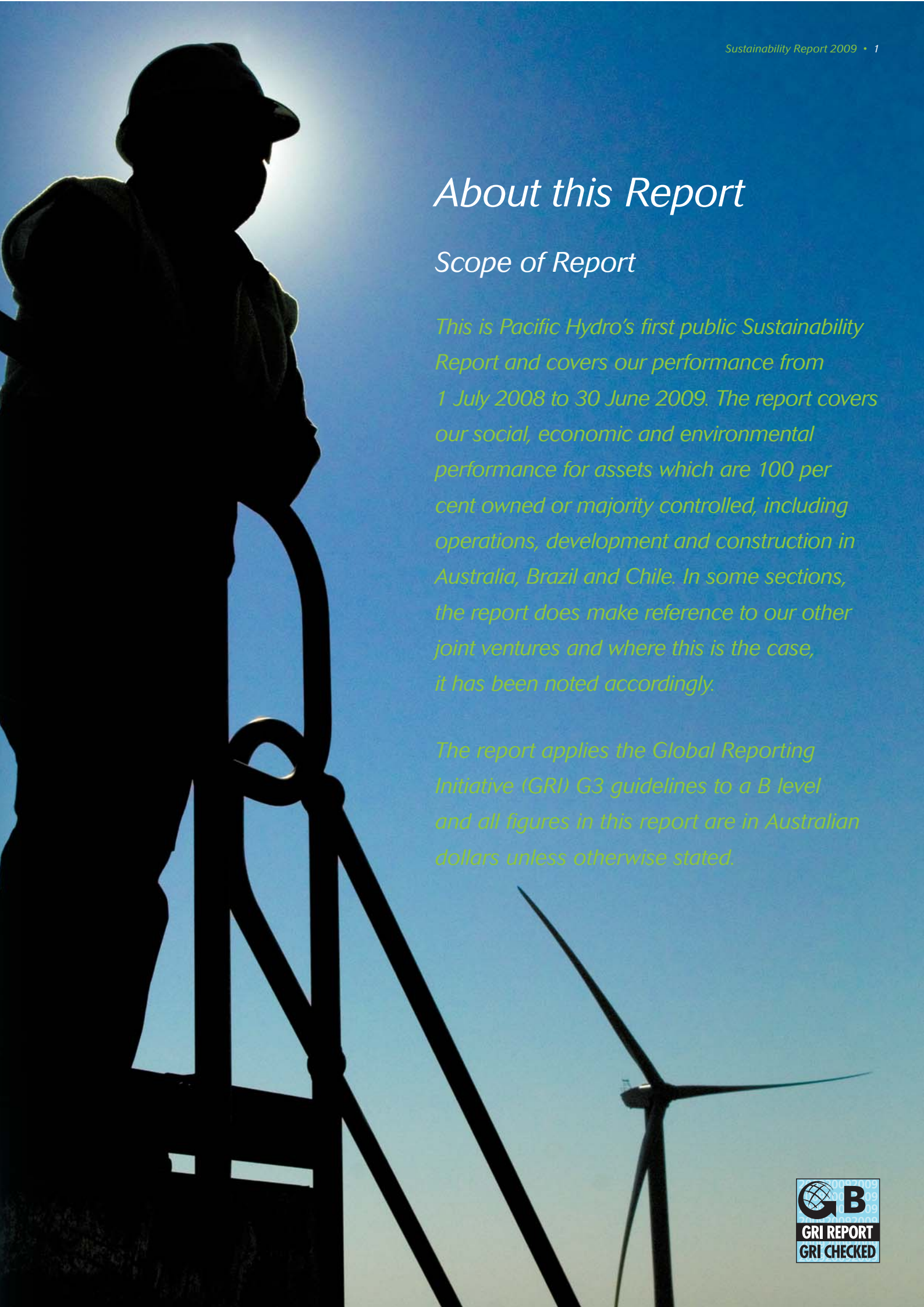
PacificHydro

Sustainability Report 2009

Powering a cleaner world

Contents



About this Report

Scope of Report

This is Pacific Hydro's first public Sustainability Report and covers our performance from 1 July 2008 to 30 June 2009. The report covers our social, economic and environmental performance for assets which are 100 per cent owned or majority controlled, including operations, development and construction in Australia, Brazil and Chile. In some sections, the report does make reference to our other joint ventures and where this is the case, it has been noted accordingly.

The report applies the Global Reporting Initiative (GRI) G3 guidelines to a B level and all figures in this report are in Australian dollars unless otherwise stated.

GRI REPORT
GRI CHECKED

About this Report (continued)

Identifying the Issues for Reporting

Choosing to begin annual sustainability reporting has been an important step for us in our dedication to being a leader in sustainability in the areas of economic performance, community, environment, workplace and in our business partnerships.

An important part of initiating sustainability reporting is identifying the audiences for the report and the social, employment, economic and environmental issues which are most material for us to address. The Global Reporting Initiative guidelines, against whose indicators we are reporting, notes that 'Choosing the issues and indicators to report on and determining the boundaries of responsibility of whom to report on, are the most fundamental decisions in the preparation of any report. Getting these areas right is arguably the key to making sustainability reporting a valuable exercise.' We agree and have taken significant measures to ensure that this report covers the range of economic, environmental and social impact areas which are most material to our business and our key stakeholders.

For this report we undertook a materiality assessment with internal and external stakeholders. Results of this assessment have guided decisions about content in this report and will also be used to shape future strategy development. The method entailed plotting internal and external assessments of issues on a matrix which categorised materiality as low, medium and high. Nineteen external stakeholders were consulted including those from the community, landholders, financiers, customers and contractors.

The most material issues identified in this analysis were:

- Support for the local communities and economies in which we operate (see pages 21 and 27)
- Community and landholder relations, including relations with Indigenous peoples and conservation of their heritage (see pages 21, 23 and 24)
- Biodiversity (see pages 34-37)
- Provision of information about renewable energy and climate change (see page 17)
- Demonstrating consistent approaches to employment and human rights across all sites and with contractors and suppliers (see page 26 and 30-31)
- Our approach to public policy and lobbying (see page 10)
- Our adherence to laws, regulations and voluntary codes (throughout this report)
- Our trading behaviour, investment criteria and the policies and programs we use to ensure our behaviour is of the highest ethical standard (see page 14).

These 'high' materiality issues, as well as those nominated by either internal or external stakeholders as 'medium', are addressed in this report.

Message from the CEO

Dear Stakeholders,

Welcome to Pacific Hydro's first public Sustainability Report.

Last year we produced our first sustainability report which was published internally. Encouraged by the response of our employees, this year we decided to broaden the audience of the sustainability report to all our stakeholders, including our communities, investors, suppliers, customers and regulators, as well as our employees.

A key value of Pacific Hydro is to have a workplace that is free of injury and harm to people and we have dedicated significant resources to ensuring the health and safety of our staff, contractors and other stakeholders. Year on year we set challenging targets in the area of health and safety management and I am happy to report that as a company, we met all of our health and safety targets in the 2009 financial year. Notably, we managed to reduce our Total Recordable Injury Frequency Rate (TRIFR) by just over 20 per cent in the year.

Pacific Hydro is a company for a carbon-constrained world. Our projects generate the clean energy our world needs, reducing the effects of carbon pollution and harmful climate change. This is what we do as we strive to achieve our vision of 'powering a cleaner world'.

Since our company was established in 1992 we have built or acquired ten hydro electricity generating facilities and seven wind farms, which abated over one million tonnes of greenhouse gas pollution during the year. Many more projects are at different stages of assessment, development and construction. Even on conservative estimates, we expect to abate more than four million tonnes of greenhouse gas a year by 2012 while doubling our earnings.

The global trends that drive our business are the need to avoid the harmful effects of climate change, the growing need for global energy security and the ongoing depletion of the world's fossil fuels. The world's primary energy needs are expected to grow by 45 per cent by 2030 and require more than US$26 trillion in investment[1]. In responding to these factors, our core business activities contribute to sustainable development and the resilience of communities wherever we operate. Our sustainability strategy and our corporate objectives are completely integrated and are just part of the way we do business.

Our corporate goals are to become recognised as the Southern Hemisphere's largest independent clean energy producer and to be a global leader in the development and operation of global carbon markets.

In Australia, we have 13 per cent of the wind energy market and are well positioned to benefit from the recently legislated renewable energy targets. Australia will need an extra 12,000 megawatts (MW) of renewable energy capacity in the next decade, so while we have grown rapidly until now, the future presents outstanding opportunities.

Our major achievements in Australia during the reporting period were delivery of the Portland Wind Energy Project Stage II (Cape Bridgewater Wind Farm) and Stage III (Cape Nelson South Wind Farm) in Victoria and achieving the first generation at Clements Gap Wind Farm in South Australia. We also completed important policy work related to the Australian Government's 20 per cent renewable energy target and participated in other public policy issues.

In Chile, we have enormous opportunities to further develop run-of-river hydro electric projects as energy demand continues to rise with the country's strong annual growth in gross domestic product. Our Chilean projects will enable us to play a significant role in the valuable global carbon trading market as we aim to register all current construction and future development projects under the Kyoto Protocol's Clean Development Mechanism, providing significant value upside through the selling of carbon credits.

Our major achievement in Chile during the reporting period was beginning construction of the Chacayes run-of-river hydro-electric project in the Andes Mountains, of which we have a 73 per cent share as a joint venture with Astaldi from Italy. This is the first phase of Pacific Hydro's new project development pipeline in the Cachapoal Valley. The 111MW Chacayes project will generate 558 gigawatt hours (GWh) of renewable energy per annum for Chile's power market, which is enough electricity to supply twice the demand of the city of Rancagua, O'Higgins Region (VI Region). The project will abate approximately 340,000 tonnes of greenhouse gas per annum and will further complement existing renewable energy generation from the Coya and Pangal Hydro Power Stations in the same valley.

In Brazil, energy demand is rapidly outstripping supply and the country aims to source at least ten per cent of its future energy requirements from wind, which we are well positioned to support. Currently the only Australian company in Brazil to have completed two wind farms, we aim to become Brazil's largest wind generator by 2014.

1 World Energy Report 2008, IEA, November 2008

Message from the CEO (continued)

PWEP III – Cape Nelson South Wind Farm, Victoria, Australia

Our major achievements in Brazil during the reporting period were opening our new office in Sao Paulo and delivery of the Vale dos Ventos Wind Farm. Located on private farming land in the north eastern region of Brazil, the 48MW Vale dos Ventos Wind Farm (or 'Valley of Winds') produces enough clean electricity to power the equivalent of more than 100,000 Brazilian houses each year - around five per cent of Paraíba State's total electricity demand - abating 50,000 tonnes of greenhouse gas per annum.

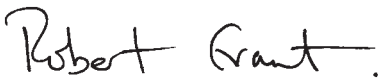
This report describes our challenges and progress in the year to 30 June 2009 in achieving our business goals while meeting the needs of diverse stakeholders and contributing to sustainable development.

I am grateful to our employees and contractors for their dedication and determination to succeed in making Pacific Hydro a global leader in clean energy. I also wish to thank our diverse stakeholders across the globe who have worked collaboratively with us over the year and who have contributed advice that led to the development of this report.

In the following pages, you will read about our progress in operating sustainably with communities, our people, our environment and our business partners. You can use the GRI Index at the back of this report to quickly locate the information of most interest to you.

I look forward to your feedback on this report and to another year of progress in powering a cleaner world together with the Pacific Hydro team and all our stakeholders.

Yours faithfully



Rob Grant
Chief Executive Officer

About Us

Pacific Hydro is one of the world's leading clean energy independent power producers. Our projects provide much needed clean energy for communities and businesses reducing the demand for fossil fuel generation.

Pacific Hydro is committed to delivering energy projects that achieve positive social, environmental and economic outcomes. We enjoy a strong foothold in three of the world's most rapidly expanding clean energy markets. These key markets, Australia, Brazil and Chile, are all resource-based economies which we expect to continue to benefit from increased demand from China and India for their mineral and energy products. As these economies grow, so too will their demand for clean and secure energy supplies. We will play a significant role in meeting that demand.

Our business has already abated more than seven million tonnes of greenhouse gas and each year, produces enough clean electricity to power more than 600,000 homes. By 2012, we expect our projects to abate more than four million tonnes of greenhouse gas a year.

We have the vision, capability and commitment to bring clean energy projects to our customers across the globe.

We currently have 2,500MW of hydro power and wind farm projects at varying stages of development, construction and operation in Australia, Brazil and Chile. We have joint ventures for run-of-river hydro operating assets in the Philippines and Fiji and a joint venture with two run-of-river hydro projects under construction and one thermal backup project in operation in Chile. Our assets are listed on page 6.

We are also active in the carbon market, with proven success in the production and trading of carbon credits from our run-of-river projects registered under the Clean Development Mechanism (CDM) of the Kyoto Protocol.

Our clean energy projects not only benefit the environment and our communities, but also deliver significant value to our partners and investors.

Sustainability Fast Facts

FY 2008/09	
Sales Revenue[1]	$118.8 million
Net Operating Profit After Tax (NPAT)[2]	$32.4 million
Spend on Community Funds[3]	$632,000
Greenhouse Gas Abatement due to Our Projects[3]	1,169,000 tCO_2e
Number of Direct Employees[4]	240
Spend on Direct Employee Development[4]	$487,000

1 Excludes equity accounted investments
2 Includes equity account profit from joint ventures
3 Includes 50 per cent joint venture portion
4 Excludes construction contractors

Leading the Way

1996 Developed the Ord River Hydro Project (the largest Australian hydro project since the completion of the Snowy Mountains Scheme) in Western Australia.

1999 Made the largest investment by an Australian company in the Philippine power sector with the Bakun Hydro project.

2001 Completed the first privately-developed wind farm in Australia (Codrington Wind Farm, Victoria).

2004 Became the first Australian power company operating in Chile.

2005 Completed a world-first bank intermediated carbon trading deal under the CDM of the Kyoto Protocol (Wainikasou and Nagado Hydro projects in Fiji).

