

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 six-month period ended June 30, 2019 (1H2019). In 1H2019, the Company has recorded a profit after tax (PAT) of RO 8.1 million. The profit after tax increased to RO 8.1 million in 1H2019 as compared to RO 7.2 million earned in the corresponding period in 2018 (1H2018). The increase in profit is mainly because of:

- ❖ Higher power plant reliability and heat rate efficiency in 2019;
- ❖ Lower net finance cost and tax expenses in 2019; and
- ❖ Cyclone Mekunu force majeure outages in 2018.

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 15 MiGD for the water plant. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable. The Company contributed 50% of the power demand and 100% of the desalinated water demand in the region for 1H2019.

Since the commissioning of a new power plant in Dhofar region in 2018, 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.

Performance overview

The Company’s operation and maintenance and financial performance for 1H2019 is detailed below.

Operation and maintenance

Operating performance

The Company has shown strong operating performance in 1H2019. Key operating performance is characterised by high reliability of its power and water plants. The Company’s power plant load factor has increased by approximately 25%, in line with expected increase in the electricity demand of the region. Water plant load factor increased mainly due to Cyclone Mekunu force majeure outage impact in 2018. Key operating parameters for 1H2019 are noted below:

	Unit	1H2019	1H2018	Variance
Water Reliability	(%)	99.93	99.97	-0.04%
Power Reliability	(%)	99.91	99.53	0.38%
Quantity of Water Sold	(Thousand m ³)	12,433	10,930	13.75%
Quantity of Power Sold	(MWh)	896,921	716,384	25.20%
Plant Load Factor (Power)	(%)	46.40	37.10	25.07%
Plant Load Factor (Water)	(%)	100.74	88.56	13.75%

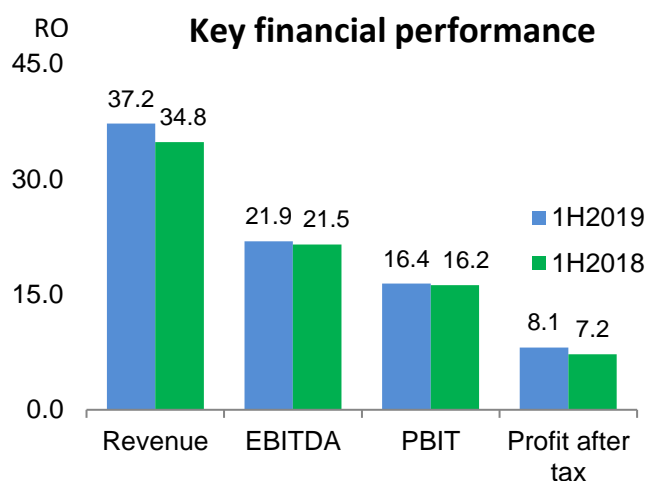
Maintenance

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. In addition to routine maintenance of the plant, the Company successfully completed a major inspection and package 3 upgrade of one gas turbine, maintenance of pressure regulating terminal natural gas station and major overhaul of some plant auxiliaries during 1H2019.

Financial performance

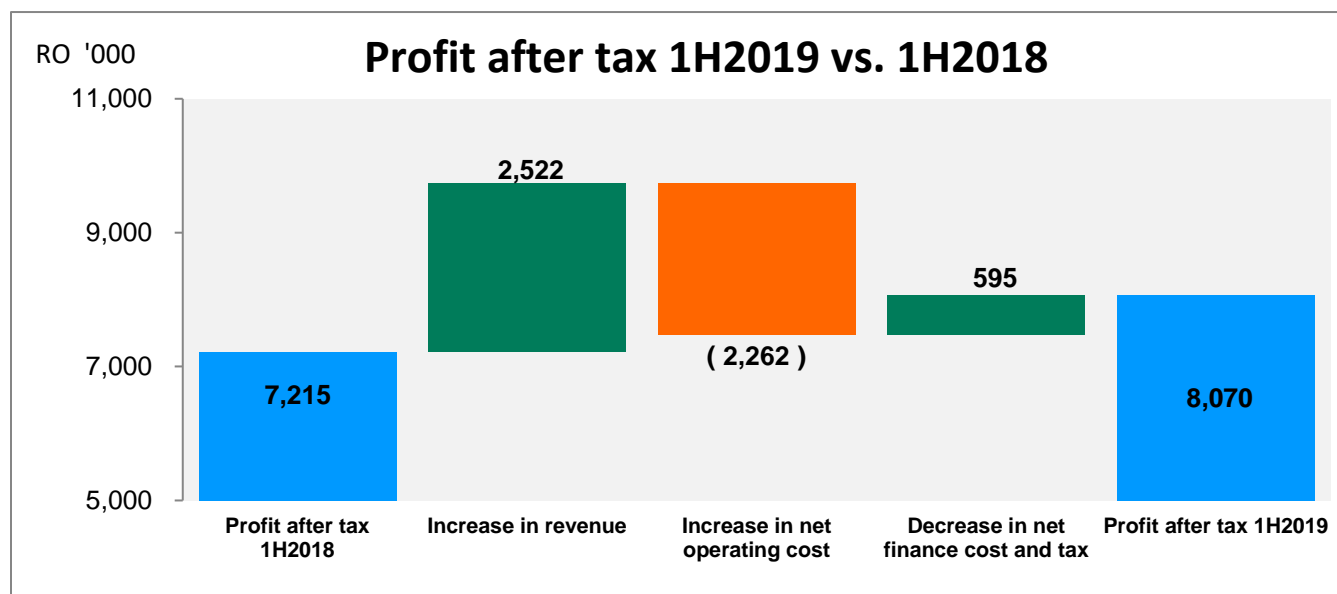
Key financial performance indicators are shown below:

