**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 nine-month period ended September 30, 2017 (9M2017). In 9M2017, the Company has recorded a profit after tax of RO 7.6 million compared to a profit after tax of RO 11.3 million in the corresponding period of 2016 (9M2016). Reduction in Profit is mainly because of a one-off deferred tax impact of RO 3 million arising from an increase in tax rate from 12% to 15% and to a smaller extent, revenue loss arising from GT5's forced outage.

## 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. 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

#### *Operating performance*

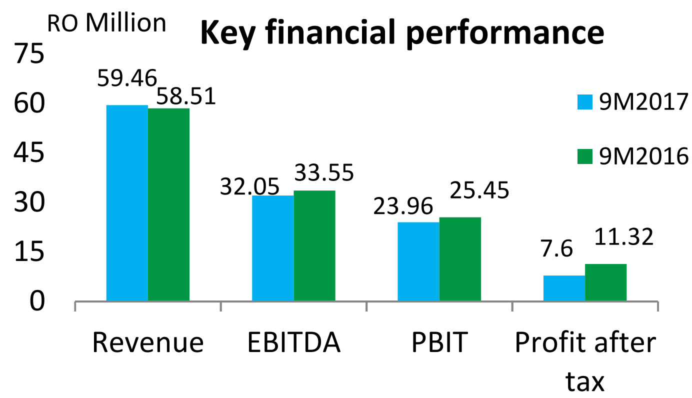
Key operating performance is characterised by high reliability of its water plant but lower reliability of its power plant compared to last year. The power plant's reliability is impacted by the failure of GT5 which requires extensive repair. However, the power plant load factor has increased significantly compared to the corresponding period of 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 9M2017 are noted below:

| | Unit | 9M2017 | 9M2016 | Variance % |
|---|---|---|---|---|
| **Water Reliability** | (%) | 99.8 | 99.4 | 0.4 |
| **Power Reliability** | (%) | 96.8 | 99.6 | -2.9 |
| **Quantity of Water Sold** | (Thousand $m^3$) | 18,037 | 17,400 | 3.5 |
| **Quantity of Power Sold** | (MWh) | 1,950,442 | 1,749,695 | 10.3 |
| **Plant Load Factor (Power)** | (%) | 66.9 | 59.8 | 10.6 |
| **Plant Load Factor (Water)** | (%) | 96.9 | 93.1 | 3.9 |

***Financial performance***

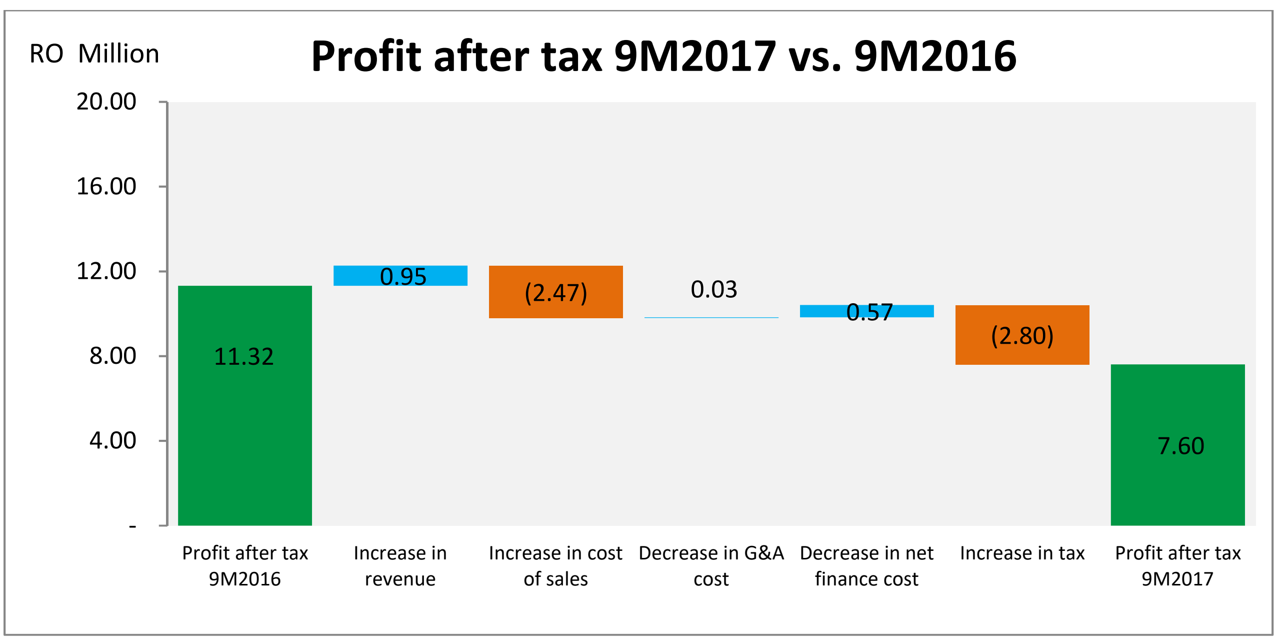
Key financial performance indicators are shown below:

| | 9M2017 | 9M2016 |
|---|---|---|
| | **RO million** | **RO million** |
| **Revenue** | 59.46 | 58.51 |
| **EBITDA** | 32.05 | 33.55 |
| **PBIT** | 23.96 | 25.45 |
| **Profit after tax** | 7.60 | 11.32 |




