Call Transcript

# ACWA Power Earnings Call

## For the three-and six-months period ending 30 June 2022

## Thursday, 11 August 2022

**Ozgur Serin:** Thank you very much, Lauren. Good afternoon, everyone, and once again, welcome to ACWA Power's financial results conference call with the investors. As Lauren has mentioned, in this session, we will be covering the six-month 2022 period, which ended 30th June 2022, for our financial results. Together with me, I have Mr Paddy Padmanathan. He is sitting in Riyadh, and he is the Vice Chairman and CEO of ACWA Power. Next to him is sitting Mr Abdulhameed Al Muhaidib, and he is the Deputy CFO of ACWA Power.

And the three of us are going to host this call this afternoon. If I look at the agenda, we are going to be starting with the highlights, and Paddy is going to take us through the highlights of the quarter, as well as the six months of the year. After that, we're going to go with the financial review, and Abdulhameed is going to go take us through that, and we will have the closing remarks by Paddy. All of this is going to be followed, obviously, with the question and answer session as usual.

So, without further ado, let me just give the word to Paddy. Paddy, it's all over to you, please.

**Paddy Padmanathan:** Thank you very much. Good day to all of you. Thank you for spending time in joining us, and good day to my colleagues too. Again, my pleasure and privilege to be sharing the salient features of our performance of the last quarter. Good news, in that we've had a very solid quarter in terms of project development, a very strong performance. We signed power purchase agreements for fairly large projects like the Egypt 1,100 MW wind farm, a 91 MW IPP photovoltaic plant in the Kingdom.

And also, for me, quite excitingly, a water purchase agreement at Shuaibah. Technically, it's called the Shuaibah 3 IWPP, which is actually taking our first investment in the Kingdom, when we were founded, Shuaibah Independent Water and Power plant that is oil-fired, it's to take that site, decommission that plant and convert it effectively, put in a 600,000 cubic metre-a-day desal plant.

So, what is significant about this, quite apart from all of that, is the fact that we will be decarbonising, continuing our quest to decarbonise our portfolio, and we'll be taking out 9.5 million tonnes per year of carbon dioxide from 2030. So, those are the kinds of exciting projects that we are involved with. We became preferred bidder on two floating solar photovoltaic plants in Indonesia. We went to Indonesia a few years ago, and these are the first lot of bids that we submitted.

And we're very pleased to see two very interesting projects. We've become preferred bidder. We'll be working to close that project and take it into construction. And then we have gone on with a solid bid pipeline, as you're aware. So, we've gone on to now prepare submissions for some of the interesting projects. A 500 MW photovoltaic independent power plant in Uzbekistan, a 600,000 cubic metre-a-day independent water and power project in the Kingdom of Saudi Arabia.

And at Amaala, which is a site between Neom and the Red Sea in the Kingdom along the Red Sea coast, the second mega-tourism project in Saudi Arabia. So, if you are aware, we are already the utility service provider for the first one, the very iconic Red Sea Project, regenerative tourism project. We are now bidding for the second one. Ans also, as you're aware, we have a framework contract. We call it a PIF strategic framework agreement, within which we are, and will be, developing several projects over the next eight years.

And we have now already gone into construction on the first one. We have now submitted the proposals for the next.

And, during this period also, we have made lots of progress on the Neom Green Hydrogen Project on the financing, and we now are confidently expecting to achieve financial close on the Neom Green Hydrogen Project, the first project of this scale that has gone into construction in the world. And the full notice to proceed will be released to the EPC contractor, and the project will proceed on track.

And finally, technically, in terms of project development, if you like, at Jizan, the Group 2 set of assets should start being transferred to us in October 2022. And then we've got, also on the operating side, which is very important for immediate revenue generation, three projects either starting to come online or have completed coming online.

So, Taweelah, the largest reverse osmosis plant that is being developed in the world. The first phase of it, 50% of the capacity came online in this quarter, and at Al Dur in Bahrain, we brought online the second and the final phase of this very large IWPP. And at Dubai, where we are building a very large CSP plant and we're also in construction of the big photovoltaic plant, additional capacity of another 100 MW came online, and these projects are now, obviously, contributing to revenues.

