

EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q3/2018

1. ANALYSIS OF FINANCIAL PERFORMANCE

For the 9 months ended September 2018, East Water Group had total consolidated sales and services income of 3,170.91 million Baht, decreased by 97.23 million Baht or 2.98% compared to the same period of last year (If excluding construction revenue under concession agreement of 2,999.93 million Baht, the total consolidated sales and services income would decrease by 75.88 million Baht or 2.47% 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 881.03 million Baht, decreased by 117.60 million Baht or 11.78%.

Income statement (MB)	For the three-month period				For the nine-month period			
	Q3/2017	Q3/2018	YoY	%	9M/2017	9M/2018	YoY	%
Total Sales and Services revenue	1,019.08	1,077.84	58.76	5.77%	3,268.14	3,170.91	(97.23)	(2.98%)
Raw water revenue	575.68	620.57	44.89	7.80%	1,885.72	1,805.73	(79.99)	(4.24%)
Tap water revenue	361.41	364.08	2.67	0.74%	1,069.41	1,076.44	7.03	0.66%
Rental and services revenue	37.99	34.80	(3.19)	(8.41%)	120.67	117.75	(2.92)	(2.42%)
Construction revenue under Concession Agreements ⁽¹⁾	44.00	58.39	14.39	32.70%	192.34	170.99	(21.36)	(11.10%)
Costs of Sales and Services	516.49	534.60	18.10	3.50%	1,639.88	1,641.70	1.82	0.11%
Raw water cost	219.95	228.99	9.05	4.11%	712.34	698.93	(13.42)	(1.88%)
Tap water cost	220.99	219.59	(1.39)	(0.63%)	636.73	671.51	34.78	5.46%
Rental and services cost	31.56	27.63	(3.94)	(12.47%)	98.47	100.29	1.82	1.84%
Construction cost under Concession Agreements ⁽¹⁾	44.00	58.39	14.39	32.70%	192.34	170.99	(21.36)	(11.10%)
Gross profit	502.58	543.24	40.66	8.09%	1,628.26	1,529.21	(99.05)	(6.08%)
Other income	10.02	12.03	2.01	20.03%	39.85	24.89	(14.97)	(37.55%)
Selling and administrative expenses	100.45	134.21	33.76	33.61%	301.13	336.19	35.06	11.64%
Operating profit	412.15	421.06	8.90	2.16%	1,366.98	1,217.90	(149.08)	(10.91%)
Finance cost	35.10	35.33	0.23	0.65%	105.82	102.39	(3.43)	(3.24%)
Income tax expenses	86.45	82.22	(4.23)	(4.89%)	254.11	225.99	(28.12)	(11.07%)
Net profit	290.60	303.51	12.91	4.44%	1,007.05	889.53	(117.53)	(11.67%)
Net profit attributable to owner of the parent	287.74	300.41	12.67	4.40%	998.63	881.03	(117.60)	(11.78%)
Earnings per share (EPS)	0.17	0.18	0.01	4.40%	0.60	0.53	(0.07)	(11.78%)

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 nine-month period			
	Q3/2017	Q3/2018	YoY	%	9M/2017	9M/2018	YoY	%
Operating profit	412.15	421.06	8.90	2.16%	1,366.98	1,217.90	(149.08)	(10.91%)
Depreciation	98.71	102.89	4.18	4.24%	289.72	304.90	15.18	5.24%
Amortization	71.75	76.13	4.39	6.12%	209.42	224.04	14.62	6.98%
EBITDA	582.60	600.08	17.47	3.00%	1,866.12	1,746.84	(119.28)	(6.39%)

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2. ECONOMIC SITUATION

Thai economy in Q3/2018 continuously grew. Export-oriented manufacturing businesses expanded for specific sector, automobile and electronic sector, while non-durable goods sector was marginally increase. Domestic demand slowly improved in all sector as regular income. As a result, domestic industries expanded and business invested in system to improve production efficiency but the amount of investment was still minimal. Tourism continuously expanded in all region, in line with increases of Thai and foreign tourists even though the number of Chinese tourists had declined since the Phuket boat accident. In term of economic stability, Inflation moderate grew which corresponded to the growth of wage, oil price and price of goods. Also, the price of domestic products could gradually increase that served middle to high income consumers.

In Q4/2018, Cost of manufacture will be continually increasing as trend of oil and commodity price. However, Thai economy in Q4/2018 will be expanding with demand in domestic and foreign.

