

## ACWA Power Q3 Earnings Results – Call Transcript

Thursday, November 11, 2021 16:00 KSA

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**Ozgur Serin** Thank you very much, Sam, for the instruction, and good morning and good afternoon, everyone. A very warm welcome from ACWA Power and the ACWA Power team in our first investor earnings conference call. Obviously, all of you know that the first one following our landmark IPO on the Saudi exchange, which is Tadawul, just a month ago. It's a pleasure to address you today and thank you for participating.

Together with me today as the host of the call, I have Paddy, Paddy Padmanathan, who's the President and CEO of ACWA Power, and I also have Kashif Rana, who's the CFO of ACWA Power. We will soon take you through our prepared material for this call. It's a very short business update, actually, and it will be focusing on obviously the recently announced financial results of the company. Following that, we will take your questions.

Before we start, please note that you can find all the material in relation to this call, our financial statements, as well as a few other interim performance reports on the company's website IR page. And also, please note that this call may include forward looking statements, as you are also aware of. And for that, please refer to the disclaimer on the website and on the material of the call. Without further ado, I would like to pass the call to Paddy now. Thank you.

**Paddy Padmanathan** Thank you, Ozgur. You can hear me. Thank you, Ozgur, and good day to all of you. Thank you very much for spending the time with us. I am truly privileged to be able to participate in this first investor conversation post the IPO. Jumping straight into the macro detail. Our performance continues to be in line with our expectations, including this Q3 performance. Let's discuss that in fine strands of value proposition that we bring to you, as investors.

We continue our positioning as the market leader in the high-growth attractive markets. During this quarter, we have gone on to financially close Sudai, very large PV project, 1,500 MW, and it triggers the PIF pipeline of projects that is going to be an anchor for us as we go forward over the next nine years. That's already gone into construction.

DEWA V Phase A, the first block, 300 MW, initial commercial operation, this is a really spectacular plant that is to deliver, reliably, electricity day and night for Dubai. And then another landmark achievement, Jazan, financial close, and the Group A, this is the gasification project that gasifies residue and feeds it into a powerplant and produces other gases.

And this plant, Group A, the asset has been transferred in October, so that's another landmark transaction that has come to fruition. And then we've gone on in Egypt to secure approval for a 1,100 MW wind plant. So, these are fairly major new projects or progressing projects during the quarter achievements. On the ESG strand, it's something that we are very, very committed to, making sure that we live up to the decarbonisation commitments that we have offered that you're very familiar with.

There are two specific activities that took place during this quarter that are reflected in the numbers. One of them is that we have sold our position in an oil fired powerplant, Shuqaiq, IWPP. There are more details elsewhere. And we have retained the operational maintenance of it, but we have sold our investment position on it. That has an impact, and that impact has been factored in.

We have also restricted the useful life of two oil fired assets to the contract life. So, again, we have taken some impairment losses, but very much in keeping with our ESG commitments. We continue to pursue the de-risked model contracted, diversified, resilient and visible cashflows. So, today, 82% of our portfolio is younger than five years, and of course, as you know, 100% of it is contracted.

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NOMAC continues to grow as more and more assets come online. It continues to offer us stable cashflows. And finally, looking at the financials, the superior returns across the lifecycles. At the high level, Kashif will go into quite a bit of detail here, but on a very, very high level, the performance is very much as we have expected. 1.7 billion operating profit, flat, compared to a year ago, but a marginal improvement on net profit, an increase in net profit. It's one billion, compared to the last quarter, this time last year. And the bottom line is still now that we are through Q3, we can be more confident in maintaining our guidance on what the year-end will look like. But most importantly, now that we have achieved the financial closure in Jazan, we can be confident of how that is going to impact us, as we go through to the final quarter, as also, more importantly, thereafter as we go forward into the future years, starting with 2022.

So, the key business development in the third quarter, I think I've highlighted it already, the 1,500 MW Sudair project is the most exciting one, which has gone into construction now. And as I said, that triggers the commencement of the PIF programme, which is to deliver 75% of the committed renewable energy portfolio that the Kingdom intends to develop and feed into the grid by 2030.

The first block of DEWA now coming online, DEWA V Phase A, the 300 MW, that is also quite a landmark achievement. And a significant revenue generator for us, Jazan IGCC, now that first lot of assets have been transferred to us, financially closed. It sets up a framework for us to now generate quite a bit of revenue as we go forward. And the last piece is yes, it has been a negative impact on our financials, as expected. The sale of the oil fired asset and also, taking impairments on two of the other oil fired assets, all as part of our commitment to be net zero by 2050. And in fact, to be 50% down on emissions by 2030, itself. With that, let me pass you on to Kashif, who will take you through, in a little bit more detail, on how we're going to report in future and the financials. Kashif.

**Kashif Rana** Thank you, Paddy, and once again, salaam alaikum and good afternoon, or possibly good morning to some of the people who have joined us from the west side. In the next few slides, I'm going to take you through the report that we've already put out there and explain the performance a bit. Before I do that, I just want to touch on what are the key reporting metrics that the IR team is going to be using to share information that with you all on an annual basis.