In fact, in terms of numbers, SAR 249 million is contributing to the revenue in the operating income line before intangibles and losses. And that includes the O&M component of it during the first six months of this year. I think you will see a lot more detail on some of these fairly large iconic projects, including values, in terms of project costs.

I'm not going to, necessarily go through that in detail. I think you're much more interested in the actual financial numbers.

Okay, so that's all lots of improvement, lots of growth on track. Exciting stuff, but I absolutely need to also be very frank and share with you that there are some really, really significant challenges that we're also having to work through. The first one is that I need to… I'm, well, very disappointed, sad, to share with you that we had two fatalities in the six months on our sites. Look, safety is very, very much our first core value, and we are redoubling our efforts to lift that core value and convert it to practice as well.

Losses and people tragedies are not something that any of us want to report on, but they have happened, and I need to share that information with you. And the second one is that we continue to be… Look, plant unplanned outages are expected because we are operating these kinds of assets. And we don't plan for them, but we recognise a certain level of them, and we budget for them. But, disappointingly, we are seeing more outages than we would like.

And even more concerningly, more of these outages are due to failure of equipment supplied by world-renowned, world-class OEMs, original equipment manufacturers. But okay, these are the challenges that we have to deal with on a day-to-day basis.

Overall, the numbers are not terrible. They are not as good as they were, if I were to compare them from the last year, the same period, if you like. But at the same time, they're reasonable.

Power is still running at 86%, as opposed to 88% in 2021. Water is running at 96%, which is a little bit better, I guess, than the 92% of the prior year, but we don't want these outages. We need to minimise them. We are redoubling our effort on understanding failures, single-point root causes, and we are putting a lot of effort into increasing reliability of supply. And we're also putting a lot of effort into digitisation and predictive performance monitoring, in order to reduce these kinds of failures.

And then, of course, the third challenge that we are having to manage, which, we are having to deal with it, even though it's an external matter, the impact of the ongoing war in Europe, and the ongoing COVID shutdowns in China, and coming out of COVID, supply chain challenges and stresses that we have had. The bottom line is that we are in a period of global high costs, rapidly rising inflation levels, and fairly tight component supply, equipment supply.

And of course, this is affecting our projects that are in construction, as well as, we're being very careful with projects that are in advanced development. Look, the good news is that we are able to work with our partners, our construction partners, our OEMs, as well as our project counterparts, offtakers in negotiating relaxation in project deadlines and working with, also even governments, involving government relationships to help ease supply chain.

But overall, we're not seeing, in terms of financial closes of new projects, on the projects that we're working on, we're not expecting any delays to financial closes during the remainder of the year. We, for sure, will expect to see some additional costs in projects that are in construction, as a result of these challenges, but there are contingencies. That's what contingencies are for, and we expect to work hard at managing these cost differences through such facilities we have.

I think, with that, let me pass you on to Abdulhameed to go through the critical detailed part of financial review for the quarter.

**Abdulhameed Al Muhaidib:** Thank you, Paddy. Salaam alaikum, good afternoon, everyone. Allow me to give you a quick, maybe before we start on the financial side, we can give you a quick reminder and a picture on the key financial metrics, which is the foundation of the upcoming few slides. So, if you are doing this for the first time, this is a key slide to understand. So, we have five metrics, when it comes to financial reporting. The first one is related operating income before impairment losses and other expenses.

And this is in line with what we are reporting in the audited financials, so this will show you the exact operating income before impairments. And then, on the second one is the adjusted attributable to the equity holders. And on this slide specifically, it would be the profit adjusted to any non-routine and non-operational items.

And every quarter, we will show you both the net profits and the adjusted net profits for you to be understanding the full picture. So, these two metrics, we are reporting them on a quarterly basis. On a semi-annual basis, we are also including three key financial metrics. The first one is the parent operating cashflow. So, this metric has three main components. The first one is the distribution from the project company an NOMAC, and the second one is all the fees related to the management fees, services, development revenue.

And the third and most important one, also is the optimisation part when it comes to the sell-down or disposal of assets. All these elements contribute to the parent operating cashflow. The fourth one is related to the parent net leverage. So, here we are showing all the recourse borrowing to the parent, and also, including any off-balance sheet recourse facilities. Sometimes, we do have equity-bridge loans or equity stand-by LC's, that are off-balance sheet, but have recourse to ACWA Power.