2006 Our 50 per cent-owned joint venture La Higuera became the largest run-of-river hydro project in the world, and the first in Chile, to achieve CDM registration under the Kyoto Protocol.

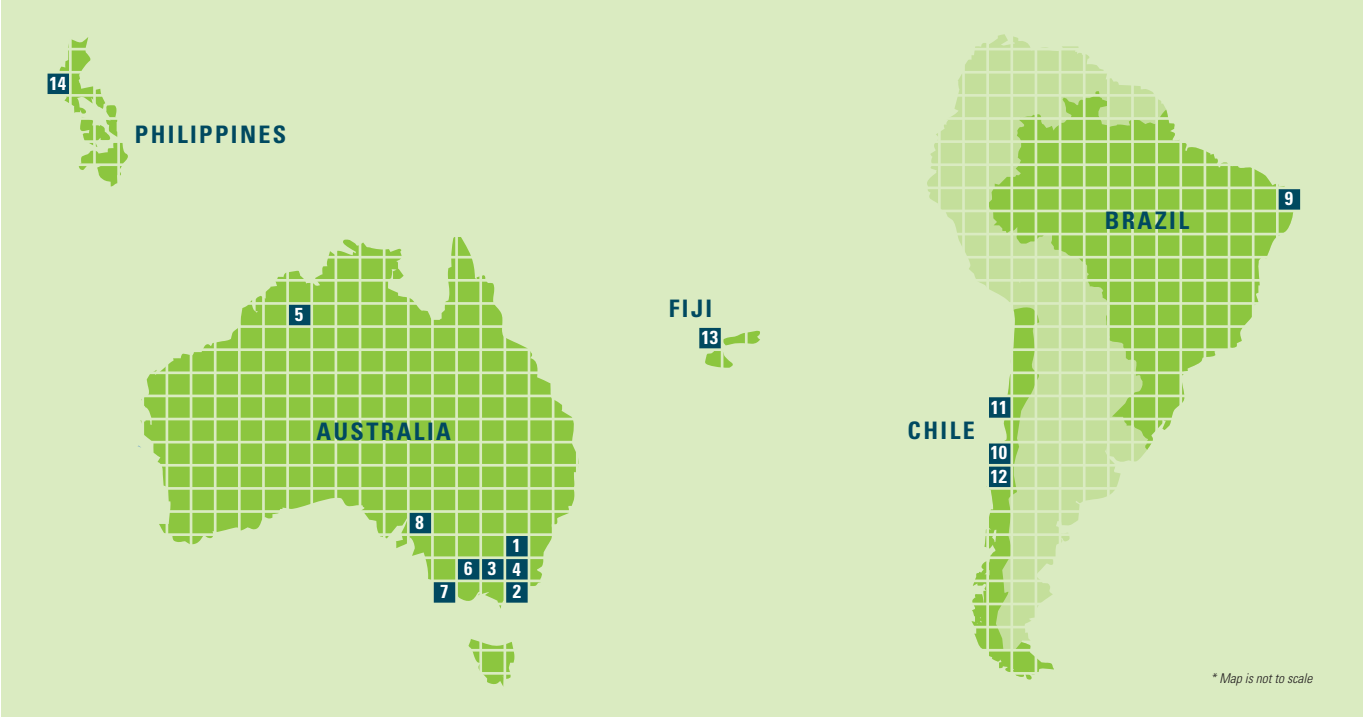
2007 The first Australian company to build and operate a wind farm in Brazil (Millennium Wind Farm).

2008 Launched Australia's first full-service CDM consulting business with Australian engineering consulting firm Snowy Mountain Engineering Corporation (SMEC).

2008 Commenced construction of the Chacayes project (73 per cent-owned joint venture) in Chile (the largest financial commitment by Pacific Hydro to the Chile power market).

About Us (continued)

Operations and Construction Map



Pacific Hydro's Assets – Construction and Operational Sites

Map Ref	Asset Name	Location	Phase	% Ownership	Type	Nominal Capacity	Number of Generators
1	The Drop	Australia	Operations	100%	Hydro	2.5 MW	1
2	Glenmaggie	Australia	Operations	100%	Hydro	3.8 MW	1
3	Eildon Pondage	Australia	Operations	100%	Hydro	4.7 MW	1
4	William-Hovell	Australia	Operations	100%	Hydro	1.8 MW	1
5	Ord	Australia	Operations	100%	Hydro	30 MW	2
6	Challicum Hills	Australia	Operations	100%	Wind	53 MW	35
7	Codrington	Australia	Operations	100%	Wind	18 MW	14
7	Portland Wind Energy Project (PWEP) I - Yambuk	Australia	Operations	100%	Wind	30 MW	20
7	PWEP II - Cape Bridgewater	Australia	Operations	100%	Wind	58 MW	29
7	PWEP III - Cape Nelson South	Australia	Operations	100%	Wind	44 MW	22
8	Clements Gap	Australia	Construction	100%	Wind	57 MW	27
9	Millennium	Brazil	Operations	100%	Wind	10 MW	13
9	Vale dos Ventos	Brazil	Operations	100%	Wind	48 MW	60
10	Coya & Pangal	Chile	Operations	100%	Hydro	76.7 MW	9
10	Chacayes	Chile	Construction	73%	Hydro	111 MW	2
11	Colmito	Chile	Operations	50%	Thermal Backup	58 MW	1
12	La Confluencia	Chile	Construction	50%	Hydro	158 MW	2
12	La Higuera	Chile	Construction	50%	Hydro	155 MW	2
13	Nagado	Fiji	Operations	50%	Hydro	3 MW	1
13	Wainikasou	Fiji	Operations	50%	Hydro	7 MW	2
14	Bakun	Philippines	Operations	50%	Hydro	70 MW	2

Our Owner

Pacific Hydro is a wholly-owned subsidiary of Industry Funds Management (Nominees) Limited as trustees of IFM Infrastructure Funds (IFM). IFM specialises in the management of wholesale investment products across Australian and international infrastructure, private equity, debt investments and Australian listed equity portfolios. As at 30 June 2009, the value of IFM's assets under management totalled $19.4 billion.

IFM is a signatory to the United Nations Principles for Responsible Investment and is committed to incorporating environmental, social and governance considerations into investment analysis and decision making.

Our Vision and Values

Our Vision

Powering a cleaner world.

Our Mission

To produce electricity through the innovative commercialisation of clean energy resources.

Our LEADing Values

Leadership: Having the courage to lead and innovate.

Energy: Helping to meet the world's energy needs whilst making a positive and lasting difference to the environment.

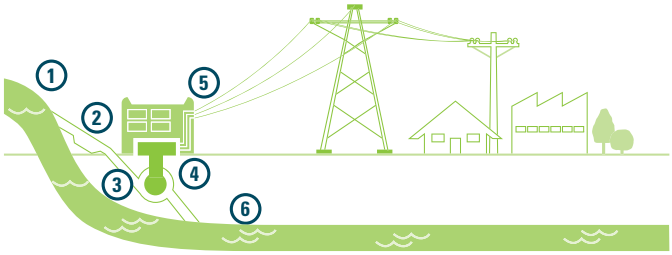
Action: Achieving our goals by working together, with integrity and an entrepreneurial spirit.

Dedication: We are dedicated to ensuring a healthy and safe environment for our employees, the sustainability of our business and creating positive outcomes for our communities.

Our Products and Services

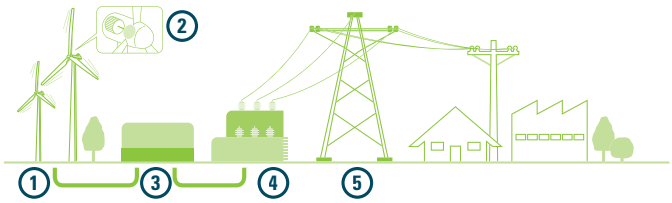
Pacific Hydro generates and sells electricity made from renewable sources such as water and wind. We also sell environmental products such as renewable energy certificates. In this section, we describe how we generate, market and trade the electricity and the associated environmental products.

Run-of-River Hydro Power Generation



1. Part of the natural flow of a river is diverted by an intake structure where flows are maintained at almost the same elevation while the rest of the river continues to flow down the river valley. The conveyance system has minimal impact on the environment or local communities.
2. The diverted water flows through desanders, which are units that slow the water flow and filter sand, pebbles and silt from the water.
3. This filtered water then flows through a tunnel or canal, which maintains a similar altitude before arriving to a point above the power station site.
4. At the power station, the water is dropped from the tunnel or canal into a steel pipe where it flows at high pressure onto the blades of turbines. The turbines rotate at very high speed and each turbine drives a generator, creating electricity.
5. Electricity is transmitted to the grid.
6. Clean water is returned to the river system.

Wind Power Generation



1. The kinetic energy of the wind propels blades around a rotor which is connected to the main shaft of the wind turbine.
2. This in turn drives a generator, creating electricity.
3. This electrical current then passes through a series of transformers which gradually increase the voltage for transmission to a substation.
4. The substation increases the voltage again for transmission over long distances.
5. Electricity is transmitted to the grid.

About Us (continued)

Pacific Hydro produces and sells various environmental products as well as electricity (see also Carbon Credits and Perenia Carbon, page 19). These products are as follows:

- **Certified Emission Reductions (CERs):** Carbon-based instruments that can be utilised by countries that have committed to carbon emission reduction targets pursuant to the Kyoto Protocol or by companies that are required to reduce emissions under mandated schemes such as the European Emissions Trading Scheme (EU ETS).
- **Renewable Energy Certificates (RECs):** All companies which retail electricity in Australia, and some selected large wholesale consumers of electricity are required under the Expanded Renewable Energy Target (ERET) to purchase a minimum amount of electricity from renewable sources (20 per cent by 2020). These companies do this by procuring RECs.
- **Verified Emission Reductions (VERs):** VERs are voluntary and international credits produced by our Fijian joint venture, and are purchased by companies looking to offset their carbon emissions.
- **GreenPower:** As part of the National GreenPower Accredited Renewable Energy Program, GreenPower can be purchased voluntarily by Australian electricity consumers in preference to non-renewable electricity sources. This voluntary action adds to the demand for renewable electricity created by the Australian Mandatory Renewable Energy Target. All of Pacific Hydro's Australian renewable energy projects commissioned post January 1997 are qualified to produce and sell GreenPower.

Product and Service Labelling

Electricity needs to meet quality standards set by relevant regulatory authorities and good electricity industry practice.

Projects creating RECs and CERs must meet strict validation criteria and all CERs and RECs are subject to verification and/or audit procedures undertaken by independent auditors and overseen by relevant regulatory authorities. VERs and GreenPower are also subject to strict guidelines and independent audits.

GreenPower marketing in Australia must meet guidelines set by the scheme manager, the NSW Department of Water and Energy, and the regulator, the Australian Competition and Consumer Commission (ACCC).

Our direct customers are other companies. We do not measure customer satisfaction in any formal capacity. However our operations and commercial teams work closely with customers through regular dialogue and meetings to ensure that our customers' requirements are addressed. In addition the company has implemented a number of systems to ensure that it remains compliant with its regulatory and contractual obligations.

We seek to adhere to laws, standards and voluntary codes related to marketing communications including advertising, promotion and sponsorship, by ensuring that all staff that have regular interaction with customers are appropriately trained in the relevant products (e.g. GreenPower) and made aware of our obligations with respect to the Trade Practices Act, as well as any relevant guidelines published by the ACCC, through regular in-house training sessions.

We had no incidents during the reporting period of non-compliance with regulations and voluntary codes concerning marketing communications including advertising, promotion and sponsorship.

Our Strategy

Our Goals

The global trends that drive our business are the need to avoid the harmful effects of climate change, the growing need for global energy security and the ongoing depletion of the world's fossil fuels. To respond to these drivers we need to be responsive to market trends and emerging clean energy technology. We are active participants in renewable energy policy development in each of the countries where we operate.

Our business and sustainability goals are described below and are elaborated on in the following sections. Our sustainability strategy has been developed as part of our business plan and will be further refined by June 2010.

Our business plan details health, safety and environmental strategies to help us meet these business goals while remaining alert and responsive to the diverse needs and interests of our stakeholders.

Pacific Hydro's Five Year Goals 2009 - 2014

At the global level, we aim to:	*Sustainability Goals for FY 2009/10:*
• Be recognised as a clean energy market leader in each of our core markets • Continue developing a diversified operational portfolio with sustainable and secure returns in Australia, Chile and Brazil • Be a global practice leader in the emerging global carbon markets and across the clean energy value chain • Utilise development and complimentary acquisition opportunities that position the business for long-term growth and increase value for investors	• Improve overall sustainability performance and reporting • Improve our understanding of, and engagement with, our stakeholders • Increase the sustainability awareness and behaviour of employees • Measure and reduce our carbon footprint • Implement ongoing initiatives to improve the health and safety of employees • Review and refine our sustainability strategy • Further develop renewable energy opportunities in all markets • Further advocate for renewable energy policy in all markets

Our Aims in Australia:	*Sustainability Goals for FY 2009/10:*
• To be a leader in Australia's expanding renewable energy market for wind • Construction, development and operation of over 450MW of renewable energy projects	• Improve operation of the Sustainable Communities Fund, now in its 5th year of operation

Our Aims in Brazil:	*Sustainability Goals for FY 2009/10:*
• To be the leading wind power generator in Brazil • Construction, development and operation of over 350MW of renewable energy projects	• Support communities through the introduction of a formal Sustainable Communities Fund • Improve environmental monitoring and control

Our Aims in Chile:	*Sustainability Goals for FY 2009/10:*
• To be the leading generator of run-of-river hydro power in Chile • Construction, development and operation of over 600MW of renewable energy projects	• Improve operation of the Sustainable Communities Fund, now in its 4th year of operation • Improve workplace satisfaction • Develop sustainability criteria for business partners

Our Strategy (continued)

Our Leadership and Advocacy

We have consciously chosen to be in the renewable energy sector and play a positive role in a carbon constrained world. We are mindful of our responsibilities as a leader in this emerging field. We actively engage with governments in order to understand policy settings and participate appropriately in public policy discussions.

