

ERW10/ACC001/2020

24th February 2020

Subject: Management Discussion and Analysis for Period Ending 31st December 2020

Attention: President, The Stock Exchange of Thailand

Dear Sir,

The Erawan Group Plc. would like to submit explanation and analysis of changes to our operations for 3-month ("4Q19") and 12-month ("2019") period ending 31st December 2019 as follows:

Consolidated Profit & Loss Statement (period ending 31st December 2019)

THB Millions	4Q18*	4Q19	% Ch.	2018*	2019	% Ch.
Hotels' Operating Income	1,657	1,663	+0%	6,042	6,146	+2%
Rental and Service Income	64	64	+0%	234	233	-1%
Total Operating Income	1,721	1,727	+0%	6,276	6,379	+2%
Other Income	16	14	-18%	51	60	+17%
Total Income	1,737	1,741	+0%	6,327	6,439	+2%
Operating Expenses	(1,176)	(1,166)	-1%	(4,430)	(4,533)	+2%
EBITDA	561	575	+3%	1,897	1,906	+0%
Depreciation & Amortization	(212)	(221)	-0%	(776)	(830)	+7%
Operating Profit/(Loss)	349	364	+4%	1,121	1,076	-4%
Finance Costs	(98)	(104)	+6%	(360)	(401)	+11%
Pre-tax Profit / (Loss)	251	260	+4%	761	675	-11%
Taxes	(54)	(55)	+3%	(164)	(154)	-6%
Minority Interest	(20)	(21)	+5%	(57)	(57)	+1%
Normalized Net Profit / (Loss)	177	184	+4%	540	464	-14%
Extraordinary Items						
Share of Profit/ (Loss) from ERWPF	3	(8)	N.M.	(4)	0	N.M.
Provision for employee benefits					(18)	N.M.
Net Profit / (Loss)	180	176	-2%	536	446	-17%
E.P.S. (Baht)	0.0717	0.0698	-3%	0.2141	0.1773	-17%

*Remark: Profit & Loss Statement for 4Q18 and FY18 were reclassified to be consistent with the financial statement in year 2019 (see note 37 in Financial Statements)

Industry Key Highlights

Total international tourist arrivals in 4Q19 recorded at 10.3 million, a 6 percent growth compared to 4Q18, and a 7 percent growth from 3Q18. Chinese tourists, Thailand's top source market, grew 15 percent from same period last year, which continued from 3Q19 after an 8 percent drop in 1H19. European tourists, another top source market, grew 2 percent from same period last year, which was the first quarter in 2019 that shown positive sign after the declining since the beginning of 2019. However, Thai Baht appreciation and strong competition in tourism industry still impacted the recovery of Thai tourism industry. Indian, Chinese and Russian were the top 3 key source markets that posted the strongest growth in this quarter. In 2019, the number of tourists visiting Thailand was reported at 39.8 million, increased 4 percent compared to the same period last year and the number of domestic trips recorded at 167 million in 2019, in line with same period last year.

Hotel Growth Strategy

In 4Q19, we opened midscale and economy hotels in Bangkok; Mercure and ibis Sukhumvit 24, the combo hotel that combine 2 brands in 1 building. This is our 3rd combo hotel in our portfolio with the highest number of room inventory (500 rooms) for our hotel in Bangkok. We also added 3 new HOP INN hotels in Thailand; Hat Yai (2nd branch), Rangsit and Nakorn Pathom. As a result, at the end of 4Q19 we have 70 hotels with 9,569 rooms in our portfolio.