So, based on that we are also including them here. And we are netting all of that from the cash, based on which, we are getting the parent net leverage.

Finally, we have a ratio, which is the parent net leverage, divided by the parent company cashflow. So, these are reported on a semi-annual basis. So, what we going to present now is a summary of the financials, and please, feel free to access our website or Tadawul website. You will get much more details when it comes to the MD&A, the presentation and also detailed investor reports.

Moving to the second slide, so here, also another important slide, when it comes to what has changed, right, if we want to compare quarter 2 to quarter 2, or also the full year, half year of this year, compared to the half year of last year. So, we are showing you here, let's say, the new changes that are important for you to make the right comparison. So, during, in 2022, also referred to by Paddy in his opening speech, we had three units of three projects have come into operation.

So, these units have contributed positively to 2022, compared to 2021, which is where they were under construction. This one was, Al Dur, both the power and water site at Taweelah IWP in Abu Dhabi - 50% capacity and 100 MW additional capacity in Dewa Phase 5. Also, if you're comparing the first six months of this year to the first six months last year, you have to add into account the projects that came of the last, let's say, two quarters of last year.

So, there has been several projects, nine projects that have been coming online during this period. So, you need to add it to this comparison. So, this is an important slide to show you what has been added. So, moving to the actual operating income before impairments, so here, we are comparing both six months of last year to this six months of this year, and you can see that what was mentioned also in the opening speech by Paddy, SAR 250 million almost, contribution coming from the operation of assets, including the NOMAC side.

We have, also, another 80 million coming from other operating income. Big part of it, SAR 66 million outcome is coming, actually, from liquidated damages, which is an LD was collected in Noor III from the EPC contractor. Another 50 million was added from other incomes, including a difference between the let's say, LTIP that was calcluated last year on 18-month basis, where, as in this year it was only at 12 months. So, there was an upside here as well.

On the other side, we have the SAR 255 million known contribution, because of the outages we had this year, unfortunately. So, this is including Noor III outage, for the molten salt tank. This is still there, and we have reported that will be until October/November of this year. We have also other big outages that were reported earlier, which were Noor II in Morocco. Now, it's back to operations since April. And also, Hajr and Al Mourjan in Saudi.

So, with that, there was also a reversal of impairment at Shuaibah, which was mainly due to the conversion that Paddy was talking about, since we signed the MoU at that time. So, this brings us to SAR 1.1 billion for the sixth month of 2022.

Moving to the net profits, so here we are showing you both the reported net profit and the adjusted net profit. So, when you look at the reported net profit, Alhamdalillah, there was a 21% increase, compared to last year. This has been mainly driven by higher operating income, and also, there has been a part included for financial income increase that may be due to some deposits that have been contributed positively when it comes to financial return.

Also, there has been other financial income coming from other related parties. And on the other side, there has been a negative impact of SAR 33 million, coming mainly from the loss of, sale of Shuqaiq and also some loss of Shuqaiq revenue in the first quarter of 2022. There is also another 143 million coming mainly from the deferred tax in Morocco, and also it includes the zakat and tax expenses for the sixth months of this year.

This brings us to under SAR 542 million net income, when it comes to the six months of 2022. So, if you take out, let's say, the deferred tax impact, this is almost an increase of 54% of the reported net income and around 25% of the adjusted net income. When we talk about the adjusted net income, this quarter, or this year, we didn't have much of adjustment. So, it has only two small adjustments or reversals. One is SAR 12 million reversal due to related party.

This is mainly because of better performance of Kirikkale, they also ended up paying operational fee to NOMAC, which ended up in a reversal on a previous provision. Also, there has been a reversal on SAR 14 million on Vietnam project, and this is mainly because, also we are provisioning a bigger, let's say, cost, as compared to the final settlement that we had after the transfer of the assets.

Moving to the next slide, so here, we will not spend much time about the adjusted net profit, as we just explained it. But one important element here we would like to emphasise on is that the operating model of ACWA Power includes four main components.

We develop, we own, and we operate, and we optimise. And the beauty of this model is it gives you a very well diversified income. And, as you can see here, almost equally, thefour components of our operating income have been contributing almost equally for the six months of 2022. So, both the development, the ownership, the assets and the operation of the asset and the optimised, has contributed to this adjusted net profits.

