

## **MANAGEMENT DISCUSSION AND ANALYSIS**

We are pleased to present the audited financial statements of Sembcorp Salalah for the nine month period ended 30 September 2014 (9M2014). In 9M2014, the Company has recorded a profit after tax of RO 10.51 million compared to a profit after tax of RO 8.99 million in the corresponding period in 2013 (9M2013), while profit before interest and tax (“PBIT”) is RO 26.71 million in 9M2014 compared to RO 30.98 million in 9M2013.

### **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 however current year profit is expected to be higher than profit disclosed in IPO prospectus mainly because of liquidated damages income and better operating performance.

### **Performance overview**

#### ***Operating performance***

The Company has shown strong operating and financial performance in 9M2014. 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 9M2014 are noted below:

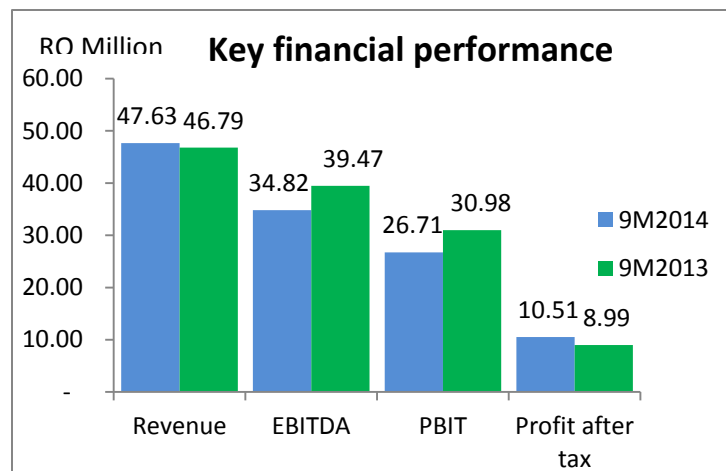
	<b>Unit</b>	<b>9M2014</b>	<b>9M2013</b>
<b>Water Reliability</b>	(%)	99.4	99.0
<b>Power Reliability</b>	(%)	99.9	99.4
<b>Quantity of Water Sold</b>	(Thousand m <sup>3</sup> )	17,853	10,804
<b>Quantity of Power Sold</b>	(MWh)	1,343,052	1,375,843
<b>Plant Load Factor (Power)</b>	(%)	46.1	47.2
<b>Plant Load Factor (Water)<sup>1</sup></b>	(%)	95.9	58.0

<sup>1</sup> The Company started dispatching water in 1Q2013 when the water transmission system was ready.

## Financial performance

Key financial performance indicators are shown below:

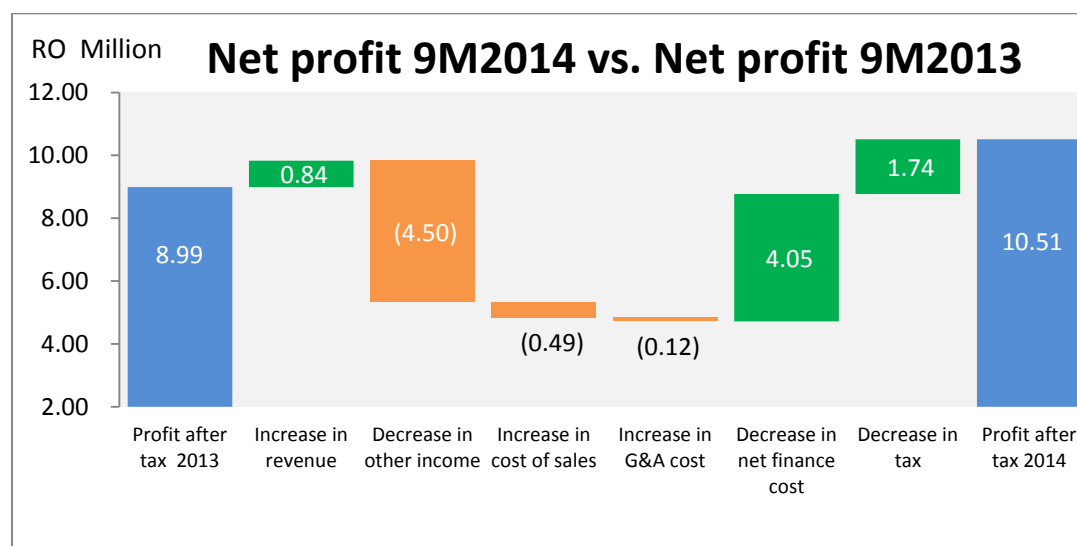
	9M2014	9M2013
	RO million	RO million
<b>Revenue</b>	47.63	46.79
<b>EBITDA</b>	34.82	39.47
<b>PBIT</b>	26.71	30.98
<b>Profit after tax</b>	10.51	8.99