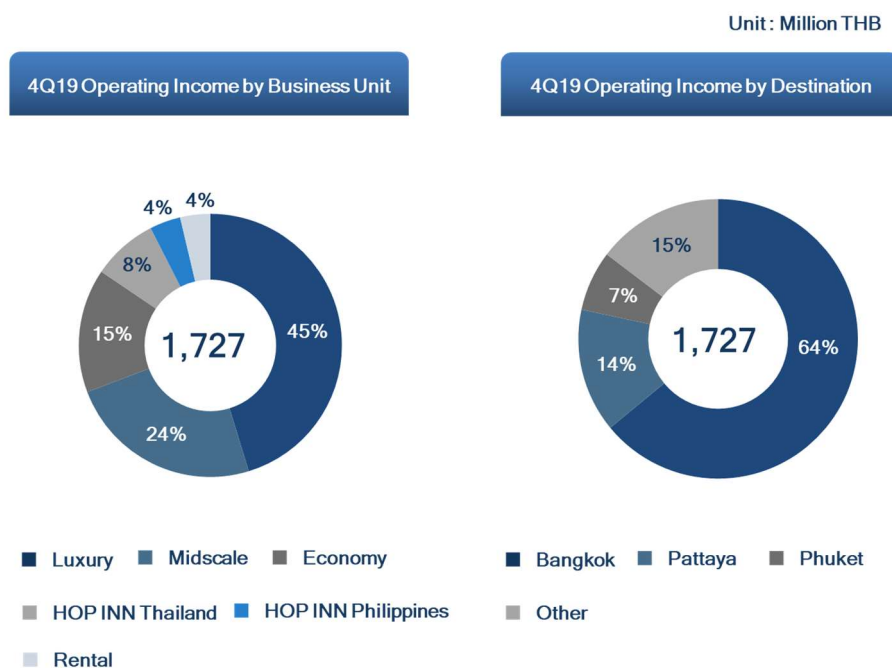
Return Enhancing Strategy

- JW Marriott Bangkok completed all room and F&B renovation program which conducted during 2017 and 2019 as planned. The final phase of room renovation (133 rooms or 30 percent of total room inventory) conducted during 3Q19 to 4Q19. As such JW Marriott Bangkok have operated with 100 percent new room inventory in October 2019.
- We conducted soft renovation for 2 ibis hotels during 2Q19 and 3Q19 and finished on schedule. We opened ibis Sathorn (103 rooms) and ibis Patong (130 rooms) in October 2019. In addition ibis Samui (88 rooms) which undergo the renovation in 3Q19 and 4Q19 also open in December 2019.

Group Performance in 3Q19

In 4Q19, we recorded total operating income at THB 1,727 million, in line with 4Q18. We recorded EBITDA at THB 575 million in 4Q19, a 3 percent increase from 4Q18 and posted EBITDA margin at 33.0 percent compared to 32.3 percent in 4Q18. We generated normalized net profit at THB 184 million, a 4 percent increase from 4Q18 and recorded net profit at THB 176 million, a 2 percent drop from the same period last year after recorded share of loss THB 8 million from investment in ERWPF.

For 2019, we recorded total operating income at THB 6,379 million, a 2 percent increase from 2018. Revenue from hotel operations grew 2 percent from the same period last year while rental and service income dropped 1 percent from 2018. We generated EBITDA at THB 1,906 million, in line with 2018 and posted EBITDA margin at 29.6 percent compared to 30.0 percent in 2018. For 2019, we generated normalized net profit at THB 464 million and net profit at THB 446 million, a 14 percent and 17 percent decrease from the same period last year respectively.



Performance by Business Unit

1. Hotel

In 4Q19 our RevPAR (excluding HOP INN hotels) dropped 5 percent from 4Q18 as a result of the decreasing of occupancy and ARR at 2 percent and 3 percent respectively. Destination wise, hotels located in Bangkok still performed better than non-Bangkok hotels. This was the first quarter that our Bangkok hotels (excluding new hotels) generated positive RevPAR growth at 1 percent from 4Q18, mainly driven from a 3 percent growth in occupancy to recorded at 83 percent. On the other hand, non-Bangkok hotels still witnessed RevPAR drop but at the lower pace than 3Q19 where Samui and Phuket were still the most impacted destination. Meanwhile our HOP INN hotels both in Thailand and Philippines which focus in domestic market and not affected from the slowdown of international tourist arrivals still generated RevPAR growth.