Moving to the third reporting metrics, which is the parent operating cashflow, and this one, we are breaking down, also… We have actually divided our parent operating cash into the different elements to allow you also to easily compare 2021 six months with 2022. So, on the distribution, you have seen better distribution for this year. We have also seen a big upside, mainly on the capital recycling. This has included, which is SAR 1.6 billion.

This is mainly two elements. One is RAWEC, with which we did refinancing of the asset, and also the disposal of Shuqaiq assets that has happened also during the six months. Also, if you look at the parent operating cash, there has been a big jump, almost from SA 260 million to SAR 2.1 billion, as of today. In top of that, actually, we have, also a big cash position, mainly coming from the IPO proceeds.

We continue to invest on the specific investment, which we have been investing in the last period, including Hassyan, where we continue to contribute our equity there.

And also financing our green hydrogen project, Neom through the limited notice to proceed, which was an announced also during this last quarter.

On the consolidated and parent net debt, this is also an important slide to understand how we arrived to the net debt of ACWA Power. So, we are showing here that, basically, we have both recourse and non-recourse facilities at our balance sheet. So, if you take out, first, what is non-recourse on our balance sheet, and this is mainly it was consolidated because of our ownership in in these projects. But in reality, they are all non-recourse.

So, if you exclude this SAR 20.5 billion, you will end up with a recourse facilities of SAR 7.7 billion. This is including, of course, the revolver facility that we have and the SAR 2.7 billion sukuk, and also other corporate facilities like the PIF and silk road fund facilities to our balance sheet. Adding to that another SAR 7.2 billion, which is mainly off balance sheet, but recourse facilities, which is mainly equity bridge loans, equity LC's, you will end up with a total parent leverage of around SAR 15 billion.

With this SAR 15 billion, if you subtract the cash of SAR 7 billion, you will end up with a total parent net leverage of SAR 7.9 billion. All right, with this number, if you take the simple ratio between the parent net debt and the parent operating cashflow, you will end up with a very low number actually this year. Actually 2.3 multiple, and this is actually below our expectation, and let's say, one-off. And the way that we would like to see it in the future, as we mention earlier is between the 5 and 6 multiples.

And for that, if you just exclude the capital recycling that we did, we'll end up, actually, with a parent net debt divided by parent operating cash of 5.3times. And 5.3 timesis more or less in the same range that we are expecting. It's much better than what we have reported back in December 21. With that, I will hand it over back to Paddy to give closing remarks. Thank you.

**Paddy Padmanathan:** Thank you very much, Abdulhameed. Well, fairly straightforward closing remark really. As you can see, a very strong progress in project development, including, now, the PIF pipeline. They are starting to kick in properly. And the projects becoming operational, which is part of our business model. We develop. We get things built. They come online, and they keep adding to our portfolio, creating additional stable and visible income and cashflow streams. Yes, so the sad part, we don't like these plant outages, but they are happening.

But we are taking very strong action, in order to increase reliability of supply, and we are using all the tools that are available, including, now, increased use of digitalisation. Robust, the first six months of 2022, and a healthy balance sheet. We've had a quiet year, in terms of financial clauses, just things building up. All that means is, we're going to have a very busy year, busy six months now, wrapping up. So, we do expect several financial clauses, which will inevitably then, well, good news, result in higher development and construction management fees.

We are continuing to monitor this ongoing war situation and the rampant inflation and the tight supply chains and doing our level best with the support of our construction partners, our suppliers, as well as our stakeholders, our counterparties, to continue to deliver solutions and minimise and manage those additional costs.

And we are not expecting a major adverse impact on projects that we are working on. With that, I will hand it back to the person managing the calls for questions.

**Lauren:** Thank you. If you would like to ask a question and have joined via Zoom, please press the Raise Hand icon on your screen, or alternatively, you can type your question into the Q&A chat box. If you have joined us on the phone, please press star, one on your telephone keypad. When preparing to ask your question, please ensure that your line is unmuted locally. We will pause for a moment to allow questions to be registered.

Okay, our first question is a written question from Dilshan Punchihewa, who asks, do you receive any insurance claims for the loss on revenue due to plant outages? If yes, what would be the percentage of the loss revenue or operating profits?