As a leader in the clean energy industry, we work hard to engage policy makers, local communities and the general public on climate change issues while promoting the vital role renewable energy can, and must play, if we are to leave a safer environment for generations to follow.

We also contribute to public debate through written submissions on matters relating to the renewable energy industry and through media comments.

In Australia, we have supported government action on climate change, including the introduction of the 20 per cent by 2020 Renewable Energy Target because we believe it is:

- Good for the environment as it will help stabilise our emissions over the next ten years
- Good for the economy as it will unleash $25 billion of investment in new renewable energy over the next ten years
- Good for jobs as it will create tens of thousands of new jobs over the next ten years.

In the reporting period, our public policy activities focused on submissions to government on topics such as the Carbon Pollution Reduction Scheme, energy markets, renewable energy targets, climate change, approvals processes and technical standards. Highlights included:

- Council of Australian Governments Working Group on Climate Change and Water, 20 per cent Renewable Energy Target Discussion Paper, July 2008
- Carbon Pollution Reduction Scheme Green Paper, September 2008
- Australian Energy Market Commission, Review of Energy Market Frameworks in light of Climate Change Policies Scoping Paper, November 2008 and First Interim Report, February 2009
- Renewable Energy Target Exposure Draft Legislation and Regulations, February 2009
- Senate Select Committee on Climate Policy Inquiry into the Carbon Pollution Reduction Scheme, April 2009
- Australian Government Energy White Paper Discussion Papers, May 2009.

In Brazil, we have been very active in working with a range of government stakeholders in the pursuit of a greater role for wind energy in the overall Brazilian energy mix. We sought and participated in meetings with:

- ANEEL – Brazilian Electricity Regulatory Agency
- Congressional Commission on Renewable Energy and Sustainable Development
- EPE – Government Energy Research Company and Energy Auction body
- Ministry of the Environment
- Ministry of Mines and Energy
- Secretary of Energy, State Government of Rio Grande do Norte
- State Governor of Rio Grande do Norte and various Secretaries.

We have also been working with the Chilean Government and industry bodies in a range of energy and renewable energy forums:

- Continuous dialogue with the Energy Minister on energy, international company investment and renewable issues
- Ongoing dialogue with environmental authorities
- Supporter of the Australia-Chile Chamber of Commerce
- Providing the Chilean Government with a reference point for responsible sustainable renewable development as evidenced in President Bachelet's speech and attendance at the unveiling of the first stone to mark the commencement of advanced works construction for the Chacayes project in October 2008.

We participate in sustainability-related initiatives via our membership of local, national and global organisations. These include:

- ABEEólica (Brazilian Wind Energy Association)
- Asia Pacific Partnership on Clean Development and Climate
- Australia and Brazil Chamber of Commerce
- Australia and Chile Chamber of Commerce
- Australia Latin America Business Council
- Australian Government's Council on Australia Latin American Relations
- Clean Energy Council
- Committee for Portland
- Global Foundation.

Rob Grant, our CEO, is Chair of the Clean Energy Council and also sits on the Renewable Energy Taskforce of the Asia Pacific Partnership on Clean Development and Climate.

Research and Development

We understand that transitions in the marketplace will bring in new renewable energy technologies such as solar thermal and geothermal. We undertake market research to ensure we are properly positioned to take on these technologies at the right time. An example of this is our geothermal exploration licence in South Australia, which is helping position us for opportunities in geothermal energy in Australia.

Our Stakeholders

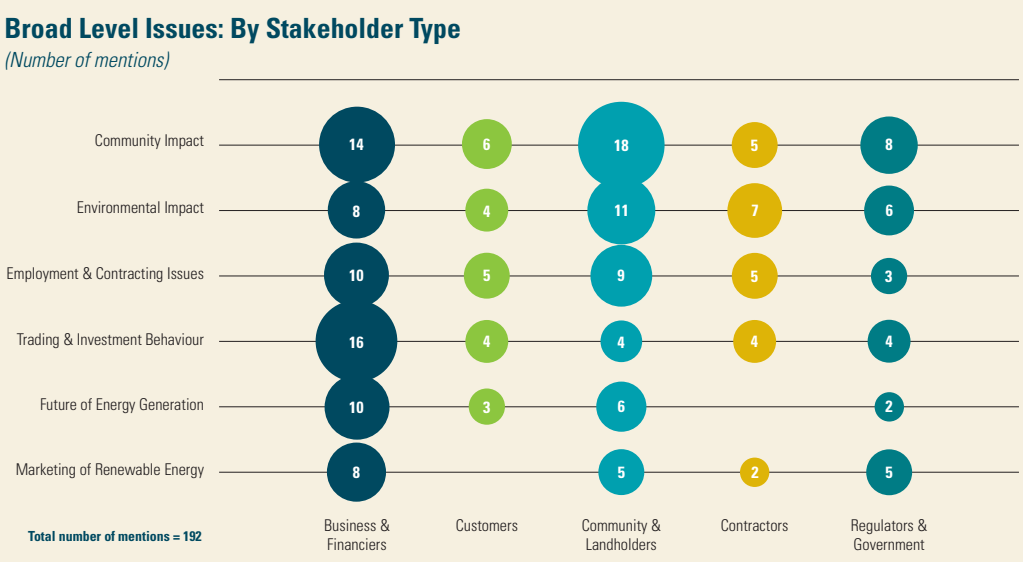
Our key stakeholders include communities in which our projects or potential projects are located, our employees, and relevant local, state and federal governments and authorities, among others. To date, we have undertaken stakeholder engagement primarily at a project level based on project risks and opportunities. We are working towards a company-wide approach to stakeholder engagement.

We also undertook specific engagement for this report by conducting in-depth interviews with 19 stakeholders as part of our materiality assessment (see Identifying the Issues for Reporting, on page 2). Our key stakeholder groups, activities and responses and the results of engagement for our materiality assessment are shown below.

Overview of Stakeholder Groups and Responses

Stakeholder Group	Engagement Activities	Stakeholder Concerns Raised in FY 2008/09	Response to Concerns
Communities and Landholders	Community consultation sessions and newsletters. Consultation about material issues for this report. Sustainable Communities Fund.	Visual and noise impact. Flora and fauna. Employment of work force from local area. Indigenous considerations. Community wellbeing close to operational assets.	Amendments to project design.
Employees	Employee newsletters published in English, Spanish and Portuguese. Quarterly business report which shares progress against targets with employees. Lunchtime forums hosted by the CEO or General Managers. Annual employee survey. HSE reporting monthly.	Work/life balance. Career opportunities. Pay and conditions.	Issues were discussed in focus groups, and new initiatives implemented.
Contractors	Consultation about material issues for this report.	Environmental and community impacts. Contracting issues.	Material issues addressed in 2009 Sustainability Report.
Banks and Financiers	HSE reporting as required. Consultation about material issues for this report.	Environmental, social and governance risk factors.	Material issues addressed in 2009 Sustainability Report.
Authorities – local, state and federal	Regular meetings.	Renewable energy. Emissions abatement. Energy supply. Employment. International relations.	Leadership in industry submissions and regular briefings to provide information.
Customers	Consultation about material issues for this report.	Community impacts. Local hiring.	Material issues addressed in 2009 Sustainability Report.

Topics Raised by Stakeholders during Materiality Assessment Conducted for this Report



Engaging Stakeholders in our Portland Wind Energy Project

Our Portland Wind Energy Project (PWEP) consists of 98 turbines spread over four neighbouring sites near Portland, Victoria:

- **Yambuk (PWEP I)** – 20x1.5MW turbines, completed in 2007
- **Cape Bridgewater (PWEP II)** – 29x2MW turbines, completed in 2008
- **Cape Nelson South (PWEP III)** – 22x2MW turbines, completed in April 2009
- **Cape Nelson North and Cape Sir William Grant (PWEP IV)** – 27x2MW turbines, expected to commence construction in 2010.

Currently, PWEP I to III are generating a combined 132MW which is being fed into the National Electricity Grid.

The PWEP projects have enjoyed considerable support from the 20,000-strong local community. This is largely due to the early engagement of stakeholders.

During the development phase of the PWEP, extensive community consultation included public forums, small group discussions and one-on-one meetings with residents and specific interest groups. Newsletters were distributed and local media engaged to ensure the wider community was informed throughout the project planning and construction phases.

A project office was set up in Portland and a local community liaison officer appointed during construction of PWEP II and III to ensure a dedicated resource was available for the communities around the wind farm sites. We also appointed a permanent community relations co-ordinator in Portland to service this area and that of Western Victoria and South Australia.

The inaugural round of the Sustainable Communities Fund for the PWEP I area was held during FY 2005/06, PWEP II during FY 2007/08 and PWEP III during FY 2008/09. This year a total of $140,000 was provided to Sustainable Communities Fund projects, meaning that since the Fund began, we have spent more than $327,000 on donations to projects within the Portland and Yambuk communities.

The wind farm sites have attracted considerable interest from the local community and tourists. We ensured that information about the projects was available during construction and we also facilitated tours of the PWEP II site once construction was completed.

We are a founding member of the Committee for Portland, whose aim is to assist in bringing new industry to the region. Economically, the project created new jobs in regional Victoria. More than 300 local contractors from the Portland area were employed during each of the construction phases for PWEP II - III, and ongoing positions were established for

a team of maintenance workers. Portland-based company Keppel Prince Engineering provided the towers for PWEP I - III and has become Australia's largest producer of wind towers and wind farm components.

Culturally, the Portland capes have a rich history of Gunditjmara occupation and significance. We began consulting with Indigenous community groups in 2001, informing them about the project scope and seeking their participation in the environmental effects assessment and planning process.

Within the study area, 20 archaeological sites were newly identified in addition to 180 previously-registered sites through a series of desktop studies, consultations and archaeological surveys. This was enhanced by involving the Gunditjmara elders and a Cultural Heritage Officer in a 'spiritual walkover' of the Portland capes to identify locations of cultural significance from a community values perspective. The combined findings helped with the design of generator development envelopes and identified 'no go' areas where disturbance to cultural heritage areas must be avoided.

In terms of our environmental impact, we worked with local environmental organisations to implement a revegetation program to enrich the habitats of indigenous wildlife and re-establish native vegetation around the projects. Notable species in and around the Portland capes include the endangered Southern Brown Bandicoot, threatened Rufous Bristlebird and threatened plant species Oval-leaf Lagonia, Coast Ballart and Sand Ixodia.

Our Corporate Governance

Our Board of Directors is responsible for delivering shareholder value, by ensuring the integrity of reporting and maintaining appropriate internal controls, whilst respecting the interests of the community, employees, customers, suppliers and the environment.

Directors of Pacific Hydro

Name	Position	Sub-Committee Memberships during reporting period	Qualifications
Bernard Wheelahan	Independent Non-Executive Chairman	Remuneration Committee Sustainability and Risk Committee Finance and Audit Committee Projects Committee	BSc, DipEd, FRACI, FAusIMM, FAICD, FAIE
Garry Weaven	Non-Executive Director and Owner's Representative – IFM	-	BSc, DipEd
Damian Moloney[1]	Non-Executive Director and Owner's Representative – IFM	Remuneration Committee Finance and Audit Committee Projects Committee	B. Bus, M. Com (Hons)
Kate Spargo	Independent Non-Executive Director	Sustainability and Risk Committee Remuneration Committee	LLB (Hons), BA, FAICD
Geoff Coffey	Independent Non-Executive Director	Finance and Audit Committee Projects Committee	FCPA, ACIS, Dip FP, GAICD
Grahame Campbell[2]	Independent Non-Executive Director	Sustainability and Risk Committee Projects Committee	B Eng, M Eng Sc, FAICD
Kyle Mangini[3]	Non-Executive Director and Owner's Representative – IFM	-	BEc/Gov

