

# 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 nine-month period ended September 30, 2020 (9M2020). In 9M2020, the Company has recorded a profit after tax (PAT) of RO 14.4 million. The profit after tax increased to RO 14.4 million in 9M2020 as compared to RO 11.5 million earned in the corresponding period in 2019 (9M2019). The increase in profit is mainly because of Cyclone Mekunu insurance claim settlement, lower operating expenses and lower finance 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 45% to 50% of the power demand and 100% of the desalinated water demand in the region for 9M2020.

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. However, plant load factor 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 operating and maintenance and financial performance for 9M2020 is detailed below.

### Operating and maintenance

#### Operating performance

The Company has shown strong operating performance in 9M2020. Key operating performance is characterised by high reliability of its power and water plants. The Company’s power plant load factor has reduced by approximately 20% mainly because of lower demand in the region. Key operating parameters for 9M2020 are noted below:

	Unit	9M2020	9M2019	Variance
Water Reliability	(%)	99.70	99.95	-0.2%
Power Reliability	(%)	99.85	99.93	-0.1%
Quantity of Water Sold	(Thousand m <sup>3</sup> )	18,676	18,491	1.0%
Quantity of Power Sold	(MWh)	1,127,434	1,403,124	-19.6%
Plant Load Factor (Power)	(%)	38.53	48.12	-19.9%
Plant Load Factor (Water)	(%)	99.96	99.33	0.6%

#### Maintenance

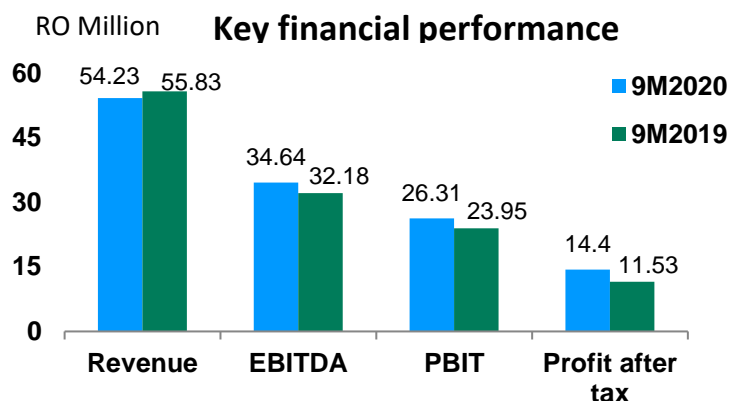
The Company continues to diligently and proactively perform maintenance of the plant to improve plant operation, efficiency and its sustainability. During 9M2020, the Company completed major inspection of steam turbine, combustion inspection of two gas turbine as well as power and water plant DCS upgrade.

### Financial performance

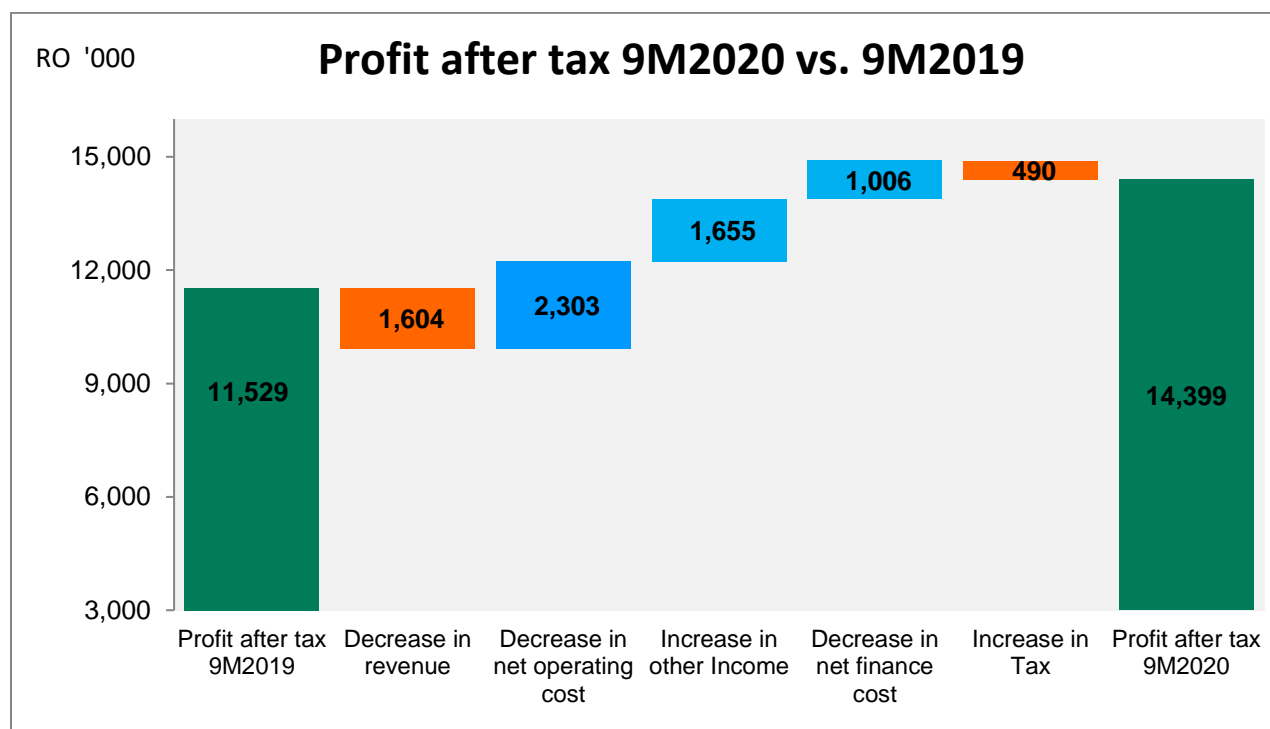
Key financial performance indicators are shown below:

	9M2020	9M2019
	RO million	RO million
<b>Revenue</b>	54.23	55.83
<b>EBITDA</b>	34.64	32.18
<b>PBIT</b>	26.31	23.95
<b>Profit after tax</b>	14.40	11.53

### 9M2020 Profit after tax



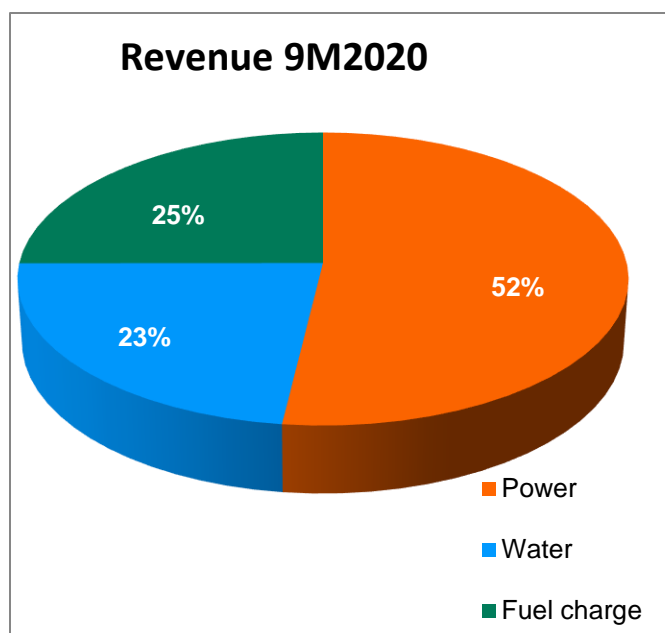
Profit after tax increased from RO 11.5 million in 9M2019 to RO14.4 million in 9M2020. The significant variances are shown in the following waterfall chart.



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

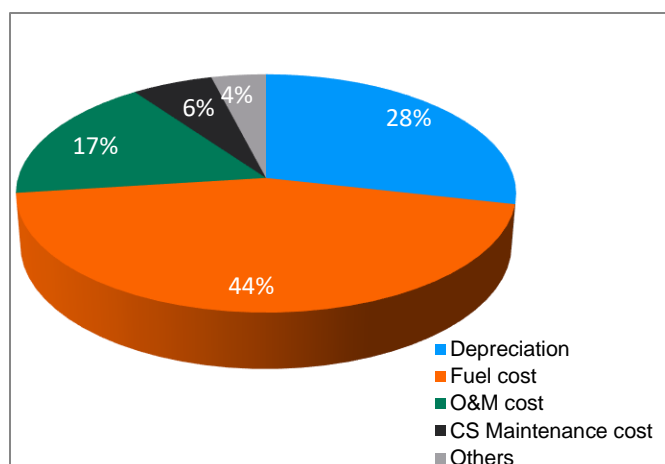
### Revenue

Power contributed 52% (excluding fuel charge), water 23% and fuel charge 25% 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. Fuel charge and variable energy charge revenue decreased by 12% and 17% respectively compared to the corresponding period last year mainly because of lower power plant load factor. Reduction in fuel charge and variable energy charge revenue does not affect the profitability significantly because cost of revenue also reduces in tandem with the reduction of these revenue. 9M2020 Capacity charge revenue increased by 1% mainly due to leap year impact.



### 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 decreased by 8% compared to the same period in 2019 as a result of lower fuel cost, lower Long-Term Service Agreement (LTSA) cost and lower O&M cost. Reduction in fuel cost and lower LTSA costs is due to lower plant load factor which is in line with the reduction in revenue (as mentioned above). Lower operation and maintenance cost is mainly due to lower consumables and maintenance cost.



### Other income

Other income in 9M2020 is mainly from settlement of Insurance claim in compensation of business interruption and property damage loss arising from Cyclone Mekunu in 2018.

### Net finance cost

Net finance cost decreased in 9M2020 compared to 9M2019 due to the scheduled repayment of part of the term loan in line with the financing documents

### Income tax expense

Income tax expenses increased mainly due to increase in profit for 9M2020 as compared to the corresponding period last year.

## Financial position

		as at 30 September 2020	as at 31 December 2019	as at 30 September 2019
Total assets	RO million	338.02	330.56	326.98
Total liabilities	RO million	227.58	229.14	223.85
Shareholders' funds	RO million	123.25	111.43	114.68
Shareholders' equity	RO million	110.44	101.42	103.14
Current ratio		0.94:1	1.05:1	1.04:1
Gearing ratio		58:42	63:37	63:37
Net assets per share	RO/share	0.129	0.117	0.120

## COVID-19 Pandemic

As the novel coronavirus (COVID-19) spreads beyond China and becomes a global pandemic, this outbreak will inevitably impact economies and businesses.

In the nine months of 2020, the Company has not experienced any significant pandemic-related impact on its operating and financial performance. The Company's maintenance plan for major equipment remains unchanged.

The Company is closely monitoring the developing situation of the pandemic at country, regional and global level and will continue to evaluate and assess the effects of pandemic and has taken all possible measures to mitigate the risks arising from the COVID-19 situation. In the event the Company foresees any impact, the Company will be able to seek contractual relief as mentioned in Power and Water Purchase Agreement.

## Business outlook

2020 is expected to be challenging year due to evolving COVID-19 pandemic situation, continued pressures arising from local regulatory and economic environment; greater requirement for plant maintenance and increased repayment profile. The Company will continue to focus on better cost management, financial and cash management; improving productivity and efficiency in order to maximise Shareholders' return.