**Paddy Padmanathan:** Quick answer, and you can take any details you want, but, yes, we do have insurances, and we obviously make sure that we maximise those claims or we optimise, we claim whatever is due. They do have deductibles. You can just about insure anything, but they come at a cost. So, we do balance them out. So, there are some deductibles that we need to be concerned about.

But look, these are all bespoke. Transaction by transaction, it's all different. Insurances are related to very specific events.

But what we can tell you is that we are definitely able to recover quite a bit from whatever is due from the insurances, but what I am not going to be able to do, and I'll be amazed if anybody else can do it, is to give you percentages or numbers, because as I said, they are bespoke, transaction by transaction. Somewhere in our numbers, definitely, you should be able to see the insurance proceeds, how much we have received in insurance claims.

That is there, but then I wouldn't suggest that anybody take those numbers and do any magic divisions and come up with, as a sort of standard average for the future. No, it's all, it will vary on a transaction-by-transaction basis.

**Abdulhameed Al Muhaidib:** Yes, thank you, Paddy. And just to add one important point, that we only book insurance claim, only once it's approved by the insurance company. So, once it's booked, it actually shows up on our financials. So, there is a number of outstanding insurance claims that we are continuing discussing with our insurance agent. And whenever we close a case, it is being reported, actually, on our finances, as proceeds coming to ACWA Power, yes.

**Lauren:** Thank you. We have another question from Dilshan who asks, how does the war situation affect your projects, apart from inflation and supply chain issues?

**Paddy Padmanathan:** Look, the straight immediate impact is, we have projects, for example, in Uzbekistan. We are moving, as part of those constructions, building large components, wind turbines, gas turbines.

And the only way you can move stuff, looking at the geography, we're going to come through the Black Sea, well, unless we start building roads and bridges on the right-hand side, which, obviously, is not our job. And right now, insurance cover is a big problem for traffic into the Black Sea, and of course, in terms of passing through the Black Sea, is very much in a hiatus, virtually on an hour-by-hour and day-by-day. So, we're having to, therefore, delay. We're having to resource. We're going to have to…

So, there's a whole lot of strategies that are being worked, in order to manage this. but that's the immediate sort of issue. And the other issue of war, of course, is the energy crisis. And that also is impacting, in terms of stuff that is in construction. We're adding to the inflationary pressures.

**Lauren:** Thank you. As a reminder, if you would like to ask a question and have joined via Zoom, please press the Raise Hand icon on your screen, or alternatively, you can type your question into the Q&A chat box. If you have joined us on the phone, please press star, one on your telephone keypad. Our next question comes from the telephone line from Oliver Connor from Citi. Oliver, please go ahead.

**Oliver Connor:** Hello. Thank you for the presentation. Two questions. The first one, just [inaudible] statement around bidding on the [unclear] PIF frameworks within Saudi [inaudible]…

**Abdulhameed Al Muhaidib:** So, sorry, we cannot hear that question.

**Paddy Padmanathan:** Yes, we are breaking up. Well, okay, PIF framework. Please, go on.

**Oliver Connor:** Can you hear me now?

**Paddy Padmanathan:** Okay. Yes, I think maybe better. Go on, keep going.

**Oliver Connor:** Yes, so the question's on the PIF framework. So, can you remind us what capacity is actually on offer here? Is this to do with the round four and five renewable auctions that had been mentioned previously? And the second question is on your project in the 1.1 MW onshore project. Obviously, significant scale for that technology. Could you give us any indication of how you see the levelized costs of these projects coming in, in terms of they being signed?

Obviously, you've got the overall capital costs, but a sense of load factors and where that would come as a competitive supply of onshore wind, versus other markets around the world? Thank you.

**Paddy Padmanathan:** Okay, I'll answer both of them as best as I can. First of all, on the case of bidding the PIF framework contract and the next project that we have submitted our offers to. Okay, so just to be very clear, you then started to talk about round four and round five and so on and so forth. Okay, so just to be clear, the Kingdom of Saudi Arabia is deploying a significant amount of… Well, it's very public. A significant amount of renewable energy capacity. Stated objective is 60…

**Abdulhameed Al Muhaidib:** 70% of around 42….

**Paddy Padmanathan:** 70%... Sorry, no, ~60 GW by 2030. Now then, that total number has been split into 70% and 30%. 30% has been given to the Ministry of Energy through the Renewable Energy Procurement Agency, REPDO, in order to tender a transaction by transaction in groups. So, that's the sort of round four, round five that you were… So, that's a tendered process, and we participate in those. So, in fact, some of the projects that we are talking about, I think it's Layla, whatever, is one that we won on one of those rounds.