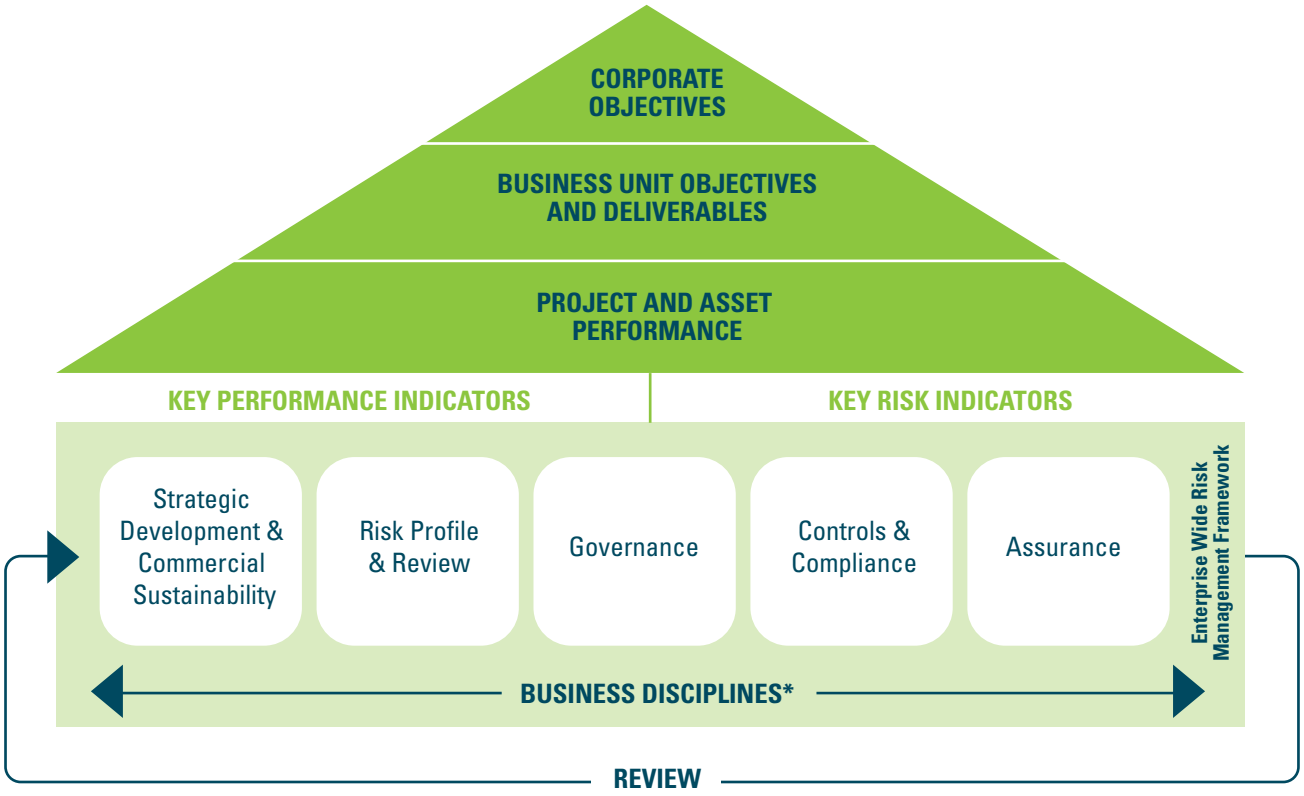
These occurred outside the reporting period, but have been included for reference:

1 Damian Moloney tendered his resignation from the Board and IFM on 28 September 2009
2 Grahame Campbell tendered his resignation from the Board on 1 October 2009
3 Kyle Mangini was appointed to the Board of Directors on 9 October 2009

PWEP II – Cape Bridgewater Wind Farm, Victoria, Australia

Our Strategy (continued)

Our Enterprise Wide Risk Management Framework



* Includes legal, financial, information technology, engineering, contracting, development, delivery, operations, commercial, corporate affairs, marketing, human resources and health, safety and sustainability

Our Board Sub-Committees

To assist the Board in fulfilling its obligations, there are four Board sub-committees. The sub-committees, which are attended by general and executive managers focus on specialised issues and recommend policy or specific action for approval by the Board. The committees are Sustainability and Risk, Finance and Audit, Projects and Remuneration. More information about the role and tasks of these committees can be found at www.pacifichydro.com.au.

Our Risk Management Framework

Sustainability is embedded into our Enterprise Wide Risk Management Framework and is key to achieving the company's vision and mission, delivering corporate objectives and providing greater certainty and confidence to our shareholder.

The ability to continue to manage a competitive and commercially-viable business on an indefinite basis in a way that is respectful to the environment, community and employees is critical to the long-term success and survival of the company.

We undertake a rigorous strategic, commercial, financial and sustainability risk assessment of all development and investment opportunities.

Our enterprise-wide approach to risk management includes the establishment of governance, controls and compliance mechanisms to manage key risks in all of the business units. Internal and external assurance processes are adopted (e.g. management review, reconciliations, audit) to ensure the effectiveness of these mechanisms.

Any anomalies revealed as a result of these reports trigger a further investigation into risks and issues identified in a business unit, project or asset.

Our Code of Conduct

Our interactions with our stakeholders are guided by our Code of Conduct. Our Code of Conduct ensures that we conduct our business affairs ethically, actively engaging in environmentally-responsible projects, community initiatives and safe, equal and supportive work practices. All new employees are trained in our Code of Conduct.

Our Code of Conduct prohibits monetary donations or donations in kind to political parties.

Our Economic Performance

Direct Economic Impact

We ensure commercial sustainability through industry-leading knowledge and sound business strategies. We use our financial strength to achieve positive benefits for the economy, our shareholders, the environment and society. In the reporting period, our sales and profit both increased.

Sales revenue for FY 2008/09 was $118.8 million (excluding equity-accounted investments), an increase of 57 per cent over the prior year. This was driven by new electricity generation from PWEP II and III in Australia, Vale dos Ventos in Brazil and Coya Unit 5 in Chile and favourable exchange rates, which increased revenue from Coya and Pangal in Chile.

Net operating profit after tax for FY 2008/09 was $32.4 million, an increase of 136 per cent over the prior year. Again, this was due to new generation from projects in Australia, Chile and Brazil and the favourable impact of exchange rates.

Highlights of our direct economic performance are shown below.

Highlights of our Direct Economic Performance

Economic Value Generated FY 2008/09						FY 2007/08
All figures are in Australian dollars	**Total**	**Australia**	**Chile**	**Brazil**	**Other (inc Fiji, Philippines, North America, New Zealand)**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Sales Revenue	118,767	60,570	52,806	5,391	0	75,600
Net Operating Profit After Tax (NPAT)	32,449	(9,942)	28,798	(7,796)	21,389	13,700
Economic Value Distributed FY 2008/09						**FY 2007/08**
Operating Costs	(32,935)	(16,880)	(12,502)	(3,553)	0	(21,041)
Employee Wages and Benefits	(34,346)	(18,711)	(13,854)	(1,768)	(13)	(29,035)
Payments to Providers of Capital	(19,673)	(15,704)	(2,883)	(1,086)	0	(15,531)
Payments to Government (e.g. taxes)	(5,904)	(510)	(5,455)	0	61	(1,811)

* Numbers in brackets represent a cost, loss or cash outflow.

Social and Environmental Requirements of our Financiers

In order to fund various international projects, we often borrow money from banks which generally require very strict social and environmental requirements. Most of the banks that we deal with are signatories to the Equator Principles, a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. This means that Equator Principle signatory banks will incorporate sound environmental management practice requirements when providing funds.

Therefore, in certain transactions, we must provide an environmental and social report prior to the bank lending. Similarly, banks will require our projects to comply with environmental and social laws of the relevant country. In Chile, for example, two of our projects (including the thermal backup operations) must adhere to the International Finance Corporation's (IFC) strict environmental and social requirements.

Our Economic Performance (continued)

Indirect Economic Impact

As well as directly distributing economic value through investment returns, salaries and wages, taxes and purchases of goods and services, we recognise that our business has indirect economic effects in the communities where we operate.

Chile

In Chile, we have identified both positive and negative indirect economic impacts. Our positive indirect economic impacts include:

- Employment of contractors.
- Improvement in the quality of public and private roads and travel time to and from Coya and Rancagua affecting the locality of Chacayes and the accessibility to the National Reserve, Rio de Los Cipreses (Cipreses Reserve).
- An increase in the number of visitors to the Cipreses Reserve and opportunities for local service providers.
- An increase in property values in the Chacayes area.
- Building new infrastructure with money from Pacific Hydro directly, through cooperation with landowners and also as a result of the Sustainable Communities Fund, including an irrigation dam in one of the large properties of Chacayes, a community barn at the Chacayes Rodeo Club, educational materials for schools and fire-fighting equipment and monitoring during the summer months.

Our negative economic impacts included increased traffic around Coya and Chacayes, and also a shortage of parking spaces in Coya during the construction phase. Complaints have been received about dust in local country roads affecting households and local farmers. In response to these concerns we have trained workers on relevant measures in the Traffic Management Plan and contracted a company to water the access roads to control dust.

Brazil

During the construction of the Vale dos Ventos Wind Farm, positive indirect economic impacts for the region included:

- Employment of contractors.
- Improvement of home and hotel rent.
- Food delivery to provide meals for about 570 workers.
- Improvement of the PB065 road between Mataraca city downtown and the Barra do Camaratuba Community, which was formerly in poor condition and contributed to traffic accidents. The new road will potentially attract more people to the area for tourism in the future.
- Improvements to the soccer field surface to enable year-round use by the students of Barra do Camaratuba's public elementary school.
- A dramatic increase in the taxes paid to the Municipal Government, permitting them to undertake a range of new projects in the city.

Australia

When the Cape Bridgewater Wind Farm was being constructed in Portland, we needed water from a dam located on a landholder's property. We therefore installed a solar-powered bore. Now that construction has finished, the landholder has made the bore available to the Country Fire Authority for fire-fighting purposes. The bore ensures that the water source is kept topped up and ready for use in the event of a fire.

Our Response to Climate Change

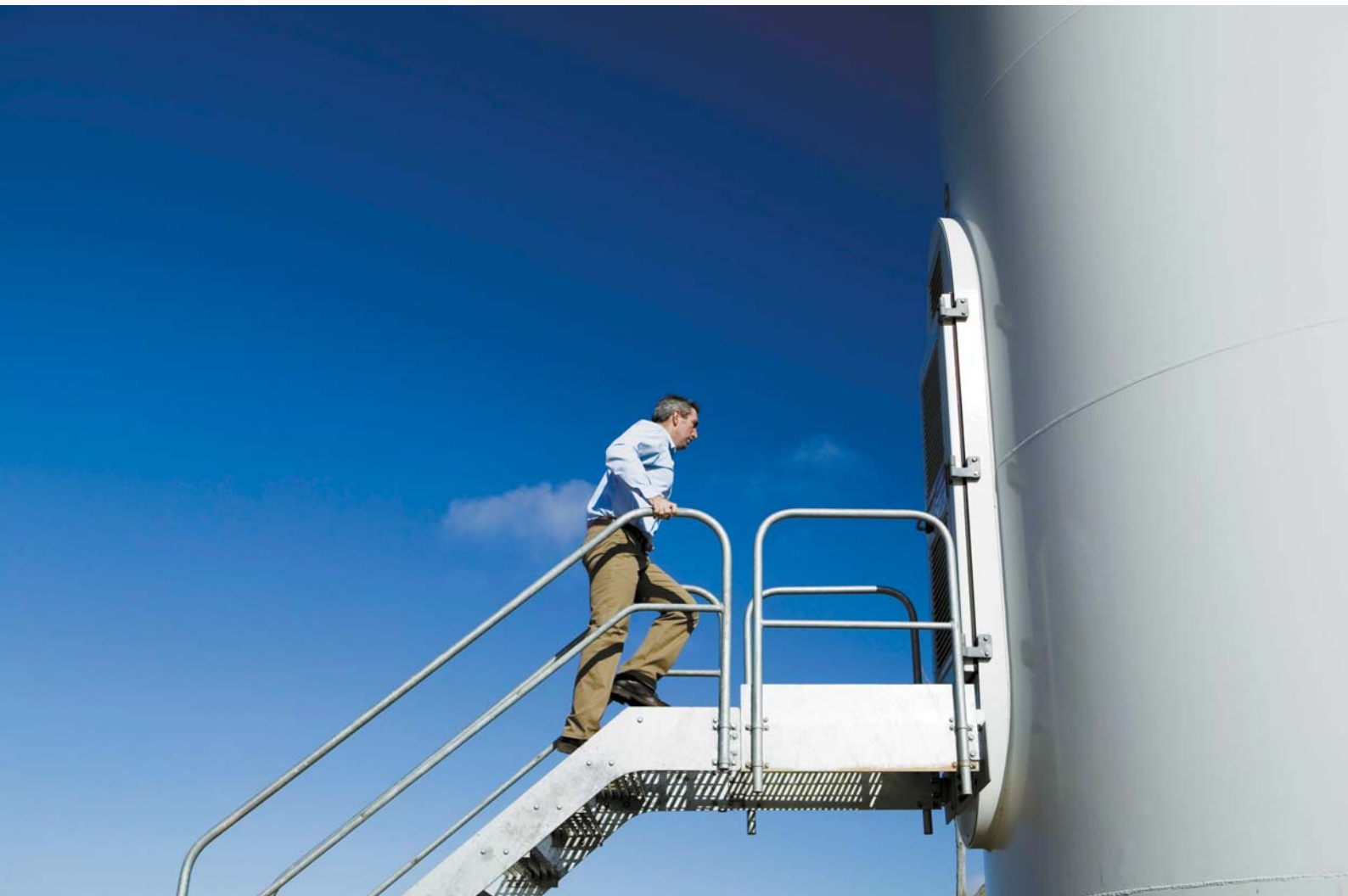
Our commitment to powering a cleaner world means we are dedicated to abating greenhouse gas, advocating for government action to reduce carbon emissions and limiting the causes of climate change.

Our projects have already abated more than seven million tonnes of greenhouse gas by feeding pollution-free electricity into the electricity system, reducing the demand for fossil fuel generation. We also aim to improve measurement of our own greenhouse gas emissions to allow for further abatement and compliance with new legal requirements developing in Australia.

While these steps are important, our business and the planet still face considerable risks from climate change. Anticipated regulatory changes mean that we will face changing energy policies which may delay renewable energy investment and reduce or even remove renewable energy incentives. Our planet may also face permanent physical changes which could affect wind patterns and water availability or increase the likelihood of extreme weather events.

