

## **SEMBCORP SALALAH POWER & WATER COMPANY SAOG**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

We are pleased to present the audited financial statements of Sembcorp Salalah Power & Water Company ("Sembcorp Salalah" or "the Company") for the six month period ended 30 June 2016 (1H2016). In 1H2016, the Company has recorded a profit after tax of RO 7.91 million compared to a profit after tax of RO 7.32 million in the corresponding period of 2015 (1H2015).

#### **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. As the largest and most energy-efficient power and water plant in Dhofar Governorate, the Plant is playing a major role in meeting the growing power and water demand. Currently, the Company is contributing more than 85% of the total electricity demand and 100% of the desalinated water demand in the region.

#### **Performance overview**

The Company's operating and financial performance for 1H2016 is better than the target.

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

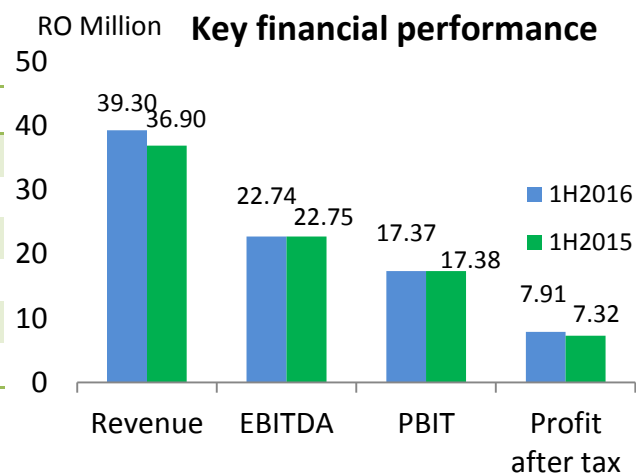
The Company has shown strong operating and financial performance in 1H2016. Key operating performance is characterised by high reliability of the power and water plants. Plant power load factor has also increased significantly as compared to the corresponding first half of 2015 mainly because of higher grid demand allocation to Sembcorp Salalah (increased from 70% to 85%). Key operating parameters for 1H2016 are noted below:

	<b>Unit</b>	<b>1H2016</b>	<b>1H2015</b>	<b>Variance</b> <b>%</b>
<b>Water Reliability</b>	(%)	99.9	99.1	0.8
<b>Power Reliability</b>	(%)	99.9	99.9	-
<b>Quantity of Water Sold</b>	(Thousand m <sup>3</sup> )	11,532	10,486	10.0
<b>Quantity of Power Sold</b>	(MWh)	1,114,088	922,467	20.8
<b>Plant Load Factor (Power)</b>	(%)	57.3	47.7	20.1
<b>Plant Load Factor (Water)</b>	(%)	92.9	85.0	9.3

## Financial performance

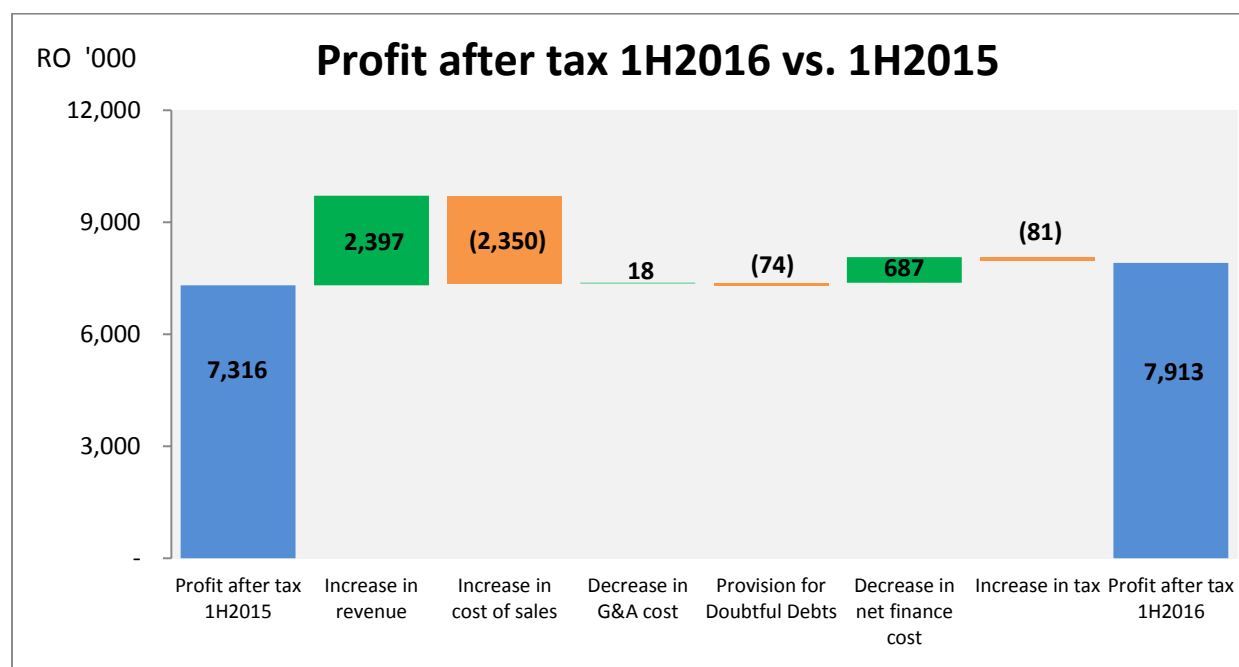
Key financial performance indicators are shown below:

	1H2016	1H2015
	RO million	RO million
<b>Revenue</b>	39.30	36.90
<b>EBITDA</b>	22.74	22.75
<b>PBIT</b>	17.37	17.38
<b>Profit after tax</b>	7.91	7.32



### 1H2016 Profit after tax

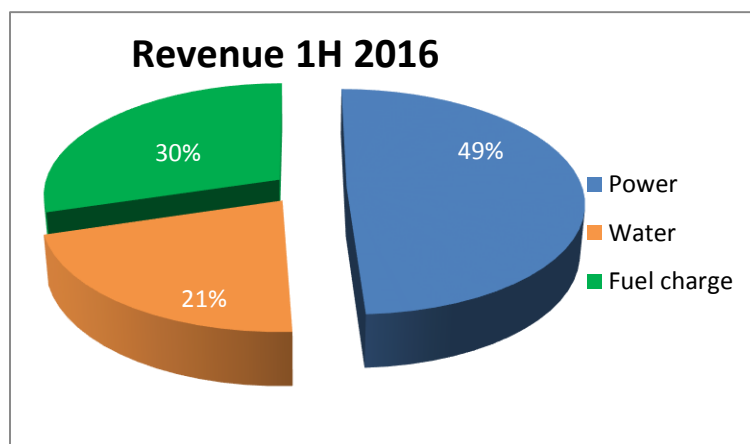
Profit after tax increased from RO 7.32 million in 1H2015 to RO 7.91 million in 1H2016. The significant variances are elaborated in the following waterfall chart.



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

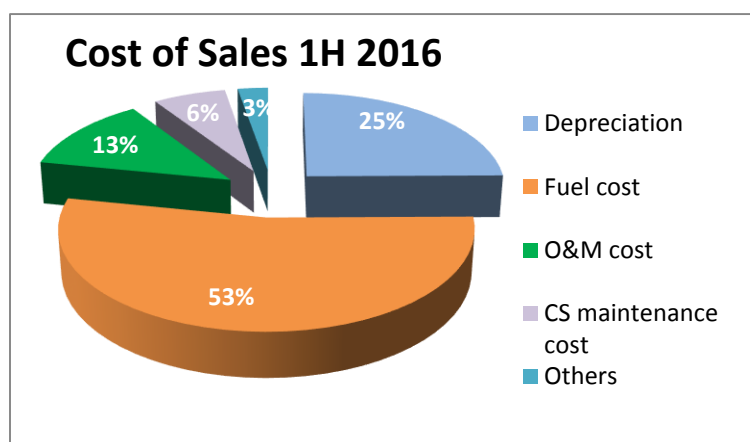
### Revenue

Power contributes 49% (excluding fuel charge) and water contributes 21% to overall revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the Plant model. Fixed capacity charge revenue is higher by 0.80% mainly because of higher plant reliability as compared to the corresponding period last year. Fuel Charge revenue is higher by 22% due to an increase in the plant load factor and gas price indexation adjustment of 3%.



### Cost of sales

Cost of sales mainly comprises depreciation of property, plant and equipment, fuel cost and operation & maintenance (O&M) cost. Cost of sales has increased in comparison with the same period in 2015 as a result of higher O&M cost and fuel cost. Fuel cost increased due to increase in plant load factor and gas price indexation adjustment. As fuel cost is pass through in nature there is a corresponding increase in fuel charge revenue as mentioned above.



### Net finance cost

Net finance cost decreased in 1H2016 compared to 1H2015 due to the scheduled repayment of part of the term loan in line with its financing documents.

### Financial position

		30 June 2016	30 June 2015	31 December 2015
Total assets	RO million	359.56	368.55	359.09
Total liabilities	RO million	279.18	284.83	277.93
Shareholders' funds	RO million	107.38	105.26	102.80
Shareholders' equity	RO million	80.37	83.72	81.16
Current ratio		1.90:1	1.85:1	1.73:1
Gearing ratio		74:26	74:26	74:26
Net assets per share	RO/share	0.112	0.110	0.108

***Risks and concerns***

We are in discussion with OPWP to compensate the Company for the incremental oil costs incurred to support grid dispatch during a planned gas supply outage by the Ministry of Oil & Gas on 25<sup>th</sup> March 2016. There are no other major risks and concerns in addition to the business' normal operational risks as described in the IPO prospectus.

***Business Outlook***

Barring any unforeseen circumstances, the Company's profitability and cashflow are expected to remain stable.