

Translation

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15th December, 2010

The President

The Stock Exchange of Thailand

Re: Quarter 3/2010 Management Discussion and Analysis

Attachment: Quarter 3/2010 Management Discussion and Analysis

Dear Sir,

In order to give a better understanding of Quarter 3/2010 operations and financial status of Eastern Water Resources Development and Management Public Company Limited. We would like to present the Quarter 3/2010 Management Discussion and Analysis which is shown as the attachment.

In addition, the analytical results should be considered parallelly to Quarter 3/2010 financial statement which was disclosed to public.

Please be informed accordingly.

Sincerely yours,

Praphant Asava-aree

President & CEO

Investor Relations Department

Tel : 02-272-1600 Ext 2317

Translation

Management Discussion and Analysis for the Quarter 3/2010

1. Operating Result Analysis

The accumulated operating results to quarter 3/2010, the Company and its subsidiaries had the net profit of Baht 732.96 million, increased by Baht 70.44 million or 10.63% YoY with the EBIT of Baht 1,115.58 million, increased Baht 109.58 million or 10.89% YoY. The EBITDA was at Baht 1,419.75 million, an increase of Baht 182.56 million or 14.76% YoY. Meanwhile, the results of the quarter 3/2010, the Company and its subsidiaries had the net profit of Baht 194.42 million decreased by Baht 31.85 million or 14.07% YoY with the EBIT of Baht 302.58 million, decreased Baht 28.87 million or 8.71% YoY. The EBITDA was at Baht 405.73 million, an decrease of Baht 9.85 million or 2.36% YoY which analyzed in detail as follows.

1.1 Revenue Analysis

The total revenue was Baht 754.52 million, increased Baht 27.53 million or 3.79% YoY. This was due mainly to growth in revenue from the sale of raw water, and income from the sale of tap water business. Which are detailed below,

- **Sales: Raw water**

The raw water sales increased Baht 20.59 million or 4.21% YoY as a result of the raw water sales volume increased by 2.16 million cubic meters or 4.03%, with average tariff Baht 9.10 per cubic meter.

- **Sales: Tap water**

Tap water sales increased 18.29 million or 11.28% YoY since the sales volumes increased to 14.75 million cubic meters, representing volume increase of 9.57% from the growth of new connections, including start up to tap water sales to Chonburi waterworks in April 2010 which the sales volume to Chonburi waterworks in Q3/2010 was 1.77 million cubic meters worth 17.23 Million Baht.

- **Rental and service income**

It dropped Baht 12.48 million or 18.44% due to declining revenues of the water leakage control engineering service projects which were completed. The completed projects were the MWA and PWA at Pattaya city ended in December 2009 and the PWA at Oomnoi-Sampran-Samutsakorn contract ended in February 2010 which amount to Baht 20.96 million declining in engineering services revenues. While office-space rental income increased by Baht 8.25 million due to increase the occupancy rate up to 99.10%.

- **Other income**

increased by 2.31 million, equivalent to 1.12 times YoY due to the increased building rental income, resulting in a more charged up in service related to the rental business.

1.2 Expense Analysis

The total expenses of Baht 451.94 million increased by Baht 56.40 million representing 14.26% YoY. As a result of the following reasons:

- **Costs of Sales: raw water**

Cost of raw water business increased Baht 14.46 million or 8.16% mainly due to the sales volume increased by 4.07%. In addition, depreciation increased by Baht 20.37 million from the effect of change in accounting estimate on pipeline depreciation in order to comply with the International Accounting Standard.

- **Costs of Sales: tap water**

The costs increased Baht 22.23 million or 25.90%, mainly due to the sales volume increase at 9.57%, especially the company recognized sales increase of water supply from the Chonburi waterworks which was start up in April 2010. The total cost of Chonburi waterworks was 16.22 Million Baht.

- **Cost of rental and service**

The costs decreased 4.09 million Baht, representing 7.22% YoY. The decrease was in line with the decrease of the engineering service revenue due to the gradual end of the engineering services contract. While the cost of rental business increases mainly due to the increasing rental occupancy and perceived cost of increased building depreciation amount to Baht 1.20 million after the civil court delivered its judgment in the case of a lawsuit between the company and a building contractors.