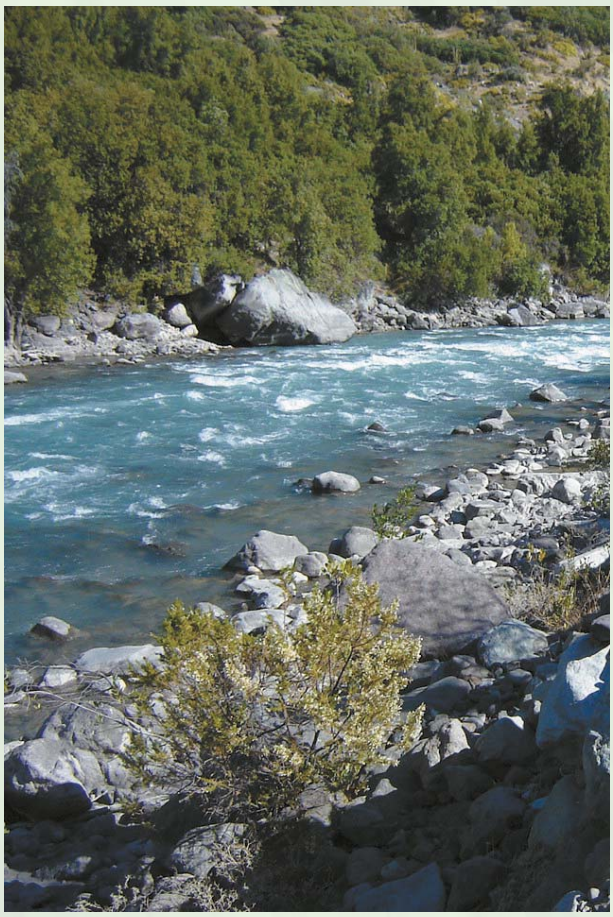
Our commitment to addressing climate change presents many opportunities for our business. The expected introduction of a 'carbon price' is likely to increase the cost of 'black' electricity, making the cost of renewables more competitive. We also see potential for diversification of our geographic spread and of our asset portfolio into areas such as geothermal or solar thermal energy.

We can tap into our existing knowledge of renewable energy to combat climate change. Our expertise can allow us to develop new and carbon-centric business models like Perenia Carbon (see page 19). Increased business and community awareness of climate change and the science behind it can also drive more robust renewable energy policy development.



Responding to Australia's Proposed Carbon Pollution Reduction Scheme

As part of our contribution to ongoing energy policy debates, in September 2008 we submitted a response to the Australian Government's Carbon Pollution Reduction Scheme (CPRS) Green Paper. We strongly support the introduction of an emissions trading scheme in Australia and in our submission, we praised the Australian Government's commitment to addressing climate change. However, we also raised some very important questions about the potential effectiveness of the proposed CPRS and its possible effects on consumers' purchase of green energy.



While it is important to give industry time to transition into the new CPRS, a CPRS must also ensure evolution from high to low carbon intensity. We believe that an effective emissions trading scheme must manage the exit of carbon intensive energy supply through transitional assistance, but must also ensure that price signals are introduced which allow the transformation to a low carbon energy sector.

We are also concerned that the CPRS, in its current form, will cannibalise the voluntary GreenPower market. The CPRS will set overall caps for all covered sectors, including power generation. This means that any voluntary purchase of GreenPower under the proposed scheme would offset fossil fuel generation. In effect, this would mean that GreenPower customers would be subsidising large emitters. In our submission, we argued that GreenPower consumers must be assured that their choice to pay a premium for GreenPower is resulting in additional carbon abatement. If this assurance cannot be given, we believe the GreenPower market is at risk and may decline sharply from 2010.

Carbon Credits and Perenia Carbon

Carbon trading introduces a price for carbon – placing a cost on emissions and a value on reductions.

Buying and selling emission allowances and reduction credits (carbon credits) creates a carbon market to enable countries and companies to meet their greenhouse gas reduction targets or caps under the Kyoto Protocol and similar initiatives.

We generate carbon credits through projects recognised under Kyoto's Clean Development Mechanism (CDM). CDM recognises projects that reduce carbon emissions in developing countries and rewards them with tradeable credits called Certified Emissions Reductions (CERs). As these developing countries do not have any Kyoto targets of their own, these CERs can be sold to countries that do, allowing those countries to meet their targets without actually having to make any cuts in their own carbon emissions. Under the Kyoto agreement, a CER is proof enough that the world's net greenhouse gas emissions have been reduced. One CER equates to an emission reduction of one tonne of carbon dioxide.

In Chile alone, our joint venture La Higuera and La Confluencia run-of-river hydro projects each have the potential to generate almost one million carbon credits per year.

Our carbon consulting business, Perenia Carbon, is a joint venture with Australian engineering consulting firm SMEC and leading Japanese trading house Mitsui & Co. Ltd.

Perenia offers complete carbon solutions by partnering with private and public sector clients to audit and assess their operations, develop strategies to manage greenhouse gas emissions and satisfy regulatory requirements, facilitate emission reduction projects and create and broker the transaction of carbon credits. It does this by providing expertise throughout the entire project lifecycle, from project development and registration, through to carbon credit origination, marketing and transaction.

A diverse portfolio of emissions reduction projects has been developed in both developing and industrialised countries. Perenia is managing a significant pipeline of projects that will generate up to eight million carbon credits each year at maturity.

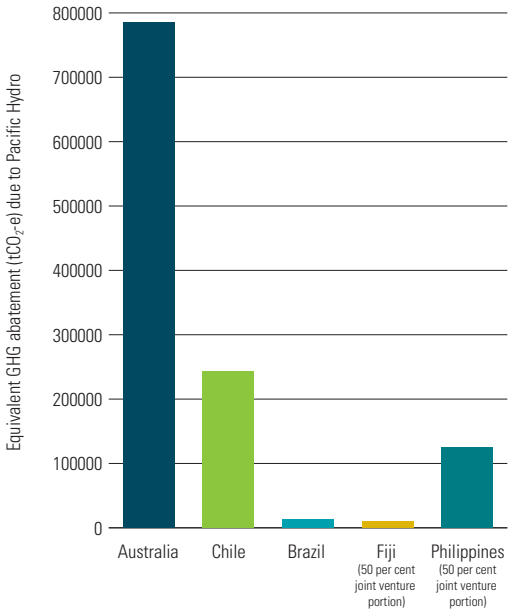
Energy Regulation: How Will a Carbon Pollution Reduction Scheme Affect Us?

The possible introduction of an emissions trading scheme in Australia by 2012 will provide additional value for developers of clean energy projects in the long term. A carbon price will be added to traditional energy sources such as coal and gas, which currently account for more than 90 per cent of the country's electricity generation, which will make renewable energy more competitive with traditional generation in the long term. Through our carbon services business, Perenia, we aim to be a significant player in Australia's emerging carbon credit market.

Our Electricity Generation and Greenhouse Gas Abatement

A positive environmental impact resulting from our renewable energy developments and operations is the abatement of greenhouse gas. We produce renewable energy for other businesses to purchase directly from us, or through a retailer, which then reduces the demand for conventional electricity generated from the burning of fossil fuels.

Greenhouse Gas Abatement due to Pacific Hydro Projects for FY 2008/09



Our Response to Climate Change (continued)

With regard to our own GreenPower purchasing, in Australia, during the reporting period we purchased 117,000 kWh of GreenPower from accredited sources, including our own wind farms.

Our Greenhouse Gas Emissions

A helpful step towards reducing our own greenhouse gas emissions is measuring them. We aim to improve our measurement in the next reporting period.

Our main sources of greenhouse gas emissions fit into the following categories:

- **Scope 1 emissions** are the release of greenhouse gas emissions into the atmosphere as a direct result of the activities occurring on site, for example, emissions produced by portable generators, vehicle and heavy equipment use on site and fugitive sulphur hexafluoride emissions from electrical switchgear and circuit breakers.
- **Scope 2 emissions** are indirect emissions that occur outside the facility as a result of electricity consumption at the facility, for example, emissions produced by the consumption of electricity from the grid when the facilities are not operational.
- **Scope 3 emissions** are indirect emissions that occur outside the facility as a result of activities at a facility, but are not Scope 2 emissions, for example, employees' business travel on a commercial airline.

The National Greenhouse and Energy Reporting Act 2007 establishes a national framework for corporations to report emissions and energy consumption and production. The Act makes registration and reporting mandatory for corporations whose energy production, energy use or emissions meet specified criteria. This legislation is applicable to us, not due to us being a large emitter, but due to us producing large amounts of energy. We are required to report on all Australian facilities under our operational control. Reporting on Scope 1 and 2 emissions is mandatory, while Scope 3 emissions are voluntary. Although this legislation is only applicable to our Australian operations, we intend to implement similar emissions reporting regimes at our other sites in Chile and Brazil for our own internal purposes.

During the reporting period we collected the following information:

- **For Australia** – Scope 1 and 2 emission data was collected and is presented below for all construction and operational sites as well as for the corporate head office. We did collect some Scope 3 data; however it has not been included below, as it is incomplete.
- **For Chile and Brazil** – Indirect emissions from electricity consumption (Scope 2) data was partially collected, however it has not been included below, as it is incomplete.

Greenhouse Gas Emissions and Energy

For all Australian construction and operational sites plus corporate head office:

GHG Emissions			Energy
Scope 1 (tCO_2-e)	**Scope 2** (tCO_2-e)	**Total - Scope 1 + Scope 2** (tCO_2-e)	**Energy Consumed** (GJ)
682	201	883	11,229

These figures have been measured using Method I (default method) as outlined in the National Greenhouse and Energy Reporting (Measurement) Determination 2008.

Powering Sustainable Communities

Social responsibility is at the core of our business and we work closely with communities where we have operations. Our projects are located in regional areas and, in some countries, in remote areas with only limited access to basic amenities.

Community engagement enables us to conduct our business successfully while supporting community sustainability. In all our projects, we strive to create local jobs and bring investment into the region. For example, the development of a wind farm provides a secondary revenue stream for wind farm landowners, helps protect the environment and boosts tourism and local job opportunities. Our wind farms also contribute significantly to local government revenues through annual rates payments.

Our Commitment to Local Communities

We have a substantial role in the local communities where we operate. In addition to supporting local community groups through our Sustainable Communities Fund (see page 24), we prefer to source services and products locally and employ locally (see page 27).

Our projects are often situated close to local roads that require some form of upgrade to ensure we can deliver project equipment and materials. We are also careful to ensure local infrastructure assets are not degraded. As an example, at our Clements Gap Wind Farm we needed to upgrade and maintain several local council roads to accommodate our delivery and transportation needs. As a consequence, $90,000 was spent on upgrading eight kilometres of local roads to a standard that reduced the maintenance obligations of the local council and increased accessibility for farmers.

We also contribute to economic improvements to local communities via monetary investment and by employing local people. Around 30 to 40 per cent of the value of construction of a wind farm is spent with local industry. For example, our PWEP II construction costs totalled $141 million and $56 million of this was spent with local and interstate businesses. This stage of the project involved 49 local companies and 320 workers.

Our projects often bring an increase in tourism to the local areas and we provide information boards at some of our sites and conduct tours where possible. We also make presentations to schools close to our operating sites on wind farms and renewable energy. For example, during the week of World Environment Day (June 09) we delivered the presentation 'Wind Energy and its Benefits for the Environment' for around 300 students in the city of Rio Tinto (near our Vale dos Ventos and Millennium Wind Farms in Brazil) and around 100 people including those from the environmental authority (SUDEMA).

Noise

Modern wind turbines do generate some noise emissions, mainly from aerodynamic noise created by the rotation of the rotor blades. Relevant regulators require all wind farm developers to follow specific standards or guidelines relating to noise and wind farms, which are designed to protect the amenity of surrounding community from adverse noise impacts. See page 34 for more information.

Our Community Consultation

Consultation is an essential part of our work with communities and is especially important during the development and construction of our projects. Hydro projects and wind farms require significant infrastructure which can be quite visible in the often remote or regional areas where our projects are located. We work closely with local communities to explain potential environmental impacts and to minimise those impacts wherever possible. Our approach to local communities is one that is honest, open, responsive and considerate of the community's needs and concerns.

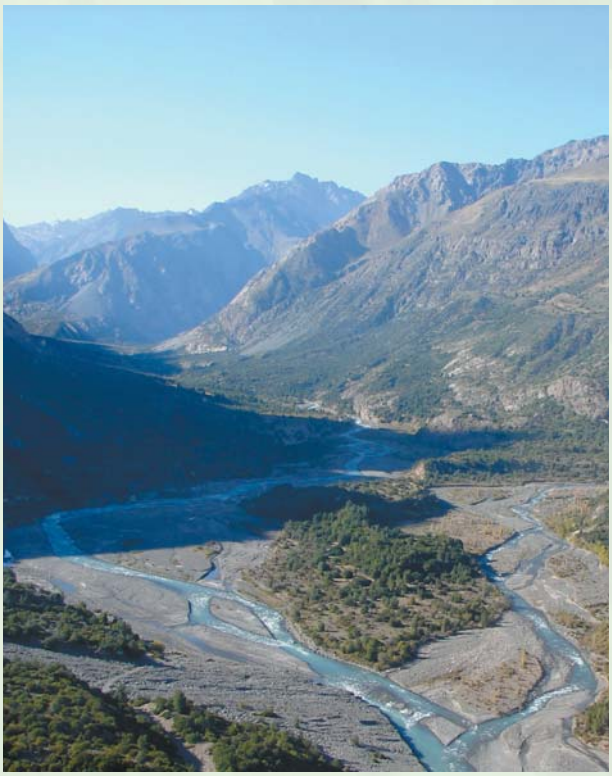
During our project planning phase, we hold community information sessions, invite comment on development plans and attempt to answer any questions community members might have about the ways our project may affect their visual landscape and local environment. Consultation includes one-on-one meetings with individuals, public 'drop-in' style information sessions, targeted briefings for key groups and organisations who may have a particular area of interest as well as briefings with employment agencies and media.

Consultation continues through construction and operation and aims to ensure that all members of the community are informed about each stage of the project and have the opportunity to give feedback.

We also maintain close connections with communities once projects are in place. In the Cachapoal Valley in Chile, for example, we work with the Irrigators of the Alto Cachapoal River community group to ensure that local farmers know if and when any changes may be expected to water flow in the river.

Project Changes Resulting from Consultation Input – Chacayes Hydro Project

Consultation usually results in changes being made to project design. For example, during the early community consultation for the Chacayes Project in Chile, we made many changes to the project design based on input from stakeholders and comments received from the environmental authority (CONAMA). These have since been implemented and this process has contributed to an improved overall design, including the reduction of the project footprint in the Cipreses Reserve, a road around Coya and other modifications to the original design.



