
ACWA Power Financial Results Conference Call for the six-month period ended June 30, 2023

Monday, 14 August 2023

Ozgur Serin Thank you, Bailey. And good afternoon, good morning and good evening, everyone, wherever you are joining this call, and thank you very much for participating in our earnings call. This is ACWA Power company's earnings and results call for the three and six months ended 30th June 2023. My name is Ozgur, most of you may already know me, I'm the head of investor relations at ACWA Power and currently in Riyadh. And together with me I have Mr Marco Arcelli, who is our CEO, and Mr Abdulhameed Al Muhaidib, who is our CFO. All of them are joining from Italy for this call.

Before we start with the call, we will have some prepared slides to review, and for that I will shortly hand the word over to Marco and Abdulhameed. After that, we will have a Q&A session. And you always know that in this presentation we will be having some forward-looking statements, we will be making some statements for which we have a disclaimer at the beginning of the presentation as well as on the other materials.

We've already announced our results on Tadawul, last Thursday, so most of you are already in possession of the numbers, but we have all our investor materials already posted on our website as well as on Tadawul's own website. So without further ado, let me pass the word to Marco and we will move on from there. Marco, it's over to you.

Marco Arcelli Thank you, Ozgur, and welcome to everybody. I'm really, really, really proud to introduce this presentation today. With Abdulhameed, we'll go through the exceptional results that we achieved in the first six months. As a way of introduction, I'd like to start with the strong base, where we are today, where, as everybody knows, we are one of the largest renewable energy companies and companies involved in the energy transition in the world.

But I think what I'm most proud of, and I would like to reiterate, is that today we are the largest private company in desalination, as was also recognised by Global Water Intelligence recently. And we are the first mover in large-scale green hydrogen projects, where we are already well underway in construction of the Neom green hydrogen project, together with our partners Air Products and Neom.

And I was visiting the sites last week. I was really, really impressed by the progress on the site, and really this remarkable first project in the industry that is earmarking all the production for exports, mainly into Europe but potentially other markets. And we're ready to break ground in a few weeks with the second project in Uzbekistan that will start with a smaller scale, potentially also be expanded to a large scale for exports into Europe.

The other thing that I'm really excited about is the strong progress in the carbonisation of our portfolio, where we had committed to a 50-50 balance between the renewables and the non-renewable power gen in our portfolio. So far, of the 50 gigawatts, or more than 50 gigawatts, that we already have in our portfolio, over 46% is renewables today, with a remarkable 65% CAGR over the past ten years, which is really something that is a feat and an achievement that I have rarely seen in the industry.

We consider ourselves one of the big enablers, if we can move to the next slide, in the energy transition for many reasons, but one of these is the ability of our ingenuity and the work that we do with our suppliers through an open innovation concept, basically where we bring the whole ecosystem to reduce the cost of the way that we do things.

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And through the continuous improvement in the design of the projects that we have to have been able to reduce solar PV cost and tariff by over 80% over the past decade, and desalination cost of 50% or more, which actually is a result of our ability to really reduce what we can really control, which is the specific power consumption that is the number of kilowatt hours that you need to produce one cubic meter of water. Here, the reduction has been well above 80%, something really, really amazing in the industry.

The last point that I think is really something that not always goes very well-known is how we're good at converting high-carbon-emitting assets and how we've been able, or are able, to shift from thermal to solar, reverse osmosis like we're doing in the SWEC project that will offset 22 million barrels of heavy fuel oil from the production of electricity to desalinate the water, and removing 9.5 million tons of CO2 per year, or by agreeing with the off-taker in the Emirates to convert the Hassyan coal plant to natural gas, which will achieve over 30 million tons of CO2 reduction by 2030. I think that these stands are really evidence of our ability to make a better world for future generations.

If we move to the next slide, the next is really on the ongoing operations, so coming from the vision basically to the actual operations. I'm really pleased with the safety results of the first six months, where we achieved only one lost-time injury accident, which brought down the lost-time injury rate 60% from last year. I'm very pleased with that result, although here certainly we should never stop, we should never become complacent and we should always, always keep an eye on everything that we do, not only for our own people but also for the people of our contractors, partners, subcontractors in the sites.

The second, and it's, I note, a matter that has been of great focus for analysts in the past, is our performance on the plants that we operate, in particular with availability in our power, water and renewable energy, where you see that we've been able, through our reliability of supply, focus and task force, to increase significantly compared to the past year. I'm pleased with the results. This is, again, an area where you can never feel complacent. You're never there. When you get there, there is not there there. You need to continue to focus, you need to continue to maintain a high standard, because that's what our customers rely on ACWA Power for.

Moving to the next slide, the third, I think, big remarkable achievement is the total shareholder return that we have achieved over the past few years, over 200% since the IPO and 10% year to date. Of course, you know, markets fluctuates as markets do. What we can do is really to do our best and to demonstrate that we're one of the best companies that you can invest in, and that we can support these strong and reliable results for our investors. So we want to reiterate our guidance that we gave during the IPO, of our potential for the future. I'm really comfortable that this is something that we can achieve in the years to come.