So, we continue to do that, and that's an ongoing process. Quite separately, the 70% is being entrusted to PIF as the developer and a whole series of projects to be developed over the next eight years. And ACWA Power is the partner to PIF in that programme, as the developer, investor and then operator. The first project, Sudair, I think we have reported on this, it has already gone into construction. It is in construction right now, 1,500 MW photovoltaic plant.

Okay, so that took quite a while. We agreed the overall framework contract some time ago, and then, always the first one to structure the contract, because these contracts are, by the way… We don't just invent the tariff. We have to demonstrate competitiveness by relating them to the competitive and bid-procured tariffs. So, Sudair, we had to establish all the best methodologies and everything else, and now we have achieved all of that.

First one has gone into construction. We are now starting to roll forward on that programme, and so we've got a second one that has been submitted.

Because it has been submitted, it's now to be, then, evaluated by PIF and then finalised with us. I am not able to share much more detail beyond that.

**Abdulhameed Al Muhaidib:** Yes, we have information only that it is actually, more or less, more than, actually, 2 GW.

**Paddy Padmanathan:** Yes, sorry, these projects will tend to be very large. Okay, that I can tell you. So, when you're going to do 42 MW, you're not going to do it 100 MW at a time, so the first one was 1,500. That's in construction. This one is over 2,000 MW. So, they will be fairly large projects, but beyond that, I'm sorry, I'm not going to be able to share details with you right now. In terms of the 1,100 MW wind farm that we signed a PPA for in Egypt, we've signed that PPA. Is the tariff public yet?

Yes. All these contracts end up with too many players with confidentiality agreements, so I'm not sure whether we are able to share tariff with you. If we are able to share tariff, we'll send it through to you or put it on the website.

**Abdulhameed Al Muhaidib:** SAR 5.6 billion project cost.

**Paddy Padmanathan:** But in terms of total costs, yes, that I can tell you, it's a SAR 5.6 billion total investment cost. The tariff is very competitive. Egypt has got good wind resources, so it should be a fairly competitive tariff. That's about all I can tell you on that one.

**Lauren:** Thank you. As a reminder, please press the Raise Hand icon on Zoom or type your question into the chat box, or please press star, one if you have joined us on the telephone. We have another question from Dilshan Punchihewa from Falcom, who asks, where do you see your company in 2030, in terms of power generation capacity in other segments?

**Paddy Padmanathan:** Oh, this is an easy one, because… Well, whatever I say is going to be wrong. No, that's not true. If you go to the 1,000-plus page of IPO documentation, you will see that we have given an enormous amount of detail on what we regard as a very visible pipeline opportunities ahead of us, both for power generation capacities, as well as desalinated water. And now, as we have stepped into the hydrogen, which is an emerging opportunity, we are starting to put together numbers.

The Kingdom has published its own vision for hydrogen. We ended up being the first one. Many countries that we operate in have already published their visions as well for hydrogen, and we are starting to step in and look at projects. So, that's something that we would develop and start to share more detail in due course. But certainly, for power and water, you can see a lot of information on the pipeline in the IPO document, IPO prospectus.

But at a conceptual level, I think what we have said is that with the stuff that we have got in construction already, and that we are busy in very advanced development, some of which has now actually happened since IPO, we expect to double our operating platform by 2025.

And we expect to see treble by towards the end of the decade, okay. So, those are all numbers and details that are there in the IPO documents.

**Lauren:** Thank you. We currently have no further questions, so I'll now hand you back over to Ozgur Serin for closing remarks.

**Ozgur Serin:** Thank you very much, Lauren. Thank you very much, Paddy and Abdulhameed, as well as other people who are and were in the call. But hang on, we just received, Lauren, I guess, we received more questions?

