Annual report 2010

Valuable

Water and power

325% recycled content
1. Leadership Statement

Our performance during the past year demonstrated that we have matured into a fully operational company capable of developing, constructing and operating green field projects; acquiring and integrating existing operational assets and performing outside our country of origin. At year end, our portfolio of contracted assets comprising 6,483MW of power generation plants and 2.32 Mm³/day of desalinated water production plants includes the first asset outside the Kingdom of Saudi Arabia.

Our business development activities grew in volume; range of opportunities and across a greater geographic footprint. Two of our investments, Shuaibah IWPP and Marafiq Jubail IWPP, commenced full operations during the year and we completed the acquisition of the Barka 1 IWPP in Oman. The Asset Management team was reinforced with the recruitment of a respected and knowledgeable professional to the post of Vice President. Our second financial year achieved income from main operations of SAR 168 M and a net income of SAR 110 M.

The growth in portfolio derived revenues was due to the strong performance of the facilities combined with the corporate team’s support and expertise on resolving billing, commercial, deemed availability issues and capturing financial upsides as opportunities were identified.

ACWA Power Barka delivered excellent results during 2010 with availability exceeding 99% for both electricity and water. The performance was supported by the smooth transition post transaction and exceptional safety and environmental management. The plant has completed one million man hours without a lost time incident since PCOD and its environmental responsibility credentials received recognition by being awarded the first “Oman Green Foot Print Award” presented by the Oman Green Awards.

Marafiq IWPP, the world’s largest power and desalination plant, was delivered from initial ground breaking to PCOD in just under 46 months which is a significant accomplishment for its scope and complexity. The early production and revenues during 2010 were extraordinary with the facility exporting in excess of 150 Mm³ of desalinated water and approximately 16 TWh of electricity both of which were much needed and appreciated by the off taker.

All three power blocks and sixteen trains of desalinated water units of the Shuaibah IWPP achieved their full commercial capacity during August 2010 which was eleven weeks ahead of schedule. This achievement is the first completion ahead of schedule for a IWPP or IPP to be completed in the GCC and MENA region. Shuaibah IWPP, Shuaibah Expansion IWPP and Rabigh IWPP are all continuing to operate as per business plan and their offtake contracts. Rabigh IPP, still under construction, is on schedule.

The performance of our desalination barges had a significant recovery after they relocated 540 nautical miles with only 34 days down time. The two barges produced 4.8 Mm³ of desalinated water in the final half of the year. NOMAC, our O&M service company, successfully achieved certification to three internationally recognized performance and quality standards (OHSAS 18001, ISO 9001 and ISO 14001) in December 2010. NOMAC also adopted an operations and maintenance standard based on international best practice.

We are pleased to be able to report that there were no fatalities, fines or cases of Health, Safety or Environmental (HSE) incidents or other enforcement action across our portfolio of assets during 2010. Regrettably, however, there were six reportable health & safety, incidents which lead to an overall Accident Frequency Rate of 0.09 which while being significantly below European averages is nevertheless above our zero tolerance targets.

Our corporate responsibility program continues to build on past efforts. The Sabha General Hospital’s Occupational Health & Safety Center in Jizan was equipped by the Shuaibah Water and Electricity Company (SqWEC). ACWA Power was recognized for our corporate responsibility and sustainability track record as a top ten finalist from 120 contestants at the 2010 Saudi Arabian Responsible Competitive Index (SARCI).

ACWA Power’s pledge to meet the highest standards of corporate governance is characterized by the commitment of the Board of Directors, the management and employees. Corporate management effort during 2010 was focused on developing and starting the implementation of formal corporate governance and risk management policies and procedures. A Corporate Governance Code which is based on Saudi Arabian and international standards was prepared and approved by the Board of Directors and its implementation will continue into 2011. The Board Investment Committee was established and is now fully functional. A Nomination & Remuneration Committee and a Board Audit Committee are both also fully functional.

Our long term goals fundamentally remained unchanged with our commitment to expanding our portfolio to achieve a capacity of 30,000MW of power including at least 1,500MW of renewable energy and 5 Mm³/day of desalinated water production capacity by 2014. The focus is still on expanding into countries with a stable socio political fundamentals combined with a record of honoring contracts and tried and tested judicial processes. The majority of the renewable portfolio will come from solar power due to the immense solar resources in the MENA and Southern African regions. During 2011, ACWA Power has successfully progressed two new projects with the formal notification as the preferred bidder for the 2,000MW Qurayyah natural gas fired combined cycle power plant in Saudi Arabia and the acquisition of a controlling share of Jordan’s Central Electricity Generating Company, the country’s main power generator with an installed capacity of 1706MW and a portfolio of facilities spread across Jordan. We have also identified a merchant facility worthy of development, a first for ACWA Power, which is an 800MW CCGT plant, in collaboration Turkish partner to be built at a site just outside Ankara, Turkey. In the meanwhile we will of course maintain our focus on the Saudi Arabian electricity and desalinated water market as the need for new capacity shows no sign of slowing down.

Our efforts in building power generation and desalinated water production capacity at competitive tariffs was generously recognized by the Saudi Water and Power Forum when ACWA Power was awarded the 2010 Innovation Prizes, all of which is a fitting testament to the enthusiasm, ingenuity and sheer hard work of our people, who are the foundation of our enterprise.
Our Vision

The ingenuity and entrepreneurship of the private sector makes available electricity and desalinated water in a reliable manner to support social development and economic growth of nations.

Our Mission

To provide electricity and desalinated water in a sustainable manner at the lowest possible cost in our target countries.
Draining prosperity

In the UAE, 57% of the nation’s ecological footprint arises from domestic households with only 30% coming from business and industry.

Power demand in Saudi Arabia is rising at 8% per annum primarily driven by domestic not industrial demand.

With 5% of the world’s population, Arab countries are endowed with just 1% of the world’s renewable fresh water resources. The increasing dependence on desalinated water has resulted in over 50% of the world’s desalination capacity being located in the region.

By 2028, growth in domestic power and water demand in Saudi Arabia could reduce available oil exports from 10 to 7 millions barrels per day.

Across the GCC, scenario planners are predicting that increasingly significant proportions of exportable oil that generates revenues and contributes to economic growth will be absorbed to support unsustainable behavior and consumption patterns.

The majority of water and electricity in the MENA region is produced from treasured oil reserves that are not replaceable.

Respect precious water and electricity as if life depended on them.

Sources:
- Media statement from Khalid al-Falih, the chief executive of state oil firm Saudi Aramco in 2010.
- The UAE ecological footprint initiative 2011 - published by WWF-SWF
Note: The structure does not describe the legal status of the entities and excludes shareholders with less than a 1% stake in ACWA Power International.
Board of Directors

ACWA Power’s Board of Directors currently comprises seven respected businessmen with vast regional and international experience and solid reputations. Five Members from the 2009 Board were joined by Mr. Salah Brahimi and Mr. Izzaddin Idris who took up the positions of Independent Members of the Board in March 2010 and November 2010 respectively.

Mohammad Abdullah Abunayyan, Chairman
President & CEO of Abdullah Abunayyan Group of Companies, Board member of several large joint stock companies in Saudi Arabia and member of the Advisory Board of the Saudi Supreme Economic Council.

Sulaiman A. K. Al-Muaidib, Board Member
Chairman of the Board of A. K. Al-Muaidib & Sons Group of Companies and Chairman of Savola Group. He is also Board member of the Saudi British Bank, Al-Toukhi Company for Industry & Trading, Council of Competition Protection and The Centennial Fund.

Ahmed Sulaiman Al-Rajhi, Board Member
Chairman of the Boards of Al-Arab Contracting, The Land Holding Company, Injaz Real Estate, Gulf Packaging Industrial and the Chamber of Commerce & Industry - Industrial Committee, Central Province, Saudi Arabia and Board member of Riyadh CSR Committee.

Mohd Izzaddin Idris, Board Member
Group MD/CEO of UEM Group Berhad, Deputy Chairman of PLUS Expressways Berhad and previously CFO/ Senior VP (Group Finance) of Tenaga Nasional Berhad, Malaysia.

Salah Brahimi, Board Member
President/Partner of IFAS and Partner of Empire Capital Partners, Previously; Advisor, CGIAR at The World Bank, President of TII, Board Director at Solman and Partner and Board Director and Treasurer at EPI North Africa.

Tariq M. Al-Mutlaq, Board Member
Managing Partner and Board Member of Almutlaq Group, Chairman of the Board of Shuuaa Capital (Saudi Arabia), and Sorouh International, Vice Chairman of the Arabia Insurance Company and Board member of several petrochemical and financial organizations.