Next slide, as I mentioned in my first remark last quarter, as I just was trying to get into the company, I think the first few months in the company for me were fast, basically spending time to familiarise with all the operations. You have seen also my LinkedIn profile, I've been really moving to a lot of the countries and a lot of the plants where we operate, because I really want to see, first hand, meet the people, meet the customer, see our operation and see really where we're doing good, where we can do better, so that we can always focus on delivering the best results for you.

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And I'm pleased that, based on that, we were able to finalise a new strategy that is an evolution of all the strengths of this great company, that was approved by the board of directors on 21st June. With Ozgur and Abdulhameed, we will be pleased to present and invite you to a meeting in November, where we will focus specifically on the new strategy and the evolution that we're going to do, and some of the new targets and some of the new areas of focus that we intend to maintain.

But I think that they are summarised here, basically, in a nutshell, where we have seen the potential to more than triple our assets under management by 2030, and be one of the top three players in the world in desalination. Well we are today the number one, so we intend to keep that position. We're the first-mover in green fuels, green hydrogen, green ammonia, we want to keep that position, and we want to reinforce that we will be one of the strongest players in renewable energy, the energy transition.

All this we can only do if we keep a strong focus on our people, and making sure that we remain the best employer in the industry in every country where we operate. We will do this by maintaining a strong focus on our ESG and CSR ratings, so reiterating our commitment to decarbonise.

Moving to the next slide, this starts with our commitment to Saudi Arabia and the transition in this country. Really, one of the reasons, I continue to repeat, that I moved to ACWA Power and I moved to Saudi is to be part of Vision 2030. One of the anchors of Vision 2030 is the decarbonisation of the country. We're going to move from about 100% fossil a couple of years ago to 50-50 renewables and gas-fired by 2030, which is, in my opinion, probably one of the biggest and boldest decarbonisation programmes in the world.

I'm really proud and I'm pleased to be one of the key enablers on this. And here we have summarised the progress already to date. Of the 27 gigawatts interim target for 2024, 22 gigawatts have been already identified, and these were already progressing very fast on the 14 gigawatts that we have already taken into our responsibility from the PIF pipeline, where we also won over 1 gigawatt of projects in the Ministry of Energy tender process in the country.

So I'm really confident that this process... By the way, this is predicated on the initial target, but of course the economy and the industry will grow more than the expected growth rate that we had a few years ago. We're still committed to delivering at least 70% of that, which is a big potential upside for ACWA Power.

Besides this in Saudi Arabia, if we can move to the next slide, we have an immediate pipeline which is very strong. Over 20 active bids, 20 potential bids, and 11 advanced-development projects where we are working hard to achieve financial close in the next few months. I'm really impressed by the amount of work, ingenuity of our business development team, and I'm sure that out of this we will be able to report some good progress in the upcoming weeks, when we do our periodic updates.

Moving to the next slide, which is actually my last slide before I hand over to Abdulhameed, I want to simply reiterate that, year to date, we have already achieved almost three times the committed equity in new wins and new projects awarded to ACWA Power compared to six-months 2022, and I think that we're really in line with, if not above, the initial IPO guidance that was given to the market. So I'm really confident that we can achieve at least that, and I believe

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that, in the next few months, we can even exceed that and be able to deliver more than that in the future. I will hand over to Abdulhameed to cover more specifically these results of the first six months.

Abdulhameed Al Muhaidib Thank you, Marco, and good afternoon, everyone. So just before we start with the numbers, I would like to quickly give you an update on what's happening in the business, so from the last time we met until today in terms of progress for projects that have achieved FC and projects that have been completed when it comes to the construction and the project execution, as well as projects that have been awarded, by giving that kind of update to give you an update on how the numbers have changed.

So, just quickly on the financial close, a quick update on what has happened, good progress, as we expected, in the first half of the year. Alhamdulillah, we have achieved four different financial closes, Shuaibah 1 and 2 in Saudi, which, combined, has become one of the largest, or the largest actually, PV project in the region, 2.6 gigawatts of power capacity, the lowest-ever tariff that has been bid during the last few years.

Also, we have achieved financial close for two other projects, one in Egypt, which is Kom Ombo. Kom Ombo is the second PV project we have, after Benban, in Egypt, and also we have started our second project for wind, which is the Nukus 100 megawatts, this is around SAR 0.4 billion riyals of project size. So with that, we have done four this year, and we are progressing very well in others that are going to be completed in the year.

Moving to the next slide, we are giving you, here, a quick update on which projects have been completed, from project execution to commercial operations. And this is a very important slide we have, not only because it gives you a flavour that the project moved from development to an investment and operation kind of contribution, but also, as I have mentioned earlier, this period is a critical period for us to maximise our project completion for the simple fact that a lot of these projects have been hit by COVID.

