

MANAGEMENT DISCUSSION AND ANALYSIS

We are pleased to present the audited financial statements of Sembcorp Salalah Power and Water Company (Sembcorp Salalah or the Company) for the first six months of 2015 ended 30 June 2015 (1H2015). In 1H2015, the Company recorded a profit after tax of RO 7.32 million compared to a profit after tax of RO 7.87 million in the corresponding period of 2014 (1H2014), while profit before interest and tax (“PBIT”) was RO 17.38 million in 1H2015 compared to RO 18.78 million in 1H2014.

Business overview

The Company’s core business activity is to provide electricity and water in the region of Dhofar. Contracted capacity of the power plant and water plant is 445 MW and 15 MiGD respectively. The Company receives revenue based on the availability of its plant, which ensures that its business model is stable.

Performance overview

Operating performance

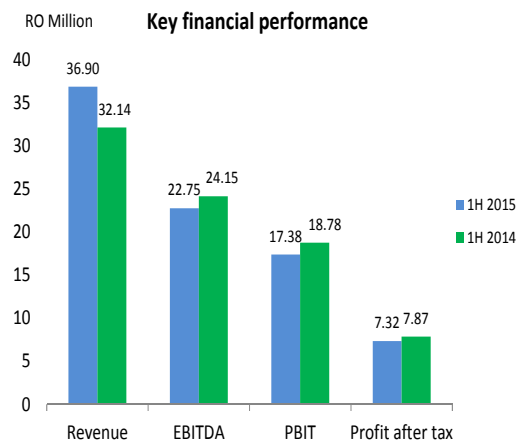
The Company has shown strong operating and financial performance in 1H2015. As of 30 June 2015, the Company was contributing more than 70% of the total electricity demand and 100% of the desalinated water demand in the Dhofar Governorate. Key operating performance is characterised by high reliability of the power and water plants. Key operating parameters for 1H2015 are noted below:

	Unit	1H2015	1H2014
Water Reliability	(%)	99.1	99.7
Power Reliability	(%)	99.9	99.9
Quantity of Water Sold	(Thousand m ³)	10,486	11,991
Quantity of Power Sold	(MWh)	922,467	933,848
Plant Load Factor (Power)	(%)	47.7	48.3
Plant Load Factor (Water)	(%)	85.0	97.2

Financial performance

Key financial performance indicators are shown below:

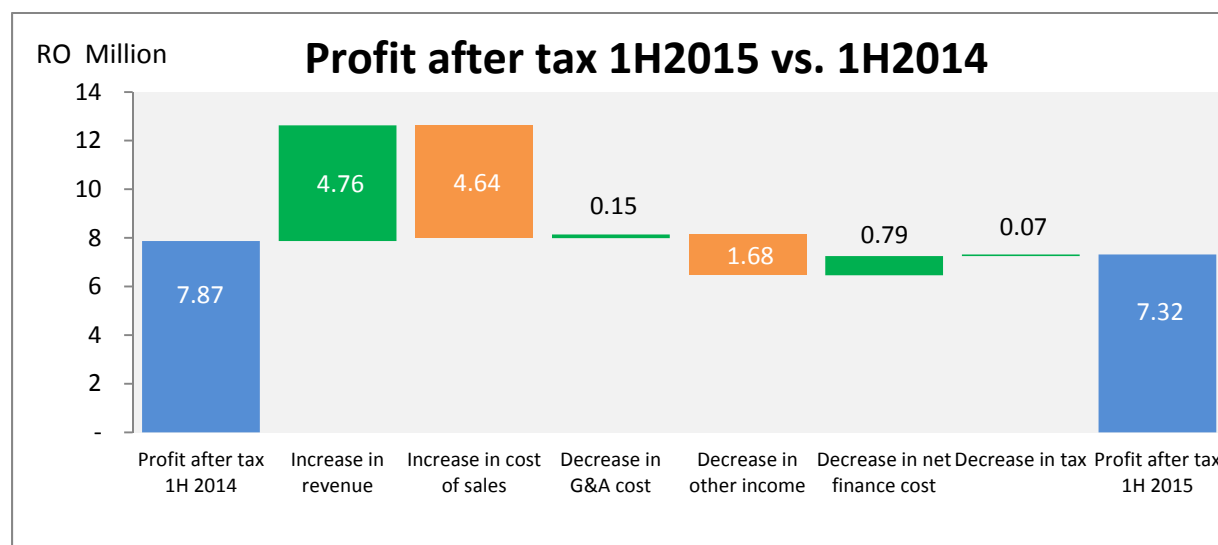
	1H2015	1H2014
	RO million	RO million
Revenue	36.90	32.14
EBITDA	22.75	24.15
PBIT	17.38	18.78
Profit after tax	7.32	7.87