9M2014 net profit has shown significant improvement over 9M2013 as the Company's cost of debt has reduced following the conversion of shareholder loans to equity in July 2013, and effective tax rate has reduced due to a reduction in the level of tax losses which are forecasted to expire. PBIT and Earning Before Interest and Tax and Depreciation Allowance ("EBITDA") are lower mainly due to a one off gain in 9M2013 as a result of writing off interest due on shareholders' loans. This has been partially offset by net liquidated damages income of RO 1.5 million which was not included in the projections within the Company's IPO prospectus.

### 9M2014 Profit after tax

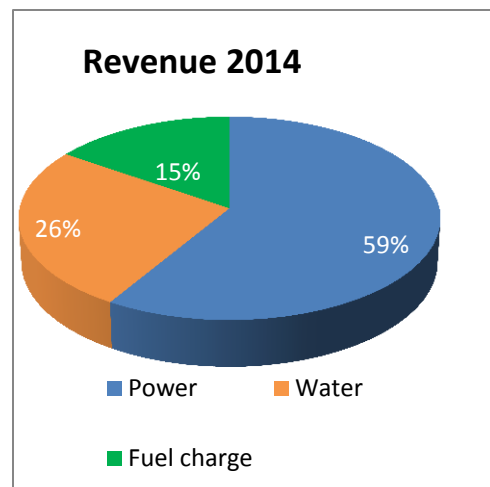
Profit after tax increased significantly from RO 8.99 million in 9M2013 to RO 10.51 million in 9M2014. The significant variances are elaborated in the following waterfall chart.



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

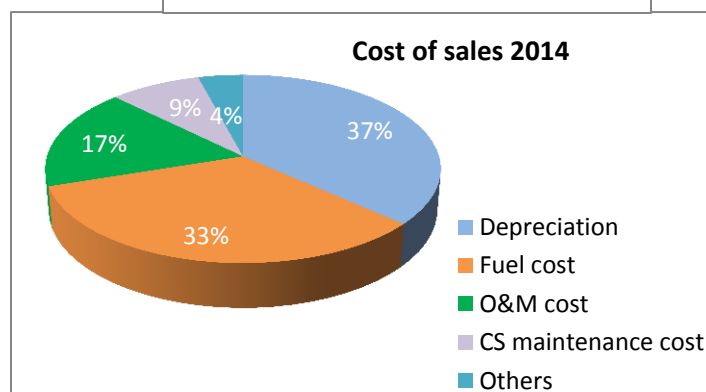
### *Revenue*

Power contributes 59% (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. Revenue is higher as compared to last year mainly because of better reliability.



### *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 higher O&M cost and fuel cost but is in line with the Company's IPO projections.



### *Net finance cost*

Net finance cost decreased in 9M2014 compared to 9M2013 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 financing documents.

### **Dividend**

On 21 October 2014, the Board of Directors approved an interim dividend in the amount of Baizas 92 per share in line with the authority given to the Board by the Company's Shareholders at its Annual General Meeting (AGM) on 29 March 2014 to the Shareholders who are registered in the Company Shareholders' register with Muscat Clearance & Depository Company SAOC on 1 November 2014.

The interim dividend is higher than the Company forecast in its IPO prospectus as a result of one off liquidated damages income and operational efficiencies.

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

***Risks and concerns***

There are no risks and concerns in addition to the business' normal operational risks.

***Business Outlook***

The Company is expected to meet its forecast profit after tax for 2014 of RO 10.94 million as projected in its IPO Prospectus, having delivered operating efficiencies of RO 0.3 million in 9M2014 over and above those projected in its IPO Prospectus, as well as net liquidated damages income of RO 1.5 million.