

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 three-month period ended March 31, 2018 (1Q2018). In 1Q2018, the Company has recorded a profit after tax (PAT) of RO 3.4 million. The profit after tax has increased to RO 3.4 million in 1Q2018 as compared to RO 0.3 million earned in the corresponding quarter in 2017 (1Q2017). The increase in profit after tax is mainly because of a one-off deferred tax impact of RO 3 million in 2017, arising due to change of tax law in February 2017. However, improved results are also attributable to better plant performance and reliability.

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. In January 2018, Salalah IPP2 achieved COD. Since then, the grid’s Load Dispatch Center has implemented an operational policy of sharing the grid demand amongst both plants. This has led to a significantly reduced Plant load Factor for our power plant. This does not have significant impact on the profitability of the Company because the Company revenue is based on the availability of the plant, whilst the reduction of variable revenue is offset by a lower operational cost. The Company is contributing 100% of the desalinated water demand in the region for 1Q2018.

Performance overview

The Company’s operating performance for 1Q2018 is better than targeted.

Operating performance

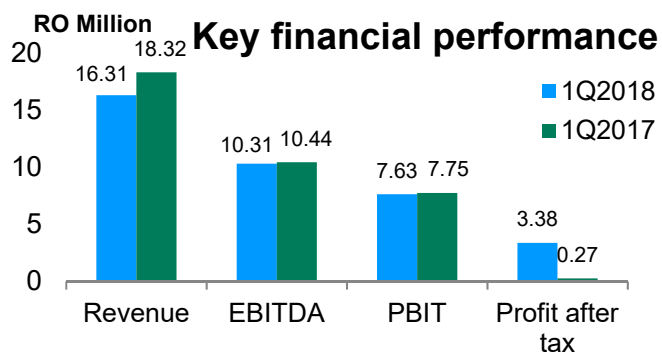
The Company has shown strong operating performance in 1Q2018. Key operating performance is characterised by high reliability of its power and water plants. The power plant load factor was lower compared to the corresponding quarter in 2017, mainly because of Salalah IPP2 achieved COD in January 2018. Plant load factor does not have significant impact on the profitability of the Company. Key operating parameters for 1Q2018 are noted below:

	Unit	1Q2018	1Q2017	Variance
Water Reliability	(%)	100.0	99.8	0.2%
Power Reliability	(%)	99.7	99.8	-0.1%
Quantity of Water Sold	(Thousand m ³)	5,857	5,772	1.47%
Quantity of Power Sold	(MWh)	275,847	512,794	-46.2%
Plant Load Factor (Power)	(%)	28.70	53.35	-46.2%
Plant Load Factor (Water)	(%)	95.44	94.05	1.48%

Financial performance

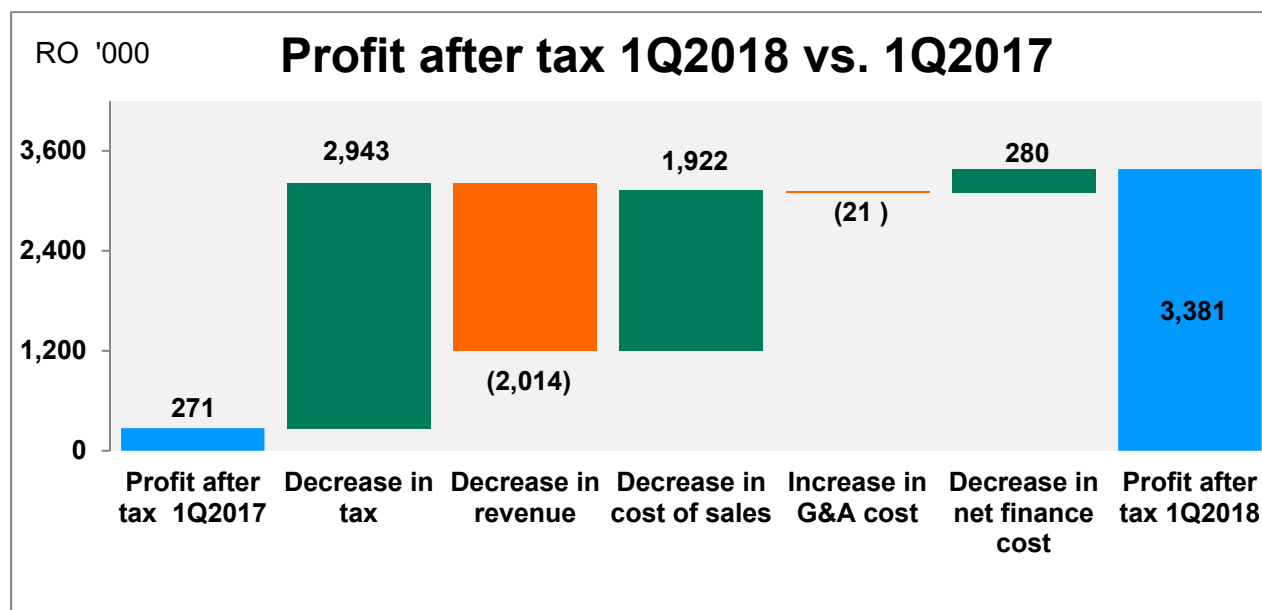
Key financial performance indicators are shown below:

	1Q2018	1Q2017
	RO million	RO million
Revenue	16.31	18.32
EBITDA	10.31	10.41
PBIT	7.63	7.75
Profit after tax	3.38	0.27



1Q2018 Profit after tax

Profit after tax has increased from RO 0.27 million in 1Q2017 to RO 3.38 million in 1Q2018. The significant variances are shown in the following waterfall chart.

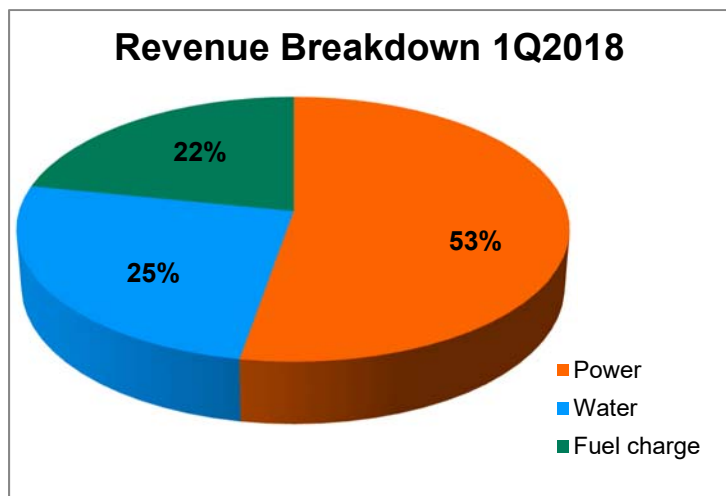


A brief analysis and characteristics of the major components of the profit or loss is presented below:

Revenue

Power contributes 53% (excluding fuel charge), water 25% and fuel charge 22% 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. 1Q2018 Revenue was reduced by 11% as compared to the corresponding period last year. The reduction was mainly due to lower power plant load factor that resulted in reduced fuel charge and variable energy charge revenue. Reduction in fuel charge and

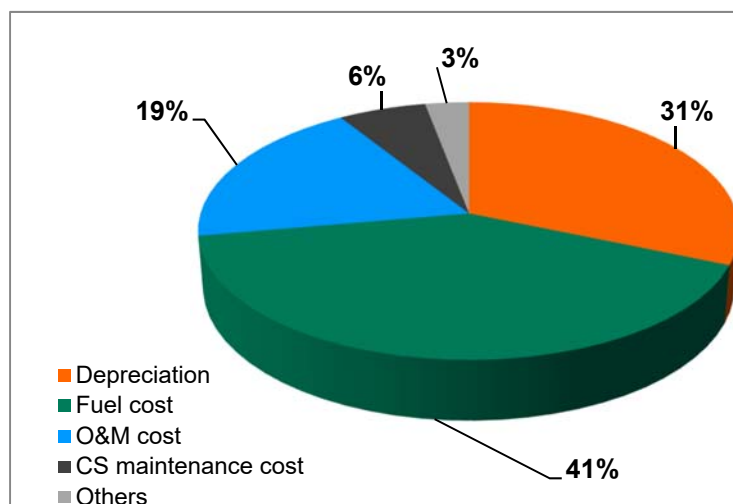
variable energy charge do not affect the profitability of the Company significantly, as the lower plant load factor also result in lower O&M cost.



Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and operations & maintenance (O&M) cost. Driven by lower plant load factor and power sales, cost of sales has reduced compared to the same period in 2017 as a result of lower fuel cost, and Long-Term Service Agreement (LTSA) cost. Fuel cost reduced 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 were reduced 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 1Q2018 compared to 1Q2017 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 2.9 million compared to 1Q2017, which is mainly because of a one-off deferred tax impact of RO 3 million arising from the increase in tax rate from 12% to 15% raised in 2017.

Financial position

		as at 31 March 2018	as at 31 December 2017	as at 31 March 2017
Total assets	RO million	336.76	344.84	343.03
Total liabilities	RO million	240.16	252.17	256.83
Shareholders' funds	RO million	105.34	104.92	101.10
Shareholders' equity	RO million	96.60	92.67	86.20
Current ratio		1.40:1	1.51:1	1.34:1
Gearing ratio		68:32	69:31	72:28
Net assets per share	RO/share	0.110	0.110	0.106

Business outlook

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