And by having these projects hit by COVID, some of these projects have been impacted a cost overrun or delays in execution, it has impacted our budgeting for the simple reason of delaying this project. So the more we get these projects into operation, the more comfortable we will be on the way that we are managing our portfolio. As mentioned earlier also, it is very good progress in these projects, I will get fully comfortable by the middle of 2024, when all these projects which have been hit by COVID will be completed.

So, here, a quick update, starting with Dubai. We have two big projects, Shuaa Energy 3 and Noor Energy 1. Shuaa Energy 3 has completed the three units, combined now we have 900 megawatts in operation. We are expected that COD certificate to be at the end of the year, but we are now dispatching 900 other generation. Noor Energy, we have already 300. The most complex unit, the central tower, has been completed, in operation today. We have also the parabolic trough also in operation.

We got, a few days ago, unfortunately got hit by a sandstorm there, it has battered a bit the operation of PT1, also impacted a bit PT2's delivery rate, around 2% of the solar field has been impacted. We are working, together with the EPC contractor on the recovery time for that.

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When it comes to Jizan, another big milestone is achieving the second asset delivery, that brings us to around 3 gigawatts of power capacity. Another 700 megawatts plus will be coming as a final unit for Jizan. Umm Al Quwain and Jubail both have completely delivered their operational quota, and Taweelah almost completely with only 76,000 cubic metres per day of water is remaining. This is another target that we are very closely monitoring, and we are hoping that we will deliver the full plant before the end of the year.

Moving to the next slide, we will show you how does this impact our financial figures. As you can see, in terms of operating income, steady growth of around SAR 1.2 billion of operating income, slightly less than 6% increase. We don't have any adjustment for another quarter, so what you see has no adjustment. And then we have around 684 million of adjusted net income for the full six months. This is around a 26% increase from the same period of last year.

Parent operating cash flow has been significantly dropped when compared six-month to six-month, but around a 40% drop when you compare the last 12-month to the similar period. And we have a specific slide going through the details of that, but in reality it's mainly related to that, big refinancing [inaudible] RAWEC. I hope you can still hear me well, and apologies for the background noise. This brings us to a parent net debt of around 12.4 billion. Net debt to PCF is around 5 multiples. We also have another slide that goes through details of that.

Maybe we can go to the next slide? Yes, so, here we will go through a quick comparison of how the six months of the year has evolved if you compare it to the same period of last year. So again, around SAR 200 million contribution from existing projects. This is mainly, if you recall, similar update of past year, we have updated you on the impact of four different projects. Two projects in Morocco and two projects in Saudi have been impacted with a longer outage than we expected. All these projects have come back to operation, one of them not fully but this has contributed 200 million of additional contribution for this period.

We have around SAR 80 million contribution from projects which just came online, either a unit or a full plant. When comparing the negative impact, we have a reduced production of around SAR 114 million, this is mainly for projects that have completed the construction period, so that automatically the fees related to the development that such an amount has been completed, and that is the impact of that.

You will continue to see that kind of trend for a while, and the reason is very simple. During COVID, the speed of our financial closed projects that have achieved net NTP has been reduced. So that's a natural trend you will see due to COVID, which will take time to recovery from fully, and then you will see the development and construction management fees will be coming back full speed. Other income that we have seen last year was SAR 66 million, mainly related to some of the LD's recovery from an EPC contractor. This brings us to around 1.2 billion of operating income.

If you move to the next slide, I will show you how the net income has been impacted. I will exclude the SAR 70 million upside, lift to the operating income, as we just explained it. Then, you have around 219 million lower zakat and tax income. If you recall also the similar period of last year, we had the negative impact that we also spent quality time discussing the impact of the deferred tax losses last year in Morocco. This year we have it actually as a positive impact due mainly to the appreciation of the Moroccan dirham against the US dollar.

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We have another around SAR 40 million of income related mainly to higher income on the deposits, as the interest rate has been increasing. Then, if you see the 150 million negative, it's mainly related to two things. One is that sukuk sizing has been increased, since we have issued the second tranche on the Feb of 2022 [misread during the call and should be 2023], and also there has been a continuous increase in the interest rate, which has really impacted our unhedged position in the course of the six months. And then there is a small impact of around 32 million. This brings us to 684 million net profit for the first six months of the year.

Here, we would like to show you the impact of that income on a slightly different structure. And the main objective here is to demonstrate to you the different revenue streams that are coming as per our business model. Here, you will see in the first one, 181 million related mainly to the development and construction management fees, then you will have around 537 which is our share in net income, so that will be the invest part, when the first part would be a development part. And then on the O&M part, you will see that we had 301 million, it's also including both projects and operations and the projects that came online. And finally, other income will be around 377 million, that is also including the deposits part.

Then, this brings us to an adjusted net income before other expenses of 1.3, take out all the corporate and holding company's expenses, that's around SAR 700 million, and that brings us to the adjusted net income of 684. This is, if you compare it to the previous year it's was around 542.