Rasheed A. Al-Rasheed, Board Member
President & CEO of ACWA Holding, Member of the Saudi Organization for Certified Public Accountants, Saudi Economics Organization and Family Business Organization in the Gulf Cooperative Council.
Preserving Precious Resources

In the late 1970s, humanity’s annual ecological footprint exceeded for the first time, the Earth’s annual biocapacity. Humankind is demanding resources faster than ecosystems can regenerate and produced more pollutants than can be absorbed.

The latest ecological footprint from WWF’s Living Planet Report of 2010 illustrates that global demand has continued to increase. In 2007, the average ecological footprint per person was 2.7 gha which is 50% more than the Earth’s biocapacity of 1.8 gha per person. In other words, people used the equivalent of 1.5 planets in 2007 to support their activities.

UN projections based on population growth, consumption and climate change indicate that by 2030 humanity will overshoot the Earth’s capacity by 100%.

For example, if everyone in the world lived like an average resident of the United States or the United Arab Emirates, then a biocapacity equivalent to more than 4.5 Earths would be required to keep up with humanity’s consumption and CO₂ emissions. Conversely, if everyone lived like the average resident of India, humanity would be using less than half the planet’s biocapacity.

Power and electricity are key components of the planetary supply and demand model that must be skillfully consumed and cherished.

Sources:
Extracts from WWF Living Planet Report 2010
How We Work

Growth & Development

Planning/ Talent Development & Retention/ Governance/ ERM/ Ethics/ HSE/ CR&S/ Accounting/ Management/ Reporting

Strategy & Mission

Construction & Commissioning/ Transition/ Operations & Maintenance/ Revenue/ Compliance/ Risk & Insurance/ Assurance/ Performance Monitoring

Sustainable Portfolio Performance

Socio Economic Development

Sustainable Portfolio Performance
ACWA Power’s business is developing and acquiring electricity generation and water desalination facilities and acting as a holding company for subsidiaries, joint ventures and associated companies. We are an Independent Water and Power Producer (IWPP) and our principal activities are the development or acquisition, and operation of electricity and water desalination facilities. The principal activities are supported by staff functions including finance, technology, construction and management of assets (refer to diagram on page 20). The company administers its interests in the subsidiaries, joint ventures and associated companies through the boards of the individual projects and the asset management function at the corporate office.

ACWA Power was established in mid 2008 and acquired an effective 100% interest in ACWA Power Projects which had carried out the company’s initial development efforts. ACWA Power Projects was founded in 2004 by the Abdullah Alunayyan Group, the A. K. Al-Muhaidib & Sons Group, and the MADA Group for Industrial & Commercial Investment (please refer to page 14 for details on shareholders). As per the bylaws and articles of association, ACWA Power’s first fiscal year commenced on the date of ministerial resolution, July 5th, 2008, and ended on December 31st, 2009, therefore the results of the year 2009 covered more than 12 months. Enclosed is the second annual report of the company which covers the period from 1st January to 31st December 2010.

ACWA Power’s 2010 performance supports the overall message that the business has matured with the company’s successful transition into an international organisation. Business development activities have continued in full swing with the nature and range of prospects expanding both geographically and technologically. The Asset Management team was strengthened by hiring a Vice President (VP) and a number of highly experienced and competent professionals. Internal business management processes and systems were developed with emphasis being given to financial and corporate governance.

Our investments achieved remarkable performance during the year with Shuqaiq IWPP and Marafiq Jubail IWPP commencing full operations during the year (Marafiq jubail IWPP and Shuabah IWPP projects also achieved commercial operations under the project and lending documents covenants). We also completed our acquisition of the Barka 1 IWPP in Oman on August 18th, 2010 and the results from the date of acquisition are part of the consolidated financial statements. The year also saw the notable turnaround in performance of our project, Bowarege, which coincided with the take over of the operations and maintenance by our Operation and Maintenance (O&M) company, NOMAC. The operations stabilized and business has continued to achieve sustainable and profitable operations. The overall result was a significant increase in our asset portfolio’s revenues supported by tight control on costs as presented in the following sections.

Over 20 viable opportunities were explored and pursued during the year by the Business Development team. ACWA Power closed the acquisition of the Barka 1 IWPP that was initiated in 2009. The successful financing was due to the acquisition team’s concentrated efforts over several months.

The bids submitted for Riyadh P11 IPP in Riyadh, Saudi Arabia and Barka 3/Sohar 2 in Oman were not successful. Comprehensive lessons learnt and look back reviews were undertaken and the team has incorporated these experiences into the current bids in progress. Early indications in 2011 are positive that the team has regained the competitive advantage it had consistently demonstrated in the early years.

ACWA Power started developing business opportunities in renewable power generation projects in 2008. We bid for the Shams 1 Concentrated Solar Power ("CSP") IPP tendered by MASDAR of Abu Dhabi. The submission was in partnership with Iberdrola Renovables from Spain. Our consortium delivered the second lowest bid, and established ACWA Power as the first serious regional contender to be involved in mega renewable solar energy projects.
ACWA Power International Annual Report 2010 Our Business

ACWA Power has committed to 5% of its power capacity being in renewable power within 5 years. The majority of the renewable portfolio will come from solar power due to the immense solar resources in the MENA and Southern African regions. During 2010, we built a short list of feasible and fundable projects in our target markets. The projects include a 75MW CSP project in South Africa, a 160MW CSP project in Morocco, several CSP and PV opportunities in Jordan and the Kingdom of Saudi Arabia. We continue to play an integral role in shaping the Saudi Arabian renewable energy sector (a market that is estimated to be around 15,000MW in the coming 10 years) by lobbying the authorities and supporting research and development.

Asset Management
Throughout the year the asset management team worked with the Engineering, Procurement and Construction (EPC) contractors and the Barka 1 team to seamlessly integrate this new acquisition besides the additional 3,600MW and 1 Mm³/day of capacity that achieved commercial operation into the company’s asset portfolio. Efforts were concentrated on developing and implementing common standards and guidelines for implementation across the group. An Operations and Maintenance standard based on international best practice was adopted and is used by both operational facilities and development projects to define ACWA Powers minimum standards.

The appointment of the Vice President Asset Management provided additional expertise and knowledge to the team. Prior to joining ACWA Power, he held the post of Senior Technical Advisor at the Water and Electricity Company for 5 years and brings to ACWA Power over 40 years of sector experience. The growth in portfolio derived revenues was due to the strong performance of the facilities combined with the corporate team’s support and expertise on resolving billing, commercial and deemed availability issues. Technical consultancy was made available to subsidiaries and at site to improve heat rates and overall production efficiencies. HSE resources where deployed to ensure compliance with national security requirements and our own HSE standards.

Service Agreements have been concluded with the majority of subsidiaries and facilities that have enabled fair and equitable costs to be recovered for services rendered. Service related revenues are forecast to increase over the next few years as the entire portfolio enters commercial operation with a need for ACWA Power to provide specialist commercial, contractual, tax and HSE services.

Executive Management Team
The Executive Management team is led by the President & CEO who has been appointed by the Chairman of the Board. The President & CEO is supported by a functional organization representing the six areas of Finance & Risk, Project Legal, Business Development, Asset Management, Corporate Services and Technology.

We are in progress with filling the two vacant VP positions, one of which is being covered by the CEO. All the VPs have considerable competence and experience for their respective roles.

Our key risks and opportunities arise from our main functions of business development and asset management. An overview of our priority business risks is presented in the following section which is aligned with our overall business cycles and model.

Business development
The identification and limitation of material risks during this first phase of our business cycle leads to a substantial reduction in risks over the whole life of the asset that is commensurate with the benefits. The key risks during this cycle are as follows:

Selection of contractor and technology
The selection of a competitive Engineering, Procurement and Construction (EPC) contractor is fundamental to our winning strategy and is considered and evaluated against the right technology that can provide the optimized solution for the plant. To manage and mitigate contractor pricing and construction risk, we partner with competitive, experienced and creditworthy EPC contractors. When selecting the technology for a greenfield project, we go to great lengths to ensure that the chosen technology has an extensive history of operations and commercial service in the region, is suited to the plant and operational specifications supplied by the off-taker and provides on the whole the most viable solution for the transaction.

Funding and financing risk
The business, being in a capital intensive industry, requires significant amounts of corporate and project level borrowing or issuance of share capital to fund the equity and debt requirement for investments.
To fund the capital needs in projects, having an underleveraged balance sheet, we have the ability to raise debt or issue corporate notes secured against the available free cash flows from our businesses or access further share capital from shareholders. At the project level we generally finance our debt needs by raising limited or non-recourse debt thus minimizing the exposure at the corporate level to the amount of equity invested in the project.

We do provide credit support to the project companies in the form of parent company guarantees and letters of credits or guarantees arranged from financial institutions to support the requirements of project development or equity contributions in the form of an Equity Bridge Loan. Additionally, when companies in the form of parent company guarantees, and letters of credits or guarantees arranged from financial institutions to support the requirements of project development or equity contributions in the form of an Equity Bridge Loan. Additionally, when required to inject cash equity, or support its pro rata share by letter of credit to back stop its commitment to inject future equity obligations.

