

**EASTERN WATER RESOURCES DEVELOPMENT AND MANAGEMENT PUBLIC COMPANY LIMITED
MANAGEMENT DISCUSSION AND ANALYSIS FOR Q2/2017**

1. ANALYSIS OF FINANCIAL PERFORMANCE

In the first half of 2017, East Water Group had total consolidated sales and services income of 2,249.07 million Baht, increased by 16.36 million Baht or 0.73% (Total consolidated sales and services income excluding construction revenue under concession agreement of 2,100.73 million Baht, decreased by 121.19 million Baht or 5.45%) and Net profit attributable to Equity holders of the parent company was 706.19 million Baht, decreased by 29.25 million Baht or 3.98% compared to the first half of 2016.

Income statement (MB)	1H/2016	1H/2017	Increased (Decreased)	%
Total Sales and Services revenue	2,232.71	2,249.07	16.36	0.73%
Raw water revenue	1,433.96	1,310.05	(123.91)	(8.64%)
Tap water revenue	702.23	708.00	5.77	0.82%
Rental and services revenue	85.73	82.68	(3.05)	(3.55%)
Construction revenue under Concession Agreements ⁽¹⁾	10.80	148.34	137.55	1,274.15%
Costs of Sales and Services	1,066.80	1,123.39	56.59	5.30%
Raw water cost	583.00	492.40	(90.60)	(15.54%)
Tap water cost	404.23	415.74	11.51	2.85%
Rental and services cost	68.77	66.91	(1.86)	(2.70%)
Construction cost under Concession Agreements ⁽¹⁾	10.80	148.34	137.55	1,274.15%
Gross profit	1,165.91	1,125.68	(40.23)	(3.45%)
Other income	23.06	29.83	6.77	29.34%
Selling and administrative expenses	195.24	200.68	5.44	2.79%
Operating profit	993.74	954.83	(38.91)	(3.92%)
Finance cost	56.66	70.71	14.06	24.81%
Income tax expenses	192.25	167.67	(24.59)	(12.79%)
Net profit	744.83	716.45	(28.38)	(3.81%)
Net profit attributable to owner of the parent	735.44	706.19	(29.25)	(3.98%)
Earnings per share (EPS)	0.44	0.42	(0.02)	(3.98%)

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)	1H/2016	1H/2017	Increased (Decreased)	%
Operating profit	993.74	954.83	(38.91)	(3.92%)
Depreciation	188.28	191.02	2.74	1.45%
Amortization	130.47	137.67	7.20	5.52%
EBITDA	1,312.49	1,283.52	(28.98)	(2.21%)

2. Economic Situation

Overall economic activity in the second quarter of 2017 continued to expand, driven by export of goods which showed a high and more broad-based expansion and the tourism sector which continued to expand steadily. The domestic economy recovered at a modest pace. Public spending and private consumption remained to be the main growth drivers. Private investment remained at a similar level compared to the same period last year. For the economic stability, headline inflation decelerated from the last quarter as result of this year's improved supply and high base effect from last year's drought.

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Economic condition for the year 2017 was expected to grow by 3.6 %, supported by the demand from overseas and the export, following to the economic recovery of the imported countries. The government spending would still be the crucial driver for Thai Economy, especially the investment in large transportation infrastructure projects such as Double – track railway project and sky train, motorway routes, and airport development. The higher government spending, especially the Eastern Economic Corridor Development (EEC) project, is expected to upturn the business sentiment as well as encourage more private sector investment in the country. EEC development plan has 2 urgent projects including 1) U-Tapao Airport development project, which would be announced as the first special promotion zone of the EEC. Three MOUs have already been signed for development of the aviation and logistics industry including MOU for aircraft maintenance center, MOU for air cargo development, and MOU for aviation and aerospace training center 2) The construction of high-speed train and Double-track railway between Bangkok - Rayong to link the 3 airports altogether, U-Tapao - Suvarnabhumi – Donmuang with no obstruction. Currently, the project had already granted the Environmental Impact Assessment Report (EIA) and will announce Term of Reference (TOR) following to procurement rules in order to proceed the auction by the end of the year 2017.

3. Water Resources

As of 24 July 2017, the water supply situation in Chonburi and Rayong province improved compared to the same period of the year 2016 because of the rainfall in the area from May to July 2017, and additional raw water pumped from Bangpakong River into Bangpra reservoir. For Prasae reservoir water reserve was relatively below average since the company has been pumped more water to Klonyai and Nongplalai reservoir while the water flowing into Prasae reservoir during the beginning of the year was also lower compared to the same period of last year. The average water in the reservoirs in Chonburi and Rayong were 70% and 80 % of total capacity respectively.