Project changes resulting from consultation input:

- Bypass road around the community of Coya to reduce risk of accidents and dust from increased vehicular traffic and use of heavy equipment during construction at a cost of $10 million
- Reduction of the project footprint in the Cipreses Reserve by diverting the river through a tunnel (using a tunnel boring machine) instead of a surface canal
- Use of a rubber dam on Los Cipreses intake to reduce aesthetic impacts
- Tunnelling of steep and/or unstable slopes in sections of the Chacayes diversion to reduce the future probability of landslides and erosion
- Inclusion of detailed environmental criteria in the selection of the worker camp, quarries, disposal areas, and explosives storage
- Alto Cachapoal environmental education via publication of Flora and Fauna inserts in the regional paper and donations for local schools.

Working with the Civil Aviation Safety Authority to Reduce our Visual Impact

Some members of the local communities around our wind farms have expressed concern about the visual impacts of the turbine aviation safety lights.

Aviation lights are required on turbines over a certain height as a result of Civil Aviation Safety Authority (CASA) guidance material developed at a time when wind farms were not widespread. The CASA guidelines require that lights be placed on structures which are higher than 110 metres.

Since 2008, we have liaised with CASA about specific projects and advocated a review of the technical requirements for lighting, taking into account the needs of all stakeholders including the local community, the industry and the aviators.

CASA has since withdrawn the guidance note requiring lighting on wind turbines and is currently preparing new guidelines to be released in late 2009. Through our membership of the Clean Energy Council we will continue to monitor progress and advocate for CASA to consider community impacts associated with aviation safety lighting.

Consulting the Community and Protecting Indigenous Cultural Heritage at Carmody's Hill Wind Farm

Carmody's Hill Wind Farm in South Australia will be located along a ridgeline approximately seven kilometres east of Georgetown, running south from Bundaleer Forest to Mount Misery. The name 'Carmody's Hill' was selected by the local community during the community information session. Carmody's Hill forms part of the ridgeline and is named after the Carmody family who were one of the original European settlers in the area.

Prior to submitting the planning application for Carmody's Hill, we conducted three days of public information sessions in the surrounding towns of Georgetown, Gulnare and Gladstone during July 2008. These sessions were well attended and the community were provided with information about the development and given a chance to provide their views and comments to us. Following the submission of the planning application, we put the application on public display in five local towns and on our web page. This ensured that everyone had a chance to review the documents and make submissions to the local council.

The planning application seeks approval for a maximum of 70 turbines with a combined capacity of up to 175MW. At this size, the wind farm would provide zero emission electricity to power the equivalent of 70,000 homes annually, abating up to 540,000 tonnes of greenhouse gas.

In addition to community consultation, we have carried out a cultural heritage assessment. The assessment identified two traditional owner groups of the wind farm site – the Ngadjuri and the Nukunu people. We met with representatives from these groups to discuss the project, who then visited the site to familiarise themselves with the landscape and to ascertain whether there were any areas of ethnographic or cultural heritage interest in or around the site. Surveys of the site were then undertaken in order to find any artefacts remaining on the site.

If the planning application is approved, we will draw up a Cultural Heritage Management Plan. The plan will include a pre-construction cultural heritage survey to identify areas of archaeological importance and ethno-historical elements, including dreamtime stories, which will be taken into account during the final design of the wind farm.

In the event that any significant cultural heritage sites are discovered they will be identified for protection during construction. All site contractors will be made aware of the management plan and their obligations under the South Australian Aboriginal Heritage Act.

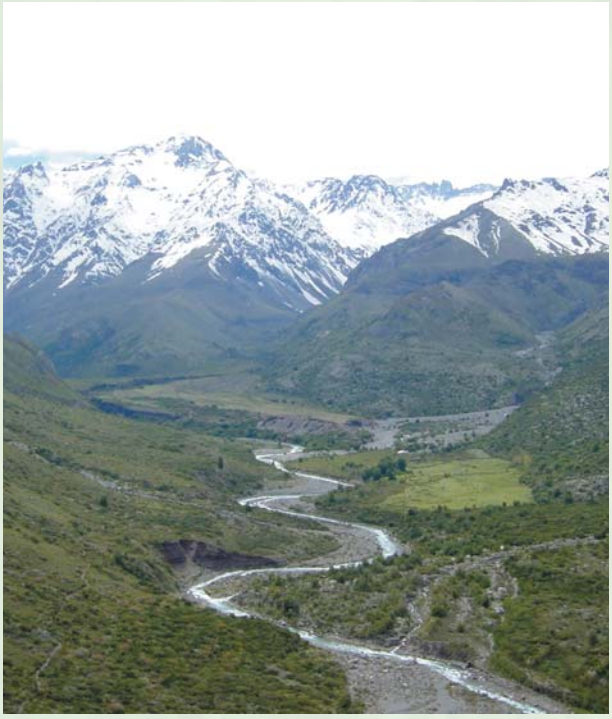
Protecting Cultural Heritage – Chacayes Project

As part of the Environmental Impact Assessment for the Chacayes Project, we developed a Cultural and Archaeological Property Management Plan which was implemented during the reporting period. The National Monuments Council (Consejo de Monumentos Nacionales - CMN) participated in the consultation and had an opportunity to comment on the plan.

The management plan includes measures for the protection, study and documentation of cultural heritage sites in order to ensure that sites of potential archaeological value are not negatively impacted, including:

- Sites of traditional use, used by shepherds in the area
- Sites not protected by law, mainly stone foundations - '*pircas*'
- Archaeological sites, pre-Hispanic or historical sites protected by law - pieces of ceramics.

All sites of potential archaeological value will be fenced and clearly marked to ensure that they are avoided by construction activities, where possible. If it is determined that impact is unavoidable, the CMN will be involved in making a determination on the need and method to rescue the resource. Appropriate records will be maintained. In case of chance finds of culturally-significant areas or objects, construction activities will be suspended until the authorities have been notified and adequate protection has been put in place.



Powering Sustainable Communities (continued)

Our Cultural Heritage Plans

We undertake historical and cultural heritage studies prior to work at all of our sites around the world.

In Australia, in accordance with Australian Aboriginal heritage laws and our recognition of Aboriginal people as the primary guardians of Aboriginal cultural heritage, before construction commences we conduct cultural heritage surveys on and around the footprint of all our projects. Surveys are conducted in consultation with recognised traditional owners and if required, cultural heritage agreements or management plans are developed for the purpose of avoiding, protecting and conserving areas and objects of cultural significance. None of our Australian projects are located on Native Title claims.

In Chile, all sites of potential archaeological or cultural heritage value are protected where necessary, for example at our Chacayes project (see page 23).

In Brazil, none of our projects are located on or near indigenous or cultural heritage areas.

Our Sustainable Communities Fund

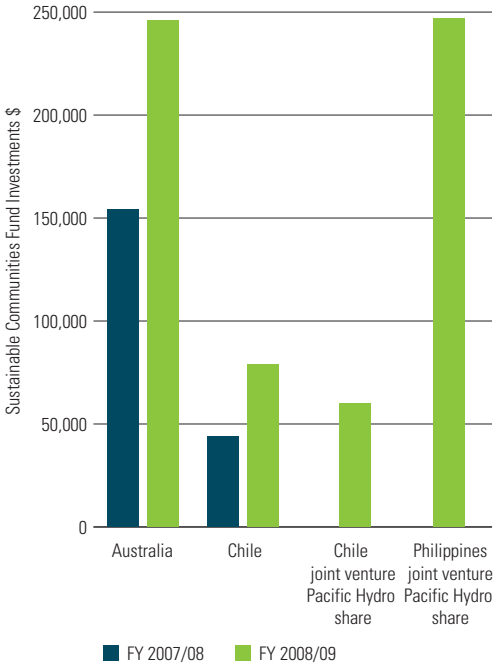
Our Sustainable Communities Fund was launched in Australia in 2005, in Chile in 2006 and we have commenced activities in Brazil to prepare for the launch of our Brazilian Sustainable Communities Fund during FY 2009/10. The Sustainable Communities Fund supports local projects and activities that encourage community cohesion and sustainability.

To prioritise the funding applications we work with communities to identify local needs. We run information sessions to explain the program and how to complete the application form. Once we have shortlisted and determined funding allocations we hold a presentation ceremony where each group describes their project. Community groups also report back to us on completion of the project. These aspects of the program are part of our commitment to transparency and accountability to the community, staff, senior management and our Board of Directors. The presentation ceremonies also provide a networking opportunity for local groups to learn more about other local programs and explore possible opportunities to work together.

Support is given to projects in the areas of education, health and safety, sport, environment, culture and the arts. The Australian Sustainable Communities Fund process occurring during FY 2008/09 saw $246,000 distributed to community organisations near our Challicum Hills, Clements Gap, Codrington, Yambuk and Portland projects.

In Chile, we committed $94,400 towards the Sustainable Communities Fund, '*Creciendo Juntos*' (Growing Together), of which $79,000 was distributed to communities in the Alto Cachapoal Valley during the reporting period. The fund helped finance projects that improve the quality of life for families living near our Chacayes project.

Sustainable Communities Fund Payments



We also initiated and continue to support community programs in our joint venture companies in Chile and the Philippines. In Chile, an additional $60,000* was distributed as part of the Sustainable Communities Fund program, '*Tinguiririca Participa*' (Tiguiririca Participates) to communities in the Tinguiririca Valley near the La Higuera and La Confluencia run-of-river hydro projects. In the Philippines, $247,000* was spent on community undertakings in areas around the Bakun hydro project.

* Figures are for Pacific Hydro's share which in each case is a 50 per cent joint venture interest.

Our Sponsorship and Cultural Activities

In addition to our Sustainable Communities Fund, we support many public events near our project sites. In Chile, for example, we hold free film screenings in Coya and Chacayes. In the reporting period we held five film screenings which were attended by over 400 people from the local towns. In Coya we also sponsor the soccer championship and the rodeo.

In 2008/09, we joined with Instituto Nacional de Capacitación (INACAP) to train people from the local communities near our Coya and Machalí sites. Over 150 participants received health, safety and environment training. The training aims to help the people of the Cachapoal community apply for and secure jobs in the industry. In June 2009 we also launched a training program for women who live in the Alto Cachapoal Valley. The program, completed by 50 women, included courses on typing skills and food hygiene.

Sustainable Communities Fund Projects

Reducing Plastic Bag Use in Port Fairy, Australia

An initiative to reduce the use of plastic bags in a Victorian seaside town near two of our wind farms received a $10,000 boost from our Sustainable Communities Fund in October 2008. The 'See Change in Port Fairy' was one of 11 community groups and organisations located near our Codrington and Yambuk Wind Farms to receive a grant in 2008. The project, which involved producing biodegradable hemp shopping bags that feature the designs of local schoolchildren, encouraged people to use eco-friendly bags rather than plastic bags. Traders in the community helped promote the initiative by stocking the bags in their shops. The program was aimed at supporting the town to be more environmentally friendly and educating tourists who flock to the area during the holiday season.

Shade Structure at the Ararat VRI Bowls Club, Australia

The local community in the Ararat area in Victoria has an increasingly older population. Encouraging them to continue to be active and socially connected improves their quality of life and general wellbeing. The Ararat VRI Bowls Club has a large member base and provides a great social opportunity for the community. However during summer, prolonged exposure to sun reduces playing time and puts the players at risk of sunburn. A grant of $4,550 received by the club in 2008 was used to install structures at the end of the bowling green to provide a shaded seating area for players on the bowling green. The shade structures also provide respite from the heat and sun for visitors and spectators.

Furniture and Equipment for the 'Ven Aquí' Kindergarten, Chile

The '*Ven Aquí*' ('Come Here') Kindergarten is attended by 30 children from Coya aged between two and four. The money was used to purchase new equipment, including a doll's house, educational games, music equipment and new furniture for children and teachers.

Coya Lions Club – Medical Project, Chile

The Coya Lions Club was founded in 1990 with 20 active members. Their medical project supported medical activities such as dental and optical treatment and the delivery of materials (such as baskets of goods and blankets). The program provided consultation to 75 children and elderly people from Coya and helped to reduce the waiting lists for these services.

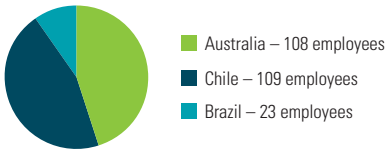
Technology Equipment for the Chacayes School, Chile

The Chacayes School is a rural school attended by children from kindergarten to fourth grade. While the school is well regarded and continues to demonstrate excellent academic results, it is geographically remote and lacking in access to modern day technology which limits the learning opportunity of the children. The grant allowed the school to purchase new teaching aids including a digital whiteboard, a notebook, a digital camera and video camera and a multimedia projector.

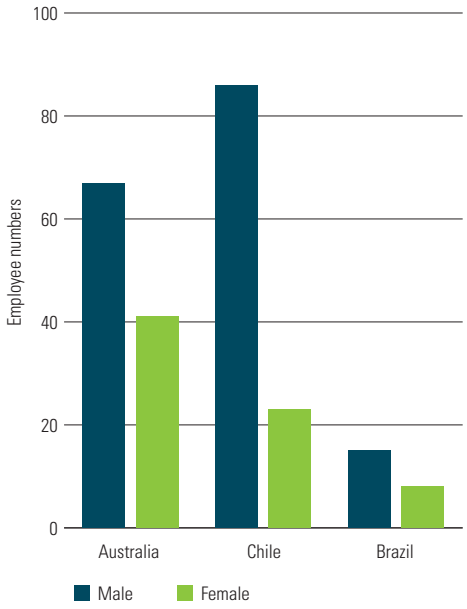
Powering our People

Our workplace is powered by many talented people from diverse backgrounds, professions and cultures from around the globe. We operate offices in Australia, Chile and Brazil. The diversity of our employees and workplace locations means we operate in three languages – English, Spanish and Portuguese.