So, what you will have remembered in terms of some of you who have joined us before on some of the calls we've done, as well as the investor meetings, we have monitored our performance on the five key financial metrics. So, you're looking at the operating income before impairment loss and other expenses, the adjusted profit and loss, which is attributable to equity holders of the parent (ACWA Power).

And then we have the parent operating cashflow, the total parent net leverage, and the parent net leverage ratio. But these five financial metrics that we monitor ourselves on, and other than that, we also will be reporting and sharing with you, operational and other metrics, which is the plant availability, a key driver of our financial results on our portfolio. And then also, on the safety front, we have LTIR, as well as the ESG.

So, these are the different metrics you will get to see from us over the course of these calls... When you see them, so if you look at it on the operating income and adjusted profitability, which are the key metrics on the financial side, we will be reporting to yourselves on a quarterly basis as we go forward. And some of the other metrics, which are to do with the parent operating cashflow, the total parent level net leverage and the parent net leverage ratio, along with our operating metric, we will be sharing with you on a semi-annual basis.

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And there is a reason why we have distinguished the two of them. We believe that unless and until there is something [material] that is going change between quarters. We do believe that on a semi-annual basis, these kinds of metrics will probably stand up better, instead of on a quarterly basis. However, if there is something unexpected that is material. We will make sure that we start reporting as well on a quarterly basis.

On the IR reporting tool for the different platforms that you will get to see our results on. If you look at, obviously, the Tadawul regulatory reporting we present to see the results that are reported over there. But then you will also realise that there is a difference between what you see over there, as well as the key financial performance indicators that we have, which is in, for example, in relation to the operating profit and loss.

You will see, from the company side, that we will be talking about the operating profits before impairment and other expenses. Whereas on the net that you will see on the Tadawul, you will see the company talking more about the adjusted net profit attributable to the company... So, that's on the regulatory front. On the additional company reporting, this is where we will be very focused as we go forward on a quarterly basis.

You will see, not only the interim performance report, which you have just seen the first draft, for example, of it. We already put it up in terms of when the financial results were disclosed. But we will be following it up, and we have done already with the business update presentation that you can see on the screen now. On a semi-annual basis... As we go forward, we will be developing a much more detailed pack, which is what we call the comprehensive performance report.

And this will be also relieved along with we will have an earnings call and a webcast as well. Now, on the additional company reporting quarterly basis, this is the first time that as a listed company we have gone ahead and arranged for the quarterly call. But unless there is a need to do so in the future, you will be usually interacting with you on a semi-annual basis.

If we can move to the next slide, where we talk about the key factors. Paddy has already referred to some of them, but the key factors that have affected the financial results in the third quarter, in comparison with 2020, you will have seen there are three main events that have really taken place. The first one being the IPO employee incentive plan.

This was a plan that was approved by the Board and to be granted to the employees of ACWA Power, which was comprising both shares and cash benefits that were granted on September 28th, 2021. So, therefore, we reported the complete expense of this in Q3 2021. And this was the total amount of 280 million that was being shared in cash, and this was, I think, in line with what we have given in terms of disclosure, both in the prospectus, as well as the previously previous meetings and calls we've had.

The second event, that continues for the full year, it's been there since the 1st of January 2021, and I also shared with you earlier is the accelerated depreciation on two of the oil-fired assets of the company. One of them for Shuqaiq, the other one, Rabigh. And we have restricted the lives of these assets, over the lives of the PPAs. And we have already taken an impact in Q3 of SAR 50 million and on a year-to-date basis of SAR 149 million.

The third event in relation to the events that Paddy described earlier is the loss that we have reported on the sale of Shuqaiq. And Paddy has explained that we have done so for two reasons, one is the capital recycling that we would have ended up undertaking, but more importantly, it's ensuring that we can deliver on the commitments that we have made during the IPO, itself, in terms of bringing down the overall brown emissions for the portfolio by 2030.

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As a result of which, this does go a long way to fit into this plan So, those are the three main events that have adjusted the impact or had an impact on the third quarter, Q3, but when we look at it, we consider the year-to-date Q3 numbers, which are on the next slide, and it will give you a much better picture in terms of the results of the company, as well as in terms of how you can expect the overall performance to be for the next period.

If we can go to the next slide, which is the key financial metrics for the nine months for 2021. And as mentioned earlier, on a quarterly basis, we will be sharing with you two metrics, which is the operating income before impairment loss and other expenses, and the other one being the adjusted profit, which is attributable to ACWA Power as a parent.

On the operating income, first, we see that on face of it, it is flat versus the prior year. But this is, again, driven by the 2 main events, if you look at it in terms of the events, on the right side on the top line, we go on to explain some of the things. As you can see the operating income is better versus the previous year, which is including the likes of Al Dur, which is one of the assets we have in Bahrain. In terms of full year in operation in 2021, we have Hassyen second unit coming into operation.

