Sembcorp Salalah Power & Water Company SAOG

Management Discussion and Analysis

We are pleased to present the financial statements of Sembcorp Salalah Power & Water Company ("Sembcorp Salalah" or "the Company") for the six-month period ended June 30, 2018 (1H2018). In 1H2018, the Company recorded a profit after tax (PAT) of RO 7.2 million compared to a profit after tax of RO 5.4 million in 1H2017. The increase in profit after tax was mainly because of a one-off deferred tax impact in 2017, arising from the change in tax law in February 2017.

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 megawatts (MW) and 15 million imperial gallons per day (MiGD) for the water plant. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable.

In January 2018, the new Salalah IPP2, owned by the Dhofar Generating Company, achieved full commercial operation. Since then, the grid's Load Dispatch Center has implemented an operational policy of sharing the grid demand between both plants which has led to a significantly reduced plant load factor for our power plant. However, this does not present a significant impact on the profitability of the Company because the Company's revenue is based on the availability of the plant, whilst the reduction of variable revenue is offset by a lower operational cost. Currently, the Company is contributing 100% of the desalinated water demand in the region.

Performance overview

The Company's operating performance for 1H2018 was marginally lower than targeted due to impacts of Cyclone Mekunu.

Operating performance

Key operating performance is characterised by high reliability of its power and water plants. The power plant load factor was lower compared to the corresponding period in 2017, mainly because of Salalah IPP2 having achieved full commercial operation in January 2018. However, plant load factor does not have a significant impact on the profitability of the Company. Key operating parameters for 1H2018 are noted below:

	Unit	1H2018	1H2017	Variance %
Water Reliability	(%)	**100.0***	99.8	0.2
Power Reliability	(%)	**99.5**	99.8	-0.3
Quantity of Water Sold	(Thousand m^3)	**10,930**	11,961	-8.6
Quantity of Power Sold	(MWh)	**716,384**	1,322,562	-45.8
Plant Load Factor (Power)	(%)	**37.1**	68.4	-45.8
Plant Load Factor (Water)	(%)	**88.6**	96.9	-8.6

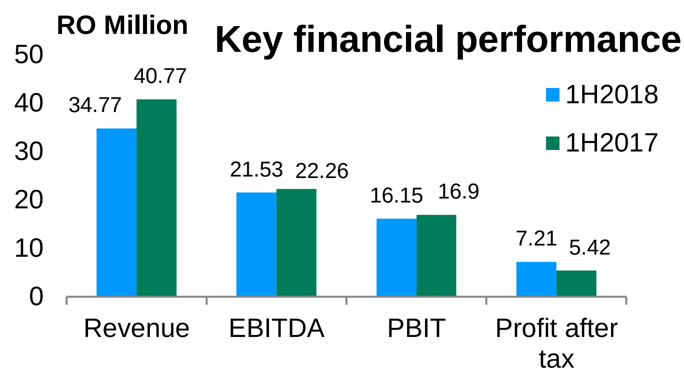
**Rounded to hundred. Actual reliability is 99.97%.*

In addition to the above operating parameters, the Company reported force majeure outages amounting to 14,606 MW for its power plant and 1,022 thousand cubic meters of water for its water plant due to the impact of Cyclone Mekunu and its after-effects resulting in seawater contamination.

Financial performance

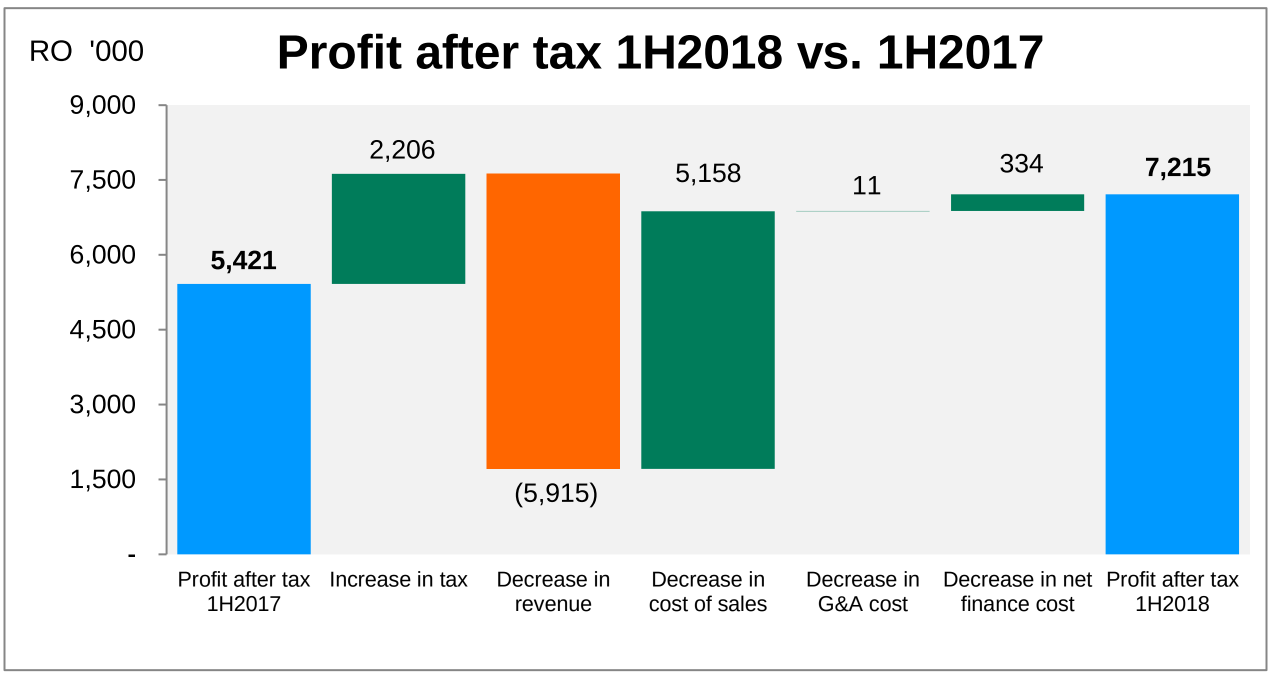
Key financial performance indicators are shown below:

	1H2018	1H2017
	RO million	RO million
Revenue	34.77	40.77
EBITDA	21.53	22.26
PBIT	16.15	16.90
Profit after tax	7.21	5.42



1H2018 Profit after tax

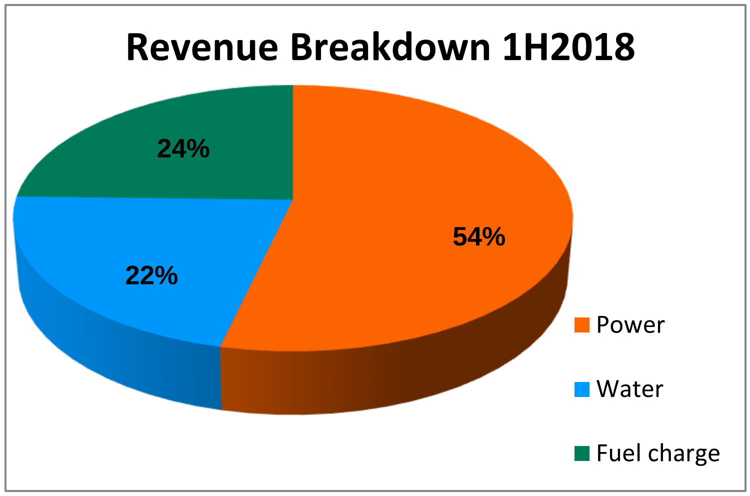
Profit after tax has increased from RO 5.42 million in 1H2017 to RO 7.21 million in 1H2018. The significant variances are shown in the following waterfall chart.



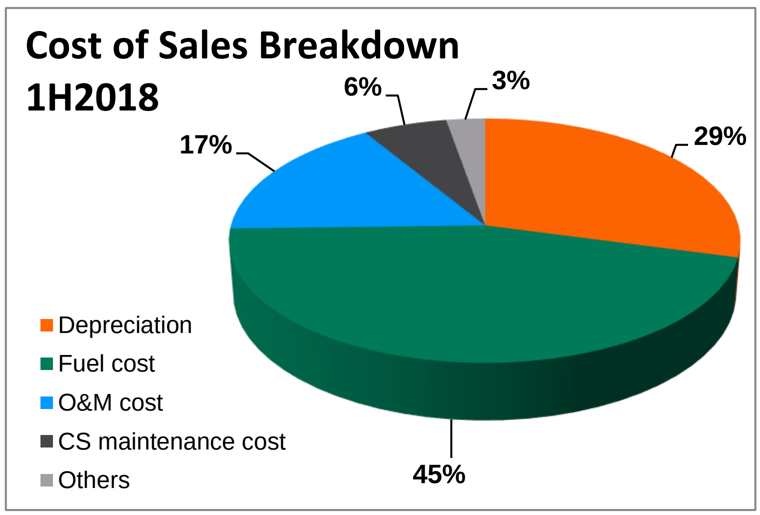
A brief analysis and characteristics of the major components of the profit or loss is presented below:

Revenue

Power contributes 54% (excluding fuel charge), while water and fuel charge contribute 22% and 24% respectively to the overall revenue. Fuel charge revenue is a pass-through and is calculated based on consumption of natural gas as computed by the plant's contractual Fuel Demand Model.



1H2018 Revenue reduced by 14.7% as compared to the corresponding period last year. The reduction was mainly because of lower power plant load factor and force majeure outages. Plant load factor resulted in reduced fuel charge, and variable energy charge revenue. Reduction in fuel charge and variable energy charge do not significantly affect the profitability of the Company, as the lower plant load factor also resulted in lower fuel cost and operations & maintenance (O&M) cost. Force majeure outages due to Cyclone Mekunu and its after-effects resulted in lower capacity charge by 4%.



Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and O&M cost. Cost of sales has reduced compared to the same period in 2017 as a result of lower fuel cost, and lower Long-Term Service Agreement (LTSA) cost. The lower fuel cost is due to reduction in plant load factor. As fuel cost is pass-through in nature, there is a corresponding reduction in fuel charge revenue as mentioned above. LTSA costs have also fallen due to reduction in factored fired hours as compared to last year in line with reduction in plant load factor.

Net finance cost

Net finance cost decreased in 1H2018 compared to 1H2017 due to the scheduled repayment of part of the term loan in line with the financing documents.

Tax expense

Tax expenses were reduced by RO 2.2 million compared to 1H2017, which is mainly because of a one-off deferred tax impact of RO 3.0 million arising from the increase in tax rate from 12% to 15% in 2017.

Financial position

		as at 30 June 2018	as at 31 December 2017	as at 30 June 2017
Total assets	RO million	342.77	344.84	352.50
Total liabilities	RO million	241.08	252.17	261.68
Shareholders' funds	RO million	109.18	104.92	106.24
Shareholders' equity	RO million	101.69	92.67	90.82
Current ratio		1.69:1	1.51:1	1.61:1
Gearing ratio		67:33	69:31	71:29
Net assets per share	RO/share	0.114	0.110	0.112

Business outlook

Following the one-off impact due to the change in tax law, and the GT5 forced outage in 2017, the Company's results are expected to return to a normalised performance in 2018.