**Lauren:** Yes, we have just received two further written questions. The next…

**Paddy Padmanathan:** And, sorry, I think, on that subject, given that we do have a bit of time, I think maybe we should give people time, because I see that these calls and questions are, I don't know, maybe the delay in transmission coming through slowly. But anyway, let's see for the two, that is in front of us.

**Ozgur Serin:** Yes, Paddy, let's take the question.

**Lauren:** Perfect. So, the next question is from Anoop Fernandes from SICO, who asks, given the scale of renewables capacity that the company is going to add, and with the addition of hydrogen, do you expect renewable and/or carbon credits to account for a sizable part of your earnings in the future?

**Paddy Padmanathan:** The short answer to that question is, I am sorry, I'm not going to be able to tell you with any level of certainty what the carbon credit future is going to be like, okay, to start with.

Everybody talks about carbon credits. There is a huge desire, this increasing conviction that there should be a buoyant market emerging, but it's not there yet, and everybody's working at it. PIF in the Kingdom is creating a platform, etc, but we're not quite there yet. So, that's the first answer. So, if I start giving numbers, it would be meaningless. And by the way, for the moment, we're not forecasting, and we're not including those kinds of things in our financials.

But, what I can tell you is that, yes, we will be generating carbon credits. In some of the contracts, the procurement processes are structured in such a way, we share those carbon credits. In fact, there is one contract, in which even the carbon credits don't belong to us. It belongs to an off-taker. So, we respond to client demands, client requirements, and we respond to tenders, and so we're going to comply with those requirements.

So, where that is the framework, that is the framework we have to comply with. But, having said that, we do have carbon credits. We have traded carbon credits. At this stage, the revenue generation through carbon credits that we're generating is very modest. In the grand scheme of things, they don't add significantly to our financials.

But with the volumes that we are developing, you're quite right, as we go forward, we should look forward to some positives, but I wouldn't want to start speculating on any of that. Sorry, thank you. Next question?

**Lauren:** Thank you. Our next question is from Tom Scotney from Global Water Intelligence, who asks, do you see other assets in your portfolio that are suitable for refurbishment/replacement before the end of their existing service agreements in the mould of the Shuaibah 3 plant? Thank you.

**Paddy Padmanathan:** Okay, as far as, first of all, I think, again, it's a publicly stated intent of the Kingdom, in order to decommission its entire fleet of oil-fired power generation and desal water production assets by 2030. So, there is a programme that is underway that systematically, assets that we own, assets that other people own that fit within that oil-fired framework are all being reviewed and repositioned. So, we will have a few. We've got two more, and we can expect those two, within the next few years, to be repurposed. So, that's straight forward.

Now, in terms of the other operating assets that we have within our portfolio, look, generally, our portfolio is fairly new, and they're all serving a contract of long duration. Again, IPO documents have got it, but I think our average residual life of our contracts is something in double digits, 20-something years. So, we're not expecting to see major retrofits and refurbishment. We will continue to… For example, increasing supply security.

We will continue to enhance, add, improve, but these are not any significant sort of retrofits of our existing fleet. And by the way, let me just recorrect. In terms of oil-fired, I think the residual fleet in our entire portfolio is 64, and that number keeps increasing.

Assets, we have only got four oil-fired assets. So, I can fully expect…

**Abdulhameed Al Muhaidib:** One, we sold.

**Paddy Padmanathan:** Sorry, yes, we have started out four. So, we have already sold one. We are busy refurbishing, or we are reconstructing on with Shuaibah, so I was right. So, we've got two left. Hopefully, I've answered that question.

**Lauren:** Thank you. As a reminder, please press the Raise Hand icon on Zoom, or type your question into the Q&A chat box, or please press star, one if you've joined on the telephone line.

**Ozgur Serin:** Lauren, I guess, this time, you don't have any questions?

**Lauren:** Yes, we have no further questions registered, so I'll now hand back over to you, Ozgur.

**Ozgur Serin:** Okay. Thank you very much, and in any case, whoever is in the call, you know you can reach out to us if you end up with any further questions. Thank you for listening to us, and thanks, Paddy and Abdulhameed, for taking us through the material. I think that's the close of our session. Thank you very much and good evening, good afternoon, good morning to anyone.

**Abdulhameed Al Muhaidib:** Thank you.

**Paddy Padmanathan:** Thank you very much. Thank you for your time.