Bringing us to the parent operating cash flow, this time we have simplified the slide a bit, we have also brought cash inflow and outflows into different buckets, so we can have clear visibility on the breakdown. We tried also to simplify the notes to make sure that you can easily follow the trend. So if I would focus on a few items here, capital recycling definitely is the biggest one, so last year, the same period, we had RAWEC refinancing and divestment of SQWEC in that period. Does that mean that we are not planning for capital recycling for the full period? Of course, capital recycling and cost optimisation is definitely a part of our business model. We are working on this target, and we always, every year, have targets to be completed before the year-end.

So that is one part of the main differences. You have also a positive difference in the finance expenses, mainly relating to ACWA39. If you recall, by the end of last year, we were able to buy back 400 million, or a half, of ACWA39 bonds, which has also had a positive impact when it comes to the financing expenses. Aside from that, we have talked about already the zakat and the tax impact on the previous slide, and more or less the rest is around 10% or less impact when it comes to the POC.

So the last 12 months is around 2.4 billion, and then we are also working on a couple of other initiatives. There is a slight delay on some of the production, that is also a timing impact that has been shown, when you see only the six months of 2023, we are also hoping to improve that before the end of this year.

Here, we are showing you, expanding from the POCF, the full cash of the company. Aside from POCF, we have, as mentioned earlier, included the SAR 2.4 billion second tranche of sukuk, and then you have, together with the opening cash position of 4.2, this brings the total cash to around 7.2 million.

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Then, how did we use the cash? This was a question that was raised in some of the meetings earlier, so we have specifically updated and upgraded this slide to answer this specific question. So, out of the SAR 7.2 billion of cash, we have actually utilised 3.1 million. 85% was mainly injected into new projects and investment, and around 6% paid for financial charges, that's sukuk and others. Then, there's around 9% mainly advances to projects that have not yet achieved the financial costs. So this is bringing a healthy picture of the real use of the cash, 85%, and the remaining SAR 4 billion is still within the company.

Finally, we'll just quickly highlight the net debt to the POCF slide. Again, a quick refresher, out of that 27 billion liability we have in our balance sheet, we would like to diversify between what has recourse to ACWA Power and what is non-recourse. So you can see, in the light-blue colour, we have around 17 billion related to non-recourse debt getting consolidated on our balance sheet. And then, we have a few issuances, mainly the 4.5 billion sukuk, which has recourse of about another 4.3, which is lending or guaranteeing lending of a company with recourse to ACWA Power, together with the PIF loan.

So that brings around a total of SAR 9 billion, adding to that, if you look at our contingency, there is a 6.6 billion of our contingency, that is related to funded facilities, and this could be the equity stand by LCs or mainly equity bridge loans. With that, 16.4 billion of recourse debt we have, we just take out the cash we just highlighted earlier, the SAR 4 billion, this brings our net debt to around SAR 12.4 billion.

Taking that net debt to our POCF will bring us around 5 X to date. If you recall, also last year, we talked about what is the ratio with and without RAWEC, so with RAWEC it was a very low multiple of 2.1 X, then, if you just exclude RAWEC last year, it will be around the same number we have today, 4.95 multiple. Again, our comfort zone remained, as Marco has highlighted, with our growth strategy, we always want to be lower than a 6 to 7 multiple. There is one year also that could go higher due to the growth, but we are always controlling that number to make sure we can deliver on our commitments both in the debt centres as well as our equity partners. This is the last slide. I will hand it over to Marco to quickly take you through it, and then we'll open it up for Q&A.

Marco Arcelli As a summary, here it's highlighting the priorities we have set for ourselves. Of course, we mentioned safety, the improvement is clear compared to last year, a sign of the strong commitment of the management. But I think here we need to maintain the good momentum and really not drop our guard, because it's really something that is the starting point of everything that we do.

The second one we mention is the availability of supply. As we mentioned, it's not just good to win the project and bring them online, but then we need to make sure that our customers can really reliably benefit from that, particularly in water, particularly in the countries where we operated because it's so really important for us.

The third is really to make sure that we focus on finalising the financial closes and the ICOD and DCOD that we have on our projects. We are on track on delivering on the projects that we have earmarked for our plan for this year, and I'm really pleased with what we have done to date. Of course, we cannot forget growth. This is a company that really is going to change the world and we really want to bring it to these new heights, so we need to really make sure we maintain the momentum. So far this year, we signed four PPAs, we signed on hydrogen agreement in Uzbekistan, one

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project, where I said, in the next few weeks we're going to break ground, and three PPAs in Saudi Arabia in the PIF pipeline that we discussed before.

And then we continue to decarbonise our portfolio and make sure that we lead the energy transition globally. I think as Ozgur continues to repeat, basically for every dollar that we invest ourselves, we mobilize \$10 to \$12 of capital from lenders, from partners, so we really pride ourselves as being one of the big enablers for the change that we want to see in the world. And I think that this is, today, already epitomised by this growth of renewables in our portfolio to 46% of the total. So with this, I think we summarised all the big achievements and the great story of ACWA Power, and I turn it over to you, Ozgur, to lead the Q&A.