***9M2017 Profit after tax***

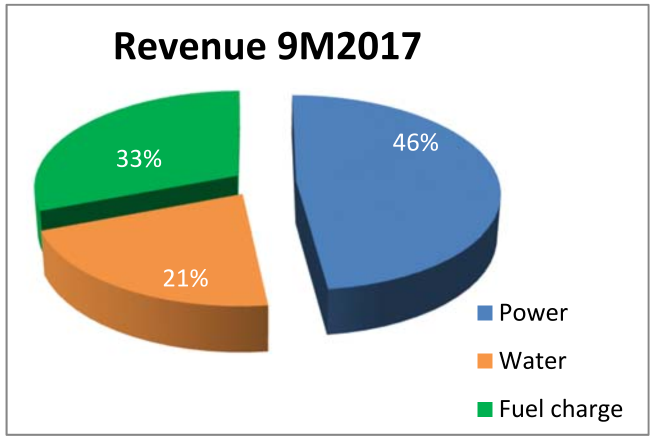
Profit after tax has been reduced from RO 11.32 million in 9M2016 to RO 7.6 million in 9M2017. The significant variances are elaborated in the following waterfall chart.




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

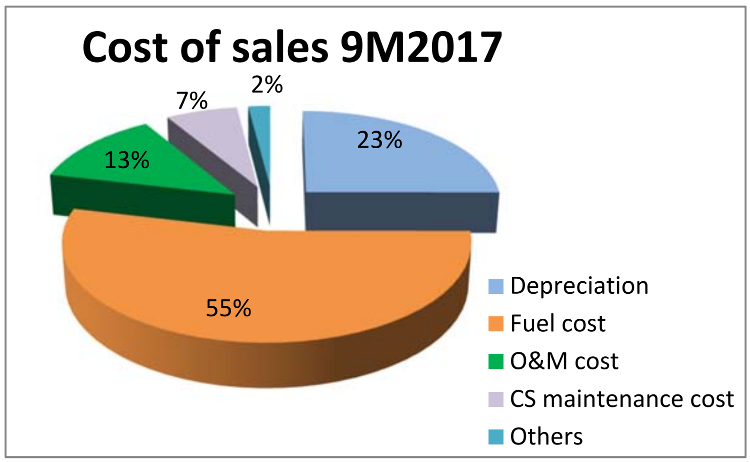
*Revenue*

Power contributes 46% (excluding fuel charge), water 21% and fuel charge 33% to total revenue. Fuel charge revenue is a pass through and is calculated based on the consumption of natural gas calculated by the Plant model. 9M2017 Revenue has increased by 1.6% 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 net off with lower capacity charge due to the unexpected GT5's forced outage.




*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 in comparison with the same period of 2016 as a result of higher fuel cost, O&M cost and Long-Term Maintenance Agreement (LTMA) cost. Fuel cost has 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 preventive maintenance activities and increase in factored fired hours respectively as compared to last year.




*Net finance cost*

Net finance cost decreased in 9M2017 compared to 9M2016 due to the scheduled repayment of part of the term loan in line with its financing documents.

*Tax expense*

Tax expenses increased by RO 2.8 million compared to 9M2016 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% net off with prior year adjustment.

*Financial position*

| | | 30 September 2017 | 31 December 2016 | 30 September 2016 |
|---|---|---|---|---|
| Total assets | RO million | 342.6 | 349.24 | 353.7 |
| Total liabilities | RO million | 248.56 | 261.21 | 267.2 |
| Shareholders' funds | RO million | 108.43 | 104.26 | 110.8 |
| Shareholders' equity | RO million | 94.04 | 88.04 | 86.5 |
| Current ratio | | 1.54:1 | 1.50:1 | 1.56:1 |
| Gearing ratio | | 69:31 | 72:28 | 72:28 |
| Net assets per share | RO/share | 0.114 | 0.109 | 0.116 |

*Risks and concerns*

**New tax law**

The new tax law was issued in February 2017 which increased the tax rate from 12% to 15% and levied withholding taxes on services, interest payment and dividend payment. 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.

**GT5's forced outage**

On 20 August 2017, Gas Turbine #5 (GT5) tripped after generator protections acted. Since then GT5 has been opened for repair and maintenance. The Company has made the required notifications to Insurance Companies and the damage claim process has been initiated. To date, the impact of GT5's forced outage is RO 0.9 million. The company has placed order for a new replacement rotor for the unit, which has been delivered to site, and expects to complete repair of the unit during the first half of November 2017.

**Business Outlook**

The Company has been and is taking all reasonable measures to mitigate the financial impact of the new tax law and GT5's forced outage to the fullest extent possible. Beyond tax impact and GT5's forced outage mentioned above; the business outlook for 2017 is expected to be better than year 2016.