**Availability and selection of development partners**
ACWA Power develops projects as a lead or joint lead developer, by partnering with carefully selected strategic and financial partners. These partnerships enable us to share the project risks. Each partner is required to inject cash equity or support its pro rata share by letter of credit to back stop its commitment to inject future equity obligations.

**Regulations, compliance, legal and tax structuring**
We are subject to changes in regulations that could affect our business especially with regard to adjustments in taxation policy, competition law, environmental, health and safety legislation and other regulations. Most of the projects are structured to offer protection against a change of law (for a change in law occurring in the country where the project is based), that could adversely affect financial performance.

Legal risk arises due to the company’s activities and unintended or unexpected consequences from a violation of law, civil claims arising from litigation or any other disputes. We identify, manage, and monitor legal risks through our strong and experienced team of in-house legal counsels.

We develop tax efficient structures through multiple jurisdictions with the tax assumptions being on local tax regulations when the investments are made in the underlying projects. We continuously manage the risk of the possibility of a change in tax structures by selecting stable and internationally recognized jurisdictions as well as monitoring the changes in local regulations.

**Construction and commissioning**
In the construction phase, we ensure that the EPC contracts are structured to transfer the majority of the construction and design risks to the EPC contractor, and include protection against cost overruns, delays or performance shortfalls through liquidated damages. During the commissioning phase, the EPC contractor is expected to meet the performance targets of power output, availability and efficiency by complying with a comprehensive testing regime conducted before completion and at the time of handover by the EPC contractor to the project company.

**Tariff**
Due to the tolling nature of the agreements, all the projects in our portfolio have limited exposure to volumetric or price risk as they realize both capacity and production payments. The capacity payments are structured to meet a project’s capital investments, financing payments, fixed operation and maintenance (O&M) costs and the equity sponsor’s required rate of return. The production revenues are linked to the variable O&M costs that the project incurs. Typically, fixed O&M capacity and production payments are escalated at inflation over the life of the purchase agreement. ACWA Power will however be exposed to market forces on the determination of electricity and fuel prices and market demand as we invest in merchant markets.

**Insurance risk**
As we are in a highly capital intensive business, insurance is a vital requirement to protect assets against foreseeable risks. All the projects in our portfolio have comprehensive and detailed industry standard insurance packages throughout the construction and operational phases.

**Fuel supply risk**
Our plants run on fossil-based fuels with most of the plants contracted on a tolling arrangement (wherein the fuel costs and volume risks are borne by the off-taker for the full term of the power purchase agreement). The fuel for the projects is supplied indirectly or directly by creditworthy suppliers and incremental costs of backup fuel are transferred to the off-taker. As per normal industry practices, the facilities are subject to heat rate penalties which are carefully monitored in order to avoid fluctuation in cash flows.

**Country and political risks**
The decision to invest in a project is highly dependent on the country and political risk assessment of that country and the region. This risk can be minimized but cannot be eliminated through the project’s life cycle. Where possible, we try and seek protection under the agreements for such risks. We do realize the importance of good relationships throughout the life of the project with our counterparties and ensure that this remains a key objective for the management and shareholders alike.

**Asset management**
One of our core business strategies is to add value by delivering competitive and reliable operations and maintenance services. ACWA Power’s long term sustainability hinges on an effective management of the operational risks and thereby optimizes the income streams from our power generation and desalinated water production facilities. Several facilities are administrated by our subsidiary NOMAC, an O&M service provider, and therefore we have a robust assurance, monitoring and control presence to supervise risk management at an operational level.

Furthermore, most of our projects have invoice and termination payments guaranteed with credit support provided by the Ministry of Finance of the country. In relation to borrowings from or deposits with financial institutions, the exposure is limited to global or regional banks with investment grade rating. The management team regularly monitors the credit rating of such institutions.
Operations and maintenance risks
Operational risk, particularly a reduction in availability, efficiency or capacity, is one of the most important issues faced by power and desalination facilities. NOMAC, being the O&M service provider, on the majority of our projects is compensated on the projected fixed and variable costs which are indexed to domestic and international inflation rates. However, the actual cost incurred by NOMAC could be higher than the inflation adjusted cost, thereby potentially reducing its cash flow. Cash flow could also decline due to any increase in maintenance and operational costs arising from higher than projected wear and tear or unplanned outages. To mitigate this risk, we are committed to delivering international standards for O&M services supported by strong and experienced management. ACWA Power and NOMAC have established respectable working relationships with the Original Equipment Manufacturers (OEM) across our fleet that enables us to keep abreast of innovation and technical advances and use their expertise for major equipment maintenance and inspections. NOMAC has further adopted an international best practice O&M standard and successfully achieved certification to three internationally recognized performance and quality standards OHSAS 18001, ISO 9001 and ISO 14001.

Economic and financial risks
Our business is subjected to the vagaries of macro-economic risks, including foreign exchange, inflation, and interest rate risks. The revenues of most of the projects, though received in local currencies (which are pegged to the USD), are indexed either fully or in majority to the exchange rate movement of the USD, thus resulting in protection against volatility of the exchange rate between the two currencies. Due to the dollarized nature of the cash flows, a removal of the peg between the local currency and USD, would minimally affect the financial stability of our portfolio. The bulk of the O&M revenue of most of our projects is in USD or the relevant local currency and any movements in the USD currency against any other major currencies of the world has a low impact on the stability of cash flows. The fixed and variable revenues of most of the projects are typically divided into two components, namely domestic and international. Both revenue streams are indexed to the inflation rates of the respective countries and are thereby sheltered from exposure to inflation risk.

We model and select an optimal interest rate that results in the highest rate of return. Long term funding is in USD or the relevant local currency and any pegging between the local currency and USD, would thus resulting in protection against volatility of the exchange rate between the two currencies. Due to the dollarized nature of the cash flows, a removal of the peg between the local currency and USD, would minimally affect the financial stability of our portfolio. The bulk of the O&M revenue of most of our projects is in USD or the relevant local currency and any movements in the USD currency against any other major currencies of the world has a low impact on the stability of cash flows. The fixed and variable revenues of most of the projects are typically divided into two components, namely domestic and international. Both revenue streams are indexed to the inflation rates of the respective countries and are thereby sheltered from exposure to inflation risk.

We model and select an optimal interest rate that results in the highest rate of return. Long term funding comprises of SAR and USD debt, linked to SAIBOR and LIBOR, respectively. To protect from interest rate volatilities, SAIBOR is 100% hedged on a rolling basis for periods of 5 years and LIBOR is substantially hedged (both using interest rate swaps) for periods replicating the tenor of the USD debt. Therefore, although most of the projects do not have any interest rate exposure currently, our ability to maintain the stable cash flow levels will depend on future SIBOR and LIBOR interest rates.

Health, Safety and Environmental (HSE) Risks
Inadequate HSE practices and management can lead to hazardous conditions, demotivated staff and reduced economic performance of the plant. To control anticipated HSE risks, we specify stringent HSE management standards based on international standards for all EPC and O&M service providers. We have our own HSE team that undertake periodic inspections and audits to monitor the HSE management activities and performance. All our projects are designed to comply and operate within the local HSE standards and requirements for air and water emissions, noise levels and soil contamination. All projects are subject to an Environmental and Social Impact Assessment which complies with both local and International regulations. To ensure the highest standards for environmental, health and safety management NOMAC (the O&M service provider) obtained ISO 9001, ISO 14001, OHSAS 18001 certifications for all its service contracts. Through environmental regulations will affect our operations in the future, most of our power and water purchase agreements contain protections against the change in law thus ensuring limited exposure to additional costs arising as a result of new environmental regulations.

Organizational Management
Our business is a people business and succeeds on the learning and knowledge gained by our people from transactions we undertake and the management of our businesses. We have organized our management team on a functionally basis to ensure that each of the functional centers of technology, asset management, finance (project and corporate finance, accounting, tax, insurance, risk) and legal develop and retain expertise within their teams to support the main growth engines of business development and acquisitions.

Staffing and human resource risk
We hire and retain the best talent in the industry to steer our way to success. Finding and retaining the right staff is the key difference in winning on competitive bids or in providing operation and maintenance services. The implementation of our strategic plans can be hindered by the loss of key personnel or failure to recruit or retain key personnel.

Governance and management control
ACWA Power has grown significantly over the last few years and we have established and maintained appropriate governance and management procedures. Our standards are based on local and international requirements and management approaches. We have continued to build and implement financial controls under the internationally accepted framework of Committee of Sponsoring Organizations (COSO) and have advanced during the year to conduct internal audits of various areas. Further details can be found in the section ‘Report on Corporate Governance’ on page 64.

