

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to present the audited financial statements of Sembcorp Salalah Power & Water Company (“Sembcorp Salalah” or “the Company”) for the nine month period ended 30 September 2016 (9M2016). In 9M2016, the Company has recorded a profit after tax of RO 11.32 million compared to a profit after tax of RO 10.62 million in the corresponding period of 2015 (9M2015).

Business overview

The Company’s core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity for the power plant is 445 MW and for the water plant is 15 MiGD. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable. As the largest and most energy-efficient power and water plant in Dhofar Governorate, the plant is playing a major role in meeting the growing power and water demand. Currently, the Company is contributing more than 85% of the total electricity demand and 100% of the desalinated water demand in the region.

Performance overview

The Company’s operating and financial performances for 9M2016 are better than the target.

Operating performance

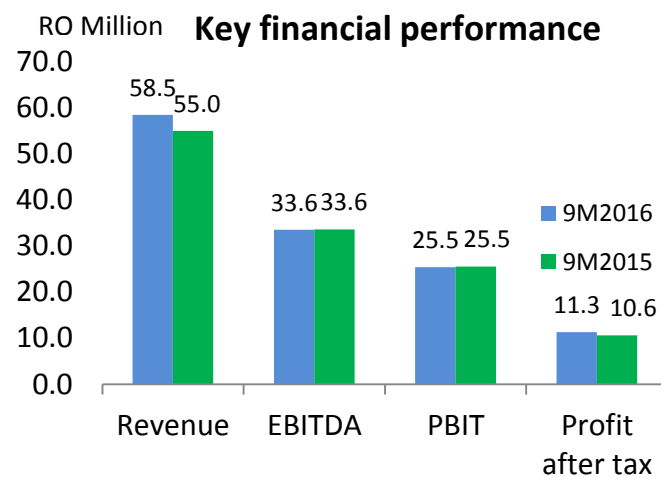
The Company has shown strong operating and financial performance in 9M2016. Key operating performance is characterized by high reliability of the power and water plants. The plant power load factor has also increased significantly as compared to the corresponding 9M2015 mainly because of higher grid demand allocation to Sembcorp Salalah (increased from 70% to 85%) to capitalize on the higher energy efficiency of the combined cycle technology. Key operating parameters for 9M2016 are noted below:

	Unit	9M2016	9M2015	Variance %
Water Reliability	(%)	99.4	99.4	-
Power Reliability	(%)	99.6	99.9	-0.3
Quantity of Water Sold	(Thousand m ³)	17,400	16,245	7.1
Quantity of Power Sold	(MWh)	1,749,695	1,406,817	24.4
Plant Load Factor (Power)	(%)	59.8	48.3	23.8
Plant Load Factor (Water)	(%)	93.1	87.3	6.6

Financial performance

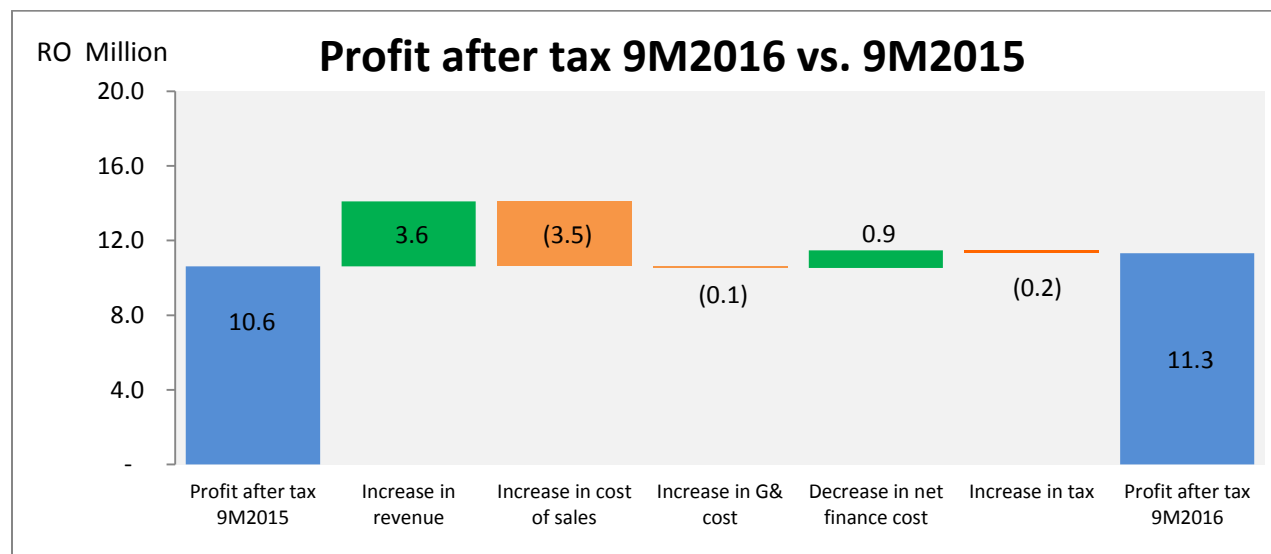
Key financial performance indicators are shown below:

