

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2/2018

1. ANALYSIS OF FINANCIAL PERFORMANCE

For the 6 months ended June 2018, East Water Group had total consolidated sales and services income of 2,093.08 million Baht, decreased by 155.99 million Baht or 6.94% compared to Q2/2017 (If excluding construction revenue under concession agreement of 1,980.48 million Baht, the total consolidated sales and services income would decrease by 120.25 million Baht or 5.72% compared to same period of 2017) due to the declining in raw water sales volume and net profit attributable to Equity holders of the parent company was 580.63 million Baht, decreased by 130.27 million Baht or 18.32% compared to Q2/2017

Income statement (MB)	For the three-month period				For the six-month period			
	Q2/2017	Q2/2018	YoY	%	1H/2017	1H/2018	YoY	%
Total Sales and Services revenue	1,085.83	1,047.68	(38.15)	(3.51%)	2,249.07	2,093.08	(155.99)	(6.94%)
Raw water revenue	639.07	592.42	(46.65)	(7.30%)	1,310.05	1,185.16	(124.89)	(9.53%)
Tap water revenue	361.20	358.86	(2.34)	(0.65%)	708.00	712.36	4.36	0.62%
Rental and services revenue	35.65	39.14	3.49	9.78%	82.68	82.95	0.27	0.33%
Construction revenue under Concession Agreements ⁽¹⁾	49.92	57.27	7.36	14.73%	148.34	112.60	(35.74)	(24.09%)
Costs of Sales and Services	520.08	549.97	29.88	5.75%	1,123.39	1,107.11	(16.28)	(1.45%)
Raw water cost	230.16	222.00	(8.16)	(3.55%)	492.40	469.93	(22.47)	(4.56%)
Tap water cost	210.53	242.38	31.85	15.13%	415.74	463.97	48.23	11.60%
Rental and services cost	29.48	28.32	(1.16)	(3.92%)	66.91	60.60	(6.31)	(9.43%)
Construction cost under Concession Agreements ⁽¹⁾	49.92	57.27	7.36	14.73%	148.34	112.60	(35.74)	(24.09%)
Gross profit	565.75	497.72	(68.03)	(12.03%)	1,125.68	985.97	(139.71)	(12.41%)
Other income	9.34	3.31	(6.03)	(64.58%)	29.83	12.85	(16.97)	(56.90%)
Selling and administrative expenses	104.47	108.07	3.60	3.45%	200.68	201.98	1.29	0.65%
Operating profit	470.62	392.95	(77.67)	(16.50%)	954.83	796.85	(157.98)	(16.55%)
Finance cost	34.42	33.43	(0.99)	(2.89%)	70.71	67.06	(3.66)	(5.17%)
Income tax expenses	86.38	78.87	(7.51)	(8.69%)	167.67	143.78	(23.89)	(14.25%)
Net profit	349.82	280.66	(69.17)	(19.77%)	716.45	586.02	(130.43)	(18.21%)
Net profit attributable to owner of the parent	346.97	277.96	(69.01)	(19.89%)	710.90	580.63	(130.27)	(18.32%)
Earnings per share (EPS)	0.21	0.17	(0.04)	(19.89%)	0.43	0.35	(0.08)	(18.32%)

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)	For the three-month period				For the six-month period			
	Q2/2017	Q2/2018	YoY	%	1H/2017	1H/2018	YoY	%
Operating profit	470.62	392.95	(77.67)	(16.50%)	954.83	796.85	(157.98)	(16.55%)
Depreciation	95.77	101.87	6.11	6.38%	191.02	202.01	11.00	5.76%
Amortization	69.97	73.98	4.01	5.74%	137.67	147.90	10.23	7.43%
EBITDA	636.35	568.81	(67.55)	(10.61%)	1,283.52	1,146.76	(136.76)	(10.65%)

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
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2. ECONOMIC SITUATION

Thai economy for the 5 months ended May 2018 continually expanded, supported by merchandise exports which continued expand with a growth 13.1% consistent with global demand growth and continual increase in crude oil prices. Domestic demand robustly expanded by private consumption which expanded in all categories. The expansion in global and domestic demand reflect to the growth of manufacturing sector. In term of public spending and private investment which strongly growth in all sector. Meanwhile, the tourist sector slowly growth.

3. WATER RESOURCES

As of 24 July 2018, the water supply situation in Chonburi and Rayong province is good. Water supply in the reservoirs was more than average water quantity of the past 10 years. The weather forecast of the Department of Meteorology was expected that the total rainfall in the Eastern part of Thailand will be move closing to the average in July and lower than average level by about 5% in August. The average water in the reservoirs in Chonburi and Rayong were 55% and 68% of total capacity respectively.