Ozgur Serin Thank you, Marco, and Abdulhameed, I very much appreciate it. Bailey, it's over to you to manage the Q&A, please?

Bailey Thank you. If you would like to ask a question, please press the Raise Hand icon on your screen if you have joined the call via Zoom. If you have joined the call by the phone, please press star followed by one on your telephone keypad now. Alternatively, you may submit a written question using the Q&A button also found on your Zoom toolbar. When preparing to ask your question, please ensure that your line is unmuted locally. We will pause here for just a moment as questions are registered. Our first question comes from Anna Antonova. Please unmute yourself locally and state your company name before proceeding. Your line is now open.

Anna Antonova Hello, good afternoon, gentleman. Can you hear me well? Okay, good, thank you so much. Anna Antonova here from J.P. Morgan. I have a couple of questions and, for simplicity, I will ask them just one by one. My first question is, on slide 18, I see that your investments in H1 are roughly SAR 2.7 billion, and with your current project pipeline that you outlined at the beginning of the presentation, can we expect this to be the new normal run rate of investments for ACWA? That's the first question.

Abdulhameed Al Muhaidib Hi, Anna, good to hear from you. Thank you for your question. I thought you were saying you would like to ask all your questions, or you will ask them together, or you want to [overtalking]...?

Anna Antonova I would like to ask them one by one. So I'll ask one question, you answer, and then we move to the next, if that's okay? Because then I'll have to maybe repeat myself or something, so just for the ease of [overtalking].

Abdulhameed Al Muhaidib Yes, as highlighted also by Marco in the initial opening speech, and also in the new strategy, definitely the target that has been expected during the IPO is not our same target as this year. With the strategy 2.0, which will be detailed during November's session, we are starting to invest much more than that. And what you have seen in the six-month, you can witness that it's already happening.

So you have the full pipeline also being demonstrated. We do expect significant growth when it comes to the equity investment period, and definitely will be much higher than what was expected at the IPO. So the SAR 1.3 billion per year of equity investment is not the current target. We are going above that now.

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Anna Antonova Thank you so much. And I understand there is still some room to go into the year-end, but generally speaking do you expect to stay in your comfort zone, as you mentioned on the net debt to POCF ratio by this year-end, roughly?

Abdulhameed Al Muhaidib Yes. This is another target we are maintaining. We are looking at that very carefully, and we would like to maintain that, which is around 6 or less than 6 multiples. And not only this year only, in the continuous period. And also we mentioned that in the next five years or so, that's the target, between 6 to 7 and lower, and we have specific tools to utilise as and when required to maintain that level of net debt to POCF.

Anna Antonova Thank you so much. And my last technical question, before I have a more strategy one for Marco, is can we expect any tax effects from Morocco to continue affecting your effective tax rate in the second half of this year? Or can we expect that there will be finally tax expenses manifesting on the group P&L in the second half?

Abdulhameed Al Muhaidib Yes, that is definitely a very technical question, and not only technical but also it depends on so many different variables. One of the main variables will be the currency exchange between the Moroccan dirham and the US dollar, and also the Moroccan dirham and the euro. And difficult to predict the number. It's correlated with so many other variables. As you have witnessed, a 1% change on that will have a significant impact.

Definitely, this is something that we are not comfortably reporting every quarter, however we are just following the standards. Something that could definitely improve this situation is if there are any changes on the structuring of the ownership of our Moroccan portfolio, which is something we don't see today but if it's happening in the future, it will definitely improve.

This is something that we continue to monitor. We're trying to talk to tax experts and trying to find a solution on how can we have less impact on our financials. As we are standing today, unfortunately it will be continuously happening. Depending on the fluctuation of the currency and other variables, it will be a positive or a negative impact every quarter.

Anna Antonova Understood, thank you so much. Thank you. And my final question, maybe to Marco, is you mentioned Neom at the beginning of the presentation. It's obviously a very big and large-scale project, could you maybe shed some more light on how it's going? You mentioned that you've seen it progressing right now, so are you on track for commissioning it in 2026? And then following up on that, can you maybe comment on how it is aligned with your smaller project in Uzbekistan? Are there any lessons learned from one that can be applied to another? Or how does ACWA think about these two projects within the time frame of the next couple of years? That would be much appreciated.

Marco Arcelli For now, I went to visit our solar field, I went to visit our wind farm, I went to visit the site where we're actually going to put the electrolyzers. I'm pleased with the progress that we're seeing, so for now we of course maintain the schedule that we had announced before. For the other projects, I think that this is an emerging industry and I think that it's really interesting to see the different forms that projects may take in different

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countries. Neom is of course a project that is earmarked fully for export. I think that we're looking also at projects that start with a local demand and then have the potential for also adjacent capacity that can be exported.

