

ERW008/ACC003/2017

21st February 2017

Subject: Management's Discussion and Analysis for Period Ending 31st December 2016

Attention: President, The Stock Exchange of Thailand

Dear Sir,

The Erawan Group Plc. would like to submit explanations and analysis of changes to our operations for the 12-month ("2016") and 3-month ("4Q16") periods ending 31st December 2016 as follows:

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

THB Millions	FY15* (Restate)	FY16	% Ch.	4Q15* (Restate)	4Q16	% Ch.
Hotels' Operating Income	5,049	5,357	+6%	1,331	1,368	+3%
Rental and Service Income	206	214	+4%	54	56	+3%
Total Operating Income	5,255	5,571	+6%	1,386	1,424	+3%
Other Income	46	40	-13%	20	10	-51%
Total Income	5,301	5,611	+6%	1,406	1,434	+2%
Operating Expenses	(3,775)	(3,913)	+4%	(958)	(988)	+3%
EBITDA	1,525	1,698	+11%	448	446	-0%
Share of Profit/ (Loss) from ERWPF	19	15	-25%	2	5	+144%
Rental Payment to ERWPF	(112)	(112)	-	(28)	(28)	-
Depreciation & Amortization	(717)	(730)	+2%	(179)	(185)	+3%
Operating Profit/(Loss)	716	871	+22%	243	238	-2%
Finance Costs	(387)	(362)	-6%	(95)	(91)	-5%
Pre-tax Profit / (Loss)	329	508	+55%	147	147	-0%
Taxes	(99)	(122)	+23%	(33)	(32)	-4%
Minority Interest	(35)	(41)	+17%	(12)	(15)	+27%
Normalized Net Profit / (Loss)	195	346	+77%	102	101	-2%
Non Recurring Items	-	21	-	-	2	-
Net Profit / (Loss)	195	367	+88%	102	103	+1%
E.P.S.	0.0782	0.1469		0.0410	0.0413	

*Remark: Profit & Loss Statement for 4Q16 and FY16 were adjusted to reflect the impact from adaptation of TAS 21 accounting policy for the liability to pay a levy (see note 3 in Financial Statements)

Key Highlights

Thailand tourism industry continued growing in 2016 with number of tourists posted at 32.6 million, a 9 percent growth compare to 29.9 million in 2015. Growth witnessed in all key source markets which reaffirmed the strong fundamental of Thailand tourism industry. Tourist arrivals during the first nine months of 2016 grew 12 percent while Thailand tourism slowdown in 4Q16 by 1 percent. This mainly derived from the mourning period following the passing of His Majesty King Bhumibol Adulyadej which Thai government has asked for the cooperation from all sectors to refrain from holding festive events for 30 days and the government policy to crackdown the Chinese zero dollar tours since October 2016. According to Thailand tourism statistic, Chinese still be the main source market for Thailand tourist arrival, represented 27 percent of total international tourist. Russian tourist is another market that posted the strong growth in 2016, a 23 percent increase from 2015. Another key source market of Thailand tourism are Asia tourists such as Japanese, South Korean and Indian, whose arrival are continue growing. In addition, domestic tourism in Thailand also continued to grow, the number of domestic trips in 2016 recorded at 145 million domestic trips, a 4 percent increase from 2015.

Hotel Growth Strategy

In 4Q16 we continued to develop hotels as set forth in our strategy

- We opened 2 HOP INN hotels in Thailand; Hat Yai and Phuket. As a result, we have 22 HOP INN hotels in Thailand at the end of 2016.
- We opened 1 HOP INN hotel in Manila, the capital of Philippines. Our first hotel outside Thailand.
- In total, we have 41 hotels with 6,385 rooms in operation, increasing from 33 hotels with 5,676 rooms as of 2015.

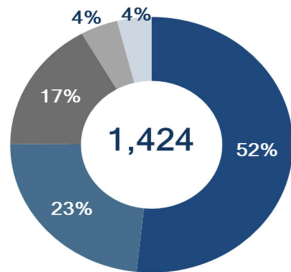
Group Performance 4Q16 and FY16

We recorded total operating income at THB 1,424 million in 4Q16, a 3 percent increase from 4Q15. Revenue from hotel operations which is the main contributor to our group and rental and service income increased 3 percent from the same period last year. EBITDA recorded at THB 446 million and EBITDA margin recorded at 31 percent, in line with 4Q15. We generated net profit at THB 103 million in this quarter, a 1 percent increase from 4Q15.