Water Volume (Million Cu.M)	Chonburi		Rayong			
	Bangpra	Nongkho	Dokkrai	Nongplalai	Klongyai	Prasae
Water reserve	65.42	10.99	50.84	114.97	25.66	198.40
Percentage of total capacity	56%	51%	64%	70%	64%	80%
Average (2006-2017)	46.45	9.68	44.06	104.23	27.33	152.49
Above/(below) average (2006-2017)	18.97	1.31	6.78	10.74	(1.67)	45.91

4. SIGNIFICANT EVENTS

As of 12 July 2018, TRIS Rating affirmed the company rating and senior unsecured debenture rating of Eastern Water Resources Development and Management PLC at “A+” with “stable” outlook, which reflects the company’s financial strength as the key raw water provider with a comprehensive pipeline network in the Eastern Seaboard area, its high profitability, and reliable cash flows.

5. Raw Water Business

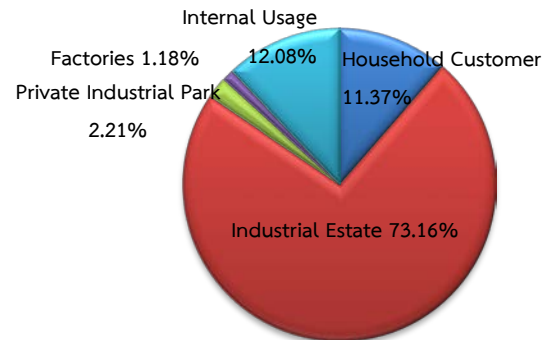
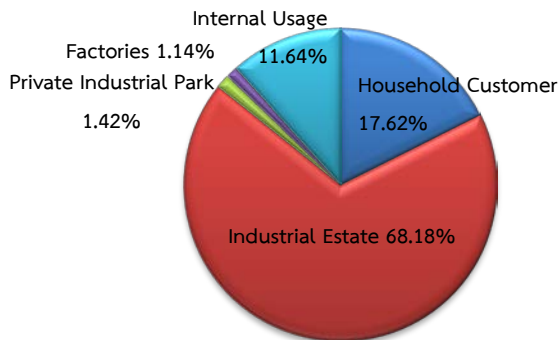
Raw water revenue in the first half of 2018 was 1,185.16 million Baht, decreased by 124.89 million Baht or 9.53%. Total water sales volume was 108.64 million Cu.M. (Excluding internal usage for tap water production of 14.92 million Cu.M.), decreased by 12.41 million Cu.M., or 10.25% due to the decline of raw water sales volume in high rainfall period specific to household customers. The average raw water tariff stayed at 10.91 Baht per Cu.M., increased by 0.09 Baht per Cu.M., or 0.80%, due to the declining in the portion of household customers, who paid lower tariffs than other customer groups.

Raw Water Volume (Million Cu.M)	For the three-month period				For the six-month period			
	Q2/2017	Q2/2018	YoY	%	1H/2017	1H/2018	YoY	%
Total distribution volume	67.02	61.64	(5.38)	(8.02%)	136.99	123.57	(13.43)	(9.80%)
Internal usage for tap water	7.98	7.20	(0.78)	(9.75%)	15.94	14.92	(1.02)	(6.39%)
Net Raw Water Sales Volume	59.04	54.44	(4.60)	(7.79%)	121.05	108.64	(12.41)	(10.25%)

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2/2018
Raw Water Distribution by Customer Group (Internal usage for tap water production is included)

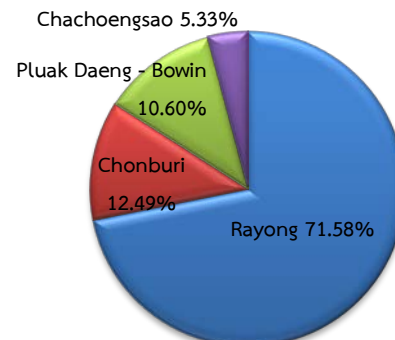
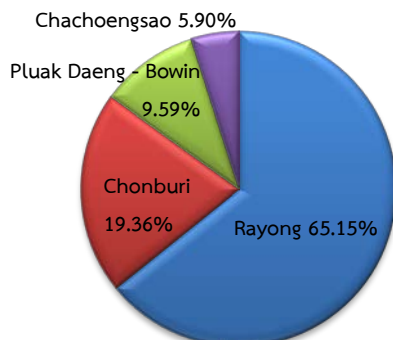
Jan – Jun 2017 = 136.99 million Cu.M.