Since I joined, I already visited, for instance, Egypt, where we're making progress on our project there. I visited Indonesia, where we signed two agreements to develop greenfield projects, in green ammonia basically, both predicated on a little bit of local demand but most importantly of exports, targeting also the Asian market. We're following other markets as well.

So I think here what we see is that we have a strong base in Saudi Arabia that, in our view, is probably the most competitive country in the world to produce green fuels, but we also believe that it's important to maintain projects in many different geographies and jurisdictions. One, because the Asian market might be looking at projects in the Far East, kind of what LNG had in the past. And second, for European demand, and potentially for demand for local production in all these countries, I think it's very important to provide final users or final customers in countries, final governments if you want, in European countries, the ability basically to differentiate the supply. And we can provide a one-stop shop with supplies from different parts of the world.

Anna Antonova Interesting, thank you so much. Thank you for the colour.

Abdulhameed Al Muhaidib Thank you, Anna. Maybe just to add one point on the learning, because you specifically asked, and if you recall, Anna, that one of the things that we kept saying when we did our first move in the Neom green hydrogen project, is that we took it on a lower than our typical comfort zone when it comes to the terms. And definitely one of the learnings that we have capitalised on this project is that we have improved our terms on the green hydrogen project as well. So it was a better return for us, and going back to the same level that we had in the first projects.

Anna Antonova Understood, thank you so much. Marco, maybe a final question from our side, given that you have had a fresh look with a fresh pair of eyes on ACWA, what do you think is the biggest strategic challenge for ACWA in the next five to ten years? And then on the other hand, what's the biggest strategic opportunity?

Marco Arcelli I think what we're all seeing, and what we have seen in the past, is basically a lot of competition in the market as the world is moving to green, so that means that we need to continuously sharpen our pencils and maintain the competitiveness that we have seen in the past. Also, that is, at the same time, the biggest challenge that we're focusing on, but also, at the same time, one of the big opportunities because of what we were able to achieve in the past.

I think that on this specifically, we will discuss more in detail in November, I really believe that our strong relationship with core suppliers along the value chain is very important. We have some strategic relationships both with EPC and our suppliers, and I think that one of the important things that I have seen really, with fresh eyes as you say, is the ability for ourselves to lead open innovation really in our operations.

So it's not that we develop our own specific manufacturing, there is always a limiting factor, I think, because unless you're able to allocate a lot of money to that specific technology, you will always, at some point, fall behind. But if

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you're able to work with the best suppliers in the world, with the best EPCs in the world, and really focus on what the final customers need and what is needed to achieve the lowest cost and the lowest tariff you can deliver for your customers, that's how you create value altogether. And what I have seen is that we work very closely with Chinese companies, Japanese companies, European companies, American companies. I really have rarely seen something this deep and this structured in the industry so far.

Bailey Thank you. The next question today comes from the line of Oliver Connor from Citigroup. Please go ahead, Oliver, your line is now open

Oliver Connor Hi, thank you for taking my questions, and congratulations on a strong set of results. Two from me. The first one, I appreciate you'll probably flesh this out in more detail in November in terms of your medium-term earnings trajectory and where we are versus IPO, but my sense is that you've made a lot of progress in terms of bringing assets online this year and also reestablishing the availability to a level that you'd like, so is it fair to say, looking into the second half this year you're expecting to see a further acceleration in growth in earnings, particularly from the net income line of those new assets coming through?

And the second question, more generally, looking back at slide eight on the progress within the Kingdom, it looks like the PIF pipeline is very strong, just curious to know if there's an update on the auction side of things, in terms of how that's developing. I know there's been four, five rounds that have been positioned in the Kingdom, is there an update on how that auction process will go into 2024 or later this year? Thank you.

Abdulhameed Al Muhaidib Thank you, Oliver, thank you very much for your question. To give a quick update on how things are progressing from assets in operation. We have briefly given an update during the presentation but, as we have seen, more or less, yes, we are progressing very well, some of it is a bit sensitive,

so usually we don't have any planned long outages in summer because it is the demand from the client side. Having said that, we also get impacted sometimes here and there, and they had, for example, one of them already in Dubai that has happened a few weeks ago, or last week.

So it is difficult to predict what the full summer will look like, but yes, in absolute terms, if things progress like that we should be, in the second half, better than the first half when it comes to operating assets, and also when it comes to contribution from that, assets that are being in operation. So this is it, in a nutshell. Usually, when we have a serious impact on any plant that will materially impact our numbers, we will announce that also in Tadawul, but, Alhamdulillah, so far besides there are small outages here and there, but nothing significant on impact that would create such a negative impact for the year.

Bailey Thank you.

Ozgur Serin Thank you. Sorry, Bailey, I guess there was another from Oliver, with respect to how we see the MoE pipeline in KSA is shaping up for 2024. Do we have any colour as to how we would shape up for 2024?

Abdulhameed Al Muhaidib The Ministry of Energy pipeline?