Water Volume (Million Cu.M)	Chonburi		Rayong			
	Bangpra	Nongkho	Dokkrai	Nongplalai	Klonyai	Prasae
Water reserve	81.81	15.42	63.54	130.05	34.14	147.68
Percentage of total capacity	70%	72%	80%	79%	85%	60%
Average (2004-2016)	43.24	9.16	43.66	101.88	26.71	152.93
Above/(below) average (2004-2016)	38.57	6.26	19.88	28.17	7.43	(5.25)

4. Other issues

On 7 July 2017, 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 and low operating risks. In addition, TRIS Rating assigned the company rating of Universal Utilities PLC at “A-” with “stable” outlook, which reflects low operating risk, growing demand for tap water, and reliable stream of cash.

5. Raw Water Business

Raw water revenue in the first half of 2017 was 1,310.05 million Baht, decreased by 123.91 million Baht or 8.64%. Total water sales volume was 121.05 million Cu.M. (excluding internal usage for tap water production of 15.94 million Cu.M.), decreased by 12.25 million Cu.M., or 9.19% compared to the first half of 2016 due to the declining in raw water sales volume of the household customers. The average raw water tariff stayed at 10.82 Baht per Cu.M., increased by 0.07 Baht per Cu.M., or 0.61% due to the declining in the portion of household customers, who paid lower tariff than other customer groups.

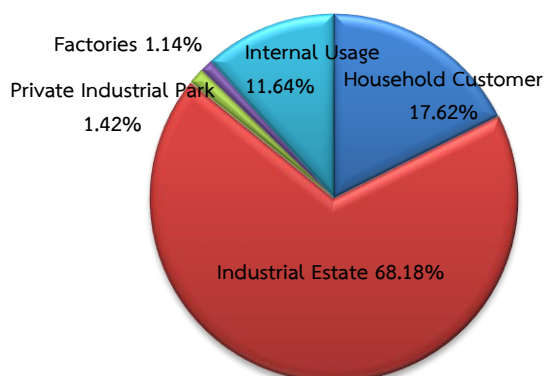
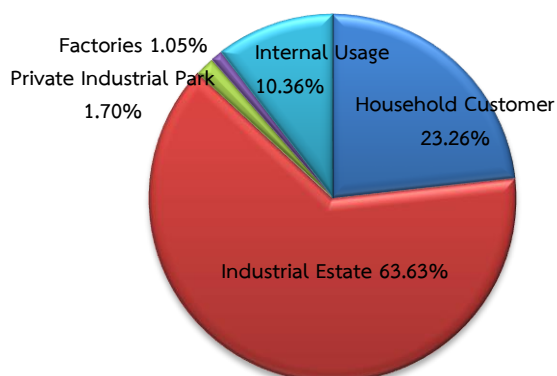
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Raw Water Volume (Million Cu.M)	1H/2016	1H/2017	Increased (Decreased)	%
Total distribution volume	148.70	136.99	(11.71)	(7.87%)
Internal usage for tap water	15.40	15.94	0.54	3.53%
Net Raw Water Sales Volume	133.30	121.05	(12.25)	(9.19%)

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

Jan – Jun 2016 = 148.70 million Cu.M.

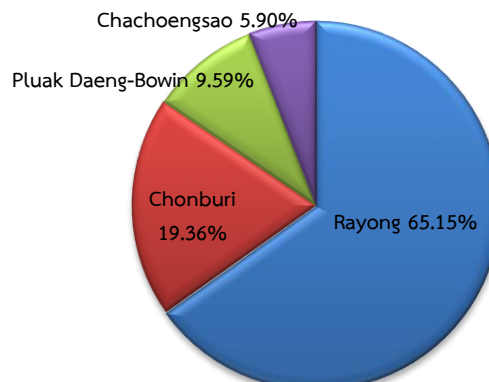
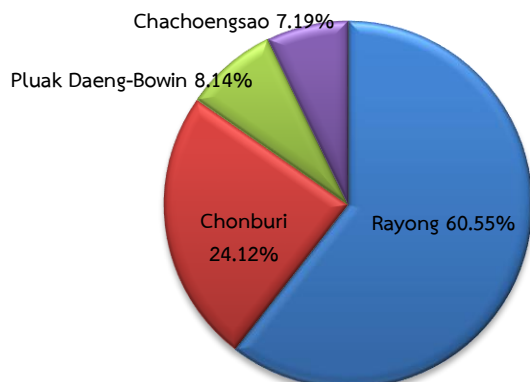
Jan – Jun 2017 = 136.99 million Cu.M.



