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 three-month period ended March 31, 2017 (1Q2017). In 1Q2017, the Company has recorded a profit after tax of RO 0.3 million. The profit after tax has reduced to RO 0.3 million in 1Q2017 as compared to RO 3.2 million earned in the corresponding quarter in 2016 (1Q2016). This is mainly because of a one-off deferred tax impact of RO 3 million arising due to change of tax law where the tax rate has increased to 15% from 12%. If we exclude this impact, the results of 1Q2017 are slightly better than last year. This accounting adjustment does not affect the cash flow of the Company.

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. Being the largest and most energy-efficient power and water plant in the Dhofar Governorate, the plant plays a major role in meeting the growing power and water demand in the region. 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 performance for 1Q2017 is better than target.

Operating performance

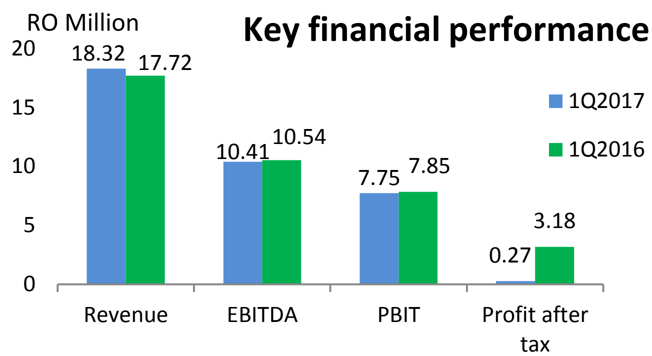
The Company has shown strong operating performance in 1Q2017. Key operating performance is characterised by high reliability of its power and water plants. The plant power load factor has also increased significantly compared to the corresponding quarter in 2016, mainly because of higher grid demand allocation to Sembcorp Salalah to capitalise on higher energy efficiency offered by combined cycle technology. Key operating parameters for 1Q2017 are noted below:

	Unit	1Q2017	1Q2016	Variance %
Water Reliability	(%)	99.8	100	-0.25%
Power Reliability	(%)	99.8	99.9	-0.15%
Quantity of Water Sold	(Thousand m^3)	5,772	5,609	2.91%
Quantity of Power Sold	(MWh)	512,794	403,589	27.06%
Plant Load Factor (Power)	(%)	53.35	40.6	31.40%
Plant Load Factor (Water)	(%)	94.05	88.5	6.27%

Financial performance

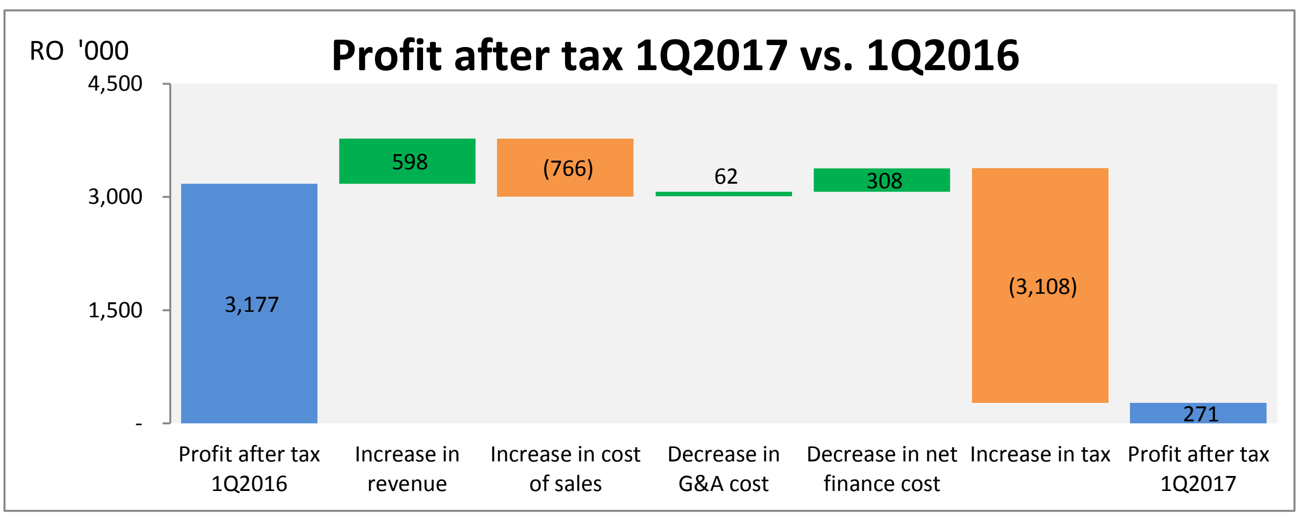
Key financial performance indicators are shown below:

	1Q2017	1Q2016
	RO million	**RO million**
Revenue	18.32	17.72
EBITDA	10.41	10.54
PBIT	7.75	7.85
Profit after tax	0.27	3.18



1Q2017 Profit after tax

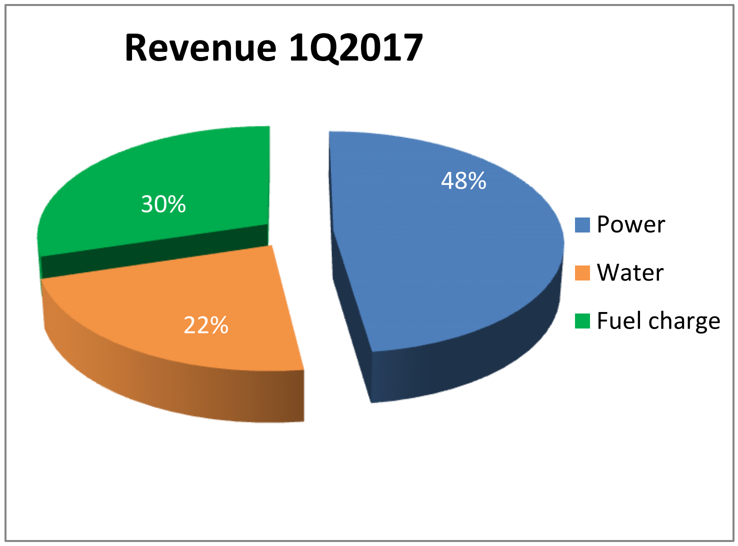
Profit after tax reduced from RO 3.18 million in 1Q2016 to RO 0.27 million in 1Q2017. The significant variances are elaborated in the following waterfall chart.



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

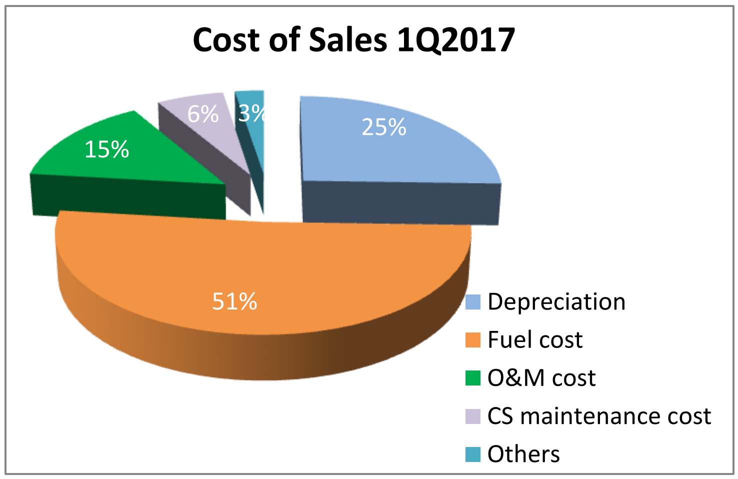
Revenue

Power contributes 48% (excluding fuel charge), water 22% and fuel charge 30% to the total revenue. Fuel charge revenue is a pass through and is calculated based on consumption of natural gas calculated by the Plant model. 1Q2017 Revenue has increased by 3% as compared to the corresponding period last year. The increase was mainly due to higher plant load factor that resulted in increased fuel charge and variable energy charge revenue.



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 has increased compared to the same period in 2016 as a result of higher fuel cost, O&M cost, and Long-Term Maintenance Agreement (LTMA) 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. O&M and LTMA costs have increased mainly due to higher maintenance activities and increase in factored fired hours respectively as compared to last year.



Net finance cost

Net finance cost decreased in 1Q2017 compared to 1Q2016 due to the scheduled repayment of part of the term loan in line with its financing documents.

