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 the nine-month period ended September 30, 2018 (9M2018). In 9M2018, the Company recorded a profit after tax (PAT) of RO 9.3 million compared to a profit after tax of RO 7.6 million in 9M2017. The increase in profit after tax was mainly because of a one-off deferred tax impact in 2017 (arising from the change in tax law in February 2017) and lower finance cost in 2018; partially offset by the impact of force majeure outages impact due to Cyclone Mekunu.

Business overview

The Company's core business activity is to provide electricity and water in the region of Dhofar in Oman. Contracted capacity for the power plant is 445 megawatts (MW) and 15 million imperial gallons per day (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, the new Salalah IPP2, owned by the Dhofar Generating Company, achieved full commercial operation. Since then, 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. Currently, the Company is contributing 100% of the desalinated water demand in the region.

Performance overview

The Company's operating and financial performance is detailed below.

Operating performance

The company's key operating performance was generally characterised by high reliability of its power and water plants. The power plant load factor was lower compared to the corresponding period in 2017, mainly because of Salalah IPP2 having achieved full commercial operation in January 2018. However, plant load factor does not have a significant impact on the profitability of the Company. Key operating parameters for 9M2018 are noted below:

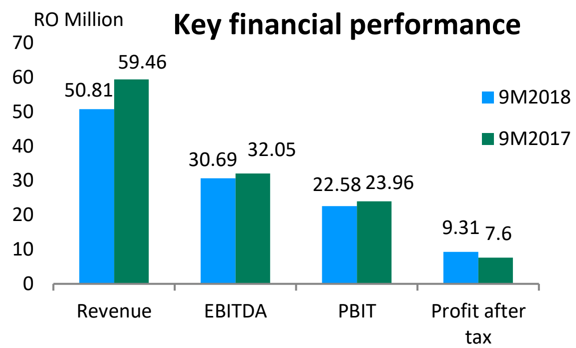
	Unit	9M2018	9M2017	Variance %
Water Reliability	(%)	**99.9**	99.8	0.1
Power Reliability	(%)	**99.3**	96.8	2.6
Quantity of Water Sold	(Thousand m^3)	**15,564**	18,037	-13.7
Quantity of Power Sold	(MWh)	**1,114,757**	1,950,442	-42.8
Plant Load Factor (Power)	(%)	**38.2**	66.9	-42.9
Plant Load Factor (Water)	(%)	**83.6**	96.9	-13.7

In addition to the above operating parameters, the Company reported force majeure outages, amounting to 14,606 MWH for its power plant and 2,650 thousand cubic meters of water for its water plant, due to Cyclone Mekunu and its after-effects resulting in seawater contamination.

Financial performance

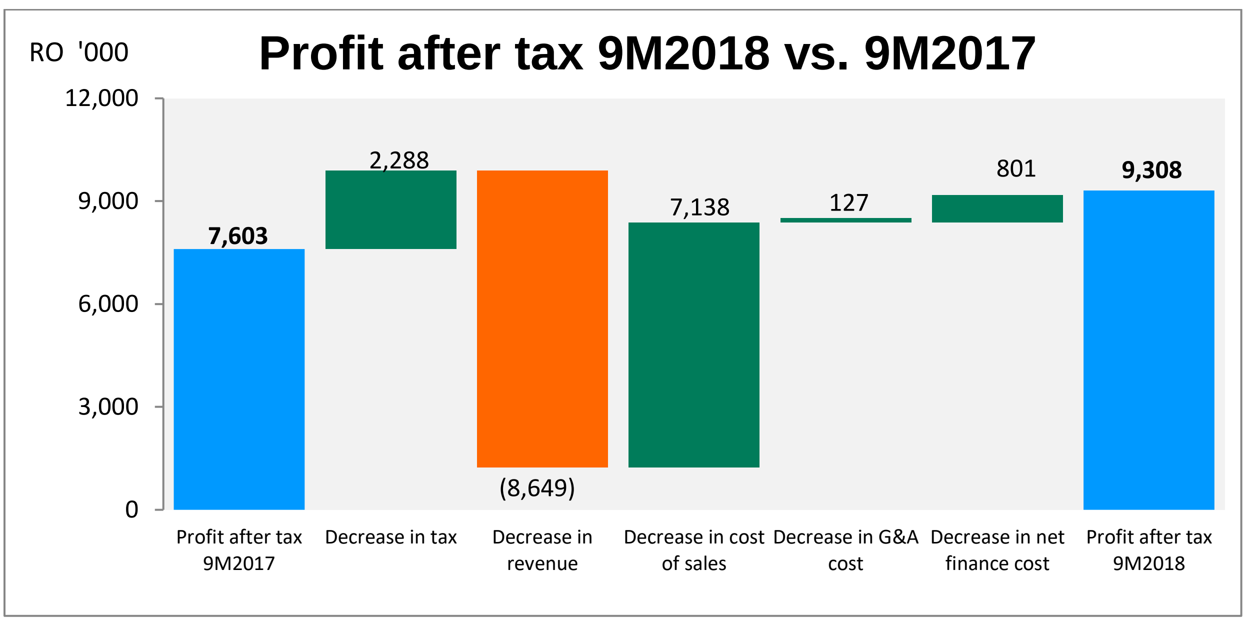
Key financial performance indicators are shown below:

	9M2018	9M2017
	RO million	RO million
Revenue	50.81	59.46
EBITDA	30.69	32.05
PBIT	22.58	23.96
Profit after tax	9.31	7.60



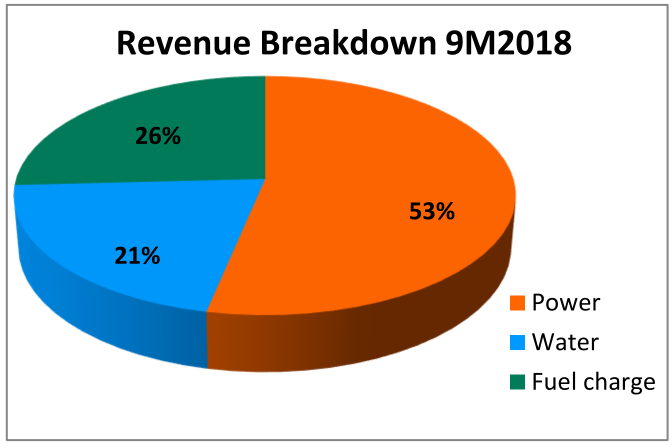
9M2018 Profit after tax

Profit after tax increased from RO 7.6 million in 9M2017 to RO 9.3 million in 9M2018. 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:

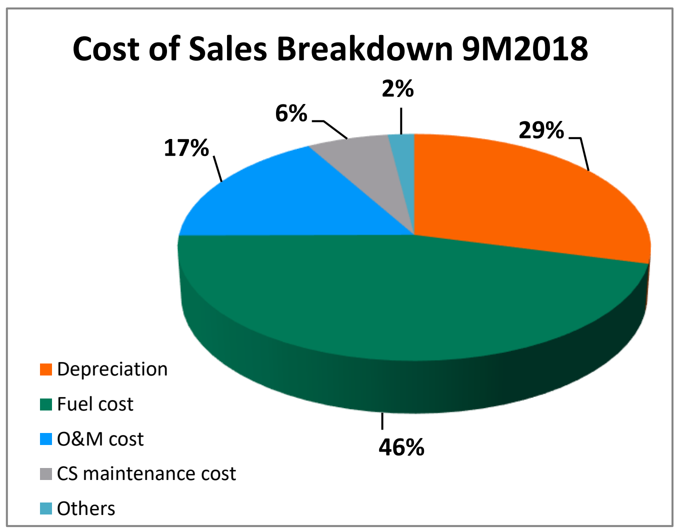
Revenue



Power contributed 53% (excluding fuel charge), while water and fuel charge contributed 21% and 26% respectively to the overall 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.

9M2018 Revenue reduced by 14.5% as compared to the corresponding period last year. The reduction was mainly because of lower power plant load factor, higher planned outages and force majeure outages. Plant load factor resulted in reduced fuel charge, and variable energy charge revenue. Reduction in fuel charge and variable energy charge did not significantly affect the profitability of the Company, as the lower plant load factor also resulted in lower fuel cost and operations & maintenance (O&M) cost. Planned outages during July 2018 to September 2018 exceeded the allowable limit of 15% which resulted in lower power capacity charge. However, the impact of higher planned outages is of temporary nature and is expected to reverse in the fourth quarter of 2018. Force majeure outages due to Cyclone Mekunu and its aftereffects resulted in additional lower capacity charges. Total capacity charges were reduced by 4% as compared to the last year.

Cost of sales



Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and O&M cost. Cost of sales reduced compared to the same period in 2017 as a result of lower fuel cost, and lower Long-Term Service Agreement (LTSA) cost. The lower fuel cost is 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 have also fallen 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 9M2018 compared to 9M2017 due to the scheduled repayment of part of the term loan in line with the financing documents.

Tax expense

Tax expenses reduced by RO 2.3 million compared to 9M2017, mainly because of a one-off deferred tax impact of RO 3.0 million arising from the increase in tax rate from 12% to 15% in 2017.

Financial position

		as at 30 September 2018	as at 31 December 2017	as at 30 September 2017
Total assets	RO million	332.59	344.84	342.6
Total liabilities	RO million	227.56	252.17	248.56
Shareholders' funds	RO million	111.27	104.92	108.43
Shareholders' equity	RO million	105.03	92.67	94.04
Current ratio		1.43:1	1.51:1	1.54:1
Gearing ratio		65:35	69:31	69:31
Net assets per share	RO/share	0.117	0.110	0.114

Business outlook

Barring force majeure outages impact due to Cyclone Mekunu, the Company's financial and operating performance is expected to be better as compared to the last year.