baht. This was mainly due to the investment in property, plant and equipment as well as advance payments for construction in an amount of 82.64 million Baht, the investment of concession asset amounted to 47.79 million Baht, and the interest payment of the construction project of 11.13 million Baht

3) Net cash used in Financing Activities amounting to 231.52 million Baht, mainly due to the repayment of long term loan 560.00 million Baht and 21.04 million Baht for interest payment in cash, net off with the additional short term loan drawdown of 350.00 million Baht for working capital management.

9. KEY FINANCIAL RATIOS

Key Financial Ratios	As of 31 Mar 2017	As of 31 Mar 2018
Liquidity Ratio		
Current ratio (time)	0.38	0.56
Profitability Ratio⁽¹⁾		
Gross profit / total sales and services revenue (%)	52.59%	50.58%
Net profit / total sales and services revenue (%)	34.43%	29.58%
Performance Ratio		
Return on Equity (ROE) (%)	13.03%	11.20%
Return on Assets (ROA) (%)	6.58%	5.92%
Capital Structure and Debt Ratio		
Debt to Equity ratio (time)	0.91	0.84
Debt Service Coverage ratio (DSCR) (time)	2.25	2.21

Note: 1) Gross profit and Net profit were excluded construction revenue under concession agreement and other income.

For Q1/2018, East Water Group reported slightly lower profitability compared to the same period of 2017 because of the lower sales volume. Gross Profit Margin and Net Profit Margin was at 50.58% and 29.58% respectively, while Return on Equity (ROE) dropped to 11.20% and Return on Asset (ROA) was 5.92% which declined from the same period of 2017 due to the lower net profit. For the liquidity analysis, current ratio rose to 0.56 times. Debt to equity ratio improved to 0.84 times due to the repayment of long term debt. Debt service coverage ratio (DSCR) remained strong at 2.21 times, representing the company's ability to repay its debts.