1H2015 profit after tax and PBIT was lower than 1H2014 because of one off liquidated damages settlement gain and other income of RO 1.7 million recognised last year. Excluding this gain, 1H2015 results were better than the corresponding period last year.

1H2015 Profit after tax

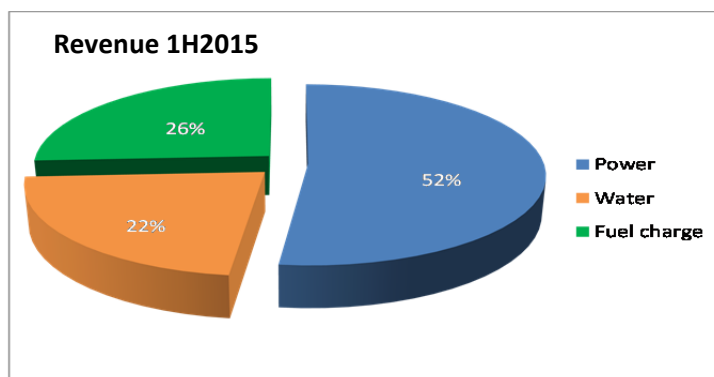
The significant variances are elaborated in the following waterfall chart.



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

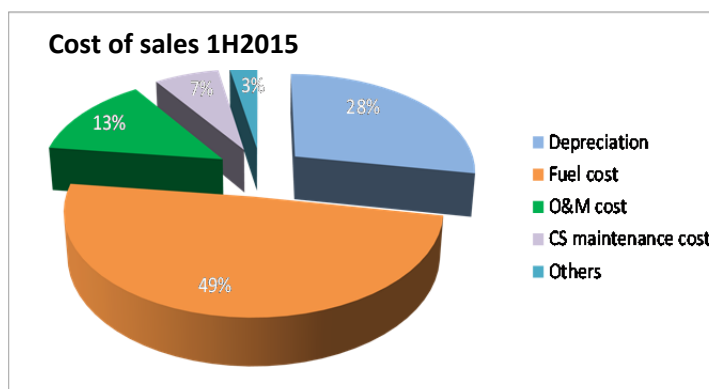
Revenue

Power contributes 52% (excluding fuel charge) and water contributes 22% 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 an increase in gas price.



Cost of sales

Cost of sales mainly comprises the depreciation of property, plant and equipment and fuel cost which is pass through in nature. Cost of sales has increased in comparison with 2014 as a result of higher operation and maintenance (O&M) cost and fuel cost. Fuel cost increased due to increase in gas price by the Ministry of Oil and Gas. As fuel cost is pass-through in nature, there is corresponding increase in fuel charge revenue as mentioned above.



Net finance cost

Net finance cost decreased in 1H 2015 compared to 1H 2014 due to the repayment of term loan in line with its financing documents.

Financial position

		30 June 2015	30 June 2014	31 December 2014
Total assets	RO million	372.02	381.47	371.54
Total liabilities	RO million	288.31	298.19	293.26
Shareholders' funds	RO million	105.26	105.79	101.95
Shareholders' equity	RO million	83.72	83.27	78.28
Current ratio		1.64:1	1.50:1	1.75:1
Gearing ratio		74:26	75:25	76:24
Net assets per share	RO/share	1.10	1.11	1.07

Business Outlook

The Company is expected to meet its forecast profit after tax for 2015 as projected in its IPO Prospectus.