Number of Direct Employees



Direct Employee Numbers Split by Gender



Average Age of Direct Employees

	Average Age
Australia	38.5
Chile	39
Brazil	36

Direct Employees and Turnover

	Number at June 30, 2009	Number of leavers FY 2008/09	% turnover
Australia	108	13	12%
Chile	109	9	8%
Brazil	23	7	30%

Our Employment Policies

Pacific Hydro is proud to offer our employees the highest quality employment opportunities and experiences at each of our sites. Our employment policies cover equal opportunity, parental leave, competitive remuneration packages and redundancy payments.

Equal Employment Opportunity

Our Code of Conduct is applied globally. We also have a Discrimination, Harassment and Bullying Policy and an Equal Opportunity Policy in place in Australia. The policies for Brazil and Chile follow the principles of the Australian policies in addition to meeting country-specific legislative requirements and equal opportunity training is provided to all staff.

Parental Leave

In Australia, female employees who have been with the company for at least one year can take between six and 52 weeks of unpaid maternity leave, as protected by law. Male employees can take five business days at the time of the birth and if they are the primary caregiver they can take a further 52 weeks. Employees (male and female) who have been with the company for at least one year are entitled to a bonus payment when they return to work after maternity or paternity leave. The bonus payment is 20 per cent of the employee's base salary at the time when they took leave and includes superannuation up to the statutory limit. The bonus is pro-rated for part-time employees.

Remuneration

The objective of our Remuneration Policy is to align individual and team rewards with business performance and to reward both financial and non-financial performance. The policy is intended to achieve global consistency in the structure of remuneration and the alignment of bonuses to short and long-term performance. We offer all employees a median-based market package comprised of a base salary plus an 'at risk' short-term incentive bonus. The employee remuneration structure includes:

- Base salary that is aligned with the market, allowing for the skills and experience of the employee
- Short-term incentive – annual performance bonus based on 12 month performance against pre-determined corporate, team and personal key performance indicators

- Long-term incentive plans (four to six year planning horizon) designed to retain employees and to incentivise long-term performance based on corporate objectives
- Other benefits – including superannuation, salary packaging, salary continuance insurance, training and continuous development.

Our average entry level wages are well in excess of the minimum wages, as shown below.

Entry-level Wages by Country

	Minimum Wage Per Annum in Country	Average Entry Level Wage Per Annum Paid by Pacific Hydro
Australia	$28,276	$44,787
Chile	$4,881	$35,538
Brazil	NA	No entry level employees

Performance Appraisals

Performance appraisals are conducted for all employees once a year. Employees also participate in a six month review. Team and personal objectives are set from the business plan.

Managers around the world are trained in the following areas:

- How to develop a high performing organisation
- How to retain high performers
- Continuous feedback and effective performance appraisal.

Redundancy Policy

Occasionally redundancies may occur and globally we allow for a redundancy payment. Employees in Australia and Chile are offered outplacement training with an external provider to assist with securing a new job, and access to the Employee Assistance Program for an additional three months after the redundancy occurs. This does not occur in Brazil due to a difference in local legislation.

Our Commitment to Local Employment

Our workplace is also powered by the many contractors we employ to undertake vital aspects of our work.

We source local materials and employ local people wherever possible, though sometimes this is not an option – for example an essential component needed for our wind farms in Australia is the wind turbine. These are not manufactured in Australia so need to be brought in from overseas. Also, in developing wind and hydro projects we often need people with specialist industry knowledge and skills which need to be brought in from outside the local community.

However, many services and products can be sourced locally for our projects and we encourage participation from local contractors and suppliers by holding local industry road shows. At these road shows, we present details of the project and highlight opportunities for businesses in the surrounding area. Local businesses can register their interest and we collect a database with details of possible contractors.

We also look for opportunities to partner with local government agencies and economic development bodies that can connect us with businesses in the area who may like to work on our projects. For example, in the consultation process for Crowlands Wind Farm in Australia, we worked with the local government agency to inform local businesses of the project and potential job opportunities.

Our Health and Safety

Achieving the highest possible health and safety standards is a priority for us and we are committed to ensuring that the health and safety of all employees, contractors and visitors is placed above commercial and other priorities.

Our workplaces cover environments ranging from corporate offices to more remote development, construction and operating sites. Irrespective of the work environment or location, we aim to be the industry leader in occupational health and safety. Our health and safety expectations apply to our own employees, contractors, and any other parties affected by our activities.

We set and track measurable health and safety performance indicators across our corporate, construction and operational activities, and aim to identify, eliminate or minimise exposure to hazards in the workplace as far as is reasonably practicable.

Local Employment in Chile

Our projects in Chile are located in relatively remote, developing areas. The Cachapoal Valley, home to our Chacayes hydro project, has traditionally had high levels of unemployment. We have employed 100 local workers from the Coya and Chacayes communities to work on the project.

In addition to the local employment opportunities for the Coya and Chacayes communities, the opportunities also apply to the broader Chilean population, including Santiago.

During construction of Chacayes, approximately 1,250 (at peak) direct jobs will be generated. During operation, the number of direct jobs will be approximately 40.

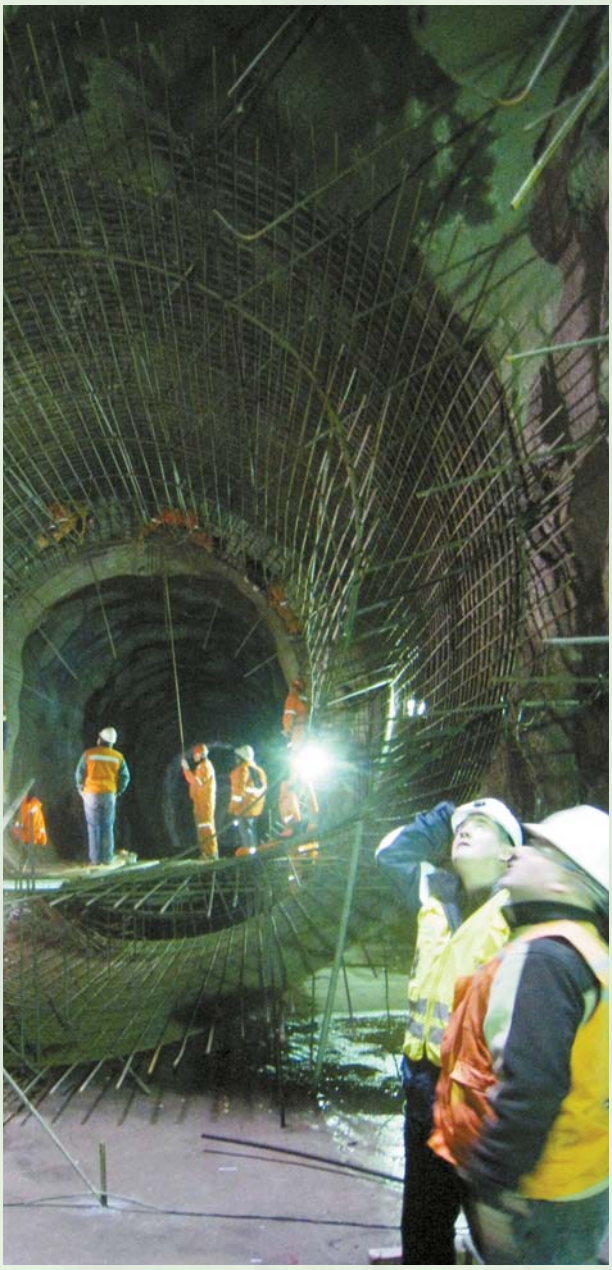
The project will also contribute to the creation of indirect employment opportunities (goods and services). We have estimated that the number of indirect employment opportunities could be up to three times those of the number of direct employment opportunities.

We have provided training on environment, health and safety to over 150 local people to increase their chances of filling non-skilled labour positions. We will also hire locals during restoration activities (for example for plant nurseries and revegetation). Our community relations office in Coya has been established and maintains a database of potential workers, and receives resumes of interested candidates. This database is available for use by the Engineering, Procurement and Construction contractor.

At our La Higuera project (which is a 50 per cent joint venture project), 2,400 jobs were created during the height of the construction phase. We also expect that the project will ultimately result in further significant direct and indirect employment in the project area during the operations phase.

At the peak of construction, our joint venture La Confluencia project will also employ up to 2,000 people.

The local employment trends seen at Chacayes, La Higuera and La Confluencia are expected to continue across our other Chilean hydro and construction projects.



Raising Awareness of Health, Safety and Sustainability in the Workplace

New health, safety and sustainability (HSS) initiatives are defined each year to encourage employees to identify substandard conditions or behaviours and opportunities for improvement. For example, the training target for FY 2008/09 was designed to involve and educate staff in HSS matters. Employees were given a range of training topics to choose from and the training was delivered by internal and external providers.

- In Australia employees were offered the choice of 63 different HSS training sessions.
- In Brazil employees were offered the choice of 16 different HSS training sessions.
- In Chile employees were offered the choice of 55 different HSS training sessions.

Our Dedication to Maintaining a Healthy Workforce

We promote employee health and wellbeing by implementing the following initiatives:

- **Employee Assistance Program:** Introduced in December 2008, this program includes a confidential counselling service which offers advice to employees and their family members on stress and work-life balance.
- **Executive Health Assessment Program:** Periodically measures the general health and stress levels of general managers.
- **Flu Shots:** We offer flu shots to employees once a year that are paid for by the company.
- **Provision of fresh fruit:** Employees are provided with fresh fruit in the workplace.
- **Company-subsidised/funded participation in sporting events:** Including the BRW Corporate Triathlon and the Corporate Games in Melbourne, Australia and the Nike Race in Santiago, Chile.

Our Health, Safety and Sustainability Corporate Objectives

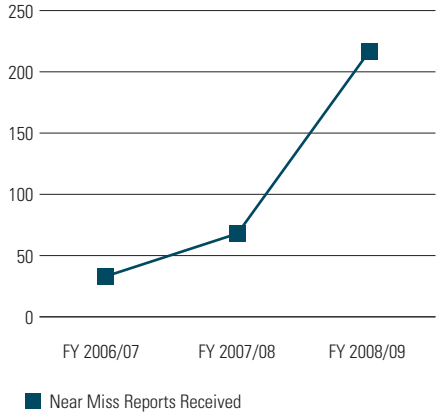
Each year, corporate objectives for HSS are set which comprise a percentage of each employee's performance appraisal and bonus. In FY 2008/09 HSS objectives accounted for ten per cent of the appraisal. This will increase to 15 per cent in FY 2009/10.

Our Health and Safety Performance

In addition to focusing on meeting specific targets, we monitor performance across a number of other metrics. During FY 2008/09, we had a total of 270 incidents, 30 of which were reportable (i.e. either Lost Time or Medical Treatment Injuries), 23 First Aid Treatment Injuries and 217 Near Misses.

Over the past few years we have focused on increasing Near Miss reports as we believe that it assists in the prevention of more serious incidents, serves to increase the awareness around risks and encourages the discipline of incident reporting. This was supported by one of our corporate objectives, which required a minimum of 182 Near Miss reports during FY 2008/09.

Near Miss Reports 2006-2009



Health, Safety and Sustainability (HSS) Corporate Objectives: FY 2008/09 Targets and Achievements

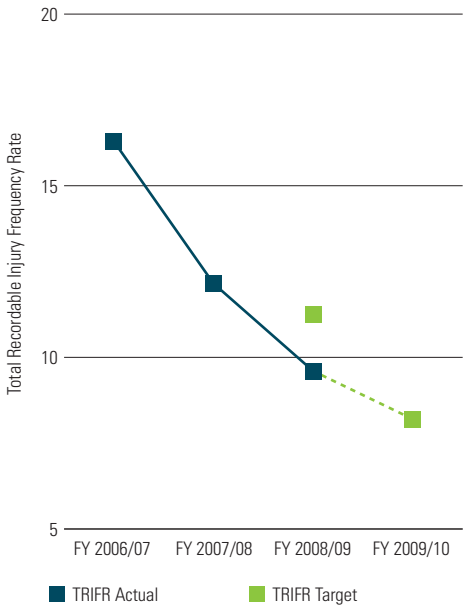
FY 2008/09 Target	Achieved?	FY 2009/10 Target
Total Recordable Injury Frequency Rate (TRIFR) of no greater than 11.25, representing a 15 per cent reduction from FY 2007/08.	Yes we achieved a TRIFR of 9.6.	TRIFR of no greater than 8.2, representing a 15 per cent reduction from FY 2008/09.
Improve vigilance in Near Miss reports by reporting a minimum of 182 Near Misses (requiring a doubling in the number of Near Misses reported in FY 2007/08).	Yes 217 Near Miss reports received.	Eighty per cent of all HSS-related corrective actions raised in the reporting year are to be closed out by the agreed due date. Corrective actions may be raised via incident investigations, HSS audits, inspections, observations and requests from regulators.
Each employee to participate in at least six health and safety or sustainability-related training sessions.	Yes all employees completed the required number of training sessions.	Each team (where teams comprise three or more people reporting to a manager), is to take ownership for recommending and implementing one HSS initiative within their business or functional unit per quarter.

Powering our People (continued)

Overall, our health and safety performance has been consistently improving, with FY 2008/09 being our best year to date. Although the number of incidents has increased considerably, this is linked with the employee growth we have experienced, and the increase in construction activities. An increased focus on incident reporting has also contributed to the rise of incidents from past years. We are constantly seeking to reduce our Total Recordable Injury Frequency Rate (TRIFR) by increasing employee awareness around important safety issues, and by implementing safer work methods and initiatives wherever possible. Our target of reducing our TRIFR by 15 per cent was achieved.