In 4Q19, we recorded income from hotel operations at THB 1,663 million, in line with 4Q18. Room revenue increased 1 percent from the same period last year on the back of additional revenue from new hotels opened in 2018 and 2019. F&B revenue dropped 7 percent from the same period last year mainly from the decline of F&B revenue from Luxury Bangkok hotels from both banquet and outlet.

We generated income from hotel operations at THB 6,146 million in 2019, a 2 percent increase from 2018. Room revenue recorded at 3 percent increase from 2018 while F&B revenue dropped 4 percent from the same period last year.

Statistics for hotel room operations for the 4Q19 and 2019 are as follows:

3-month period (Jul-Sep)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	4Q18	4Q19	4Q18	4Q19	+/-	4Q18	4Q19	+/-	4Q18	4Q19	+/-
Thailand											
Luxury Hotels	979	989	78%	81%	▲3%	5,789	5,570	▼4%	4,498	4,492	-
Midscale Hotels	1,282	1,668	81%	82%	▲2%	2,964	2,827	▼5%	2,391	2,327	▼3%
Economy Hotels	2,253	2,686	80%	74%	▼6%	1,380	1,280	▼7%	1,104	944	▼14%
Total Group (ex. HOP INN)	4,514	5,343	80%	78%	▼2%	2,737	2,656	▼3%	2,182	2,064	▼5%
HOP INN Hotels	2,810	3,383	75%	74%	▼1%	587	626	▲7%	441	465	▲5%
Philippines											
HOP INN Hotels	843	843	77%	88%	▲11%	1,003	964	▼4%	776	851	▲10%

12-month period (Jan-Dec)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR (THB/Night)		
	2018	2019	2018	2019	+/-	2018	2019	+/-	2018	2019	+/-
Thailand											
Luxury Hotels	979	989	74%	76%	▲2%	5,836	5,524	▼5%	4,290	4,178	▼3%
Midscale Hotels	1,282	1,668	85%	85%	-	2,907	2,736	▼6%	2,483	2,319	▼7%
Economy Hotels	2,253	2,686	81%	75%	▼6%	1,302	1,247	▼4%	1,056	937	▼11%
Total Group (ex. HOP INN)	4,514	5,343	81%	78%	▼3%	2,672	2,570	▼4%	2,158	2,009	▼7%
HOP INN Hotels	2,810	3,383	75%	73%	▼3%	580	609	▲5%	438	444	▲1%
Philippines											
HOP INN Hotels	843	843	76%	82%	▲6%	980	956	▼2%	743	781	▲5%

Details of each segment are as follows:

(Note: EBITDA by segment is calculated without taking non-property-specific expenses into account)

Thailand

Luxury Hotels

- The Luxury segment comprised of 2 hotels in Bangkok; Grand Hyatt Erawan Bangkok and JW Marriott Bangkok, and 2 hotels in Samui and Phuket; Renaissance Koh Samui Resort and Spa and The Naka Island, a Luxury Collection Resort and Spa, Phuket.
- In 4Q19, RevPAR of hotels in this segment were in line with the same period last year. Luxury Bangkok hotels recorded RevPAR growth at 4 percent from 4Q18, mainly from the rise of occupancy. RevPAR of Luxury resort still soften due to the drop of ARR as a result of the continuing declined in Chinese and European tourists.

- The Luxury segment generated operating income at THB 783 million in 4Q19, a 2 percent drop from 4Q18. Room revenue decreased 2 percent due to Luxury Resort performance as aforementioned. F&B revenue decreased 10 percent from 4Q18 mainly driven by the decline of F&B revenue from Luxury Bangkok due to the lower event spending from the economic slowdown.
- For 2019, the Luxury segment generated operating income at THB 2,790 million and EBITDA at THB 738 million, a 3 percent and an 8 percent decrease from the same period last year respectively.