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

Jan – Jun 2016 = 148.70 million Cu.M.

Jan – Jun 2017 = 136.99 million Cu.M.



Major costs of raw water business (MB)	1H/2016	1H/2017	Increased (Decreased)	%
Raw Water Revenue	1,433.96	1,310.05	(123.91)	(8.64%)
Costs of Raw Water	583.00	492.40	(90.60)	(15.54%)
Raw Water	101.02	65.16	(35.85)	(35.49%)
Electricity	208.67	191.91	(16.76)	(8.03%)
Depreciation	147.91	145.85	(2.06)	(1.39%)
Maintenance	21.61	24.98	3.37	15.58%
Others	103.79	64.49	(39.30)	(37.86%)
Gross Profit	850.96	817.65	(33.31)	(3.91%)
Gross Profit Margin	59.34%	62.41%		

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Gross Profit of Raw Water Business in the first half of 2017 was 817.65 million Baht, decreased by 33.31 million Baht or 3.91% as compared to the first half of 2016 due to the decreased in Raw water revenue of the household customers. However gross profit margin increased to 62.41% since the raw water cost decreased by 35.85 million Baht following to the reduced sales volume and also the company did not purchase raw water from private water sources during the period. In addition, electricity cost was lower by 16.76 million Baht because the company had received the electricity cost compensation for water diversion from Prasae reservoir to alleviate the drought situation in 2015, which some of the customers had settled the payment in 2016 totally 21.32 million Baht. Other expenses decreased as well by 39.30 million Baht because in 2016, the company had to pay for the excess amount of water drawn from Bangpra that exceeded the quota permitted through an agreement with Royal Irrigation Department during the drought by 27.74 million Baht

6. Tap Water Business

Tap water revenue in the first half of 2017 was 708.00 million Baht, increased by 5.77 million Baht or 0.82%. Total tap water sales volume was 48.08 million Cu.M., increased by 0.98 million Cu.M., or 2.07% compared to the first half of 2016.

Major Costs of Tap Water Business (MB)	1H/2016	1H/2017	Increased (Decreased)	%
Tap Water Revenue	702.23	708.00	5.77	0.82%
Costs of Tap Water	404.23	415.74	11.50	2.85%
Raw Water	73.28	71.40	(1.88)	(2.57%)
Electricity	74.91	73.41	(1.50)	(2.00%)
Chemical	14.02	12.12	(1.90)	(13.53%)
Payroll & Outsource Expenses	90.66	95.78	5.12	5.64%
Depreciation	133.94	143.78	9.85	7.35%
Others	17.42	19.24	1.82	10.47%
Gross Profit	298.00	292.26	(5.73)	(1.92%)
Gross Profit Margin	42.44%	41.28%		(1.16%)

Gross Profit of Tap Water Business for the first half of 2017 was 292.26 million Baht, decreased by 5.73 million Baht or 1.92% compared to the first half of 2016, representing a gross profit margin of 41.28% due to the higher cost of sales to 415.74 million Baht, increased by 11.50 million Baht or 2.85% compared to the first half of 2016, due to the increasing of depreciation and amortization by 9.85 million Baht from the amortized assets under concession agreements that the company has invested to improve the production stability for Sattahip and Borwin Waterworks

7. Financial Position Analysis

Financial Position (MB)	As of 31 Dec 2016	As of 30 Jun 2017	Increased (Decreased)	%
Total Assets	19,860.40	19,580.89	(279.51)	(1.41%)
Total Liabilities	9,812.09	9,275.68	(536.41)	(5.47%)
Equity	10,048.30	10,305.21	256.90	2.56%
- Equity attributable to owners of the parents	9,841.76	10,096.52	254.76	2.59%

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1) Assets At the end of March 2017, total assets were 19,580.89 million Baht, decreased by 279.51 million Baht or 1.41% from the end of the year 2016 due to changes in the following items:

- Cash and short term investment was 532.29 million Baht, decreased by 389.74 million Baht from the end of the year 2016 due to loan repayment as schedule by 808.20 million Baht in March and June 2017, in addition to the dividend payment in May 2017 by 449.20 million Baht, net off with the cash received from operations during in the first half of 2017

- Property, plant and equipment was 14,205.21 million Baht, increased by 143.00 million Baht mainly from the investment of projects under construction, including Prasae-Nongplalai pipeline project and Nongplalai-Nongkho 2 pipeline project after netting off depreciation.