- **The selling and administrative expenses**

Selling and administrative expenses increased by Baht 13.76 million, representing 25.15 percent. The Selling expenses increased by Baht 10.23 million, representing 1.28 times YoY due to CRM activities as well as, the corporate PR through various medias. However, those costs increase was in line with the budget plan.

- **The expenses for development of life quality and environment**

Increase of 8.53 million baht or 2.19 times due to the continuous focus on activities in Corporate Social Responsibility: CSR activities. In quarter 3/2010 the company has activities in creative projects such as volunteer activities with community, donation to The Bureau of Royal Rainmaking and Agricultural Aviation, and support fund for the Her Majesty's fund (Kongtunmae) to celebrate the Queen's birthday anniversary.

- **Finance costs**

The costs decreased Baht 6.67 million or 23.16% YoY due to the gradual repayment of principal at maturity and in 2009 the repayment before maturity of the loan term total 700 million Baht. Additionally, the short term financing carried lower financial cost (an average of 2.75%) in 2010.

1.3 The consolidated financial ratio analysis (Using the accumulated figure to Q3/2010)

The major financial ratios of the Quarter 3/2010 was showed as below.

	<u>Q3/2010</u>	<u>Q3/2009</u>
Raw Water - Gross Profit Margin (%)	64.03	66.23
Tap Water – Gross Profit Margin (%)	45.07	47.81
Total Gross profit margin (%)	35.74	61.64
Adjusted Total Gross Profit Margin* (%)	59.25	
Net profit margin to Total Revenue (%)	18.78	30.92
Adjusted Total Net Profit Margin* (%)	29.54	
Return on equity (ROE)** (%)	15.06	14.34
Return on assets (ROA)** (%)	10.33	9.55
Debt to equity (times)	0.47	0.44

Remark

* Excluded extra ordinary item - Prasae Project

**Calculated on Annualize basis

- **Raw Water - Gross profit margin** was 64.03%, slightly decreased from that of the same period last year. Please be noted that the change in pipeline depreciation method (straight line) took effect on 1/01/2010 and it caused accumulated depreciation to Q3/2010 higher than that of accumulated depreciation to Q3/2009 by Baht 68.00 million. Given the change in accumulated depreciation, the Gross profit margin of Q3/2009 would drop to 61.40% on the equal basis.
- **Tap Water - Gross profit margin** was 45.07%, slightly decreased from that of the same period last year due to the 2009 inflation rate, which stated in the minus percentage (-0.8%) and took effect in 2010 tariff while the 2010 inflation rate is around 3.44 which effect to all costs.
- **Adjusted Total Gross profit margin (Excluded extra ordinary item – Prasae Project)** was 59.25%, slightly decreased from the same period last year due to the explanation of raw water and tap water gross profit margin mention above.
- **Net profit margin** was 18.78%. However, the adjusted net profit margin would be 29.54%, which was in line with that of 2009 due to the exclusion of the Prasae Project sales which had different profit margin structure to that of raw water business increase in sales revenue, costs controlled and decrease in financing cost.
- **Return on equity (ROE)** was 15.06% and **the return on assets (ROA)** was 10.33%, both improving from those of Q3/2009.
- **Debt to equity (D/E Ratio)** was 0.47 times slightly increase as a result of the construction of the third line Nong Pla Lai –Map Ta Pud pipeline. However, the position was fairly presented compared to that of the financial covenant at 2 times.

2. Analysis of Balance Sheet

2.1 Analysis of assets

As of 30 September 2010, the Company and its subsidiaries' total assets was Baht 9,500.95 million, increased by Baht 353.17 million when compared to that of 31 December 2009.