We are in the process of implementing an Enterprise Risk Management (ERM) framework which will be followed by the establishment of the Risk Committee. The objective of the ERM is to identify, assess, mitigate, monitor and report risks in our business to the Board and the management team. We have engaged internationally experienced consultants to assist us in achieving our objectives and the desired results.
The water or energy footprint of a product or a service is the total amount of water or energy that is required to produce it. The footprint or embodied water of manufactured goods is the total quantity of real water used and the virtual water passed down the production chain.

**The Virtual-Water Chain**

The virtual water embedded in grain imported into West Asia and North Africa is the equivalent of the annual flow of the Nile and double of the annual flow of the Euphrates (IDB, 2005).

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Global average water footprint (liters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>100 g</td>
<td>70</td>
</tr>
<tr>
<td>Apple Juice</td>
<td>200 ml</td>
<td>190</td>
</tr>
<tr>
<td>Barley</td>
<td>1 kg</td>
<td>1,300</td>
</tr>
<tr>
<td>Beef</td>
<td>1 kg of meat</td>
<td>15,500</td>
</tr>
<tr>
<td>Bread</td>
<td>1 slice</td>
<td>40</td>
</tr>
<tr>
<td>Cheese</td>
<td>1 kg</td>
<td>5,000</td>
</tr>
<tr>
<td>Chicken</td>
<td>1 kg of meat</td>
<td>3,900</td>
</tr>
<tr>
<td>Coffee</td>
<td>1 cup</td>
<td>140</td>
</tr>
<tr>
<td>Cotton</td>
<td>1 cotton shirt</td>
<td>2,700</td>
</tr>
<tr>
<td>Eggs</td>
<td>1</td>
<td>200</td>
</tr>
<tr>
<td>Hamburger</td>
<td>1</td>
<td>2,400</td>
</tr>
<tr>
<td>Maize</td>
<td>1 kg</td>
<td>900</td>
</tr>
<tr>
<td>Milk</td>
<td>1 liter</td>
<td>1,000</td>
</tr>
<tr>
<td>Orange</td>
<td>1</td>
<td>50</td>
</tr>
<tr>
<td>Paper</td>
<td>1 A4 sheet</td>
<td>10</td>
</tr>
<tr>
<td>Potato</td>
<td>1 kg</td>
<td>900</td>
</tr>
<tr>
<td>Tea</td>
<td>1 cup</td>
<td>30</td>
</tr>
<tr>
<td>Sugar</td>
<td>1 kg</td>
<td>1,500</td>
</tr>
<tr>
<td>Rice</td>
<td>1 kg</td>
<td>3,400</td>
</tr>
<tr>
<td>Sheep</td>
<td>1 kg of meat</td>
<td>6,100</td>
</tr>
<tr>
<td>Tomato</td>
<td>1 kg</td>
<td>180</td>
</tr>
</tbody>
</table>

Water and energy resources are valuable all along the supply chain necessitating end-users maximize the economic benefits of the scarce streams and consumable products.

Sources:
AFED Water Report 2010
http://www.waterfootprint.org/?page=files/home
The water footprint of food, Professor Arjen Y. Hoekstra, Twente Water Centre, University of Twente, the Netherlands.
FINANCIAL PERFORMANCE

We currently have operational investments with a total capacity of 5,280MW and 2.32 Mm^3/day spread over 7 plants and another 1,205MW under construction. The majority of the investments are under long term sales agreements with the fuel price and supply risk assumed by a credit worthy off-taker. Our investments are presented in the following table with the respective accounting classification.

We undertake a full line-by-line consolidation for all projects in which we exercise full control and do an equity consolidation (one-line consolidation) for the projects where we either have joint control or significant influence.

<table>
<thead>
<tr>
<th>Accounting classification</th>
<th>ACWA Power effective ownership</th>
<th>Power Capacity</th>
<th>Water Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>ACWA Power share</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>MW</td>
<td>MW</td>
</tr>
<tr>
<td><strong>Operational Projects</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shaabah IWPP</td>
<td>Joint venture</td>
<td>30.0%</td>
<td>900</td>
</tr>
<tr>
<td>Shaabah Expansion IWP</td>
<td>Joint venture</td>
<td>29.8%</td>
<td>-</td>
</tr>
<tr>
<td>Rabigh IWSP</td>
<td>Associate</td>
<td>23.9%</td>
<td>360</td>
</tr>
<tr>
<td>Shuqaiq IWPP</td>
<td>Joint venture</td>
<td>34.0%</td>
<td>850</td>
</tr>
<tr>
<td>Marafiq IWPP</td>
<td>Associate</td>
<td>20.0%</td>
<td>2,741</td>
</tr>
<tr>
<td>Barka 1 IWPP</td>
<td>Subsidiary</td>
<td>41.9%</td>
<td>427</td>
</tr>
<tr>
<td>Bowarege</td>
<td>Subsidiary</td>
<td>64.9%</td>
<td>50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>5,280</td>
</tr>
</tbody>
</table>

The financial information presented in the consolidated financial statements has been prepared in accordance with all applicable SOCAPA standards and in reference to IFRS (where the SOCAPA standards had not addressed an accounting issue). For the year 2010, we achieved income from main operations of SAR 168 M and a net income of SAR 110 M.

The net income for the year was SAR 110 M compared to a net income of SAR 230 M for the year 2009/2008. The drivers of the net income are shown in the following table.

**Income from consolidated businesses**

The results of Barka 1 IWPP, N OMAC and Bowarege are fully consolidated into ACWA Power. Though the overall contribution from Bowarege for the year 2010 was negative, the business has achieved a significant turnaround with the stabilization of operations and returned to profitability towards the end of year.

**Revenue**

Revenue is driven by the availability of the power and water facilities and dispatch of electricity and desalinated water by operational facilities, supply of operation and maintenance services and realization of development fees.

**Operating costs**

Operating cost comprises development expenses incurred for projects that have achieved financial close and fixed and variable operation and maintenance costs incurred at Bowarege, NOMAC and Barka 1 IWPP. Costs for the projects generally comprise chemicals, salaries and wages, routine and annual plant maintenance, consumables and spares, insurance, development fees, plant depreciation and amortisation, replacement costs of membranes and other equipment, environmental health and safety expenses, outsourced labour and manpower costs incurred in the operation and maintenance of the asset portfolio.

**Other costs**

Other costs comprise general and administrative expenses and provision or write-off of development cost of discontinued projects. General and administrative expenses are made up of staff costs, office costs, telecommunication and internet, utilities, general repair and maintenance, general insurance, travel and subsistence, legal and professional charges.

**Income from joint ventures and associates**

The results of the investments in joint ventures and associates are recorded using the equity method which covers Shaabah IWPP, Shaabah Expansion IWP, Shuqaiq IWPP, and associates Marafiq Jubail IWPP, Rabigh IWSP and Rabigh IPP. The income from investments in joint ventures and associates is reflected as one of our main activities and recognized as part of operating income. The share of income from joint ventures and associates companies includes the net income generated from initial operations and for Marafiq Jubail IWPP it also includes net liquidated damages (net of receipts from EPC and payments to the off-takers) received from the contractor on delay in achievement of commercial operations.

**Financial costs**

Financial charges are largely driven by interest on long term loans at Barka 1 IWPP and Bowarege. The commission on letters of credits and guarantors issued by the financial institutions arise from the commitments of ACWA Power's various investments and development projects. Additionally, ACWA Power pays commission to its shareholders that have funded an equity bridge loan for Rabigh IPP (whose commission is fully recovered from Rabigh IPP and is reflected under other income).

**Cashflows and dividends**

ACWA Power received a capital injection from the shareholders in 2010 in relation to the acquisition of Barka 1 IWPP. It also declared at the end of the year a dividend to its shareholders.

**Debt and Capital Structure**

ACWA Power’s capital structure comprises mainly of equity injections from the shareholders. The loans at the projects are secured with non-recourse financing except for Bowarege where the loan is against guarantees provided by the shareholders of Bowarege. In addition to the direct capital injection into the organization, the shareholders have also funded, directly and indirectly, loans to fund the equity bridge loan for the Rabigh IPP Project.

**Other income**

Other income results from incidental income generated on moving the Barges from one location to another at Bowarege, profits on deposits, commission income on equity bridge loans provided to Rabigh IPP under a back to back arrangement from several shareholders and other service income generated from services provided to projects.
The majority of water and electricity distributions systems push excessive supply to meet predicted demand. Water and electricity production costs increase during peak demand periods and system inefficiencies increase for the durations of minimum demand.

Smart Grids constantly gather information from consumers and balance the delivery of utilities with point of use demand.

Real time dynamic balancing enables pricing to be calculated on actual supply versus demand rather than on fixed predetermined tariffs.