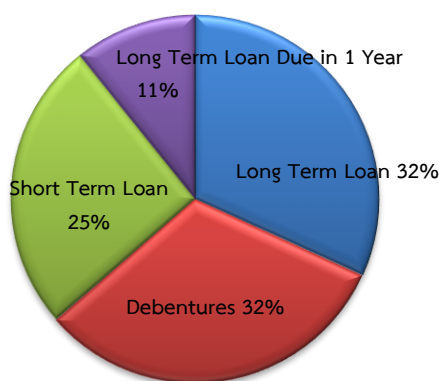
- Other non-current assets were 355.60 million Baht, decreased by 44.20 million Baht mainly from the advance payment of the project under construction, which would gradually decline following to the progress of the project.

2) Liabilities At the end of June 2017, total liabilities were 9,275.68 million Baht, decreased by 536.41 million Baht or 5.47% from the end of the year 2016. This was mainly due to:

- Short term loans from financial institutions were 1,930.00 million Baht, increased by 330.00 million Baht from the end of the year 2016 due to the rising in short-term loans from financial institutions to pay dividends and project construction.

- Long term loans from financial institutions were 2,392.40 million Baht, decreased by 808.20 million Baht from the end of the year 2016 from the repayment as schedule.

Interest Bearing Debt total 7,527.97 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 2017, Shareholders' equity attributable to owners of the parent was 10,096.52 million Baht, increased by 254.76 million Baht or 2.59% from the end of the year 2016, basically from the net profit of the period after dividend payment.

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8. Liquidity Analysis and Source of Fund Sufficiency

In the first half of 2017, the company had beginning cash and cash equivalents of 177.97 million Baht, whereby during the financial period, net cash was decreased by 43.77 million Baht. This comprised of the following items:

1) Net cash received from Operating Activities totaling Baht 1,133.15 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 161.36 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 291.79 million Baht, mainly for Prasae-Nongplalai pipeline project and Nongplalai-Nongkho 2 project.
- Investment of concession asset amounted to 176.86 million Baht.
- The capitalized interest of the project under construction 42.68 million Baht.
- Cash received from the withdrawal of short-term investment by 347.14 million Baht.

3) Net cash used in Financing Activities amounting to 1,015.56 million Baht, mainly due to the repayment of long term loan 808.20 million Baht, dividend payment of 461.70 million Baht, 74.54 million Baht for interest payment by cash, and short-term loan drawdown of 330.00 million Baht.

9. Key Financial Ratios

Key Financial Ratios	As of 30 Jun 2016	As of 30 Jun 2017
Liquidity Ratio		
Current ratio (time)	0.35	0.30
Quick ratio (time)	0.34	0.29
Cash flow ratio (time)	0.82	0.65
Profitability Ratio ⁽¹⁾		
Gross profit / total sales and services revenue (%)	52.47%	53.59%
Net profit / total sales and services revenue (%)	33.52%	34.10%
Performance Ratio		
Return on Equity (ROE) (%)	14.43%	12.89%
Return on Assets (ROA) (%)	7.37%	6.53%
Capital Structure and Debt Ratio		
Debt to Equity ratio (time)	0.99	0.92
Debt Service Coverage ratio (DSCR) (time)	2.47	2.25

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

In the first half of 2017, East Water Group reported slightly lower profitability compared to the first half of 2016. Although the sales decreased, but the company was still able to control the cost well. Gross profit margin and Net profit margin was at 53.59% and 34.10% respectively, while Return on equity (ROE) was 12.89% and return on asset (ROA) was 6.53% which declined from the first half of 2016 due to the lower net profit and because the company has been continually investing in huge projects in order to meet long-term future demand. For the

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liquidity analysis; current ratio, quick ratio, and cash flow ratio were all deteriorated due to repayment of long term loan and dividend payment. However, the company's performance still showing the reliable operating cash inflow which resulted to the sufficient fund to remain its business operation. Debt to equity ratio improved to 0.92 times due to the repayment of long term debt and the net debt to equity ratio (debt after deduction of cash and short-term investment) was 0.87 times. Debt service coverage ratio (DSCR) remained strong at 2.25 times, representing the company's ability to repay its debts.