We have also had development and construction management fees that has been realised... Following the financial close of Sudair, Sirdarya and Redstone. Now, these were slightly delayed to what we would have expected them to be, but we do expect that some of these impacts will appear in Q4. There will be some other assets to come through in terms of financial close.

Importantly, with two main events, which have been mentioned earlier would be the situation for the two oil-fired assets of Rabigh and Shuqaiq. And if you look at, if we did not have these events on a comparable basis our operating income would actually be higher than what we had last year and year-to-date 2020.

One of the things that we'd like to leave with you is that the outcome of the financial closing for our assets that do continue to progress and the financial close we estimate on a particular date. And that results in two different streams of cashflow and income that the company starts realising. The first one being development fee and the other one being construction and management fee.

Now, both of these get delayed as the financial close get impacted for these assets. Therefore, what we look at, we don't consider this kind of business, we don't look at it on a quarter-to-quarter basis. We do look at this business more on an annual basis, because we know we have certain commitments we have made within the year, and we will continue to deliver on an annual basis. As a result of which you will that some of our assets that we intended to close in Q3 have already moved to Q4.

For example, our Red Sea project in Saudi, we intend to achieve the financial growth of that in December now. But this was earlier in Q3, itself. But, again, the more important thing is that we will reach the financial close, we will report income that we are expecting from it. But we don't look at the development on a quarter-to-quarter basis. But it will happen.

Now, while we talk about the operating income, very importantly, the second part is the adjusted profit and loss, which is attributable to ACWA Power. We have, year-to-date 2021, which is on a comparable basis, it's sitting at SAR 974 million versus what we had for 2020 nine months, which is sitting at SAR 929 million... Now, I mentioned the word comparable, because if you look at it, the comparability, again, on a previous year basis from, again, there are two different issues.

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One is the accelerated depreciation. The accelerated depreciation, this happened for the oil-fired assets in 2021, so therefore, it will not be there in 2020. And if we adjust for that, then obviously, there is an impact. And the other one will be the discounting impact on the loan that we have from PIF. As you will recall, on the previous engagement that we have had that we do have a ten-year interest free loan from PIF that was obtained by the company around November 2020.

And the discounting impact is obviously, larger than what we had for 2020. So, on a comparable basis, the company continues to be robust in terms of the financial performance. The business update, you have seen that Paddy has presented as well. And therefore, the business update continues to be robust. Other financial results also continue to speak for themselves. That on a comparable basis, we are better than what we were in 2020.

If we go to the next slide, this is where we share with you some of the adjustments. This is important to get a sense of where we have been doing that, also in the previous conversations we have had. We have also shared that as part of the investor call, we had before, as well as the investor engagement.

And, again, was to give you a sense of in terms of how the profitability moves from being the disclosed profitability that you see on the financial statement, to the adjusted, as well as the comparable profitability. So, you get a complete sense of how things are moving and what is impacting it. As you see, the events that are coming through are rather limited in 2021.

And for the first one, being the impairment on Barka, we just take an additional impairment, of what we had a remaining amount of goodwill approximately SAR 50 million, that was there on the Barka asset. And what we did decide was that as we still don't have enough clarity from the Omani authorities, in terms of where the asset is going. So, we took a complete impairment of the remaining Barka goodwill. And now there is no remaining goodwill as far as the Barka asset is concerned.

As we look forward into Q4, we will, again, be making assessments. We do hope that we will have more clarity on this, as a result of which, we will see where we go. Overall, we have taken a significant impairment on the assets so far, but we do believe we are comfortable where we are, but we will see again in Q4. The second impact item over here as we move further down the list is the LTIP - long-term incentive plan.

This was introduced in 2021, but starting from 2020, so we have taken an impact of approximately SAR 50 million so far, but then again, there was an impact in 2020, so we included it so that on a comparability basis, And you can see that for 2021, itself, it was SAR 29 million, impact.

And the largest that does impact us in 2021, nine months, is the incentive plan for the year for the employees, which is basically our share-based plan, as well as the expense in the cash side. So, all in all, when we total them all up, we come to a point where the adjusted profitability is sitting at SAR 803 million vs SAR 929 million, but then we show you why that is.

Because on a comparability basis, it is the two items which is accelerated depreciation, and the discounting impact. And when we adjust for those, we get to the SAR 974 million vs the SAR 929 million.

As we look forward to Q4, what we wanted to share with you is what are these things that have either happened or what we are expecting to take place in Q4 to give you a sense of how the full year on the top line and why we are comfortable with the guidance we provided earlier.

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First of all, Jazan, the equity injection has been completed, as you are aware, we had the Sukuk Proceeds. We used the proceeds to fund the investment that we made on Jazan. We achieved, and Paddy mentioned earlier, in terms of what had happened regarding the assets transfer was completed in 2021, which was the 27th of October. And we expect that the contributions we were expecting to make to the Group's operating income for November and December 2021. If you recall from the previous guidance that we had indicated that we should be around SAR 100 million EBITDA (ACWA Power Share) 2021. We would expect that that should be on track. And then looking forward... We'll deliver on what we are expecting on Jazan. One of the major events that we expect to happen in 2021 Q4 is the Red Sea financial close. We are cutting it a bit close in December.

