

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to present the audited financial statements of Sembcorp Salalah for the three month period ended 31 March 2016 (1Q2016). In 1Q2016, the Company has recorded a profit after tax of RO 3.18 million compared to a profit after tax of RO 2.72 million in the corresponding period of 2015 (1Q2015), while profit before interest and tax (“PBIT”) was RO 7.85 million in 1Q2016 compared to RO 7.78 million in 1Q2015.

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. The Company’s operating and financial performance for 1Q 2016 is better than the target.

Performance overview

Operating performance

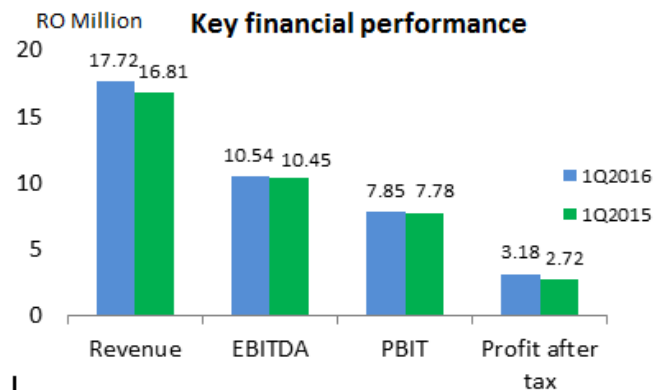
The Company has shown strong operating and financial performance in 1Q2016. Currently, the Company is contributing more than 70% of the total electricity demand and 100% of the desalinated water demand in the Dhofar Governorate. Key operating performance is characterised by high reliability of the power and water plants. Key operating parameters for 1Q2016 are noted below:

	Unit	1Q2016	1Q2015
Water Reliability	(%)	100	98.6
Power Reliability	(%)	99.9	99.9
Quantity of Water Sold	(Thousand m ³)	5,609	5,368
Quantity of Power Sold	(MWh)	403,589	352,701
Plant Load Factor (Power)	(%)	40.6	36.7
Plant Load Factor (Water)	(%)	88.5	87.5

Financial performance

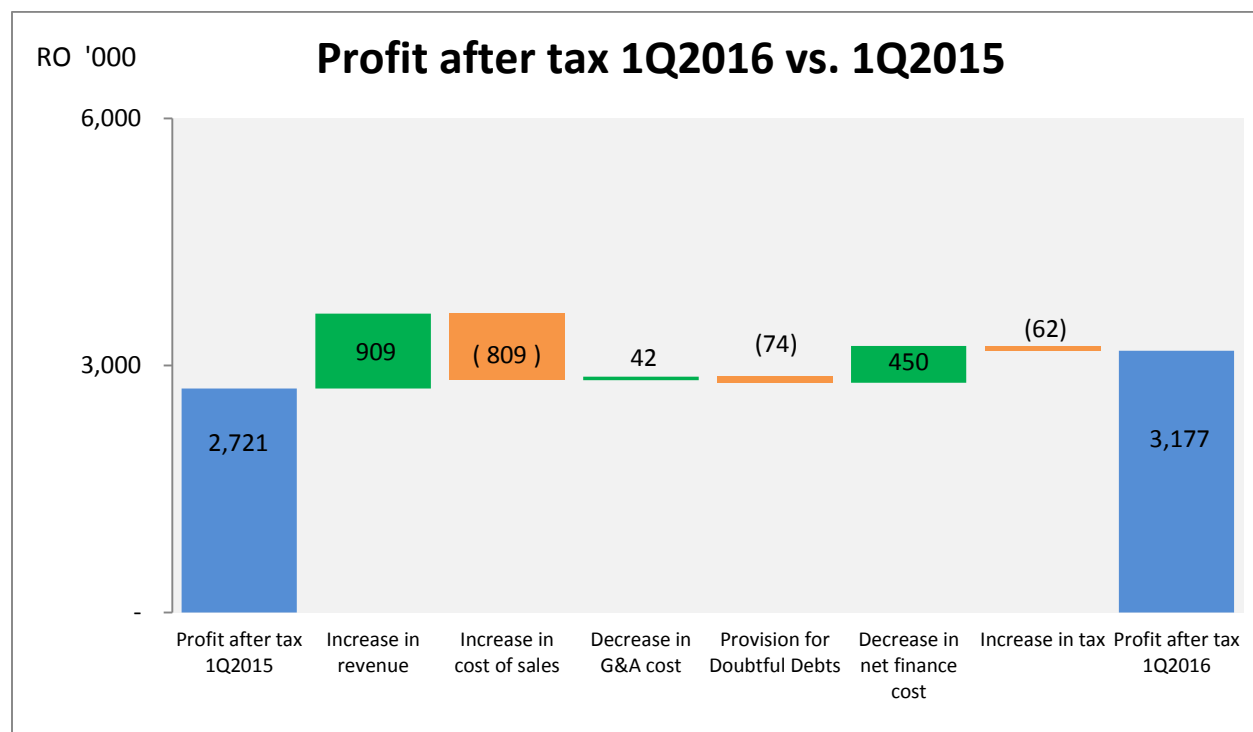
Key financial performance indicators are shown below:

	1Q2016	1Q2015
	RO million	RO million
Revenue	17.72	16.81
EBITDA	10.54	10.45
PBIT	7.85	7.78
Profit after tax	3.18	2.72



1Q2016 Profit after tax

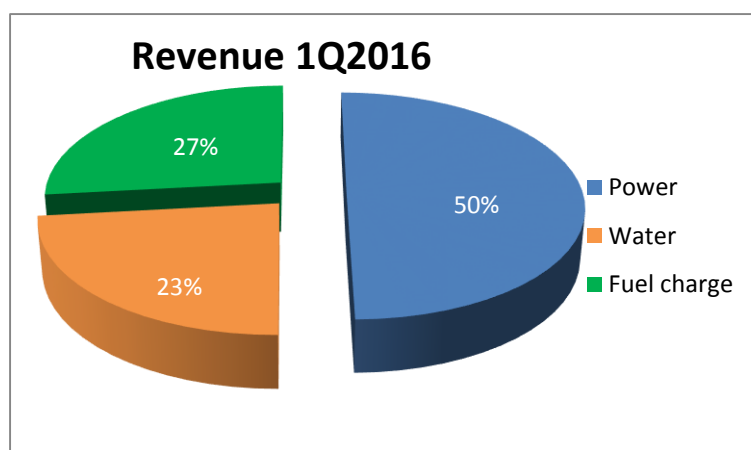
Profit after tax increased from RO 2.72 million in 1Q2015 to RO 3.18 million in 1Q2016. The significant variances are elaborated in the following waterfall chart.



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

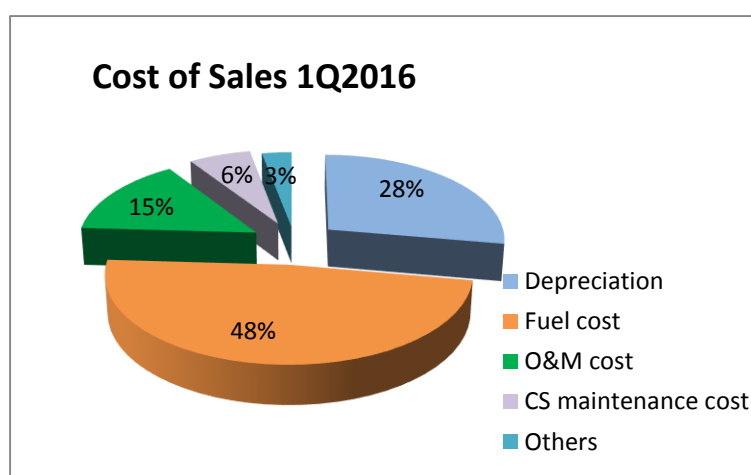
Revenue

Power contributes 50% (excluding fuel charge) and water contributes 23% to overall revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the Plant model. Fixed capacity charge revenue is higher by 2% mainly because of higher plant reliability as compared to the corresponding last year. Fuel Charge revenue is higher by 17% due to an increase in the plant load factor and gas price indexation adjustment of 3%.



Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment and fuel cost which is pass through in nature. Cost of sales has increased in comparison with the same period in 2015 as a result of higher O&M cost and fuel cost. Fuel cost increased and as fuel cost is pass-through in nature, there is a corresponding increase in fuel charge revenue as mentioned above.



Net finance cost

Net finance cost decreased in 1Q2016 compared to 1Q2015 due to the scheduled repayment of part of the term loan in line with its financing documents.

Financial position

		31 March 2016	31 March 2015	31 December 2015
Total assets	RO million	354.48	358.52	359.09
Total liabilities	RO million	277.49	283.83	277.93
Shareholders funds	RO million	102.64	100.66	102.80
Shareholders equity	RO million	76.99	74.69	81.16
Current ratio		1.55:1	1.64:1	1.73:1
Gearing ratio		75:25	77:23	74:26
Net assets per share (Restated: 31 March 2015 and 31 December 2015)	RO/share	0.108	0.105	0.108

Risks and concerns

We are in discussion with OPWP to compensate the Company for the incremental oil costs incurred to support grid dispatch during a planned gas supply outage by the Ministry of Oil & Gas on 25th March 2016. There are no other major risks and concerns in addition to the business' normal operational risks as described in the IPO prospectus.

Business Outlook

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