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Ozgur Serin Energy pipeline, exactly. The tendering process. If we have any ideas or any vision about how it will develop in 2024.

Marco Arcelli I think we highlighted in the chart that about 22 gigawatts have been identified, 14 we're working on. It is one of my big goals to work with PIF and the Ministry of Energy to get the longest visibility possible, for the benefit of everybody in the supply chain to be able to work together and deliver the best planning for all the programme. I think that this enhanced visibility is one of the measures also to attract more localisation into Saudi Arabia, also in the supply chain, to be able to serve locally all these leaders. So it certainly one of the discussions that I intend to pursue, but I think if I compare Saudi Arabia with other countries it already serves and provides increased visibility compared to the unpredictability of other countries.

Ozgur Serin Maybe, Oliver, one thing I can add to that, as you rightfully mentioned as well, if you remember at the start of the year we only had 1,500 under our belt, which was only Sudair, so the point I'm making is Saudi Arabia is definitely and very visibly accelerating the deployment of the programme. It's very visible from the numbers. And we have an understanding that it's going to continue in 2024. Obviously, we are not in a position to give further details, but yes, just to support what Marco is saying. So far, we don't have any flags to raise with respect to the deployment of the countries.

Bailey Thank you. Next, we have a written question, and the written question comes from Rakan Abunayyan. And they ask, given new regulations which allow market-makers to participate and potentially boost liquidity, can you give some clarity on whether ACWA plans to have market-makers for its stock? Thank you.

Abdulhameed Al Muhaidib Thank you for the question. We did see a couple of initiatives by fuel companies listed in Tadawul, one is related to having a specific financial institution to be market-makers, others related to share split. So this is all interesting, definitely, to be witnessed, assessed, reviewed, and we are looking at it all from our equity strategy. We are already working with a financial advisor, and also our IR team led by Ozgur on analysing all the different tools available. And definitely increasing liquidity of the share is an important target for us, and we will be assessing all the tools available, and whatever tool that we believe, as management and then also submitted to our board and approved, as a direction, we'll definitely announce it on Tadawul on the right time.

Bailey Thank you. Our next question comes from the line of Anna Kuchina from T. Rowe Price. Please, go ahead, Anna, your line is now open.

Anna Kuchina Thank you for your presentation. I wonder if you could please give an update on your financial strategy. I wonder if you have any ambition, like Masdar in UEA who recently issued a holdco bond, is it something you are looking to do in the future? And if you could also answer the question with regards to your [APMI One] bond issued by ACWA Power management company, last November I think you repaid half, you tendered half of it. Is it something you might do in the future?

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And my third question is what is your strategy with respect to your oil-fired portfolio where you still have some stakes? We've seen that you have been gradually divesting it, is it something you contemplate in the near future to completely get out of your oil-fired portfolio? Thank you.

Abdulhameed Al Muhaidib Maybe I will start with the funding strategy, and then I can highlight our strategy towards having crude oil assets that you have just referred to. When it comes to the funding strategy, if we take one step back and look at how that impacts not really the winning ratio but it's mainly the driver for our competitiveness. So definitely our funding strategy will be hand-in-hand aligned with our competitiveness and our ability to grow in new countries and new projects.

Every single sense that we work on optimising does create value, and that is not only related to EPC price and other costs, but a bit part of it is related to the financing. So when it comes to our funding strategy, we always look at the most optimal solution that allows us to finance our growth without significantly impacting or even creating value for our competitiveness for future projects.

So with that in mind, definitely we are looking at different tools and different sets for funding our growth, so we did, as we mentioned last year, utilised an opportunity and paid back around \$400 million, which is 50% of our ACWA39. If you ask me today, I don't see a value to do anything right now, but different circumstances will definitely trigger bigger and different action.

So as we are standing today, it will remain as it is. We are looking at different positions. You have seen our cash position today, I don't need an immediate issuance at the corporate level. Maybe by the beginning of next year we will be required to pitch to the market again. We are able to bridge our growth with equity bridges loans for fuel projects, and this is ultimately having the objective of optimising the tariff and delivering a more competitive water and power to the end users.

With that, we are also exploring the various options for next year, whether it is a green bond, whether it is a perpetual bond, whether it is a convertible bond, all these options are on the table. We are discussing with the various financial institutions to look at what will be the best position for ACWA Power to utilise for next year, keeping in mind a few things, including what we have committed to you, which is the net debt to POCF, so definitely different tools will have different impacts on our net debt to POCF, and this is what we also have in mind when we look at these different tools.

When it comes to your second question, related to the heavy crude oil asset, I believe ACWA Power today has done something which a lot of companies were not able to do, or at least they talk about it but they never implement it. In reality today, out of the four assets that we have, we have been able to take two out. One was in a very [unclear] way, when we converted Shuaibah IWPP from a heavy crude asset to be decommissioned within the next few years, and already secured a water purchase agreement as a replacement for that asset. This is definitely a move from a heavy crude asset to an asset that would be partially from the grid and also another part could be from the renewable.