We do believe that should happen soon, and therefore, the development revenue that we expect to generate on this will be realised. And thereafter it will be the construction and management fees as well...also coming in. With all of this and what Paddy mentioned earlier, we do believe that on a full year 2021 adjusted profitability basis, the earlier guidance that we have given that you will see, like the at par 2020 adjusted profit, we do believe that we will be able to meet our guidance that we had provided earlier.

With that, I think we have reached the end of the slides, so we will now be putting it up for Q&A. I know there are some questions that have come through on the Q&A chat, but I think we might even have questions on the live platform. So, I'm going to put myself on mute and let the Q&A session begin. Thank you very much.

**Operator** Thank you. If you would like to ask a question, please press the raised hand icon on your screen, and if you have joined via Zoom or you have joined us from the phone, please press star, followed by one, on your telephone keypad. When preparing to ask your question, please ensure your line is unmuted locally. Alternatively, you can submit a written question, using the Q&A function on Zoom. Our first question comes from Indika Hemantha from Alisthithmar Capital. Please unmute locally and proceed with your question.

**Indica** Hello. Can you hear me?

**Paddy Padmanathan** Yes, we can.

**Indica** Thank you very much for the call and the really exciting news, of course, knowing the details of the results. I have two questions, mainly related to PIF, the renewable energy development programme. Just to understand, you have highlighted 11.8 giga project has already been awarded and you're actually in the process of, it's on the construction or on the development phase. I just want to understand this 11.8 billion is corresponding to 75% of the allocation? That's the first question.

And the second, with regards to the same line in your prospectus, there was one item of information, which was very important probably, the renewable total addition by 2030 is expected to be around 58 GW in terms of power. So, we just want to understand after 2025 until 2030, what is the total addition you are expecting? Is that the difference between 58 and maybe 15 GW, which has already been awarded? If you can give full clarity on that, that would be very helpful.

**Paddy Padmanathan** Let me, hopefully, I have got the question rightly. I'm not sure where you're seeing 15 GW. The first project that we have started construction on, we have achieved financial close and gone into construction on, within this PIF 58 GW programme is the overall programme for Saudi Arabia is 58 GW, let's get that

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clear, so that the numbers are correct. And as published by the government today, PIF is responsible for delivering 70% of that overall programme of the 58 GW published.

Now, it doesn't mean 58 is what it is finally. Today, that is what is published as the target to 2030. PIF is responsible to deliver 70% that. We are PIF's development and delivery partner. We have started work on the first one, which is 1.5 GW, 1,500 MW. So, the Sudair project that has gone into construction now during Q3 is 1,500 MW. It's the first in that series of projects that will come in time to come.

**Indica** My question is basically if you look at the 58 GW and then multiply it by 70%, it is around 41 GW. So, I just wanted to make sure that from that 41, you have got 11.8.

**Paddy Padmanathan** 1.5.

**Kashif Rana** Paddy, if I can take that, I can share some of the. So, the total, absolutely, as we've identified, in terms of the disclosure in the prospectus that there is 58 GW total and then it's about 41 GW, that's on the PIF pipeline. But other than that, identified pipeline was 11.8 GW. And that's what we have disclosed in the prospectus identified not awarded. That's where the confusion comes in first of all.

So, I think that clears up one of the major questions you have. But as you look forward in terms of how does, overall, for the 70% of 58 GW that gets delivered, so 11.8 was identified. We continue to work to identify the remaining pipeline as well. There will be a ramp-up in between somewhere, but we, at this stage, do not have enough information to share with you.

But we can tell you how it is going to come through between 2022, even 2023, and even 2030 as well. But as you know, the vision for 2030 is out there, the commitment of delivering on the 58 GW is out there as well and on the vision for 2030 as well, and PIF is mandated in terms of delivering their 70% of that. And the 30% is also going on. As you can see, the 30% delivery of the assets and renewables continues as well. We will have more clarity as we proceed and when we do so, we'll definitely be sharing it with the public as well.

**Indica** That's excellent. With the same line, of course, this 58, when you add the 58 to the entire generation capacity, the fossil fuel, the conventional fuel should also go down. My second question is in terms of your operational capacity right now, which is around 20 billion plus, how much of that 20 billion will reduce when you have the substitution, of course, the renewables by 2030?

**Paddy Padmanathan** The Kingdom of Saudi Arabia has publicly stated its position that it will be decommissioning all its oil-fired fleet by 2030. And we, of course, within the IPP framework, have got a few plans. So, what we have done, what I think we have highlighted to you just now, is starting to take a very prudent position. So, the first thing we have done is one of those oil-fired powerplants, power and desal plant, as it happens, we have already sold our position out. So, we're out of it.