Jan – Jun 2018 = 123.57 million Cu.M.


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

Jan – Jun 2017 = 136.99 million Cu.M.

Jan – Jun 2018 = 123.57 million Cu.M.



Gross Profit of Raw Water Business in the first half of 2018 was 715.23 million Baht, decreased by 102.42 million Baht or 12.53% as compared to the first half of 2017 due to the decreasing of household customers and purchasing raw water from private source. However, the company was able to save the electricity cost by 61.83 million Baht because the company has stopped transferring water from Nongplalai reservoir to Chonburi area to be consistent with the sufficient water supply in Chonburi area. Therefore; gross profit of raw water dropped to 60.35%.

Major costs of raw water business (MB)	For the three-month period				For the six-month period			
	Q2/2017	Q2/2018	YoY	%	1H/2017	1H/2018	YoY	%
Raw Water Revenue	639.07	592.42	(46.65)	(7.30%)	1,310.05	1,185.16	(124.89)	(9.53%)
Costs of Raw Water	230.16	222.00	(8.16)	(3.55%)	492.40	469.93	(22.46)	(4.56%)
Raw Water	30.69	51.29	20.60	67.12%	65.16	84.87	19.71	30.24%
Electricity	80.73	48.95	(31.78)	(39.36%)	191.91	130.08	(61.83)	(32.22%)
Depreciation	73.50	75.79	2.29	3.12%	145.85	150.12	4.27	2.93%
Maintenance	14.44	12.21	(2.22)	(15.39%)	24.98	32.39	7.41	29.68%
Others	30.81	33.75	2.95	9.57%	64.49	72.47	7.98	12.37%
Gross Profit	408.91	370.42	(38.49)	(9.41%)	817.65	715.23	(102.42)	(12.53%)
Gross Profit Margin	63.99%	62.53%			62.41%	60.35%		

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2/2018
6. Tap Water Business

Tap water revenue in the first half of 2018 was 712.36 million Baht, increased by 4.36 million Baht or 0.62%. Total tap water sales volume was 47.89 million Cu.M., decreased by 0.19 million Cu.M. or 0.40% compared to the first half of 2017.

Tap water sales volume (Million Cu.M)	For the three-month period				For the six-month period			
	Q2/2017	Q2/2018	YoY	%	1H/2017	1H/2018	YoY	%
Tap water sales volume	5.35	5.32	(0.03)	(0.55%)	10.56	10.53	(0.03)	(0.32%)
Tap water sales volume Subsidiary	19.28	18.76	(0.52)	(2.72%)	37.52	37.36	(0.16)	(0.42%)
Total tap water sales volume	24.63	24.07	(0.55)	(2.25%)	48.08	47.89	(0.19)	(0.40%)

Gross Profit of Tap Water Business for the first half of 2018 was 248.39 million Baht, decreased by 43.87 million Baht or 15.01% compared to the first half of 2017, representing a lower gross profit margin to 34.87%. Cost of raw water supply increased by 14.76 million Baht because company had purchased raw water from private source as well as the rising of depreciation and amortization by 14.28 million Baht from the amortized assets of the expanded capacity concessions.

Major Costs of Tap Water Business(MB)	For the three-month period				For the six-month period			
	Q2/2017	Q2/2018	YoY	%	1H/2017	1H/2018	YoY	%
Tap Water Revenue	361.20	358.86	(2.34)	(0.65%)	708.00	712.36	4.36	0.62%
Costs of Tap Water	210.53	242.38	31.85	15.13%	415.74	463.97	48.23	11.60%
Raw Water	33.87	43.77	9.90	29.25%	71.40	86.15	14.76	20.67%
Electricity	36.92	36.17	(0.75)	(2.03%)	72.28	71.83	(0.45)	(0.62%)
Chemical	6.96	10.60	3.64	52.23%	11.98	16.63	4.65	38.79%
Payroll & Outsource Expenses	48.41	54.15	5.73	11.85%	93.96	101.30	7.34	7.81%
Depreciation	74.54	80.32	5.79	7.77%	147.18	161.46	14.28	9.70%
Others	9.84	17.37	7.53	76.53%	18.95	26.60	7.65	40.38%
Gross Profit	150.66	116.48	(34.19)	(22.69%)	292.26	248.39	(43.87)	(15.01%)
Gross Profit Margin	41.71%	32.46%			41.28%	34.87%		