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Shuqaiq, as mentioned earlier, it's completed exited since last year. We have today another two assets, mainly Rabigh and RAWEC, which is something what we are still in continuous discussion with the off-taker definitely to find a solution in the next few months or the next upcoming period.

We are comfortable with the position given that the government of Saudi Arabia already have a plan to go 50% renewable and 50% gas by 2030, so the goal is common. We are networking in a different goal when it comes to the government of the off-taker and the user. We are having a common goal and we will definitely utilise and capitalise on the Shuaibah experience to build something similar for other projects. With that, then we have also another asset, of course, which is Jizan, which is a completely different asset given that it's actually a diversification asset and not a power generation asset. Marco, do you have anything to add?

Marco Arcelli No, I think this was perfect.

Abdulhameed Al Muhaidib I hope I answered your question on that.

Bailey Thank you. Our final question today comes from the line of Fawaz Al Dossary from SAB Invest. Please, go ahead, your line is now open.

Fawaz Al Dossary Hello, gentlemen. First of all, I'd like to congratulate you on the outstanding results. And I have one main question regarding mainly the assets in Saudi Arabia. We've seen other players, such as SEC and Marafiq implement the RAB model, does ACWA Power plan on doing the same thing regarding the assets in Saudi, or does that model not benefit you? Where do you stand? If you can please shed some light regarding that matter?

Abdulhameed Al Muhaidib Apologies, Fawaz, I think I missed your word. What is the model you talked about the SEC and Marafiq was doing?

Fawaz Al Dossary RAB model, the regulated asset base model.

Abdulhameed Al Muhaidib Can you shed some light on what is the concept that that model is about?

Fawaz Al Dossary Basically it's a minimum required revenue generated by these companies, by the utilities companies, mainly. It's mainly related to electricity.

Abdulhameed Al Muhaidib Okay, so our assets, all with an off-taker agreement with different users or off-takers, and there is a specific availability required on these assets, based on which we were being paid on a take-or-pay kind of concept. We would have to dig more into this RAB kind of model that you have mentioned and see how it is relevant to ACWA Power and its business model. To be honest, this is the first time I heard about it, so allow us to go through it and then, if you share with our IR team, Ozgur and the team, more details, what we'll do is we'll come back to you specifically on this model.

Fawaz Al Dossary Absolutely.

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Marco Arcelli But I think what you're mentioning is a change in regulation, actually, because we are in the IPP space, so you beat the tariff and you're paid basically more on the production you made, but sometimes it's really reflecting the capacity you installed. What you're referring to is more a regulated asset base which is a different type of model that is mainly used for transmission distribution. Yes, it could be used for what we do, but in reality it doesn't really apply when you have a BO or a BOT. Effectively, in the end, it should be more or less the same. So what you're guaranteed is more cost recovery, where in our model it's more left to us. But I think what you're contemplating is more a general change in the regulatory model, which we don't see really in the countries where we operate right now.

Fawaz Al Dossary Yes, absolutely, that's why I specifically asked regarding Saudi, because it doesn't apply in each and every other country. And thank you so much for that, that was my first question. Regarding the second question, can you shed some light regarding the dividend payout ratio, moving forward?

Abdulhameed Al Muhaidib Yes. As you have seen, from what we have already distributed last month, in July, this SAR 606 million related to the period of 2022, so what we have specifically mentioned in our IPO prospectus is that we are expecting, for the next three years, which is 2022, 2023 and also 2024, that we will be growing our dividend payout as an amount from 6% to 9%. So if you average that, it's around 7.5%.

So we have continued to deliver that for the first two years already, and we are also working to maintaining the target for another year, which is 2024. Post that, we of course have to go to our board and come up with a direction when it comes to the distribution against financing our growth. Definitely, as you have seen, we have a busy pipeline coming up with a lot of investments that our equity investment period will increase significantly higher than what we were expecting at the IPO time. So with that, we will definitely utilise most of our cash for actual growth rather than distribution. Having said that, we also respect the investors' need for distribution, and we are maintaining that kind of pool on a yearly basis, as highlighted at the plan originally on the IPO prospectus.

Fawaz Al Dossary Thank you so much, that's clarified my questions, and thank you.

Abdulhameed Al Muhaidib Thank you, both.

Bailey Thank you. There are no additional questions waiting at this time, so I'd like to pass it back to Ozgur for any closing remarks.

Ozgur Serin Thank you, Bailey. And thank you, everyone, for your time and great questions. Marco and Abdulhameed, thanks for your time as well. If you have any further questions, any follow-up questions or anything, you all know how to reach us, so please reach out to us and we'll get back to you. With that, I think I'm closing the call and I wish everyone a very good day or a very good night, wherever you are. Thank you very much.

Bailey Ladies and gentlemen, this concludes today's webinar. Thank you all for joining, you may now disconnect your lines.