Demand or time based pricing is one method of encouraging consumers to use utilities during night time oversupply cycles and conserving throughout day time peaks.

Smart meters and smart appliances communicate with the network and obtain real time prices enabling consumers to take control of when they use water and electricity and how much they pay.

Off-peak heating and cooling, washing and drying using timers are simple to use and are integrated into newer appliances and equipment.
Our medium and long term business strategy is evolving and was further refined during 2010 without any fundamental changes from the foundations established in 2009. Our overall objective remains to expand our portfolio to 30,000MW of power including at least 1,500MW of renewable energy and 5 Mm³/day of desalinated water production capacity. We plan to progressively grow internationally and to broaden the portfolio across a wider geographical platform. The focus is on countries with a stable socio-political foundation, strong economic fundamentals, a robust legal framework coupled with a track record of honoring contracts and a healthy respect for the value private sector brings to the field of power generation and desalinated water production.

The announcement of significant GCC infrastructure investments has lead to over 28,000MW of power opportunities opening to tender across the MENA and Levant regions. Our short term target markets are the GCC, Jordan, Egypt, Morocco, Turkey and South Africa. We have identified opportunities in each of these target countries and are either preparing offers or have commenced development work.

We will be progressing with the Memorandum of Understanding concluded with a local Turkish partner to develop a 800MW CCGT plant on a “fast-track” basis. This is will be the first merchant facility in our portfolio.

We will maintain our focus on the Saudi Arabian electricity and water market and particularly its dependence on oil and gas for power generation and desalinated water production. It is now well recognized that the country will benefit by diversifying its fuel source to include renewable energy which would also reduce the country’s carbon footprint. Solar power offers the greatest potential as a reliable and clean energy. Solar would benefit the regions where there is a power deficit especially in those rural areas which are off grid. Furthermore Saudi Arabia plans to export solar generated electricity and there is little to stop it becoming the largest exporter. We believe there are exciting opportunities for us to fulfill our ambitions in this emerging energy sector.

Saudi Arabia is the world’s third largest per capita consumer of water. It produces one quarter of the desalinated water in the world, which accounts for approximately one quarter of the country’s total water demand. The government anticipates this demand will grow on average by 10.7% per annum for the next six years, with total demand for desalinated water projected to be 6 Mm³/day by 2020. Currently most of the desalinated water is supplied by SWCC, which produces approximately 3 Mm³/day. Subject to government approval, the private sector is likely to have an opportunity to acquire strategic equity interest even in this existing capacity.
Showers

Average and longer showers using large and multi-head showers use more water than a typical bath.

<table>
<thead>
<tr>
<th>Shower Type</th>
<th>Liters per minute</th>
<th>Volume used during an average 10 minute shower</th>
<th>Bath equivalent*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric shower</td>
<td>4-6</td>
<td>50 liters</td>
<td>±½</td>
</tr>
<tr>
<td>Low flow shower</td>
<td>9</td>
<td>90 liters</td>
<td>1</td>
</tr>
<tr>
<td>Mixer shower</td>
<td>9-12</td>
<td>100 liters</td>
<td>&gt; 1</td>
</tr>
<tr>
<td>Power shower</td>
<td>16</td>
<td>160 liters</td>
<td>± 2</td>
</tr>
<tr>
<td>Multi-head shower</td>
<td>up to 45</td>
<td>400 liters</td>
<td>&gt; 4</td>
</tr>
</tbody>
</table>

* Based on 90 liters which is a full standard bath

Take short showers of 4-5 minutes and use a shower timer as a reminder.
Replace high volume showers with low flow and aerated shower heads.
Bath water can be re-used or shared to conserve water.
ACWA Power International (ACWA Power) is a leading developer, asset owner and operator of independent power generation and desalination water production facilities. We are committed and focused on integrating health, safety and environmental (HSE) considerations into all our business operations and those we develop jointly with our partners in order to be a responsible employer and business leader.

In order to comply with our legal responsibilities and to support environmentally sound and sustainable development, ACWA Power will:

- Proceed and maintain safe, healthy and environmentally responsible working conditions
- Implement a risk-based HSE management system that conforms to international practices and standards
- Provide HSE training to our employees and promote leadership to our partners
- Regularly engage with our employees and partners on HSE issues.
- Adopt a preventative approach in our business activities by undertaking risk assessments, complying with legislation, using resources prudently and minimizing pollution
- Implement arrangements and set standards to promote and assure the best practicable HSE performance of our subsidiaries, supply chain and project companies
- Periodically monitor and report on HSE management and performance
- Annually review our HSE policy statement and set performance and management targets.

All ACWA Power employees are responsible for adhering to and implementing this policy statement which shall be further developed into our health, safety and environmental, policies and standards. Our business leaders and managers are accountable for monitoring and managing compliance and performance. This policy statement is applicable to all our employees, offices and business activities.

Date: April 2010

President & CEO

Chairman

ACWA Power International Annual Report 2010 CR&S
There were several notable HSE projects and achievements during 2010 including:

- NOMAC’s Integrated Management System (IMS) was certified by an external accreditation agency to the ISO 14001 environmental management, ISO 9001 quality management and OHSAS 18001 health & safety management standards. This means that the majority of our portfolio is operating with externally certified management systems.
- ACWA Power Barka completed over 8 years of operations without a lost time accident which is more than 1,035,580 hours of safe working. This was only possible due to the diligence and safe work practices of the entire Barka team.
- ACWA Power Barka won the Green Footprint Award at the Oman Green Awards which is the first national Environmental Award scheme in Oman. The Oman Green Awards honor the outstanding environmental vision, endeavors and achievements of corporate organizations and individuals.
- An illustrated “Safe Construction” booklet has been developed for distribution to construction contractors across our new and existing facilities. The 24 pages booklet has been translated into English, Arabic, Urdu and Chinese and is a first in the Saudi construction sector.
- As part of managing our supply chain, a comprehensive minimum requirements guideline for the Operation and Maintenance of our current and future assets was developed and approved. The standard includes detailed specifications for HSE management that are based on international best practices. The guideline has been adopted and will be implemented by our largest O&M service provider.
- Since this is ACWA Power’s first year of measuring HSE performance and so there is no data available to calculate year on year changes. Water, Energy and GHG emissions have been measured for the Dubai office and a corporate target has also been agreed to monitor these data across the portfolio in 2011.

Renewable Energy

We have made steady progress on achieving our voluntary target of adding 5% power generation from renewable sources to our asset portfolio. We have prequalified for a second CSP project in North Africa. Technical and commercial support has been provided to advancing solar desalination to KAUST for the evaluation and field testing of PVs (photovoltaics) for use in Saudi Arabia.

Community Initiatives

The Shuqaiq Water and Electricity Company (SqWEC) equipped the Saba General Hospital’s Optometric Center in Jizan in December 2010. SqWEC provided sponsorship for specialist medical equipment and a visiting doctor program. The Saba General Hospital was opened in 1972 to provide health care services to the residents of the region which today has a population of nearly half a million people and includes 23 towns.

Staff from our Riyadh office established an ACWA Power basketball team to play in the local tournaments organized by the Filipino community. The objectives of this league are to promote camaraderie and sportsmanship of all Filipino expatriates working in the Kingdom. The team was sponsored by ACWA Power and claimed the second place in the 2010 MKB Mobily Cup. The trophy was presented at an awards ceremony at the Philippine Embassy in Riyadh.

CR&S projects and achievements

Our corporate responsibility and sustainability program has matured and extended during 2010 with projects ranging across our supply chain and stakeholders. We are continuing with the establishment of a technical training institute to educate Saudi school leavers and encourage them to take up a long term careers in the power and water sector. This initiative has multiple benefits and will address high regional unemployment and the need for improved technical skills of the local workforce.

The Institute’s vision is that “Saudi Arabia’s world class power generation and water desalination facilities and sector is excellently lead and staffed by home grown first-rate managers, operators and technicians” and its mission is “to establish a thriving and self sustaining Institute that inspires young Saudis to enter the power and water sector and becomes the polytechnic of choice for trainees and employers based on reputation and quality of training.”

ACWA Power carried on with the sponsorship of sector conferences and academia. This includes several universities and being an active member of the King Abdullah University of Science and Technology (KAUST). The KiAB program provides opportunities for R&D and business alliances between industry, the university and its pool of world class academics.

We support various international and regional business associations and networks that promote sustainable development including:

- International Desalination Association
- Saudi Water & Power Forum
- King Abdullah University for Science and Technology (KAUST) – KAUST Industrial Advisory Board (KIAB) and Center Industry Affiliates Program (CIAP)
- Emirates Green Building Council
- Emirates Environmental Group
- Global Water Intelligence
- Arab Forum for Environment and Development (AFED)

ACWA Power was recognized for our corporate responsibility and sustainability program with two awards, namely:

- The SWPF Award for Innovation with the citation stating “Demonstrating commitment to an integrated management approach to sustainability and corporate responsibility”.
- The 2010 Saudi Arabian Responsible Competitive Index (SARCI) as a top ten finalists from 120 entrants. This is the third year that we have been acknowledged by the Saudi Arabian General Investment Authority, the King Khalid Foundation and the global research institute Accountability for our corporate responsibility and sustainability activities and leadership role.