7. Financial Position Analysis

Financial Position (MB)	As of 31 Dec 2017	As of 30 Jun 2018	Increased (Decreased)	%
Total Assets	19,482.62	19,608.23	125.61	0.64%
Total Liabilities	9,052.71	9,002.88	(49.83)	(0.55%)
Equity	10,429.91	10,605.35	175.44	1.68%
- Equity attributable to owners of the parents	10,242.56	10,422.20	179.64	1.75%

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2/2018

1) Assets At the end of June 2018, total assets were 19,608.23 million Baht, increased by 125.61 million Baht or 0.64% from the end of the year 2017 due to changes in the following items:

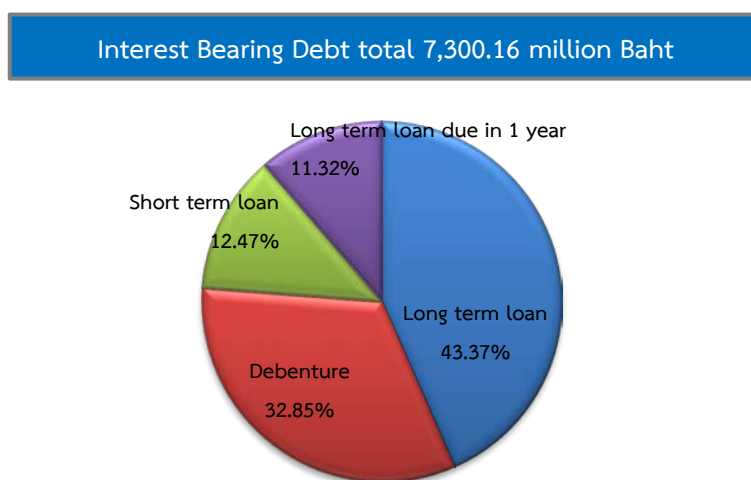
- Cash and short term investment was 510.39 million Baht, increased by 79.87 million Baht due to the cash from operation during the first half of 2018, net off with investment in property, plant and equipment as well as advance payments for construction, interest payment and dividend payment.

- Other non-current assets were 403.27 million Baht, increased by 52.37 million Baht from advance in investment project and assets insurance.

2) Liabilities At the end of June 2018, total liabilities were 9,002.88 million Baht, decreased by 49.83 million Baht or 0.55% from the end of the year 2017 due to changes in the following items:

- Short term loans from financial institutions were 910.00 million Baht, increased by 827.00 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 3,116.20 million Baht, decreased by 826.20 million Baht from the repayment of long term loan as schedule in an amount of 808.20 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 June 2018, Shareholders' equity attributable to owners of the parent was 10,422.20 million Baht, increased by 179.64 million Baht or 1.75% from the end of the year 2017, basically from the net profit of the first half in 2018.

8. Liquidity Analysis and Source of Fund Sufficiency

In the first half of the year 2018, the company had beginning cash and cash equivalents of 37.48 million Baht, whereby during the financial period, net cash was increased by 78.10 million Baht. This comprised of the following items:

1) Net cash received from Operating Activities totaling Baht 900.05 million Baht from the net income netting off with the changes in assets and liabilities from operations

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2/2018

2) **Net cash used in Investment Activities** amounted to 368.65 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 206.91 million Baht, the investment of concession asset amounted to 122.35 million Baht, and the interest payment of the construction project of 43.54 million Baht

3) **Net cash used in Financing Activities** amounting to 453.30 million Baht, mainly due to the repayment of long term loan 808.20 million Baht and 404.27 million Baht for dividend payment, net off with the additional short term loan drawdown of 827.00 million Baht for working capital management.

9. KEY FINANCIAL RATIOS

Key Financial Ratios	As of 30 Jun 2017	As of 30 Jun 2018
Liquidity Ratio		
Current ratio (time)	0.30	0.44
Profitability Ratio⁽¹⁾		
Gross profit / total sales and services revenue (%)	53.59%	49.69%
Net profit / total sales and services revenue (%)	34.10%	28.16%
Performance Ratio		
Return on Equity (ROE) (%)	13.04%	10.68%
Return on Assets (ROA) (%)	6.60%	5.59%
Capital Structure and Debt Ratio		
Debt to Equity ratio (time)	0.92	0.86
Debt Service Coverage ratio (DSCR) (time)	2.25	2.09

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

In the first half of 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 49.69% and 28.16% respectively, while Return on Equity (ROE) dropped to 10.68% and Return on Asset (ROA) was 5.59% which declined from the same period of 2017 due to the lower net profit. For the liquidity analysis, current ratio rose to 0.44 times. Debt to equity ratio improved to 0.86 times due to the repayment of long term debt. Debt service coverage ratio (DSCR) remained strong at 2.09 times, representing the company's ability to repay its debts.