The second, and there are two more, where we have taken an impairment in order to make sure that the life of what we have is not extending beyond the contract life of those plants. The technical life, obviously, was much longer, so therefore, we had been accounting for it, but now we have taken it back and said okay, this plant is going to get finished at the end of the contract life. So, we have already taken that prudent position.

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And over the next nine years, we will be working with the government of Saudi Arabia, in order to work with them on how they wish to re-power these assets or how they wish to bring them to an end in accordance with the contract. The contracts are very clear, and they've all got the right framework, in order to manage this process. Kashif, do you want to add anything to that?

**Kashif Rana** No. I think you've clarified that. In the end, the contract will be honoured, in terms of what they ask. I am going to pause over there... I'm also going to take the opportunity, we have a number of questions that have come in on the web, so I think we're going to just start going through those questions. While, I am sure, the others will prepare for the questions and ask them as well. So, if I can just pick up on some of the questions that have come in on the chat.

There was a question on the sharing the nine-month POCF. And as we have just shared with you, we will be sharing the POCF on a semi-annual basis. The last one we shared was in June, and you will have seen in June, when we did give you a comparison, the last 12-month POPF was what we had for 2020 as well.

You could see that our POCF for the last 12 months from June 2021 was much higher than what we had for 2020.

At the same time, we had also given an indication, and I will also repeat that now. We do expect our POCF for the full year to be significantly higher than what we had for 2020. You will obviously see more of this in 2021, when we declare the results for 2021, when we share with you exactly how much higher that is.

For the next question, what are the other assets that ACWA Power might be looking to sell, to meet their 2030 commitment? We continue to look at the portfolio and see what the best way to utilise the assets that we already have is, as well as monetise them, both from a capital recycling strategy as well as that, which you know is a very significant part of our four pillars, which is the develop-invest-operate-optimise, we will be looking at seeing how we can use that at the same point in time from an ESG point of view.

That remains one of the focuses but that does not necessarily mean that we may end up just selling down. We are exploring other opportunities and we have also disclosed in the prospectus one of the other assets. We are in a position where we might be able to convert that asset into a water asset and there's already a lot of work going on with the off-taker in relation to that. But there are other avenues we can continue to explore, to make sure that indeed we can meet the targets that we put out there.

There is another question on the insight on Uzbekistan. Paddy, I don't know whether you've seen that question. But that is on the insight on the Uzbekistan SAR 75 million CSR that we expect to do in 2022. I don't know whether you want to take that, and I will then take on the next question after that.

**Paddy Padmanathan** I can take that. So, on Uzbekistan, we are developing a training school in partnership with the government. That's one of the major social responsibility initiatives that we intend to implement. There is an allocation we are discussing with the government on what other such activity they...

There was also some community development work that was to be done on the back of some significant flood damages. So, the immediate, very concrete project that we are working with them on is on a training school. On a fairly large technical training school. Renewable energy.



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**Kashif Rana** Thank you, Paddy. I will just go to a last question. After that, we'll slip back into our direct line Q&A. So, one of the questions that came up in the chat was, any specific reason why the renewable operating segment profit significantly lower than last year?

Well, there are two reasons particular for this one. One is the Noor 3 profitability, as we also mentioned in one of the previous engagements we had. Noor 3 is shutdown right now and that is impacting the overall profitability and operations in the renewable segment.

The second one is to do with, in last year, in 2020, we had recorded a deferred tax asset, which resulted in an income in the books of ACWA Power on a consolidated basis. Those results were much higher on a combined bases in the previous year. So, it was exceptionally high versus what we have in 2021. So, these are the two reasons why we've had slightly lower results on the renewable segments so far in 2021 versus 2020.

**Paddy Padmanathan** Yes, sorry, one other question, could you take? Has Aramco completed purchase of 30% in Sudair? Yes, it was done at financial close. So, it wasn't a case of us selling down. They were an investment partner alongside us on the Sudair project as we went into financial close.

**Kashif Rana** We're ready to go live to Q&A if there's anyone who would like to ask questions, before we switch back to the chat again.

**Operator** Thank you. Our next question comes from Ecarik Sleiman of JP Morgan. Your line is now open. Please go ahead with your question.

**Ecarik Sleiman** Hello, gentlemen. Thank you for the presentation. I have a couple of questions. I'll start with D&C fees. Development and construction fees. So, I understand the construction fees, you mentioned that you don't look at it quarterly. But just can you maybe throw some colour on what's driving the drop year on year, and even on a quarterly basis? Given that we didn't see many projects reaching financial close, nor basically turning operational. So, the development sites should be still on, and the construction sites should be on. Is it only Sudair project and some guidance for Q4 and 2022? Are we still looking for somewhere around the 500 billion in 2021? How does it look for 2022 please?

**Kashif Rana** I will take the first question. Yes, as you mentioned, there are a number of projects that we did already achieved financial close within 2021. As you are aware that assets are in construction already Sudair is one of them, but then there were assets in the early part of the year that we did also achieve.