Midscale Hotels

- In 4Q19, we opened 1 midscale hotels in Bangkok, Mercure Sukhumvit 24. At the end of 4Q19, midscale segment comprised of 4 hotels in Bangkok and 2 hotels in Pattaya.
- RevPAR of midscale segment in 4Q19 decreased 3 percent from same period last year. Excluding new hotel, RevPAR dropped 1 percent from 4Q18, mainly from the decreasing of ARR. Midscale hotels in Bangkok (excluding new hotel) generated RevPAR growth at 1 percent while non-Bangkok hotels still posted negative RevPAR growth.
- In 4Q19, Midscale segment generated operating income at THB 414 million, a 2 percent increase from 4Q18. This mainly driven from the additional income from both Novotel Sukhumvit 4, which opened in 2018 and entered first full year operation in this quarter and newly opened Mercure Sukhumvit 24 in 4Q19. EBITDA recorded at THB 150 million, a 7 percent drop from 4Q18.
- For 2019, the Midscale segment generated operating income at THB 1,604 million, a 5 percent increase from same period last year. EBITDA was recorded at THB 597 million, in line with 2018.

Economy Hotels

- In 4Q19 we opened 1 new economy hotel in Bangkok; ibis Sukhumvit 24. At the end of 4Q19, the Economy segment comprised of 12 ibis hotels in 6 major tourist destinations in Thailand (Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi).
- In 4Q19, RevPAR in this segment dropped 14 percent from 4Q18 mainly driven from non-Bangkok hotels as Chinese and Russian market still not yet fully recovered which was the same trend as 3Q19.
- The Economy segment recorded operating income at THB 263 million, a 9 percent decrease from 4Q18. EBITDA was recorded at THB 99 million, a 9 percent drop from same period last year.
- For 2019, the Economy segment generated operating income at THB 1,035 million, a 4 percent decrease from same period last year. EBITDA was recorded at THB 350 million, a 5 percent drop from the same period last year.

HOP INN Hotels

- In 4Q19, we opened 3 new HOP INN hotels in Thailand. We now have 43 hotels in this segment that cover Thailand's major tourist and business destinations.
- In 4Q19, occupancy in this segment recorded at 74 percent compared to 75 percent in 4Q18, mainly from new hotels opening in 2H19. ARR recorded a 7 percent growth from 4Q18 and marked 4 consecutive quarterly growth as a result of our pricing strategy which executed since 1Q19. As a result, HOP INN hotels posted a 5 percent RevPAR growth in this quarter.
- HOP INN segment generated operating income at THB 139 million in 4Q19, a 24 percent increase from the same period last year. EBITDA recorded at THB 71 million, a 26 percent increase from the same period last year.
- For 2019, HOP INN recorded operating income at THB 479 million, a 14 percent increase from same period last year. EBITDA recorded at THB 220 million, an 8 percent increase from the same period last year.

Philippines

HOP INN Hotels

- We now have 5 hotels in Manila city, Philippines; Ermita, Makati, Aseana, Alabang, Tomas Morato (Quezon city).
- 4Q19 was marked the 6th consecutive quarter that HOP INN in Philippines posted RevPAR growth. RevPAR of this segment increased 10 percent from 4Q18, mainly driven from growing occupancy from all hotels, especially 3 hotels that opened in 2018.
- In 4Q19, HOP INN in Philippines generated operating income at THB 66 million, a 25 percent increase from 4Q18. EBITDA recorded at THB 29 million, a 43 percent increase from the same period last year.
- For 2019, HOP INN recorded operating income at THB 239 million and EBITDA at THB 101 million.

2. Rental Properties

We own and operate Erawan Bangkok, a luxury retail property adjacent to Grand Hyatt Erawan Hotel, and manage Ploenchit Center as a property manager. Income from rental and service was recorded at THB 64 million in 4Q19, in line with same period last year

For 2019, income from rental and service dropped 1 percent from 2018 to record at THB 233 million.