For FY16 we recorded total operating income at THB 5,571 million, a 6 percent increase from FY15. Revenue from hotel operations grew 6 percent and rental and service income grew 4 percent from last year. We generated an EBITDA at THB 1,698 million, an 11 percent increase from FY15 and EBITDA margin recorded at 30 percent, increased from 29 percent in FY15. We generated net profit at THB 367 million in FY16, an 88 percent increase from FY15.

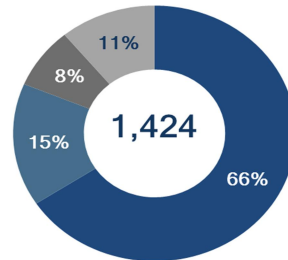
Unit : Million Baht

Operating Income by Segment



■ Luxury ■ Midscale ■ Economy
■ Budget ■ Rental

Operating Income by Destination



■ Bangkok ■ Pattaya ■ Phuket
■ Other

Performance by Business Unit

1. Hotel

Our performance from hotel business continued growing despite Thailand tourism slowdown in 4Q16. Our average occupancy excluding budget hotel segment recorded at 77 percent in 4Q16 compared with 75 percent in 4Q15 and our group RevPAR recorded a 3 percent increase from same period last year which luxury segment recorded the highest RevPAR growth.

For 4Q16, we recorded income from hotel operations at THB 1,368 million, a 3 percent increase from the same period last year. Growth was driven by both existing 33 hotels, a 1 percent increase from 4Q15 and additional income from new hotels opened. Room revenue posted a 6 percent increase while F&B revenue posted a 5 percent decrease from 4Q15 due to the refrain from holding festive event during the mourning period as aforementioned. Our Budget hotel segment generated the highest revenue growth in this quarter at 101 percent increase from the same period last year. Destination wise, our hotels located in Samui generated the highest revenue growth, a 7 percent increase from 4Q15, growth witnessed in both room and food and beverage revenue. This mainly came from the increase of key source markets such as Chinese, Britain and Russian compare to same period last year.

We generated income from hotel operations at THB 5,357 million in FY16, a 6 percent increase from FY15. Room revenue recorded at 9 percent and F&B revenue recorded at 1 percent increase from the same period last year. Growth was driven from both existing 33 hotels, a 5 percent increase from last year and additional income from new hotels opened.

Statistics for hotel room operations for the 4Q16 and FY16 periods are as follows:

3-month period (Oct-Dec)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR(THB/Night)		
	4Q15	4Q16	4Q15	4Q16	+/-	4Q15	4Q16	+/-	4Q15	4Q16	+/-
Luxury Hotels	966	966	76%	79%	+3%	5,360	5,504	+3%	4,077	4,356	+7%
Midscale Hotels	1,282	1,282	80%	82%	+2%	2,753	2,736	-1%	2,196	2,231	+2%
Economy Hotels	2,253	2,253	72%	74%	+2%	1,346	1,270	-6%	968	941	-3%
Total Group (ex. Budget)	4,501	4,501	75%	77%	+2%	2,645	2,640	-0%	1,985	2,041	+3%
Budget Hotels*	1,175	1,716	62%	74%	+13%	519	522	+1%	320	388	+21%

12-month period (Jan-Dec)	No. of rooms		Occupancy			ARR (THB/Night)			RevPAR(THB/Night)		
	2015	2016	2015	2016	+/-	2015	2016	+/-	2015	2016	+/-
Luxury Hotels	966	966	77%	81%	+4%	5,236	5,358	+2%	4,033	4,345	+8%
Midscale Hotels	1,282	1,282	80%	84%	+4%	2,617	2,639	+1%	2,091	2,227	+6%
Economy Hotels	2,253	2,253	75%	83%	+7%	1,263	1,156	-8%	953	954	+0%
Total Group (ex. Budget)	4,501	4,501	77%	83%	+6%	2,515	2,470	-2%	1,938	2,044	+5%
Budget Hotels*	1,175	1,716	54%	70%	+16%	512	517	+1%	277	359	+30%