We were going to achieve the financial closure one our asset which is the Red Sea. So, all of that, the Redstone, for example, was another asset that we achieved financial closure with in 2021.

Now, the timing of those obviously results in a change between quarter and quarter, and that can impact the development results. But then also it impacts the construction management fees we can realize on the assets as well. So, those are the kinds of things that we look at in terms of, for example, the Red Sea project itself, we would have normally expected that it could closed by Q3 end or even beginning of Q4. But it is only concluding now in December.

So, these are the kinds of things that will impact the development results and that's why we look at this on an annual basis. Things can change. Plans can change from the offtaker side, the environment, anything can result in delay.

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As we look forward for the full year, without getting into specifics, because we are giving the guidance on the final results, the bottom-line results. On the adjusted net profitability basis, we are not giving guidance on different items within there. We have the development side of the business. We have the profitability that comes from the underlying investments we made. We have the O&M side of the business and the optimised, and we are not giving guidance any more of them, but you will see the outcome of each one of those when we do disclose the year end results.

So, just like we did for the first part, we have gone into and disclosed how much in each one of those contributions to the bottom-line, we will also be sharing with you how it is for the year end. But overall, as I mentioned earlier, we do believe we will be able to achieve the earlier guidance of adjusted net profit being in line with what we had indicated earlier.

**Ecarik Sleiman** Okay, yes, very clear. Thank you. My second question is about the income from associates. So, basically, if you adjust for the accelerated depreciation of 50 million, sorry, that will still give a number that is significantly below Q2 '21 and basically Q3 '20. So, can you throw some colour on why we are seeing a drop in the net income from associates? If there is something I'm maybe missing in there that we need to adjust for.

**Kashif Rana** Yes, a very good one and I know we didn't touch on this. Because we are looking at the results on a year-to-date basis. If you look at the year-to-date basis, then the major impact that comes in is the accelerated depreciation and if you adjust for that, absolutely the results reconcile between the 2 periods.

Also, that in terms of 2021, which is for Q3, in the associates we had the Shuqaiq impairment that we took for SA 29 million and we also had for Q3 2020, we did take an income in that year. We do not have income in Q3 for 2021.

So, those are the kinds of factors, which is why from our perspective, when we look at the results, we focus on a year-to-date basis in terms of how it performs on a portfolio level. Because from quarter to quarter, things can keep changing and they do keep changing.

**Ecarik Sleiman** Okay, yes. Last question. I remember you mentioned that you had four or five assets where we will see accelerated depreciation. Two of them are already in there. One was sold Shuqaiq, if I'm correct. So, should we expect to see the fourth one, accelerated depreciation, coming through in Q4 2020 or 2022, and how much will it be? Should it be somewhere around the 25 million?

**Kashif Rana** So, let me just make sure. At first 4 or 5 assets. So, we had gone into that on the previous call and probably that's where you recall it from. We had gone on the share that on the two assets, which is Shuqaiq and Rabigh we had started accelerated depreciation on 1st January 2021.

On the other two assets, we will see significant development happening in terms of either convertibility of that asset into another form, which is what we have shared in the prospectus as well, one of the assets will likely get converted into a water asset, and the other one is another oil-fired asset on which we are also seeing further development happening with the offtake. That may result in a different outcome.

On the fourth one where we see a different outcome, we can only tell you in the time that we do not achieve certain outcome in terms of which we apply accelerated depreciation. At the moment, I do not have numbers to share, but as we go into 2022 and we see there is a need to apply accelerated depreciation not only will we do it, but we'll also share with you.

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As we stand today, we still feel comfortable with the position we have taken on those two assets and that's how we're going to continue to be seeing them within the financials for now.

**Operator** Thank you. Our next question comes from Jenny Pane from Citi. Jenny, your line is now open. Please go ahead.

**Jenny Pane** Good afternoon, gents. A couple of questions from me please. Just going back to the PIF projects, you outlined the 12 gigawatts that's currently sitting with the energy ministry. Can you just talk a little bit about the process of approval in terms of when we should be expected to hear further news on the individual projects? How long they tend to sit with the energy ministry for approval. Just some sense of timing. That would be fantastic.

Then also an update on your negotiation with the Silk Road Fund on any asset transfer, sell downs and any developments and updates there please. Thanks.

**Paddy Padmanathan** So, REPDO projects, who is the one... When you say ministry of energy, you mean the REPDO programme. On the REPDO programme, we are participating in it. We are seeing that they are moving a little bit faster on the subsequent rounds than they have been. So, there was round one and then there was quite a gap. Then to move onto round two and now we're in round three, we are expecting them to move faster.

In terms of predicting the timeframes, it's tough for us to... It's not in our control. But we are seeing that the rounds are moving faster now, and more rounds are getting planned to roll forward. I'm struggling to come up with a more definitive answer, because I'm not the procurer. I'm just the responder. Sorry, go on.