Other Items in P&L

- **Depreciation & Amortization:** This non-cash item recorded at THB 211 million in 4Q19, in line with 4Q18. In 2019, this item recorded at THB 830 million in 2019, a THB 54 million increase from 2018, this mainly came from additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 104 million in this quarter, a THB 6 million increase from 4Q18 and recorded at THB 401 million in 2019, increased THB 41 million from 2018. This mainly came from the recognition of interest expense of new hotels opened.
- **Extraordinary Items:**
 - **Investment in ERWPF:** We recorded share of loss from 20 percent investment in ERWPF at THB 8 million in 4Q19 due to asset revaluation and recorded share of profit at THB 0.3 million in 2019.
 - **Provision for employee benefits:** In 2Q19 and 2019, we recorded provision for employee benefits at THB 18 million for the provision for retirement benefits due to amending the Labor Protection Act.

Financial Status

Financial Ratio (times)	FY 2018	FY 2019
Interest Coverage Ratio	5.0	4.6
Interest Bearing Debt to Equity	1.7	1.7

We generated THB 1,908 million of operating cash flow before change in operating asset and liabilities, in line with the same period last year. We utilized cash flow generated, together with bank loans to fund the development of new hotels. Cash on hand was recorded at THB 969 million at the end of this year. Interest coverage ratio recorded at 4.6 times, lower than the end of year 2018 due to the decreasing of operating cash flow.

At the end of 2019, we recorded total assets at THB 17,834 million compared to THB 16,949 million at the end of 2018 due to the increase in property, plant and equipment from the new hotels development. Our total liabilities recorded at THB 11,893 million increased from THB 11,240 million at the end of 2018 due to the increasing of long-term loan to support expansion plan. Shareholder's equity recorded at THB 5,941 million at the end of 2019 increased from THB 5,708 million at the end of 2018. Our interest bearing debt-to-equity ratio recorded at 1.7 times at the end of 2019 in line with 2018.

Outlook for 2020

In 2020 Tourism Authority of Thailand ("TAT") forecast number of international tourist arrivals to Thailand at 36.0 million in 2020, a 9.5 percent drop from 2019 which taken into consideration of the

impact of the virus; COVID-19, which have affected global and Thailand tourism industry and TAT estimated that impact from COVID-19 will last approximately 5 months. In addition global economic slowdown, Thai Baht appreciation and global market competition were other factors that affected tourism industry. On the other hand, domestic tourism in Thailand is expected to post a 3 percent growth from 2019 with 172 million trips nationwide in 2020 with the government will focus on both tourist destination and secondary province to support the growth of domestic market this year.

With the aforementioned factors especially COVID-19 that have affected Thailand tourism industry in 2020, we forecasted our RevPAR and hotel revenue in the downward trend from 2019. This forecast is subject to the severity and period of situation that will impact to our performance.

With the confidence in long term prospect growth of Thailand tourism industry, we still continue expanding our hotel portfolio in high growth market. We plan to open 7 HOP INN hotels in Thailand in 2020 resulting to 50 HOP INN hotels in Thailand in our portfolio across all region. We will pursue to develop new projects both in Thailand and Philippines to support our growth in the future.

We also focus on asset improvement to enhance our competitive advantages. In 2020 we will conduct soft renovation program for Courtyard by Marriott Bangkok from April 2020 to September 2021. The hotel will be closed 100 rooms (32 percent of total room) during April until June 2020 and will be closed 50 rooms (16 percent of total room) for the remaining period. In addition we will also continue to conduct the second phase of soft renovation for 3 ibis hotels; Sathorn, Patong and Samui during low season this year and will also start renovation of ibis Sukhumvit 4 in 2Q20.

New Accounting Standard 2020 : TFRS16 Lease

Operating lease of company will be recognized in the financial statement as the result of the adoption of TFRS 16 with effect from 1 January 2020 onwards as following detail;

- Statement of Financial Position: Recognized operating lease as “Right of use” under asset and “Lease Liabilities” under liabilities.
- Statement of Comprehensive Income: Rental expense will be replaced by depreciation and interest expense.
- Statement of Cash Flows: Cash and cash equivalents will not be impacted from this new accounting standard

If there is any change in the forecast and guidance of our performance due to the change of situation, we will inform accordingly.

Sincerely yours

Woramon Inkatanuvat
Executive Vice President and Chief Financial Officer