- **The current assets** decreased by Baht 568.65 million as a result of
 1. Decreased in project assets (Prasae Project) of Baht 646.49 million due to the settlement and fully received of payment in 8th April 2010 from the Royal Irrigation Department.
 2. Increased in cash and cash equivalent items by Baht 63.01 million mainly due to the company has issued promissory notes increased by Baht 40 million to invest in the raw water pipeline construction project (Nong Pla Lai - Map Ta Phut, line 3), and the reclassification of a pledged savings account to a clean account of Baht 7.00 million. While the increased in cash and cash equivalent by Baht 17.19 million of the subsidiaries mainly due to providing money for repayment of a loan in October 2010.
 3. Increased in other current assets by Baht 45.34 million mainly due to the subsidiaries accounts receivable of Bath 32.87 million as a result of delay penalty as well as, a receivable for an advance to relief its operation of Bath 5.26 million. Both receivables would be fully charged back to the contractors.
- **The non current assets** increased by Baht 921.82 million mainly due to
 1. The construction in progress: Nong Pla Lai - Map Ta Phut Pipeline No.3 by Baht 943.72 million.
 2. Deferred concession rights net decreased by Baht 16.79 million and intangible assets net decreased by Baht 6.25 million due to the amortization for this quarter.
 3. The decrease of Baht 7.00 million of a savings account as collateral in guarantees is reclassify as the current assets.
 4. Long-term investment in Egcom Tara went up from 15.00% to 15.88%, representing an increase by Baht 6.08 million, from existing shares acquired from a shareholder.

2.2 Analysis of liabilities

As of 30 September 2010, the total liabilities of Baht 3,059.15 million increased by Baht 255.09 million as compared to those of 31 December 2009.

- **The current liabilities** increased by Baht 131.07 million, primarily from
 1. Increased of bill of exchange-net Baht 506.71 million are funding for the investment.
 2. Decreased in short-term loans from a financial institution net by Baht 338.00 million for the due promissory note.

- **The non-current liabilities increased** by Baht 124.02 million, mainly due to
 1. Increased in long-term loans from financial institutions, net of Baht 63.77 million mainly affected from the company to withdraw of long-term loan for the construction of Nong Pla Lai - Map Ta Phut, pipeline No. 3 amount of Baht 138.00 million. While its subsidiaries had a net decrease of long-term loans by Baht 38.60 million from the repayment of long-term loans by Baht 67.60 million against the withdraw the long term loan amount to Baht 29.00 million and a reclassification to be a current portion amount of Baht 35.65 million.
 2. Other non-current liabilities increased by Baht 61.10 million mainly due to the retention of the Nong Pla Lai - Map Ta Phut Pipeline Project increased totally by Baht 54.59 million.

2.3 Analysis of shareholders' equity

The shareholders' equity was Baht 6,439.12 million and the minority shareholders' interest of Baht 2.68 million. The net increase of Baht 98.08 million was as a result of Q3/2010 net profit of Baht 732.96 million against the dividend declaration of Baht 632.34 and the amortization of assets transferred from customers by Baht 2.54 million.

3. Analysis of the cash flows statement

The net cash on 30 September 2010 increased by Baht 63.01 million due to the following activities:

3.1 Net cash provided by operating activities of Baht 1,692.64 million were from the following activities:

- The better operating cash flows (after non-cash expenses, tax, and reserves) of Baht 1,400.74 million
- the changes in operating assets and liabilities of Baht 671.11 million and
- the income tax paid of Baht 379.211 million.

3.2 Net cash used in investing activities of Baht 1,189.32 million mainly due to investments in properties, plant and equipment both in raw water and tap water business of Baht 1,176.91 million and in various investment assets on tap water business of Baht 30.01 million and an investment in ECGOMTARA of Baht 6.08 million.

3.3 Net cash used by financing activities of Baht 440.32 million, mainly from the combination of short-term loans and long-term loans of Baht 1,468.20 million against the net repayment of both short and long-term loans of Baht 1,204.80 million and dividends paid to shareholders by Baht 632.34 million including total interest paid by Baht 71.38 million.

Therefore, as of 30 September 2010, the Company and its subsidiaries cash and cash equivalent of Baht 187.58 million comprising the net increase of cash and cash equivalents accumulated to Q3/2010 by Baht 63.01 million and the beginning cash of Baht 124.57 million.