

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, 2019 (1Q2019). In 1Q2019, the Company has recorded a profit after tax (PAT) of RO 3.3 million. The profit after tax reduced to RO 3.3 million in 1Q2019 as compared to RO 3.4 million earned in the corresponding quarter in 2018 (1Q2018). The reduction in profit after tax was mainly because of higher insurance, operation and maintenance cost.

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. The Company contributed 40% to 45% of the power demand and 100% of the desalinated water demand in the region for 1Q2019.

Since the commissioning of a new power plant in Dhofar region in 2018, 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.

Performance overview

The Company’s operation and maintenance and financial performance for 1Q2019 is detailed below.

Operation and maintenance

Operating performance

The Company has shown strong operating performance in 1Q2019. Key operating performance is characterised by high reliability of its power and water plants. The Company’s power plant load factor has increased by approximately 11%, in line with expected increase in the electricity demand of the region. Key operating parameters for 1Q2019 are noted below:

	Unit	1Q2019	1Q2018	Variance
Water Reliability	(%)	99.85	100.0	-0.2%
Power Reliability	(%)	99.95	99.7	0.3%
Quantity of Water Sold	(Thousand m ³)	6,061	5,857	3.5%
Quantity of Power Sold	(MWh)	305,690	275,847	10.8%
Plant Load Factor (Power)	(%)	31.80	28.70	10.8%
Plant Load Factor (Water)	(%)	98.76	95.44	3.5%

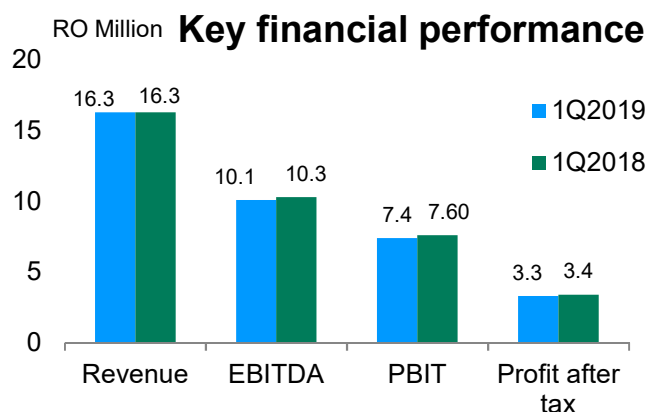
Maintenance

The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. In addition to routine maintenance of the plant, the Company successfully completed a major inspection and package 3 upgrade of one gas turbine and maintenance of pressure regulating terminal natural gas station during 1Q2019.

Financial performance

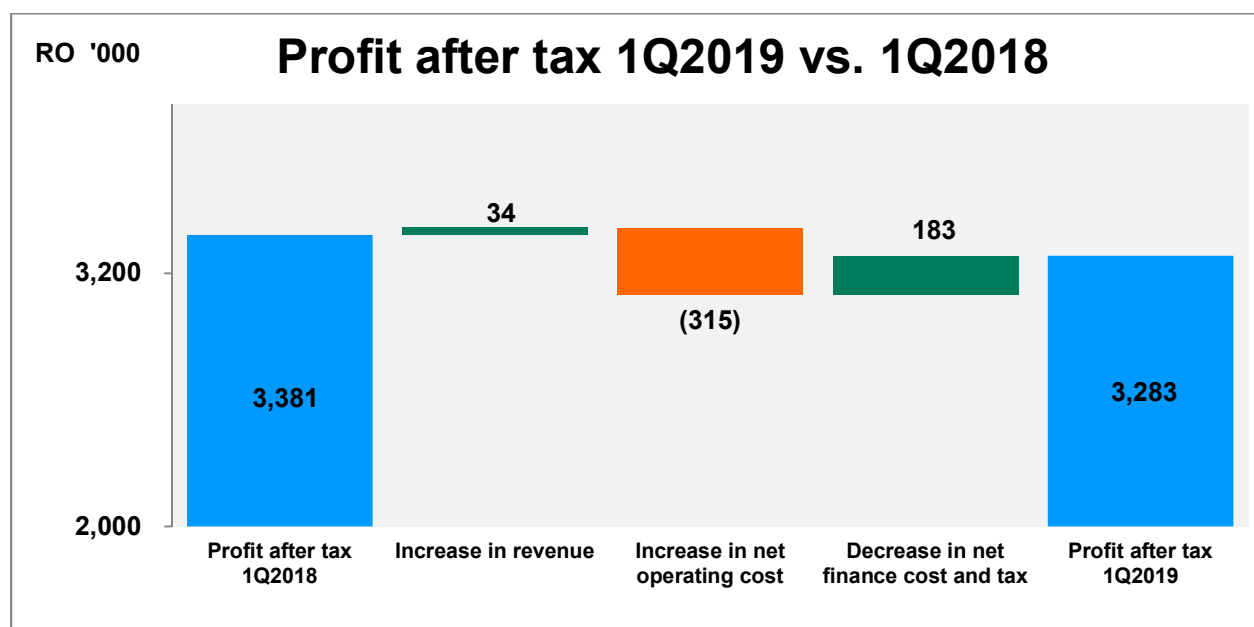
Key financial performance indicators are shown below:

	1Q2019	1Q2018
	RO million	RO million
Revenue	16.33	16.31
EBITDA	10.05	10.31
PBIT	7.35	7.63
Profit after tax	3.28	3.38



1Q2019 Profit after tax

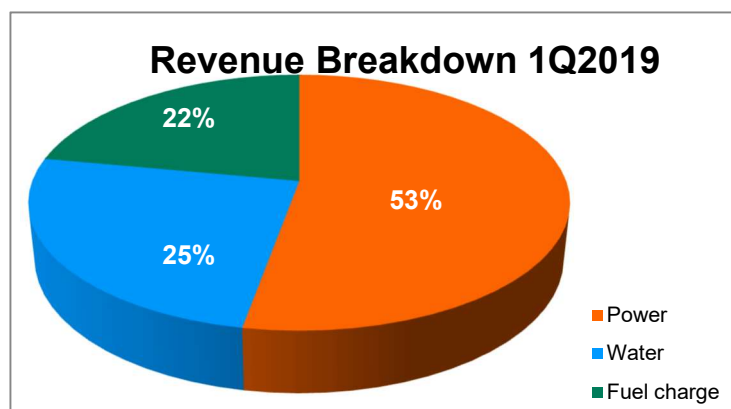
Profit after tax has reduced from RO 3.38 million in 1Q2018 to RO 3.28 million in 1Q2019. The significant variances are shown in the following waterfall chart.



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

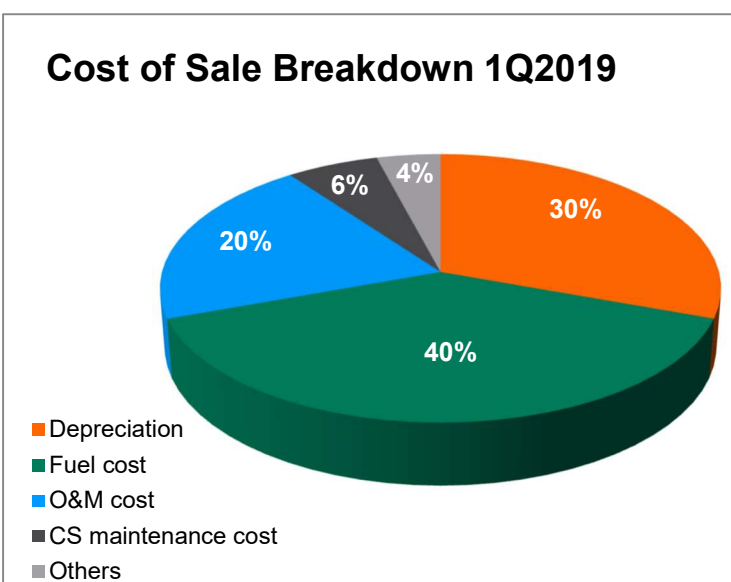
Revenue

Power contributed 53% (excluding fuel charge), 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. 1Q2019 revenue marginally increased by 0.11% as compared to the corresponding period last year.



Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and operations & maintenance (O&M) cost. Cost of sales increased as compared to the same period in 2018, mainly due to increase in operation and maintenance cost and plant insurance cost. Operation and maintenance cost increased in 1Q2019 due to increase in planned maintenance activities as per annual maintenance plan.



Net finance cost

Net finance cost decreased in 1Q2019 compared to 1Q2018 due to the scheduled repayment of part of the term loan in line with the financing documents.

Financial position

		as at 31 March 2019	as at 31 December 2018	as at 31 March 2018
Total assets	RO million	326.40	331.08	336.76
Total liabilities	RO million	229.08	232.69	240.16
Shareholders' funds	RO million	106.44	106.40	105.34
Shareholders' equity	RO million	97.32	98.39	96.60
Current ratio		1.04:1	1.35:1	1.40:1
Gearing ratio		66:34	67:33	68:32
Net assets per share	RO/share	0.112	0.111	0.110

Business outlook

In 2019, the Company's focus is on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return. The Company's operating and financial performance for the year 2019 is expected to be better than the last year.