Objectives for 2011

In 2011 we aim to extend our corporate responsibility and sustainability program to all the regions in which we have assets. This will significantly increase the range and nature of our projects as we maintain our focus on the needs of the local communities and stakeholders.

Portfolio wide HSE monitoring and reporting will remain a priority and will aim to comply with the GRI guidelines. The accumulated data will enable us to report year on year performance and trends in our third corporate report against performance targets will also be set using international benchmarks.

Minimum standards for HSE management and performance will continue to be rolled out across our development, acquired and existing asset portfolio. As these standards are often different to the local requirements, we will continue to support and educate our supply chain about our expectations for HSE performance which are based on World Bank requirements.
Insulation of roofs, walls and floors plus using efficient lighting can reduce a small supermarket’s annual electricity consumption for heating, cooling and lighting by approximately half.

The capital cost is overwhelmingly repaid over the life of the supermarket, improving profitability and using ingenuity to avoid depleting national resources.

Electricity consumption of typical regional supermarket
(1,602,581 kWh per annum)

Electricity consumption of upgraded supermarket
(1,081,813 kWh per annum)

Source: Modeling energy use in the commercial sector in a Saudi Arabian retail store, Mohammed Ali Alzain, Department of Physics, Faculty of Science, King Abdulaziz University.
Project Companies and Subsidiaries
### Barka 1 IWPP

Barka 1 is the first IWPP developed as part of the privatization program of the Sultanate of Oman. The plant began commercial operations in June 2003 and a majority stake was acquired by ACWA Power in August 2010. The facility contributes 12% of the electricity and 17% of the desalinated water in Oman.

ACWA Power Barka delivered phenomenal results during 2010 by meeting operational and financial goals while facing several challenges. Availability was maintained at more than 99% for both electricity and water and costs effectively managed by applying the team’s extensive operational experience. This is a continuation of the success in 2009 when the plant won the “Middle East Desalination Plant Operator of the Year” award presented by PowerGen.

The impressive performance is also due to the seamless transition post sale and exceptional safety and environmental management. The plant completed more than 1,000,000 man hours without a lost time incident since the project became operational 8 years ago. The facility successfully renewed its health & safety OHSAS 18001 and environmental ISO 14001 management certification for the third consecutive year, and there have been no environmental breaches during the year. In recognition of the environmental performance, the facility won the first “Oman Green Foot Print Award” presented by the Oman Green Awards.

<table>
<thead>
<tr>
<th>Location</th>
<th>60 km north of Muscat, Oman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services supplied</td>
<td>Muscat</td>
</tr>
<tr>
<td>Fuel</td>
<td>Natural Gas</td>
</tr>
<tr>
<td>Power</td>
<td>427MW</td>
</tr>
<tr>
<td>Configuration</td>
<td>Combined Cycle (Gas and Steam)</td>
</tr>
<tr>
<td>Desalinated Water</td>
<td>91,000 m³/day</td>
</tr>
<tr>
<td>Desalination process</td>
<td>Multi-Stage Flash (MSF)</td>
</tr>
<tr>
<td>Project Cost</td>
<td>SAR 1,556 M, USD 415 M</td>
</tr>
<tr>
<td>Commercial Operational Date</td>
<td>Q2 2003</td>
</tr>
<tr>
<td>Acquisition Date</td>
<td>18th August 2010</td>
</tr>
<tr>
<td>ACWA Power Share</td>
<td>58%</td>
</tr>
<tr>
<td>Contract Type and Term</td>
<td>PWPA-BOO 15 years</td>
</tr>
<tr>
<td>Operator</td>
<td>ACWA Power (Owner Operator)</td>
</tr>
</tbody>
</table>

### Rabigh IWSPP

Rabigh IWPP is owned and operated by the Rabigh Arabian Water and Electricity Company (RAWEC), a Joint Venture between Marubeni Corp, JGC Corporation, ACWA Power, Itochu Corporation and Petro Rabigh. The project was constructed under an EPC contract by Mitsubishi Heavy Industries and consists of a conventional thermal power with five 118MW steam turbines, nine 470 t/hr steam generators, three wet limestone Flue Gas Desulphurization (FGD) units and sixteen 504 m³/hr Reverse Osmosis (RO) trains. Reliability and availability has significantly beaten forecasts from the start of production at PCOD in June 2008 until 2010.

The FGD system uses a limestone forced oxidation system which incorporates air injection to produce oxidized gypsum resulting in sulphur emissions decreasing from approximately 2,200 to 72 ppm. During full load, the facility consumes 600 ton/day of locally sourced limestone and produces 1,200 tons of gypsum that is sold to the adjacent Arabian Cement Company for cement production.

RAWEC employs 207 employees of which 40% are Saudi nationals at all levels of the organization. Employee health and wellbeing are a company priority and their well-resourced clinic on site where employees are offered routine health screenings. A ten month apprenticeship scheme developed for young school leavers from the Rabigh region has resulted in 19 graduates becoming full time employees. The emphasis on employee welfare has paid off and RAWEC employee turnover was 3% compared with a sector average of 9% during 2009.

<table>
<thead>
<tr>
<th>Location</th>
<th>Rabigh, Western Saudi Arabia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services supplied</td>
<td>Petro Rabigh Petrochemical complex</td>
</tr>
<tr>
<td>Fuel</td>
<td>Heavy Fuel Oil</td>
</tr>
<tr>
<td>Power</td>
<td>360MW</td>
</tr>
<tr>
<td>Configuration</td>
<td>Steam Turbines</td>
</tr>
<tr>
<td>Desalinated Water</td>
<td>134,000 m³/day</td>
</tr>
<tr>
<td>Desalination process</td>
<td>Reverse Osmosis (RO)</td>
</tr>
<tr>
<td>Steam</td>
<td>29,520 ton/day</td>
</tr>
<tr>
<td>Project Cost</td>
<td>SAR4,315 M, USD 1,151 M</td>
</tr>
<tr>
<td>Commercial Operational Date</td>
<td>Q2 2008</td>
</tr>
<tr>
<td>ACWA Power Share</td>
<td>23.9%</td>
</tr>
<tr>
<td>Contract Type and Term</td>
<td>WECA-BOOT 25 years</td>
</tr>
<tr>
<td>Operator</td>
<td>RAWEC (Owner Operator)</td>
</tr>
</tbody>
</table>
This facility is the world’s only fulltime commercially operational self-contained desalination plants mounted on transportable barges which enables them to be moved at short notice to locations that have an urgent or seasonal need or water deficiency.

Bowarege is a venture between ACWA Power and Raka Saudia Power and Water. The off-taker for the 50,000 m³/day is the Saline Water Conversion Corp. (SWCC). Operation & Maintenance is undertaken by NOMAC with a staff compliment of 88.

The barges are currently moored in Yanbu on the Red Sea providing desalinated water to the towns of Yanbu and Medina. The facilities have previously supplied services to Jizan and Shuaibah in 2009 and 2008 respectively.

During May and June 2010, the units were relocated 540 nautical miles to the north by means of two separate towing operations. The facilities stopped production in Shuqaiq on May 20th and supplies were resumed 34 days later when Unit 1 resumed commercial operation in Yanbu. The entire team completed a tremendous job of decommissioning, making the vessels sea ready, completing the shipping, establishment and recommissioning in under 5 weeks. This enabled the two barges to produce 4.8 Mm³ of desalinated water in the final half of the year.

The Shuaibah Expansion Project was delivered in response to the Saudi Government’s need for a fast-track solution. The challenge was to provide an additional 150,000 m³/day of desalinated water to meet the accelerating demand in Jeddah. The project is located on reclaimed land adjacent to the Shuaibah IWPP and the plants use a common water discharge channel. The facility uses reverse osmosis technology with 2 passes (sea water and brine) and energy recovery equipment and systems.

The facility’s deemed availability during 2010 exceed forecasts and averaged 98.6%. Over 43 Mm³ of desalinated water was produced without a lost time accident or environmental incident.

The facility is operated and maintained by 67 qualified and experienced personnel. One of the team’s priorities was successfully implementing a SAP system to computerize the plant’s overall operations and maintenance management. The facility has put the system into service and is reaping the benefits of streamlined planned preventive maintenance, performance monitoring and periodic reporting.
The Shuaibah IWPP was the first IWPP developed following the Saudi government’s decision to open the market to private investment. The facility delivers water and electricity to a wide region including the cities of Makkah, Jeddah, Taif and Al-Baha.