*Exclude HOP INN Philippines

Details of each segment are as follows:

1.1 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. The average occupancy of this segment recorded at 79 percent in 4Q16, a 3 percent increase from 4Q15 and the average RevPAR increased 7 percent from the same period last year.
- The Luxury segment generated income at THB 737 million in 4Q16, in line with 4Q15. Room revenue recorded a 7 percent increase while F&B revenue recorded a 7 percent drop from 4Q16 because of lower festive events during the mourning period. Nevertheless, EBITDA recorded at THB 228 million, a 5 percent increase from the same period last year because of effective cost control.
- For FY16, the Luxury segment generated operating income at THB 2,848 million and EBITDA at THB 812 million representing a 3 percent and a 10 percent increase respectively from FY15.

1.2 Midscale Hotels

- The Midscale segment comprised of 2 hotels in Bangkok; Courtyard by Marriott Bangkok and Mercure Bangkok Siam, and 2 hotels in Pattaya; Holiday Inn Pattaya and Mercure Pattaya Ocean Resort. The average occupancy of this segment recorded at 82 percent in 4Q16, a 2 percent increase from 4Q15 and RevPAR increased 2 percent from the same period last year. Mercure Bangkok Siam generated the highest average occupancy and RevPAR growth among the group.
- The Midscale segment generated operating income at THB 333 million and EBITDA at THB 133 million in 4Q16, representing a 1 percent and a 2 percent increase respectively from the same period last year.
- For FY16, the Midscale segment generated operating income at THB 1,337 million and EBITDA at THB 517 million, representing a 7 percent and a 12 percent increase respectively from the same period last year.

1.3 Economy Hotels

- We now have ten ibis hotels in six major tourist destinations in Thailand (Bangkok, Pattaya, Phuket, Samui, Hua Hin and Krabi). The average occupancy of this segment recorded at 74 percent in 4Q16, a 2 percent increase from 4Q15 and the average RevPAR decreased 3 percent from the same period last year. Our economy hotels located in Phuket recorded the highest RevPAR growth among the group, a 22 percent increase from 4Q15, mainly from the recovery of Russian tourists and our marketing strategy to expand customer base to various source markets.
- For 4Q16, our economy hotels recorded operating income at THB 238 million and EBITDA recorded at THB 79 million, an 1 percent and a 16 percent decrease from the same period last year
- For FY16, the Economy segment generated operating income at THB 978 million and EBITDA at THB 338 million, representing a 4 percent and a 3 percent increase respectively from the same period last year.

1.4 Budget Hotels

- We opened additional 2 HOP INN hotel at Hat Yai and Phuket in this quarter. As such, at the end of this quarter we now have 22 hotels in this segment which cover Thailand's business destinations. The average occupancy of this segment recorded at 74 percent in 4Q16, a 13 percent increase from 4Q15 despite the additional room inventories from new HOP INN hotels. The average RevPAR increased 21 percent from the same period last year which is the highest RevPAR growth among the total group.
- The Budget segment generated operating income at THB 59 million and EBITDA at THB 29 million, representing a 101 percent and an 80 percent increase from the same period last year.

- For FY16, the Budget segment generated operating income at THB 193 million and EBITDA at THB 93 million, representing a 125 percent and a 134 percent increase from the same period last year.

Note: EBITDA by segment is calculated without taking non-property-specific expenses into account and exclude HOP INN Philipines

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 increased 3 percent to record at THB 56 million in 4Q16 mainly from the increase of average occupancy rate and average rental rate compare to the same period last year.

For FY16, income from rental and service increased 4 percent from FY15 to record at THB 214 million.

