

SEMBCORP SALALAH POWER & WATER COMPANY SAOG

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to present the audited financial statements of Sembcorp Salalah Power and Water Company (Sembcorp Salalah or the Company) for the first three months of 2015 ended 31 March 2015 (1Q2015). In 1Q2015, the Company recorded a profit after tax of RO 2.72 million compared to a profit after tax of RO 2.52 million in the corresponding period of 2014 (1Q2014), while profit before interest and tax ("PBIT") was RO 7.78 million in 1Q2015 compared to RO 7.81 million in 1Q2014. 1Q2015 profit after tax was better than 1Q2014 as the Company's finance cost reduced because loan balances have reduced in line with the financing documents.

Business overview

The Company's core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity of the power plant and water plant is 445 MW and 15 MiGD respectively. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable.

Performance overview

Operating performance

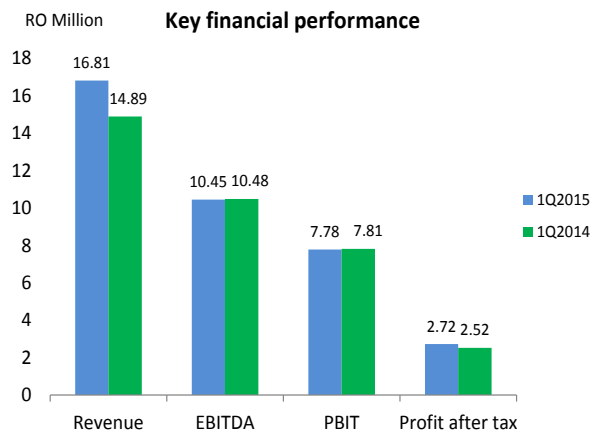
The Company has shown strong operating and financial performance in 1Q2015. As of 31 March 2015, the Company was contributing more than 50% of the total electricity demand and 100% of the desalinated water demand in the Dhofar Governorate. Key operating performance is characterised by high reliability of the power and water plants. Key operating parameters for 1Q2015 are noted below:

	Unit	1Q2015	1Q2014
Water Reliability	(%)	98.6	99.9
Power Reliability	(%)	99.9	99.9
Quantity of Water Sold	(Thousand m ³)	5,368	5,973
Quantity of Power Sold	(MWh)	352,701	375,932
Plant Load Factor (Power)	(%)	36.7	39.1
Plant Load Factor (Water)	(%)	87.5	97.3

Financial performance

Key financial performance indicators are shown below:

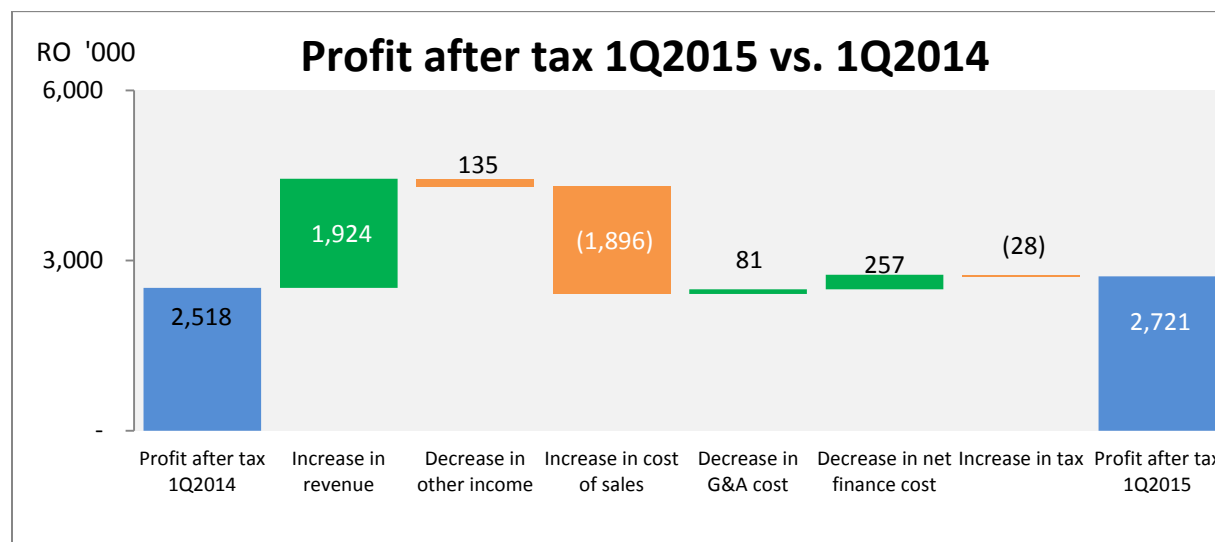
	1Q2015	1Q2014
	RO million	RO million
Revenue	16.81	14.89
EBITDA	10.45	10.48
PBIT	7.78	7.81
Profit after tax	2.72	2.52