3. WATER SITUATION

As of 2 November 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 lower than average level during November – December and get closer to the average level in January. The average water in the reservoirs in Chonburi and Rayong were 83% and 98% of total capacity respectively.

Water Volume (Million Cu.M)	Chonburi		Rayong			
	Bangpra	Nongkho	Dokkrai	Nongplalai	Klongyai	Prasae
Water reserve	95.92	19.46	78.82	166.86	39.38	282.06
Percentage of total capacity	82%	91%	99%	102%	98%	96%
Average (2006-2017)	76.18	16.52	69.46	154.18	39.50	253.89
Above/(below) average (2006-2017)	19.74	2.94	9.36	12.68	(0.13)	28.17

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.

The Board of Director’s meeting No. 9/2561 held on 9 August 2018 had a resolution on the interim dividend payment, based on the operating results of six months end at 30 June 2018, at Baht 0.20 per share. The record date which shareholders had the right to receive the interim dividend was on 23 August 2018 and the dividend paid on 5 September 2018. Total dividend paid was Baht 332.75 million.

As of 24 August 2018, EASTW and Gulf PD Co., Ltd. (Subsidiary of GULF) signed purchasing clarified water agreement for 25 years.

5. RAW WATER BUSINESS

Raw water revenue in 9M/2018 was 1,805.73 million Baht, decreased by 79.99 million Baht or 4.24% compared to the 9 months of last year. Total water sales volume was 165.81 million Cu.M. (Excluding internal usage for tap water production of 22.32 million Cu.M.), decreased by 8.15 million Cu.M., or 4.69% due to the declining of raw water sales volume

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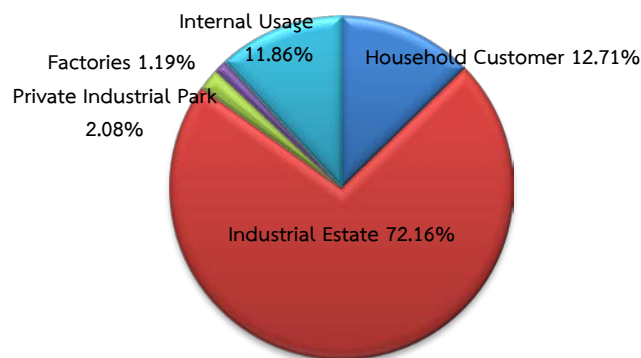
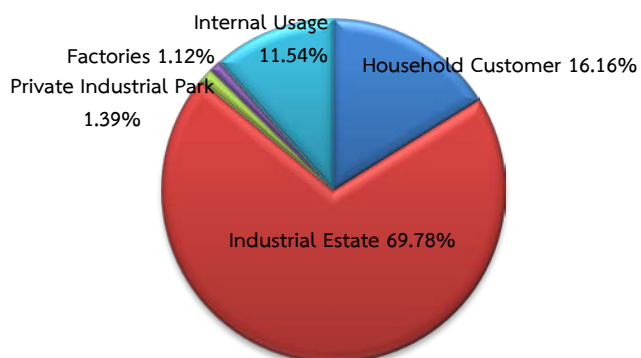
in Q1/2018 - Q2/2018 of the household customers. The average raw water tariff stayed at 10.89 Baht per Cu.M., increased by 0.05 Baht per Cu.M., or 0.47%, due to the declining portion of household customers, who paid lower tariffs than other customer groups.

Raw Water Volume (Million Cu.M)	For the three-month period				For the nine-month period			
	Q3/2017	Q3/2018	YoY	%	9M/2017	9M/2018	YoY	%
Total distribution volume	59.67	64.56	4.89	8.19%	196.67	188.13	(8.54)	(4.34%)
Internal usage for tap water	6.76	7.39	0.64	9.41%	22.70	22.32	(0.38)	(1.68%)
Net Raw Water Sales Volume	52.92	57.17	4.25	8.04%	173.97	165.81	(8.15)	(4.69%)

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

Jan – Sep 2017 = 196.67 million Cu.M.