Other Items in P&L

- **Asset Monetization Program:** We sold and transferred ibis Phuket Patong and ibis Pattaya to ERWPF at THB 1,828 million in 2Q13. The sale included a guarantee of the minimum rental income to ERWPF over a period of 4 years and rental payment as set out in the lease agreement with ERWPF. As such, we recorded income and expenses related to this transaction as summarized below
 - We recorded share of profit from 20 percent investment in ERWPF at THB 5 million in 4Q16 while recorded share of profit at THB 2 million in 4Q15.
 - We recorded rental payment as set out in the lease agreement with ERWPF at THB 28 million in 4Q16 and 4Q15.
- **Non Recurring items:** We recorded gain from sale of shop house in Tak at THB 2 million in 4Q16. For FY16, we recorded total gain from sale of shop house at THB 21 million.
- **Depreciation & Amortization:** This non-cash item recorded at THB 185 million in 4Q16, increased by THB 5 million from 4Q15 and recorded at THB 730 million in FY16, increased by THB 12 million from the same period last year. This mainly from the additional depreciation of new hotels opened.
- **Finance Costs:** We recorded finance costs at THB 91 million in this quarter decreased from THB 95 million in 4Q15. For FY16, we recorded finance costs at THB 362 million, decreased by THB 25 million from the same period last year mainly from the decrease of loan from financial institution and the decrease in our average cost of fund.
- **Corporate Income Tax:** We recorded corporate income tax at THB 32 million in 4Q16 and THB 122 million in FY16 which increased from the same period last year due to better performance.

Financial Status

Financial Ratio (times)	2015	2016
Interest Coverage Ratio	3.9	4.7
Interest Bearing Debt to Equity	1.8	1.7

We generated THB 1,613 million of operating cash flow before change in operating asset and liabilities, representing a 14 percent increase from the same period last year from a better performance. We utilized the cash flow generated, together with bank loans to fund the development of new hotels. Our cash on hand was recorded at THB 795 million at the end of this quarter. Our interest coverage ratio recorded at 4.7 times as a result of increased operating cash flow and decreased interest expense compare to last year.

At the end of 2016, we recorded total assets at THB 14,911 million compare with THB 14,820 million at the end of 2015. Our total liabilities recorded at THB 9,839 million decreased from THB 9,938 million at the end of 2015, mainly due to principal repayment of long term loans during of this year.

Shareholder's equity recorded at THB 5,073 million at the end of 4Q16 increased from THB 4,882 million at the end of 2015 on the back of additional net profit generated in FY16. With the decrease of liabilities and increase of equities as aforementioned, our interest bearing debt-to-equity ratio recorded at 1.7 times decreased from 1.8 times at the end of 2015.

Outlook for 2017

Thailand Ministry of Tourism and Sport forecast that in 2017 the number of international tourist arrival will be approximately 34.4 million, a 6 percent increase and the tourism receipt will increase 8 percent from last year. Thailand tourism industry continued strong from the growing of both the international tourists and domestic tourists. The tourism receipt from domestic tourist forecast to increase 7 percent from last year

With our confidence in Thailand and ASEAN's attractiveness as the world's leading business hub and traveling destinations, we continue expanding our investment to be the leading hotel investor in Thailand and ASEAN as set forth in our 5 years strategic plan (2016-2020). We focus on invest and develop hotels in high growth market. Our portfolio covers in all segments from luxury to budget segment across Thailand's key destinations. Moreover, we started our investment outside Thailand in Philippines as we foresee the high potential as one of the highest economic and tourism growth in ASEAN.

We continue develop our hotel as set forth in our strategic plan. We are now developing 16 new hotels in Thailand which are 2 Midscale hotels, 2 Economy hotels, 12 Budget Hotels and 6 hotels in Philippines. In 2017, we plan to open 8 new hotels in Thailand and 1 new hotel in Philippines under the brand "HOP INN". As a result, at the end of 2017, we will have 50 hotels and 7,153 rooms in our portfolio.

In 2017, we forecast the revenue from hotel operation to increase 10 percent from 2016. Growth will be driven by both room revenue and F&B revenue and additional room inventory from 9 new hotels and 768 rooms to be opened. We estimate RevPAR to increase by 7 percent mainly from the increase of ARR. This will be supported by the strong growth of Thailand tourism industry and expansion of new tourist base by targeting a new international tourist from other countries. In addition, the domestic tourists also expected to continually grow in both main tourist and business destinations.

Sincerely yours

Kanyarat Krisnathevin
Executive Vice President and Chief Financial Officer