

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to present the unaudited financial statements of Sembcorp Salalah for the period ended 31 March 2014 (1Q2014). In 1Q2014, the Company s recorded a profit after tax of RO 2.52 million compared to a profit after tax of RO 0.36 million in the corresponding period in 2013 (1Q2013), while profit before interest and tax (“PBIT”) was RO 7.81 million in 1Q2014 compared to RO 7.70 million in 1Q2013.

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. There are no material changes to the projections included in the Company’s IPO prospectus.

Performance overview

Operating performance

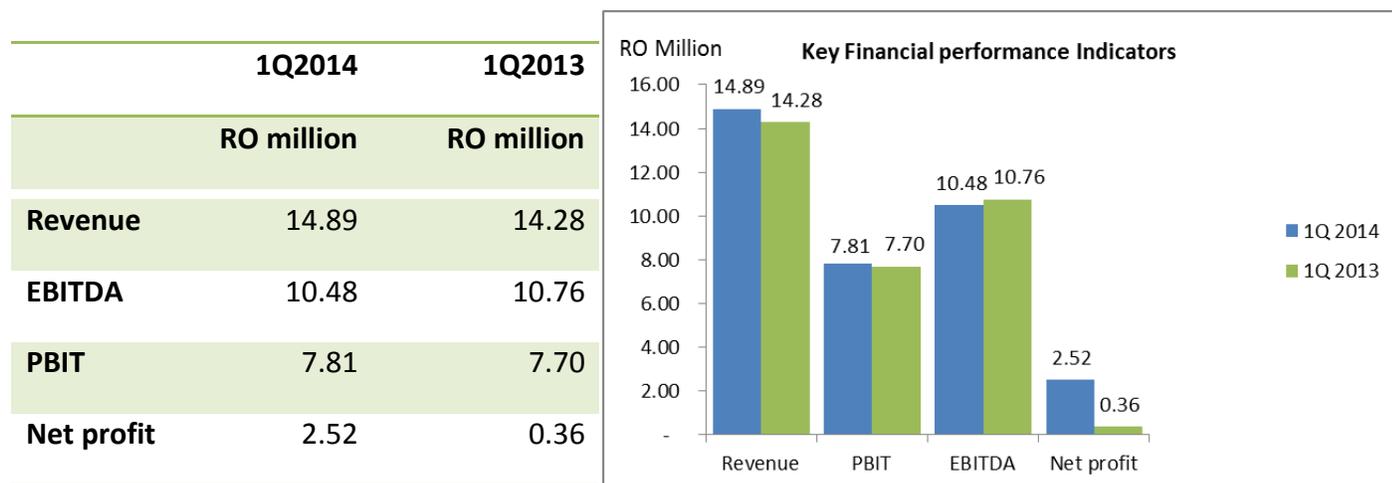
The Company has shown strong operating and financial performance in 1Q2014. Plant load factor has increased over the period for both power and water. Currently, the Company is contributing more than 70% of the total electricity demand and 100% of the desalinated water demand in the Dhofar Governorate. Key operating performance is characterised by high reliability of the power and water plants. Key operating parameters for 1Q2014 are noted below:

	Unit	1Q 2014	1Q 2013
Water Reliability	(%)	99.91%	100.0%
Power Reliability	(%)	99.95%	99.67%
Quantity of Water Sold	(Thousand m ³)	5,973	565
Quantity of Power Sold	(MWh)	375,932	333,722
Plant Load Factor (Power)	(%)	39.11%	34.72%
Plant Load Factor (Water)¹	(%)	97.33%	9.21%

¹ The Company started dispatching water in 1Q2013 when the water transmission system was ready.

Financial performance

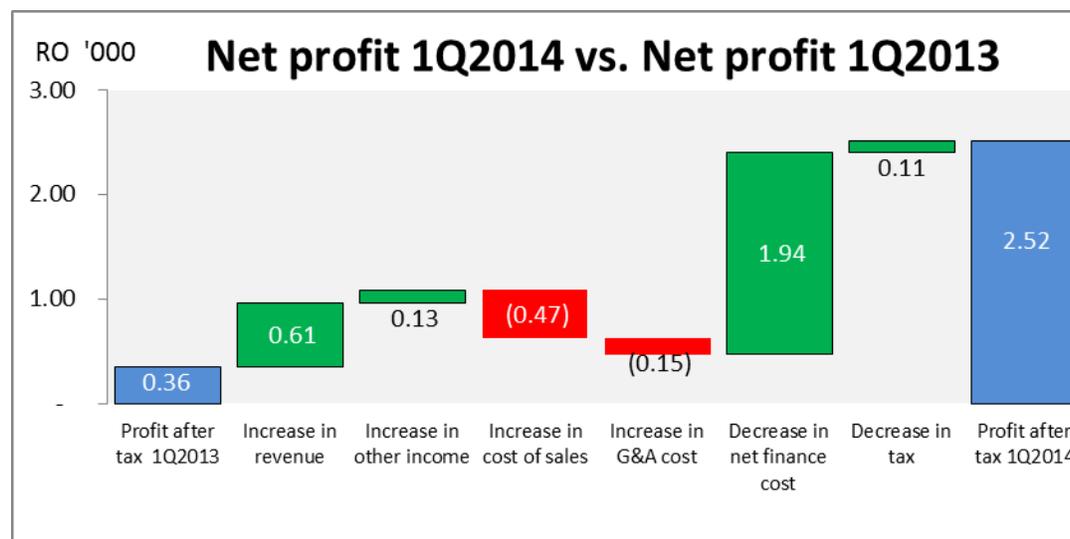
Key financial performance indicators are shown below:



1Q2014 financial performance has shown significant improvement over 1Q2013 as the Company's cost of debt has reduced following the conversion of shareholder loans to equity in July 2013, and the rate of tax has reduced due to a reduction in the level of tax losses which are forecast to expire.

1Q2014 Profit after tax

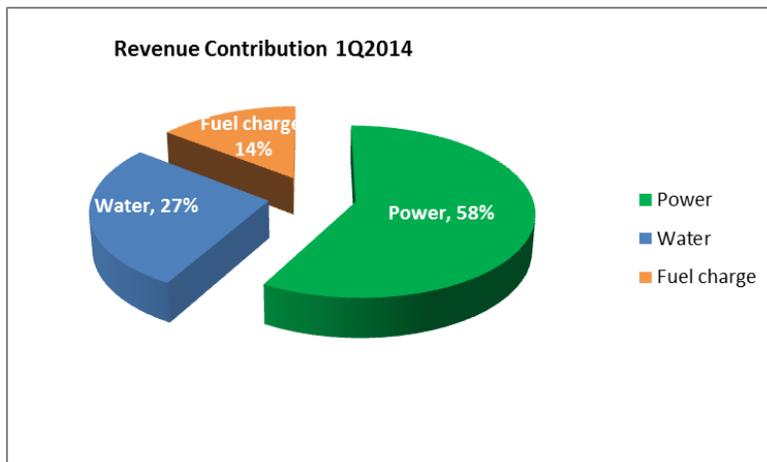
Profit after tax increased significantly from RO 0.4 million in 1Q2013 to RO 2.5 million in 1Q2014. The significant variances are elaborated in the following waterfall chart.



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

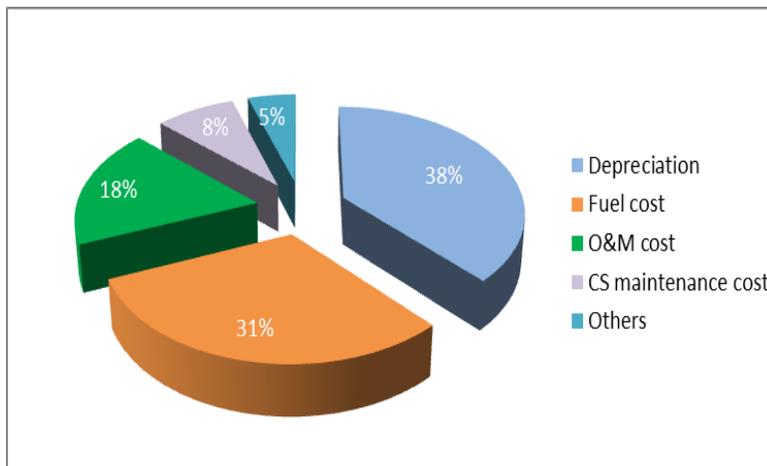
Revenue

Power contributes 58% (excluding fuel charge) and water contributes 26% to overall revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the Plant model.



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 as compared to 2013 as a result of increased maintenance costs but is in line with the Company's IPO projections.



Net finance cost

Net finance cost decreased in 1Q2014 compared to 1Q2013 due to the conversion of shareholder loans to equity in July 2013. The Company continues to reduce its third party debt in line with its finance documents.

Dividend

The Shareholders approved a final dividend of 78 baizas per share for the year ended 31 December 2013 at the Company's Annual General Meeting on 29 March 2014, giving a total dividend 91 baizas per share for 2013.

Risks and concerns

In addition to the normal operating risks as prevailing in the Power and Water industry in Oman, the Company is yet to settle the liquidated damages with OPWP which has been described below:

Liquidated damages

The Company reached an amicable settlement with Oman Power and Water Procurement Company with regard to its liquidated damages dispute for delays in construction. Having already reached settlement with SEPCOIII, its EPC contractor, the Company has now been compensated for losses incurred in 2012 as a result of delays in construction.

The result of the overall settlement with SEPCOIII and OPWP will be included in the Company's quarter two results. The impact of the compensation for lost operating profit in 2012 on Sembcorp Salalah's 2014 results is to increase profit from operations by approximately RO 1.4 million.

Business Outlook

The Company is expected to meet its forecast profit after tax forecast for 2014 of RO 10.94 million as projected in its IPO Prospectus, having delivered operating efficiencies of RO 0.205 million in 1Q2014 over and above those projected in its IPO Prospectus.