1Q2015 profit after tax was better than 1Q2014 as the Company's finance cost reduced because loan balances have reduced in line with the financing documents. PBIT and Earnings Before Interest and Tax and Depreciation Allowance ("EBITDA") in 1Q2015 was lower mainly due to a non-recurring other income in 1Q2014 as a result of the settlement of past disputes with Oman Power and Water Procurement Company (OPWP).

1Q2015 Profit after tax

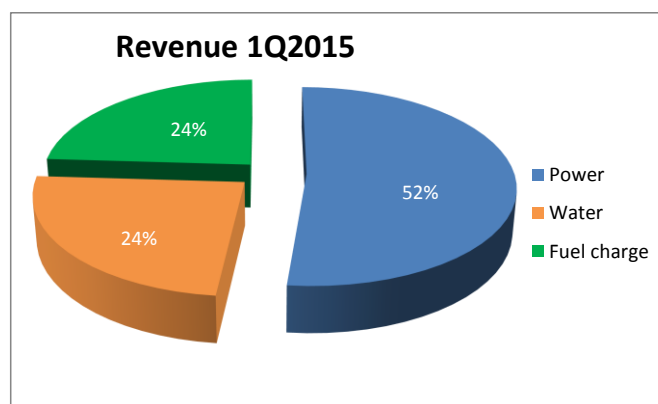
Profit after tax increased from RO 2.52 million in 1Q2014 to RO 2.72 million in 1Q2015. The significant variances are elaborated in the following waterfall chart.



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

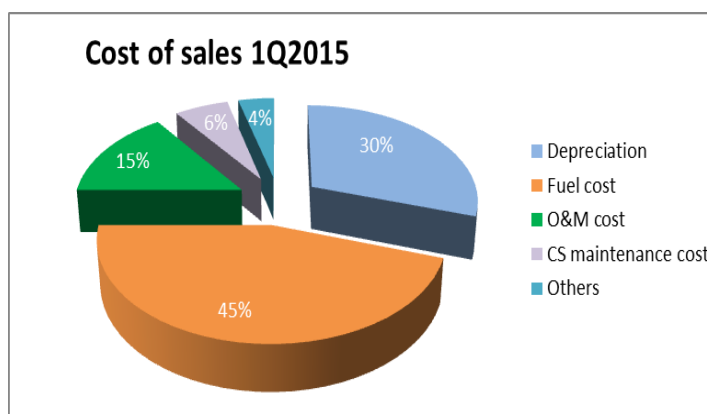
Revenue

Power contributes 52% (excluding fuel charge) and water contributes 24% to overall revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the Plant model. Revenue is higher as compared to last year mainly because of an increase in gas price.



Cost of sales

Cost of sales mainly comprises the depreciation of property, plant and equipment and fuel cost which is pass through in nature. Cost of sales has increased in comparison with 2014 as a result of higher operation and maintenance (O&M) cost and fuel cost. Fuel cost increased due to increase in gas price by the Ministry of Oil and Gas. As fuel cost is pass-through in nature, there is corresponding increase in fuel charge revenue as mentioned above.



Net finance cost

Net finance cost decreased in 1Q2015 compared to 1Q2014 due to the repayment of a term loan in line with its financing documents.

Financial position

		31 March 2015	31 March 2014	31 December 2014
Total assets	RO million	362.06	378.47	371.54
Total liabilities	RO million	287.37	298.16	293.26
Shareholders funds	RO million	100.66	100.44	101.95
Shareholders equity	RO million	74.69	80.31	78.28
Current ratio		1.64:1	1.50:1	1.75:1
Gearing ratio		77:23	76:24	76:24
Net assets per share	RO/share	1.05	1.05	1.07

Business Outlook

The Company is expected to meet its forecast profit after tax for 2015 of RO 12.95 million as projected in its IPO Prospectus.