**Jenny Pane** Yes, sorry, I was actually referring to the 12 gigawatts that's sitting with the energy ministry for approval as part of the PIF process.

**Paddy Padmanathan** Oh, I see, yes. Okay, again, it's not for us to... Look, we're very committed to completing the programme by 2030 and they know that there is no point in bunching them all up, up front or towards the end. So, we have discussed this with them in great detail.

So, everybody is very keen to phase them. We expect as we roll forwards into 2022 for them to start now coming at a more regular basis, simply because the modalities and the methodologies have been established. So, again, the first one Sudair took a while, because it was the first of the programme. So, there were quite a lot of processes and procedures that had to be agreed and ironed out. But now, as we go forward, we're already aware that they are starting to be prepared. So, yes, again, we will respond to them as they release them, but we are very confident that they will get regularly phased out, much more steadily as we go forward now.

**Kashif Rana** Jenny, when we do have more information... We're working on that, but at a certain point we can't release this and we will at the right time when the announcements are going to be made, you are going to be the first one to hear about it. So, bear with us on that one.

On the other questions you asked in terms of the Silk Road fund, the second group of assets that we continue to discuss with them, that's going on. You will appreciate at the right time, once we have more information to be shared, we will go ahead and share that information as well. But, yes, as we a long process on the first time when we engaged, the number of assets. So, indeed the procees will be followed. So, we do expect it to be a little bit more drawn out and

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well within 2022 before we have an outcome on that. But again, at the right time, we'll make sure that we do share the information.

**Jenny Pane** Thank you very much.

**Operator** Our next question comes from Saul Rans from Morgan Staley. Saul, your line is now open. Please go ahead.

**Saul Rans** Thank you very much. Two questions please, if I may. Saul Rans from Morgan Stanley. First of all, on the Sakaka project from round one of the REPDO programme which you developed, that project I think went commercially operational in the middle of last year. Are you able to share any feedback with us about the power output and overall financial performance of that project, given that it's your first operational renewables project in Saudi Arabia?

Then second question would be, can you share any information about the content localisation of the Sudair project? What were you required to do in terms of localisation? Do you have any visibility on what localisation will be required for the rest of the PIF programme and how achievable are those localisation targets likely to be? Thank you.

**Paddy Padmanathan** On precise numbers on Sakaka, I'm going to have to rely on somebody else. What I can tell you is that Sakaka from the time it came online is performing extremely well. There are certain months during which in fact it even exceeded its pro forma performance. Thank you very much to the good lord for good sun.

So, it's working well. We're getting paid at a high level. That's about all I can tell you. Kashif, if you can...? If we can...?

**Kashif Rana** You've covered it well and it's in line with what we expected the performance to be. There were teething issues, we have sorted them out.

**Paddy Padmanathan** The teething issues were very, very minor. So, yes, that's a well-performing plant. We've got nothing to complain about that. As far as local content... So, the government has made it very, very clear that they will continue to ramp-up content requirements.

On Sakaka itself, we marginally exceeded the local content requirement. So, that was fine. There were no issues. Sudair, I cannot remember the exact... I think Sakaka might've been 25...

**Kashif Rana** I think 30% also for Sudair.

**Paddy Padmanathan** Yes, Sudair went up to 30%. We are very confident that we can achieve that. Quite a lot of the procurement has already been committed, so we can see the trajectory. As I say, the Kingdom is committed to continue to steadily improve that. We are working with local content authority. We are not seeing a big impediment to continuing to ramp-up local content.

**Saul Rans** Great. Thanks very much.

**Kashif Rana** In the meantime, I'll just also tackle some of the other questions that have come on the chat. One was in terms of giving clarity on our guidance that we have given, the last sentences in the last slide of the presentation we had put up. This was relating to whether our guidance that we're giving is on par with 2020 adjusted profitability, which is adjusted net profit, or if it will be in line with the comparable.

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So, just reconfirming again what our guidance is. In terms of the adjusted net profit for 2021, in line with the adjusted profitability of 2020. On a comparable basis, 2021 actually will be higher than 2020. I think that is the relevant clarity that you are seeking.

**Paddy Padmanathan** One other thing, somebody has asked any updates on Jazan? Any updates on Jazan project transfer will happen and we'll start contributing to cashflows. As we have already made it clear, group one has already been transferred. The project has achieved financial close. We expect it to start contributing to cashflows in Q4, but the regular contribution or the full contribution for the year will obviously be starting in 2022. Are we continuing with these questions or are we taking live questions?

**Kashif Rana** Yes, operator, back to you. If there are any other questions on the line, I'll be happy to take that. Otherwise, I think there is one more question that has come in on the chat. I can take care of that, but I'm happy to take live questions first.

**Operator** There are two more live questions registered. Our next question comes from Syed Akhtar from Olayan. Please unmute locally and proceed with your question.