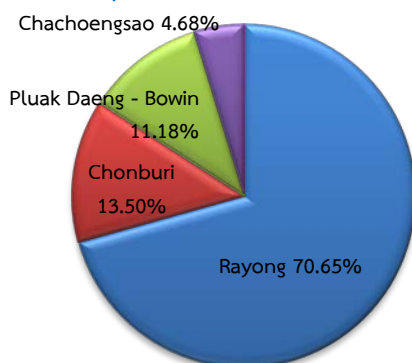
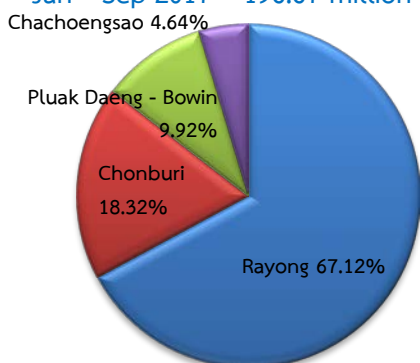
Jan – Sep 2018 = 188.13 million Cu.M.



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

Jan – Sep 2017 = 196.67 million Cu.M.

Jan – Sep 2018 = 188.13 million Cu.M.



Gross Profit of Raw Water Business in 9M/2018 was 1,106.80 million Baht, decreased by 66.57 million Baht or 5.67% as compared to same period of 2017 due to the decreasing of household customers and the higher cost from purchasing raw water from private source. However, the company was able to save the electricity cost by 56.60 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 margin of raw water business dropped to 61.29%.

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Major costs of raw water business (MB)	For the three-month period				For the nine-month period			
	Q3/2017	Q3/2018	YoY	%	9M/2017	9M/2018	YoY	%
Raw Water Revenue	575.68	620.57	44.89	7.80%	1,885.72	1,805.73	(79.99)	(4.24%)
Costs of Raw Water	219.95	228.99	9.05	4.11%	712.34	698.93	(13.42)	(1.88%)
Raw Water	26.59	28.42	1.83	6.88%	91.76	113.29	21.53	23.47%
Electricity	68.69	73.93	5.24	7.62%	260.60	204.00	(56.60)	(21.72%)
Depreciation	78.48	77.02	(1.46)	(1.86%)	224.33	227.14	2.81	1.25%
Maintenance	16.29	9.54	(6.75)	(41.42%)	41.27	41.94	0.67	1.62%
Others	29.90	40.08	10.18	34.06%	94.39	112.55	18.16	19.24%
Gross Profit	355.73	391.58	35.85	10.08%	1,173.38	1,106.80	(66.57)	(5.67%)
Gross Profit Margin	61.79%	63.10%			62.22%	61.29%		

6. TAP WATER BUSINESS

Tap water revenue in 9M/2018 was 1,076.44 million Baht, increased by 7.03 million Baht or 0.66%. Total tap water sales volume was 72.24 million Cu.M., decreased by 0.38 million Cu.M. or 0.53% compared to same period of 2017.

Tap water sales volume (Million Cu.M)	For the three-month period				For the nine-month period			
	Q3/2017	Q3/2018	YoY	%	9M/2017	9M/2018	YoY	%
Tap water sales volume	5.53	5.25	(0.28)	(5.04%)	16.10	15.78	(0.31)	(1.94%)
Tap water sales volume Subsidiary	19.01	19.10	0.09	0.46%	56.53	56.46	(0.07)	(0.13%)
Total tap water sales volume	24.54	24.35	(0.19)	(0.78%)	72.62	72.24	(0.38)	(0.53%)

Gross Profit of Tap Water Business in 9M/2018 was 404.94 million Baht, decreased by 27.75 million Baht or 6.41% compared to same period of 2017, representing a lower gross profit margin to 37.62%. The reasons were from increasing in raw water cost as here purchased raw waters some concessions from private sources, by 13.37 million Baht. Rising employee expenses and outsources mainly from hiring the contractor to fix and maintenance tap water pipeline by 13.27 million Baht and depreciation and amortization increased by 8.16 million Baht.

Major Costs of Tap Water Business(MB)	For the three-month period				For the nine-month period			
	Q3/2017	Q3/2018	YoY	%	9M/2017	9M/2018	YoY	%
Tap Water Revenue	361.41	364.08	2.67	0.74%	1,069.41	1,076.44	7.03	0.66%
Costs of Tap Water	220.99	219.59	(1.40)	(0.63%)	636.73	671.51	34.78	5.46%
Raw Water	39.14	37.75	(1.39)	(3.55%)	110.53	123.90	13.37	12.10%
Electricity	38.41	36.14	(2.27)	(5.91%)	110.68	107.97	(2.71)	(2.45%)
Chemical	8.27	8.15	(0.12)	(1.45%)	20.26	24.78	4.53	22.35%
Payroll & Outsource Expenses	48.95	54.88	5.92	12.10%	142.91	156.18	13.27	9.28%
Depreciation	72.58	74.43	1.85	2.55%	211.31	219.47	8.16	3.86%
Others	13.64	8.25	(5.39)	(39.54%)	41.03	39.20	(1.83)	(4.45%)
Gross Profit	140.42	144.49	4.07	2.90%	432.68	404.94	(27.75)	(6.41%)
Gross Profit Margin	38.85%	39.69%			40.46%	37.62%		