The facility’s capacity was admirably demonstrated during 2010 with approximately 7,300 TWh of electricity being exported to the Saudi Electricity Corporation. Peak summer demand targets were achieved and exceeded plus the additional supply was provided at the standard rate.

Desalinated water production totalled more than 264 Mm$^3$, which works out to contributing 8,374 liter/second to the regional demand or filling an Olympic sized swimming pool with drinking water every 5 minutes.

Environmental performance was regularly monitored and audited as per the Environmental and Social Impact Assessment (ESIA) requirements. Atmospheric emissions are abated using electrostatic precipitators and flue gas desuphurization equipment. The average particulate (dust) emissions were approximately 7 mg/Nm$^3$ which is much less than the 50 mg/Nm$^3$ prescribed by the World Bank and IFC HSE Guidelines. Sulphur dioxides, nitrogen oxides and carbon monoxide emission were also significantly below permissible levels.

Marafiq IWPP is the world’s largest power and desalination plant, located in Jubail industrial city in the Eastern Province. The project comprises four blocks, with three Gas Turbines and one steam turbine in each block and 27 MED desalination units.

The facility achieved several milestones during 2010 including the Commercial Operation for Blocks 2, 3 and 4 in February, March and June respectively. The plant then achieved PCOD on the 28th October 2010 after the successful completion of the reliability test run.

Looking back, the EPC Contractor received the limited notice to proceed on the 20th January 2007, started site clearing on the 20th April 2007 and received full notice to proceed on 20th June 2007. The entire project was delivered in only 1,377 days or just under 46 months which is a significant accomplishment for its scope and complexity.

The early production and revenues during 2010 before full commercial operation were exceptional with the facility exporting over 150 Mm$^3$ of desalinated water and approximately 16 TWh of electricity.
The past year have been a critical but remarkable year for Shuqaiq as it completed construction and successfully made the transition and handover to NOMAC’s O&M personnel. The facility’s initial commercial operation started on the 1st May 2010 and all three power units and water unit achieved their full commercial capacity on the 24th August 2010 - eleven weeks ahead of schedule. NOMAC staff took responsibility in their stride and operated the units without any major incident. O&M procedures were implemented which resulted in the exceptional performance of the power units. Overall plant availability and performance is better than design and warranty forecasts.

NOMAC’s staff has been involved since the early stages of the construction through to the commissioning and have completed a formal on-the-job training program delivered by the MHI (the EPC Contractor). The current O&M contingent of 175 personal includes 12 Saudi nationals who are trainees and are progressing through an On Job Training apprenticeship.

Regular preventive maintenance and calibration of the stack emission monitoring instruments are undertaken to maintain confidence in their accuracy and ensure regulatory compliance. Data from the stack monitoring system has confirmed the plant’s compliance with environmental requirements and that there have not been any contraventions.

The Shuqaiq Water and Electricity Company, the facility’s project company, sponsored a new eye clinic at the regional hospital as part of its social engagement program.

---

Location: 140 km north of Jizan, Southern Saudi Arabia
Services supplied to: Assir Region, Jizan
Fuel: Arabian Heavy Crude
Power: 850MW
Configuration: Gas Turbines
Desalinated Water: 212,000 m³/day
Desalination process: Reverse Osmosis (RO)
Project Cost: SAR 6,866 M, USD1,831 M
Commercial Operational Date: Q4 2010
ACWA Power Share: 34%
Contract Type and Term: PWPA-BOO 20 years
Operator: NOMAC

The Rabigh IPP is under construction on the Red Sea coast at Rabigh, 160 km north of Jeddah. The engineering, procurement and construction contract is a joint venture between two Chinese companies; SEPCO III Electric Power Construction Corporation and Dongfang Electric Corporation.

The works are on target to meet the ICOD milestones and the final PCOD of 1st April 2013. As of December 2010, the power house foundations for both units, turbine pedestals, chimney, seawater facilities and jetty have been completed.

The site has worked over 3 M man hours with just one reportable health & safety incident. The labour force is continually increasing and reached 2,000 people at year end and will continue to grow in 2011.

Location: Rabigh, Western Saudi Arabia
Services supplied to: Petro Rabigh Petrochemical Complex
Fuel: Heavy Fuel Oil
Power: 1,204MW
Configuration: Steam Turbines
Project Cost: SAR 9,397 M, USD 2,506 M
Commercial Operational Date: Forecast Q2 2013
ACWA Power Share: 40%
Contract Type and Term: PPA-BOO 20 years
Operator: ROMCO (Joint venture of KWECO and NOMAC)
NOMAC delivered operational and maintenance (O&M) services at four commercially operational water and power generating facilities in Saudi Arabia. Altogether, NOMAC operated a portfolio with a capacity of approximately 2,954MW of power and 1.3 Mm³/day of desalinated water production. In addition, an O&M team was mobilized at the Rabigh IPP which is still under construction.

NOMAC’s philosophy is to operate & maintain all facilities in the way they are designed and according to the highest standards and practices. NOMAC was able to meet these commitments across the group by actively participating in the commissioning and acceptance of new plant, preparing tailored on the job training programs for newly-recruited nationals and designing refresher courses for all staff and supporting the entire workforce with specialist services from the Head Office in Jeddah.

The management and technical teams maintain continual contact with original equipment manufacturers in order to keep up-to-date with technical information, innovation and transfer of knowledge. Preference is given to local suppliers to support and develop regional supply chains.

One of the key business objectives was the implementation of a computerized maintenance management system and computerized spare parts management program which is the foundation of professional plant operations and cost containment. The initial SAP system was implemented across the organization with additional packages going live in 2011.

Throughout 2010 the company’s integrated health & safety, quality and environmental management system (IMS) was progressively developed and implemented at the corporate office and the facilities. In December the system was audited by an external accredited certification agency and successfully achieved certification to three international standards (OHSAS 18001, ISO 9001 and ISO 14001). The certified IMS covers the operation and maintenance of all the current and future facilities’ under NOMAC’s stewardship.
The Barges IWP is one of the world’s most unique, innovative and challenging water desalination projects. Conceived as a response to the chronic drinking water shortage in Saudi Arabia in 2008, it has translated an entrepreneur’s dream into a daily and precious reality for the people of the Western Region. The solution was to build a pair of mobile barges, each complete with a 25,000 m³/day fully mounted and operable RO desalination plant. The units meet the exacting needs of membrane technology, compact design for a limited footprint, environmental constraints, international marine certification and industrial safety standards. The barges can be docked at a selected site and commissioned in approximately 30 days. This is in sharp contrast to land-based turnkey desalination plants, which typically needs 3-5 years from contract signing to commissioning and actual delivery of product water.

The privatized barge-mounted desalination solution proved to be the most practical and feasible, if not the only solution to the acute water shortages experienced in many parts of the country, especially during peak-demand periods, such as the Muslim fasting month of Ramadan and the Hajj (pilgrimage) season. It has successfully contributed to easing the severe water shortage problems in Makkah, Jeddah and Abha (Asir Region) in 2008-2009, and currently the cities of Medina and Yanbu, where the barges have been stationed since June 2010. Barge-mounted desalination has been proven to be a reliable and fast-response for emergency water supply in the event of unforeseen disasters.

The completed project utilizes a diesel power supply system, a self-contained intake system, and an integrated membrane process consisting of UF pretreatment for the SWRO/BRO desalination systems. ACWA Power’s goal to prove the viability, reliability and cost-effectiveness of the project is illustrated in the table below. The barges have produced over 27.5 Mm³ meters (7.3 billion US gallons) of drinking water from surface Red Sea waters in the first 33 months of operation, and is on track to provide up to 20 Mm³ (5.3 billion US gallons) in annual production capacity.

<table>
<thead>
<tr>
<th>Location</th>
<th>Duration</th>
<th>Production m³</th>
<th>Location</th>
<th>Duration</th>
<th>Production m³</th>
<th>Production m³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yanbu</td>
<td>June 2010</td>
<td>6,021,149</td>
<td>July 2010</td>
<td>March 2011</td>
<td>3,487,010</td>
<td>9,508,159</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Grand Total</td>
</tr>
</tbody>
</table>

During 2010, after the successful commissioning of the Shuqaiq IWP, both barges were relocated to a deep and open-sea intake site inside the Madina-Yanbu Desalination Plants complex. The relocation and engineering upgrades translated into average plant availability of 93% at Yanbu with average daily production rates of over 45,000 m³/day. Plans are now underway to add some 10,000 m³/day of capacity to both barges in the next 1-2 years. HE The Minister of Water & Electricity, HE The Governor of SWCC and other senior managers have expressed their full satisfaction and complete confidence of the Barges project’s current performance, capability and reliability. SWCC has already extended its Water Sale Agreement for 3 years at Yanbu.
Indoor comfort with Integrity

In hot arid climates 70-80% of electricity is consumed for air conditioning. 70% of the energy used by households in the EU is spent on heating homes and another 14% on heating water. United Kingdom’s space heating contributed 40% of all non-transport energy consumption in 2000.