**Syed Akhtar** Hello.

**Kashif Rana** Yes, we can hear you.

**Syed Akhtar** Thank you very much for this call. Particularly, I have a question regarding Zakat expenses. As per your nine-month 2021 financial, it is mentioned that the company has paid and settled the dues of the zakat authorities until 2019. So, 2020, 2021 is still remaining. So, my question is regarding how much financial impact... What will be the implication on the financials of the company?

**Kashif Rana** Thank you for the question. On this one, we have actually closed our assessments at the ACWA Power corporate level all the way to 2018. That's just to make sure that the number and the year... For '19 and '20, based on what we have seen in terms of results that were on the assessment that was done, we already provided for the zakat expense that had been done for the years '19, '20 and '21.

So, now we will only find out once the assessments are done. If there is anything else that zakat authorities need, it should be further in terms of the zakat what we have taken. As you know, when we go ahead and put these provisions in our financials, we are doing so not only on the advice of one advisor. We generally go and seek advice from a couple of advisors, to make sure that we are recording it on a proper basis. So far, we believe we have taken into account what was assessed in the previous years, and we reflected that already within the financials and adjusted for the zakat payable, and already adjusted. But we will have to see when the assessment happens in terms of the provisions already taken.

**Syed Akhtar** Okay, thank you.

**Paddy Padmanathan** You had another live question, operator.

**Operator** Indeed, yes. Our next question comes from Ebrahim from GIB Capital. Ebrahim, please unmute locally and proceed with your question.

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**Ebrahim AlShamasi** Hello, gentlemen. Thank you for the call. I have one question regarding your hedging agreement. So, correct me if I'm wrong, I think most of the feed stock that you have, an increase in the feed stock prices will add to the offtaker. What is the coal hedging that you took related to? What is the impact of increasing the coal prices?

**Kashif Rana** Paddy, if that's okay with you, I'll take that question.

**Paddy Padmanathan** Yes, if you can take that.

**Kashif Rana** So, on the coal price, what we have shared in the prospectus, and we've also shared details in our different calls that we have had so far, we would have the pleasure of having gone through it. So, on the coal itself, on the Hassyan coal project, the way it works is that we do have the adjustment to the pricing provided within the project itself.

But separate to that, as ACWA Power, we have taken a view on the difference between two indexes and for those indexes there has been further disclosures available in the prospectus as well. Now, those two indexes can sometimes move in the same direction or other direction, but the difference between those two is what ACWA Power is responsible on the ACWA Power side itself, to then pay for and realise our impact within the financial statements of ACWA Power.

Now, within 2021, we did have a look on the accounting in terms of this, along with our auditors and the independent advisors that we have. We have realised that this commodity, which in the end is a commodity, on a longer-term basis the best way or the right way to affect it would be on the basis of treating this as a derivative. Such that you look at the long-term, the contract itself, you look at how much is the generation that's effected out of it. We look at it in terms of where the index will be. So, you get a third-party view on that, of course, and on the basis of that we look at our derivative liability. That's what we have done in Q3 within our financial. I think there's a derivative of about SAR 950 million or so that was reported within the financials - balance sheet.

As we look forward, then as and when the change is happening on the derivative itself and that impact will come through the P&L. This is the only one contract where we have such kind of disclosure. For the remaining all assets of ACWA Power, you have rightly pointed out that all of the fuel is a complete pass through. So, whatever we get, we end up passing it on to the offtaker.

But from a price change point of view, we do not take any impact. Like many of the contracts, we don't even take risk of supply, but also there is a fuel that is not provided by the offtaker. I mean if there is an adjustment in the pricing itself, we fully pass it on to the offtaker. Except for this one contract, which is on the coal, where we don't have that provision. So, we are taking an exposure as far as the index is concerned.

**Ebrahim AlShamasi** Thank you so much.

**Operator** There are no further live questions, so I'll hand over for any written questions.

**Kashif Rana** I would just like to... I think one of the questions that has been asked was in relation to, what was the contractual local content on Sudair, on local content it's about 17% in the PPA. But we are, as we have done for Sakaka, we will (as Paddy has mentioned as well) how we can actually deliver higher on the requirement of the local content.

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I don't have any further questions on the chat, but we're happy to keep this open for another few seconds, to see if there are any further live questions that might come in or on the chat, before we hand it back to you, operator.

**Operator** I'll just give a quick reminder that if you'd like to ask a question, please use the raise hand function if you've joined via Zoom. If you are connected to our audio line, please press star followed by one, and if you are connected via Zoom, you can register a written question using the Q&A function.

**Paddy Padmanathan** I'm just scanning through the Q&A. I don't think there's anything else there.

**Kashif Rana** If there are no further questions, then I'm going to hand it back to the operator to then close the call. Thank you very much to everyone who has joined us today and look forward to talking to you again at the yearend call. We welcome you there and hope we share the results that we mentioned earlier, which are going to be in line with what we have on the adjusted profit. Thank you once again for joining us.

**Paddy Padmanathan** Thank you very much to all of you for sharing the time with us today. We look forward to talking to you in a few months' time.