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7. FINANCIAL POSITION ANALYSIS

Financial Position (MB)	As of 31 Dec, 2017	As of 30 Sep, 2018	Increased (Decreased)	%
Total Assets	19,482.62	19,511.69	29.08	0.15%
Total Liabilities	9,052.71	8,940.95	(111.77)	(1.23%)
Equity	10,429.91	10,570.75	140.84	1.35%
- Equity attributable to owners of the parents	10,242.56	10,389.02	146.46	1.43%

1) Assets At the end of September 2018, total assets were 19,511.69 million Baht, increased by 29.08 million Baht or 0.15% from the end of the year 2017 due to the changes in the following items:

- Intangible assets was 3,655.42 million Baht, decreased by 47.32 million Baht due to amortization of concession assets, net off with investment for expanding capacity in tap water concession.

- Other non-current assets were 390.41 million Baht, increased by 39.50 million Baht from advance payment of the investment project.

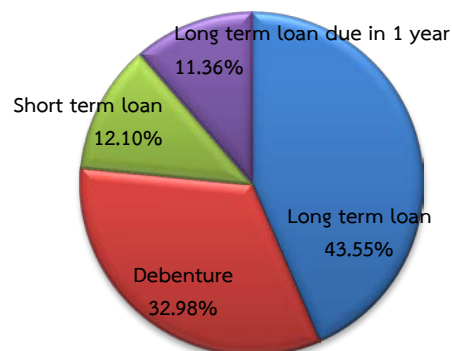
2) Liabilities At the end of September 2018, total liabilities were 8,940.95 million Baht, decreased by 111.77 million Baht or 1.23% from the end of the year 2017 due to changes in the following items:

- Short term loans from financial institutions were 880.00 million Baht, increased by 797.00 million Baht 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.

- Other non-current liabilities were 548.11 million Baht, decreased by 65.62 million Baht due to the declining of retention amount belong to Prasae-Nongplalai pipeline project.

Interest Bearing Debt total 7,270.25 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.

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3) **Shareholder's Equity** At the end of September 2018, Shareholders' equity attributable to owners of the parent was 10,570.75 million Baht, increased by 140.84 million Baht or 1.35% from the end of the year 2017, basically from the net profit of 9M/2018.

8. LIQUIDITY ANALYSIS AND FUNDING ADIQUACY

In 9M/2018, the company had beginning cash and cash equivalents of 37.48 million Baht, whereby during the financial period, net cash was increased by 42.54 million Baht. This comprised of the following items:

1) **Net cash received from Operating Activities** totaling Baht 1,384.54 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 498.66 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 292.78 million Baht, the investment of concession asset amounted to 182.79 million Baht, and the interest payment of the construction project of 53.93 million Baht

3) **Net cash used in Financing Activities** amounting to 843.34 million Baht, mainly due to the repayment of long term loan 808.20 million Baht and 745.96 million Baht for dividend payment, net off with the additional short-term loan drawdown of 797.00 million Baht for working capital management.

9. KEY FINANCIAL RATIOS

Key Financial Ratios	As of 30 Sep, 2017	As of 30 Sep, 2018
Liquidity Ratio		
Current ratio (time)	0.52	0.41
Profitability Ratio⁽¹⁾		
Gross profit / total sales and services revenue (%)	52.94%	50.16%
Net profit / total sales and services revenue (%)	32.74%	28.17%
Performance Ratio		
Return on Equity (ROE) (%)	12.73%	10.89%
Return on Assets (ROA) (%)	6.42%	5.69%
Capital Structure and Debt Ratio		
Debt to Equity ratio (time)	0.93	0.86
Debt Service Coverage ratio (DSCR) (time)	2.22	2.13

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

In 9M/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 50.16% and 28.17% respectively, while Return on Equity (ROE) dropped to 10.89% and Return on Asset (ROA) was 5.69% which declined from the same period of 2017 due to the lower net profit. For the liquidity analysis, current ratio decreased to 0.41 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 2.13 times.