People adapt clothing and acclimatize to winter and summer temperature variations and so do not need a constant indoor temperature of 22°C. Seasonally adjusting indoor temperatures yields significant energy savings of up to 8% per °C for each degree the thermostat is moved from 22°C.

Reconsidering indoor temperatures

<table>
<thead>
<tr>
<th></th>
<th>Winter</th>
<th>Summer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daytime occupied areas</td>
<td>19-20°C</td>
<td>24-25°C</td>
</tr>
<tr>
<td>Nighttime occupied areas</td>
<td>17-18°C</td>
<td>26-27°C</td>
</tr>
<tr>
<td>Unoccupied areas</td>
<td>Unconditioned or heated to 14-16°C</td>
<td>Unconditioned or cooled to 29-30°C</td>
</tr>
</tbody>
</table>

Time and zone controlled thermostats enable temperatures to be modulated to match demand as compared to permanent operation at constant temperatures.

Traditional ceiling or room fans enables occupants to be comfortable in moderately warmer temperatures because the air movement provides additional sensible cooling.

Awnings, shutters, seasonal trees and vines and decorative screens inhibit heat gain by providing shade without reducing light leading to energy savings of approximately 5%.

Solar control window films applied to windows and doors reduces peak demand and air conditioning consumption.

Seasonal and regular maintenance of leaking and blocked ducts, filters and pipe work typically leads to a 20-25% saving of cooling and heating costs in an average home.

Sources:
http://ec.europa.eu/clima/sites/campaign/control/turndown_en.htm
http://www.energy.eu/publications/01747071640NC_092.pdf
American Society of Heating, Refrigerating, and Air-Conditioning Engineers, Inc.
CORPORATE GOVERNANCE REPORT

The greater part of the corporate management effort during 2010 went into developing and starting the implementation of formal corporate governance and risk management policies and procedures. The Audit Committee and the Board approved in principle the corporate governance regulations and code during August 2010. The code is based on several international standards including the Capital Market Authority regulations issued in the Kingdom of Saudi Arabia. The scope of the regulations covers the rules and standards governing the company’s performance in particular relating to disclosure and reporting, roles and responsibilities of Directors, levels of authority, shareholder rights and powers, functions and responsibilities of the Board committees. The code led to the formalization of the Board Investment Committee. The phased introduction of the corporate governance code and practices will continue into 2011, inter alia, with the formation of the Nomination and Remuneration Committee.

ACWA Power is committed to the highest standards of corporate governance and these values are reflected in leadership, management and day-to-day operations of the Board of Directors, management and its employees. The overall guiding philosophy is to assist the management teams in their efficient conduct of business and fulfilling obligations towards our stakeholders. The governance code is applicable to all Directors, management, employees and professional associates.

Board of Directors and Board Committees

The Directors bring to ACWA Power a rich experience of corporate governance, operations and maintenance, finance and accounting, business development and fund raising. Their experience is complimented by their academic qualifications in the fields of administration, management, finance, accounting and engineering. The Board comprises seven members of which five are non-executive and two are independent. Details of the Board and their attendance at meetings are tabulated below.

<table>
<thead>
<tr>
<th>Director</th>
<th>Appointment</th>
<th>Board Meetings 2010</th>
<th>AGM</th>
<th>Extra GAM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Mohammed Abdullah Abunayyan</td>
<td>Executive Chairman</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Sulaiman A. Al-Muhaidib</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Talal Al-Rajhi</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>Present</td>
<td>Apologies received</td>
</tr>
<tr>
<td>Mr. Raheed Al-Rashid</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>Present</td>
<td>Apologies received</td>
</tr>
<tr>
<td>Mr. Tariq Al-Mutlaq</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>Apologies received</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Yousef Al-Mutlaq (resigned on 15th August, 2010)</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mr. Saleh C. Brahimi</td>
<td>Independent Director</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Mohd. Izuddin Bin Idris (appointed on 16th August, 2010)</td>
<td>Independent Director</td>
<td>-</td>
<td>Present</td>
<td>Present</td>
</tr>
</tbody>
</table>

The meetings of the Board of Directors were convened by issuing proper notices along with the agenda and related documents. The meetings were presided over by the Chairman of the Board and the minutes of the meetings were appropriately recorded and circulated. Mr. Abdulrahman Al-Khamis resigned his Board position of Non Executive Director on 7th March 2010.

The AGM of the year ending 31/12/2009 was held on 15th May 2010 and an Extra General Assembly Meeting (GAM) was convened on the 14th July 2010.

Audit Committee

An Audit Committee has been established as per our corporate governance code and the CMA standards. Mr. Khalid Al-Salih was appointed as the Chairman of the Audit Committee on 16th August 2010. All the members are competent and have relevant accounting experience in compliance with the Saudi Organization for Certified Public Accountants (SOCPA) standards and commercial laws. Internal audit was outsourced during 2010 to a leading multinational audit firm with a large infrastructure, resource pool, and audit and research tools.

Details of meetings held during the year and attendance by the members is provided below. In addition, the Chairman of the Audit Committee attended the AGM held on the 15th May 2010 to address any queries of the shareholders in relation to the audited financial statements.

<table>
<thead>
<tr>
<th>Member</th>
<th>Appointment</th>
<th>Audit Committee Meetings 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Tariq Al-Mutlaq</td>
<td>Chairman (1/1/10-16/8/10)</td>
<td>15th May</td>
</tr>
<tr>
<td>Mr. Khalid Al-Salih</td>
<td>Independent Member and Chairman (from 17/8/10)</td>
<td>Present</td>
</tr>
<tr>
<td>Dr. Ahmed Al-Meghams</td>
<td>Independent Member</td>
<td>Present</td>
</tr>
</tbody>
</table>

The Audit Committee and the Internal Audit function supports the Board in fulfilling its financial oversight responsible and review function by ensuring adherence to policies, procedures, practices and compliance with laws and regulations. The Committee ensures that the financial statements are prepared in accordance with the SOCPA standards. The Committee reviewed internal audits of the following areas:

- Human Resources & Payroll function (audited on a quarterly basis)
- Information Technology
- Corporate Services including the administration function

The Audit Committee and management assert that the internal control regulations have been applied and that sound accounting records were kept with appropriate supporting documents. The policies and measures of corporate performance were prepared and documented according to international standards. It is confirmed that there were no significant findings noted in the internal audit reports which could materially affect the management or the affairs of the company and the internal audit based on its random sample testing procedures did not detect fraud in the areas audited during 2010. Furthermore, the management team was not informed of any fraud which it might have known about during the year and which should have been informed to the internal auditors or the external auditors. The management team is progressing with implementing action plans to address the internal audit report findings.

The Audit Committee heard the views of the external auditors before forwarding the annual accounts for the year 2010 for approval to the Board of Directors.
**Investment Committee**

The primary purpose of the Investment Committee is to consider matters relating to approving the investments in projects, investment guidelines, strategic business plans and related decisions on behalf of the Board of Directors. The Investment Committee is a standing Committee of the Board, deriving its powers under a full delegation of responsibility from the Board of Directors. The members of the Committee and their attendance at the Committee meetings are tabulated in the following:

<table>
<thead>
<tr>
<th>Member</th>
<th>Category</th>
<th>11th Jul.</th>
<th>16th Aug.</th>
<th>23rd Oct.</th>
<th>2nd Dec.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Mohammed Abdullah Abunayyan</td>
<td>Executive Chairman</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Tariq M. Al-Mutlaq</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Ahmad S. Al-Rajhi</td>
<td>Non Executive Director</td>
<td>Present</td>
<td>Apologies received</td>
<td>Present</td>
<td>Present</td>
</tr>
<tr>
<td>Mr. Saleh C. Brahimi</td>
<td>Independent Director</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
<td>Present</td>
</tr>
</tbody>
</table>

**Regulatory penalties**

No penalties were imposed during the year by Saudi authorities or any Statutory Authority of the country where any office of ACWA Power is located.

**Communication to Shareholders**

ACWA Power communicated effectively with the shareholders during the year using available means of communication. Quarterly financial statements reviewed by the Audit Committee and approved by the Board were distributed to the shareholders.

**Professional Profile of External Auditor**

Ernst & Young is an established accounting firm having a permanent office in Saudi Arabia (the first one at Jeddah in 1967 and is in Riyadh since 1974). Ernst & Young, Riyadh, is the principal office that manages ACWA Power’s audits as well as most of our subsidiaries, joint ventures and associate companies.