	9M2016	9M2015
	RO million	RO million
Revenue	58.51	55.03
EBITDA	33.55	33.63
PBIT	25.45	25.54
Profit after tax	11.32	10.62



9M2016 Profit after tax

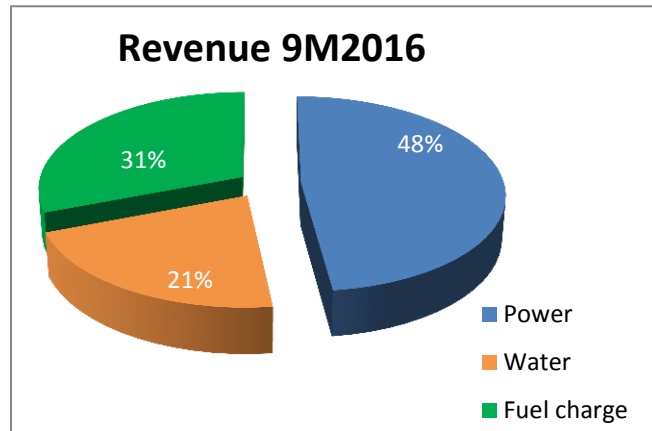
Profit after tax increased from RO 10.62 million in 9M2015 to RO 11.32 million in 9M2016. The significant variances are elaborated in the following waterfall chart.



A brief analysis and characteristics of the major components of the profit or loss is presented below:

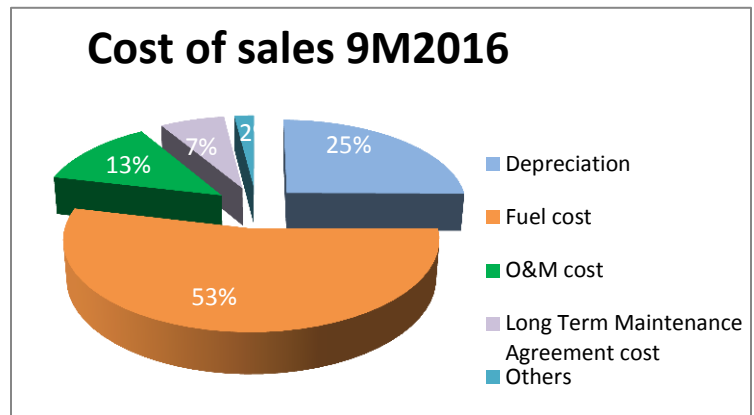
Revenue

Power contributes 48% (excluding fuel charge), water 21% and fuel charge 31% to total revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the Plant model. 9M2016 Revenue was increased by 6% as compared to the corresponding period last year. The increase was mainly due to higher plant load factor that resulted in increased fuel charge and variable energy charge revenue.



Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and operation & maintenance (O&M) cost. Cost of sales has increased in comparison with the same period in 2015 as a result of higher O&M cost, fuel cost and Long Term Maintenance Agreement (LTMA) cost. Fuel cost increased due to increase in plant load factor and gas price indexation adjustment. As fuel cost is pass through in nature there is a corresponding increase in fuel charge revenue as mentioned above. O&M cost and LTMA cost increased mainly due to higher maintenance activities and increase in factored fired hours respectively as compared to the last year.



Net finance cost

Net finance cost decreased in 9M2016 compared to 9M2015 due to the scheduled repayment of part of the term loan in line with its financing documents.

Financial position

		30 September 2016	31 December 2015	30 September 2015
Total assets	RO million	353.7	359.1	361.3
Total liabilities	RO million	267.2	277.9	278.0
Shareholders' funds	RO million	110.8	102.8	108.6
Shareholders' equity	RO million	86.5	81.2	83.3
Current ratio		1.93:1	1.73:1	1.95:1
Gearing ratio		72:28	74:26	74:26
Net assets per share	RO/share	0.12	0.11	0.11

Interim dividend

On 25 October 2016, Board of Directors approved the interim dividend of Baizas 10.3 per share for the year 2016 to the Shareholders who are registered in the Company's Shareholders' register with Muscat Clearing and Depository Company as at 01 November 2016.

Business Outlook

Barring any unforeseen circumstances, the Company's profitability and cashflow are expected to remain stable.