Tax expense

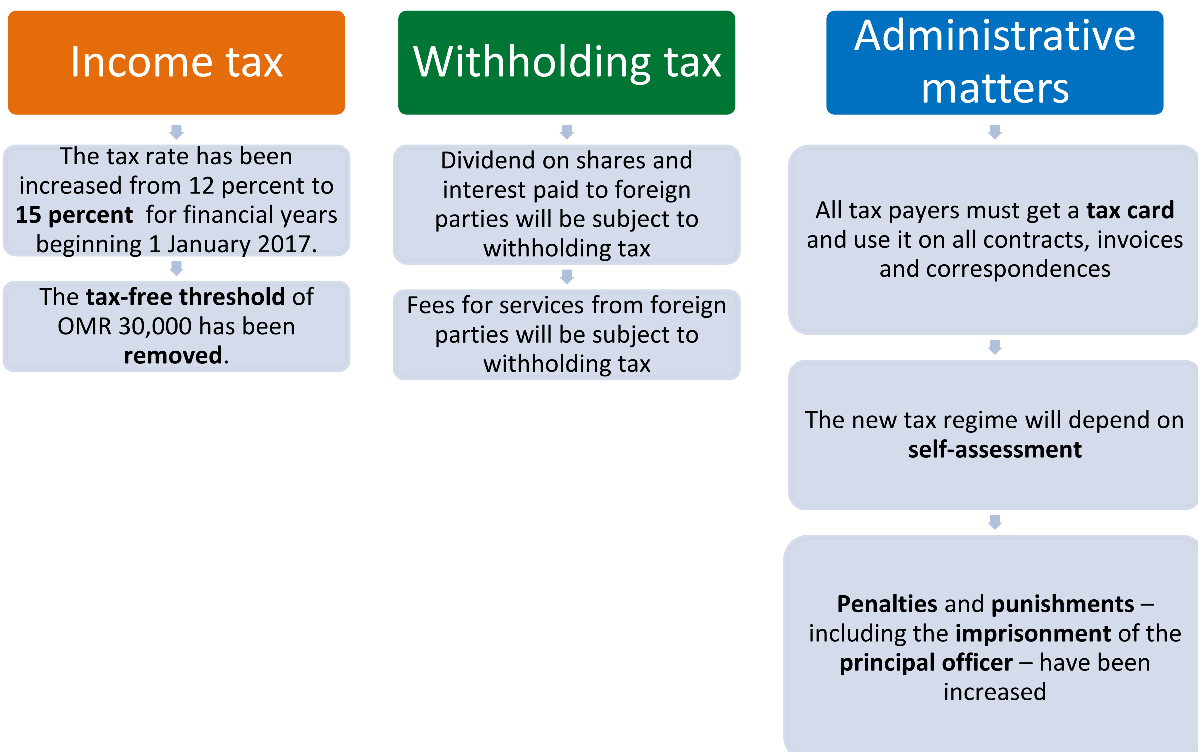
Tax expenses increased by RO 3.1 million compared to 1Q2016 which is mainly because of a one-off deferred tax impact of RO 3 million resulting from the increase in tax rate from 12% to 15%.

Financial position

		as at 31 March 2017	as at 31 December 2016	as at 31 March 2016
Total assets	RO million	343.03	349.24	354.48
Total liabilities	RO million	256.83	261.21	277.49
Shareholders' funds	RO million	101.10	104.26	102.64
Shareholders' equity	RO million	86.20	88.04	76.99
Current ratio		1.34:1	1.50:1	1.24:1
Gearing ratio		72:28	72:28	75:25
Net assets per share	RO/share	0.106	0.109	0.108

Risks and concerns

On February 19. 2017, the Government of Oman promulgated new income tax law via Royal Decree No. 9/2017, which introduced significant changes in the tax law as detailed below:



As a result of the increase in tax rate from 12% to 15%, deferred tax expense increased by RO 3.1 million including a one-off deferred tax impact of RO 3 million on deferred tax liability pertaining to prior years. This one-off deferred tax adjustment does not affect the cash flows for the year 2017.

Withholding tax on interest and services might also have an impact on the profitability of the Company. The new tax law could have an impact of up to RO 4 million on the profitability of the Company without considering relief from OPWP under the change of law clause of PWPA.

As a mitigation measure, the Company has started a process of seeking contractual recourse of new tax law impact from OPWP. It is not clear at this juncture what OPWP's posture will be on the new tax law impact and reimbursement mechanism. We expect that OPWP will take considerable time to accept our claim and to clarify the reimbursement mechanism.

Business outlook

Beyond the tax impact mentioned above, the business outlook for 2017 is expected to be similar to the year 2016.