	1H2019	1H2018
	RO million	RO million
Revenue	37.2	34.8
EBITDA	21.9	21.5
PBIT	16.4	16.2
Profit after tax	8.1	7.2



1H2019 Profit after tax

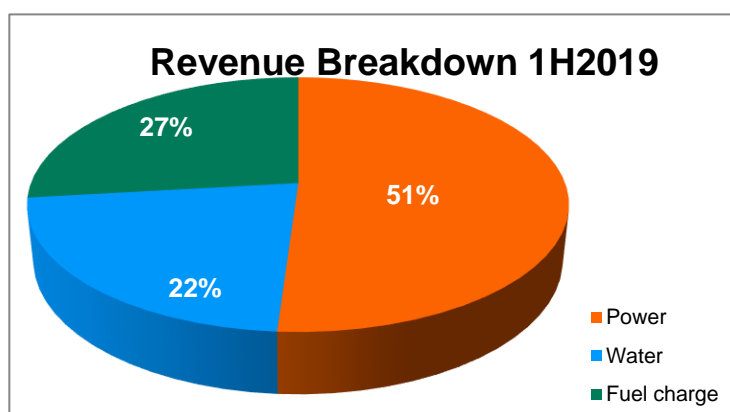
Profit after tax has increased from RO 7.2 million in 1H2018 to RO 8.1 million in 1H2019. The significant variances are shown in the following waterfall chart.



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

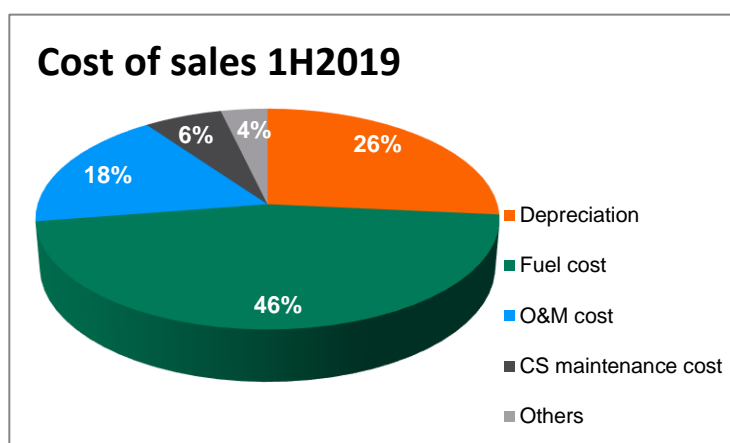
Revenue

Power contributed 51% (excluding fuel charge), water 22% and fuel charge 27% to the total 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. 1H2019 revenue increased by 7% as compared to the corresponding period last year mainly because of higher capacity charge, variable energy charge and fuel charge. Capacity charge increased mainly because of better plant reliability and Cyclone Mekunu force majeure impact in 2018. Variable energy charge and fuel charge increased mainly due to increase in plant load factor.



Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and operations & maintenance (O&M) cost. Cost of sales increased as compared to the same period in 2018, mainly due to increase in fuel cost, operation and maintenance cost and plant



insurance cost. Fuel cost increase mainly due to increase in plant load factor in line with the increase in revenue. Operation and maintenance cost increased in 1H2019 due to increase in planned maintenance activities as per annual maintenance plan.

Net finance cost

Net finance cost decreased in 1H2019 compared to 1H2018 due to the scheduled repayment of part of the term loan in line with the financing documents.

Financial position

		as at 30 Jun 2019	as at 31 December 2018	as at 30 June 2018
Total assets	RO million	331.23	331.08	342.77
Total liabilities	RO million	231.02	232.69	241.08
Shareholders' funds	RO million	111.23	106.40	109.18
Shareholders' equity	RO million	100.20	98.39	101.69
Current ratio		1.27:1	1.35:1	1.69:1
Gearing ratio		65:35	67:33	67:33
Net assets per share	RO/share	0.117	0.111	0.114

Business outlook

In 2019, the Company's focus is on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return. The Company's operating and financial performance for the year 2019 is expected to be better than the last year.