Total Recordable Injury Frequency Rate (TRIFR)

Pacific Hydro - Overall



TRIFR by Business Unit FY 2008/09

Australia		Chile		Brazil	
Actual	Target	Actual	Target	Actual	Target
20.5	11.64	11.4	14.78	1.51	8.29

While the TRIFR for Australia is significantly above the business unit TRIFR target, management has focused on ensuring that corrective actions are quickly and effectively implemented to ensure the likelihood of reoccurrence is minimised.

How we calculate TRIFR:

$$\text{TRIFR} = \frac{\text{No. of Lost Time Injuries + No. of Medical Treatment Injuries}}{\text{No. of Hours Worked}} \times 1{,}000{,}000$$

Our Contractor Standards

Our rapid growth and success would not be possible without our contractors, who are an integral part of our workforce, as shown in the table below. This table shows that most of the hours worked in our business are in construction of new projects, especially in Chile and Brazil. We have been especially reliant on contractors to enable this growth.

Our health, safety, environment and employment policies therefore extend to all of our people, including contractors.

Hours worked by Country, Employment Type and Work Type

FY 2008/09	Australia		Chile		Brazil			
	Employees	Contractors	Employees	Contractors	Employees	Contractors	Total hours	% of total hours
Operations	7,520	30,785	42,445	311,159	3,329	19,968	415,206	13.74%
Construction	9,849	107,105	45,736	1,586,476	8,245	587,700	2,345,111	77.61%
Office	85,948	2,684	127,636	0	39,786	5,201	261,255	8.65%
Total hours worked	103,317	140,574	215,817	1,897,635	51,360	612,869	3,021,572	
Total hours worked by country	243,891		2,113,452		664,229			
% of hours worked by country as a % of all days worked	8.07%		69.95%		21.98%			
% of hours worked by contractors by country	57.64%		89.79%		92.27%			

When potential contractors submit an expression of interest they are asked to complete a health, safety and environmental evaluation questionnaire that helps us determine if they meet our standards. Following this, the tender process provides contractors and suppliers with information that would be bound into their contract. Globally, we provide contractors with a set of standards which they must meet, which incorporate international standards such as ISO 14001, OHSAS 18001, relevant legislation and best practice. They may meet these requirements using their own internal management systems or standards, or may use those provided by us. Contractors are regularly audited against these requirements.

We also apply high health, safety and environment standards to our business dealings with joint venture partners. For example, joint venture partners must be managed in accordance with prudent financial and power industry practices. We expect our joint venture partners to share our vision to maximise shareholder value, to show concern for the environment, and to conduct business in an ethical, sustainable and socially responsible manner.

While there were no fatalities at any of our 100 per cent owned sites, regrettably, in October 2008 there was one fatality associated with the La Confluencia project which is currently under construction by our joint venture company, Tinguiririca Energía. An employee of our contractor, Constructora Hochtief-Tecsa, suffered fatal injuries when he was involved in a single vehicle accident in the concrete mixer he was operating. Our thoughts and condolences go out to the deceased's family and we can confirm that Tinguiririca Energía has taken steps to ensure that the risk of such an event occurring in future has been eliminated.

Our Employee Engagement

Organisation Alignment Survey

In May 2009, we undertook an Organisation Alignment Survey (OAS) with all staff in Australia, Chile and Brazil. The purpose of the survey was to contribute to performance by improving our understanding of our peoples' potential, and to improve our capacity to successfully implement change.

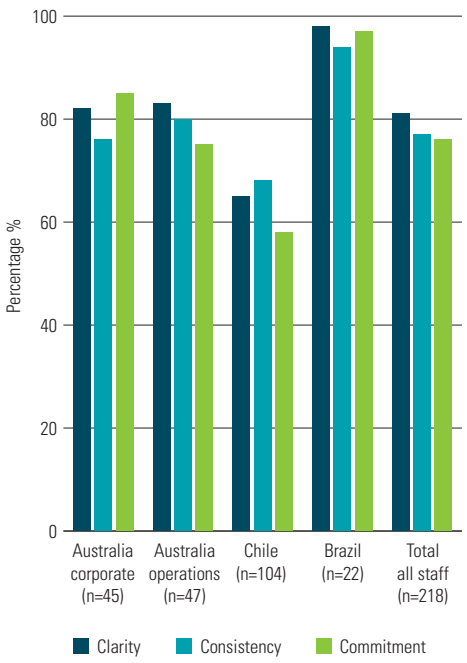
We have conducted an Employee Opinion Survey annually since 2006 and plan to continue with the OAS each May going forward. Our response rate for the 2008 survey was 90 per cent and the response rate for the 2009 survey was 91 per cent, demonstrating employee engagement in the process. The surveys are run by Insync Surveys.

The OAS measured employee perceptions of the clarity of our vision, mission and culture; consistency of our strategies and plans, projects and processes, actions and outcomes; and our employees' commitment evidenced by their understanding of their role, their support for our organisation and our support for them.

The clarity score measures the extent to which we have shared and clearly articulated our long-term direction, purpose, goals and culture and represents our organisation's shared confidence about our future. The consistency score measures how well we have converted our aspirations into supporting strategies and goals, projects, actions and behaviours. The commitment score shows how well we have developed an environment where there is mutual support and respect.

The graph below shows the results for each region. The number of staff surveyed in each region is denoted by the letter 'n'.

Results of Organisation Alignment Survey



Powering our People (continued)

The results showed overall scores of between 76 per cent and 81 per cent on each aspect measured. Management have investigated the reasons behind lower scores and initiatives are being implemented in FY 2009/10 to address these issues.

Our Training and Development

Talent management is critical to our continued success. In an increasingly competitive marketplace, attracting, developing and retaining the best professionals is a key challenge. To this end, each employee is given the opportunity of regular training and development courses and, as a key part of their responsibilities, all managers work with their employees to develop a detailed yearly training and development plan.

Employees and contractors are given training on social and environmental issues including environmental training and cultural heritage training.

To enhance communication and understanding across the company, we provide Spanish lessons to all head office staff in Australia. In Brazil and Chile employees are provided with the opportunity to study English.

Our total training expenditure in FY 2008/09 was $345,096 in Australia, $112,793 in Chile and $28,732 in Brazil. Our expenditure on training amounted to 1.4 per cent of total employee wages and benefits.

Examples of training topics covered in Australia, Brazil and Chile are shown below.

Training Examples

Australia	Chile	Brazil
Spanish lessons Cultural awareness Emergency and crisis management Height safety Driver training First aid, health and well being, SunSmart, ergonomics Bullying and harassment in the workplace Spills, chemicals and flood prevention and clean up ISO 14001 and office waste reduction and recycling Various technical training seminars	English lessons Legal compliance including environmental, equal opportunity and regulatory impacts ISO 9001 Leadership, project management, commercial negotiation and corporate social responsibility Crisis management, risk assessment and emergency response Various technical training seminars Computer and business software skills Driver training	English lessons ISO 14001 Crisis management, risk assessment and emergency response Driver training Various technical training seminars

Powering a Cleaner Environment

Care for the environment is paramount to powering a cleaner world. Through our commitment to produce clean, renewable energy and carbon abatement we aim to make a difference to climate change and contribute to an environmentally-sustainable future.

Our concern for the environment is not limited to clean energy production and carbon abatement. We also aim to minimise our impact on the environment whenever possible during the development, construction and operation of our projects. We work to protect the biodiversity of our project sites and must comply with environmental regulations in each of the countries where we operate. We also reflect on our own actions and assist our employees and their families to reduce their own environmental impacts.

Environmental Management

We aim to be an industry leader in environmental management and continually strive to improve our environmental performance. Our Environmental Policy (www.pacifichydro.com.au/en-us/sustainability.aspx) describes our environmental aims and the manner in which we seek to achieve these aims and applies to all directors, managers, employees, contractors and visitors to our offices and sites.

Our Environmental Policy is implemented through our Environmental Management System (EMS). All of our sites operate under an EMS, based upon or certified to the international standard for environmental management systems, ISO 14001. Sites which are not certified must still undergo regular internal audits to ensure compliance against ISO 14001. Sites which are certified undergo regular external audits as required by the standard. A surveillance audit was conducted in October 2008 for our certified sites, with zero non-conformances identified.

Environmental Management Systems
(for all majority-owned operational and construction sites, and Melbourne Head Office, FY 2008/09)

Number of sites with EMS based on ISO 14001	Number of sites with EMS certified to ISO 14001
7	9

Environmental Risk and Impacts

Our EMS provides the framework for the company to identify and assess environmental risks. We have developed environmental aspect and impact registers to track these risks. Where a risk is found to be significant, our EMS ensures that we apply controls to mitigate and/or remove it.

In addition to those risks identified under the EMS, we have a formal Enterprise Wide Risk Management Framework (EWRMF) that is consistent with the international standard for risk management, ISO 31000 (see page 14). This includes an annual review of the business of risk exposure and regular reporting to the Board of Directors via the Sustainability and Risk Committee, detailing the risk position. Environmental risks can be identified in this process.

Every business has its own inherent environmental risk factors. Clean energy operations are no different, however we work hard to identify, manage and avoid these risks and resultant impacts. Key impacts along with mitigation, monitoring and control measures are shown on page 34.

Regulatory Compliance

A register of relevant environmental legislation, regulations and other requirements is included in our environmental management system and we assess our compliance against this on a regular basis. There were no environmental violations resulting in fines and no penalties for non-compliance during the year.

Environmental Incidents and Near Misses

We record all environmental incidents and near misses so that we can improve our practices and communicate lessons learned from these occurrences to all our sites globally.

In the reporting period, we had 24 environmental incidents and five environmental near misses. Of these environmental incidents, the majority were minor spills to the ground, all ranging from less than five litres to not more than 60 litres of hydrocarbon, concrete or asphalt. Also included in this figure are deviations from environmental procedures.

Spills

We work to avoid accidental spills of hazardous materials that could harm people or the natural environment. Some spills were recorded during the reporting period but none were significant. Four spills totalling 75 litres of oil were recorded at our Australian operations. In Chile 113 litres of hydrocarbons, ten litres of asphalt and 50 litres of concrete were spilled. There were no spills in Brazil. Our standard clean-up responses were deployed and there were no environmental releases to water bodies from any of these spills.

Powering a Cleaner Environment (continued)

Key Environmental Risks and Impacts

Phase	Key Impacts	Example of Pacific Hydro's Mitigation, Monitoring and Control Measures
Construction	Permanent loss or alteration of vegetation and flora habitat	Minimising clearing and cutting of vegetation; topsoil conservation for subsequent use in restoration; salvage of protected plant species; and revegetation and restoration of habitats affected by vegetation clearing.
	Temporary landscape modification	Landscape restoration (physical and biological restoration plan).
	Disturbance of fauna	Rescue and relocation of fauna; avoidance of nesting areas; and habitat restoration.
	Increase in risk of bush or forest fire due to accidental fires related to construction activities	Development of a Fire Prevention and Control Plan; burning prohibited; construction procedures and emergency procedures developed and implemented; and fire fighting crews available.
	Increase in traffic (air and noise pollution) near the community	Construction and maintenance of alternative access road (bypassing the town); dust control systems implemented; and speed limits imposed on project vehicles.
Operations - Wind Farms	Noise discomfort to local residents and planning permit non-compliance	Noise monitoring and reporting; community complaint system.
	Avifauna Strike of Priority species	Avifauna Mitigation Manual implementation and training; monitoring of fatalities.
	Permanent landscape modification	Design and implementation of tourist developments associated with wind farms to promote economic activity for nearby communities.
Operations - Hydro-Electric Facilities	Pollution of waterways	Continual monitoring and maintenance if required; report leaks; spill kits available.
	Modification of aquatic habitats	Studies, mitigation measures and monitoring programs, e.g. for the Torrent Duck and Catfish in the Cachapoal basin in Chile.
	Alteration of hydraulic regimes	Establishment of a minimum ecological flow, continuous monitoring of hydrologic regime, sedimentation and meteorology.

Water

We rely upon water to power our hydro projects. Water is diverted from a river or pre-existing storage source through our power stations to power our turbines and then released into the adjacent river system resulting in minimal flooding and impact on the environment.

On the other hand, the operation of wind farms requires only a small amount of water and our wind farms are equipped with rain water tanks for this purpose.

During the construction phase of projects, water is used primarily for concrete production and dust suppression if necessary.

Waste

We seek to reduce and avoid waste in all our operations. Our prescribed waste includes types of waste prescribed by environmental regulators, such as waste oil. During the reporting period, we disposed of 123 kilolitres of waste oil.

In Australia, nothing electronic was sent to landfill by the IT department. Old laptop computers were refurbished and sold back to employees. In FY 2008/09, 23 laptops were sold to employees. All printers were also sold.

Protecting Biodiversity

The protection and conservation of native flora and fauna at our operational sites is of great importance to us. Biodiversity is vital to a healthy environment: it supports our food supply, can protect coastlines and limit erosion, helps to sustain fresh water supplies and can help to protect against the effects of climate change.

We undertake flora and fauna studies at all of our operation sites to help ensure that biodiversity is protected. When we design wind farms, we aim to avoid, minimise or – where land must be cleared – to offset effects on native vegetation. Management of invasive or noxious weeds, land rehabilitation and revegetation are also important aspects of our land management.

Wind farms have been shown to have negligible impacts on local wildlife and livestock in studies by the American Wind Association, the Danish Wind Industry Association and Environment Victoria.

We also regularly monitor threatened plant and animal species and habitats which have been identified as living at or near our construction or operation sites. These are shown on page 36.

Helping Employees Reduce Their Environmental Impact

In addition to minimising our environmental impact as a business, we are helping employees and their families reduce their own impacts. In June 2009, we offered employees the opportunity to bring their old computers, microwaves, televisions and other electronic hardware to our Melbourne office. We then paid a disposal charge to electronic recycler MRI (www.mri.com.au), which recycles the equipment and diverts up to 98 per cent of the product, by weight, from landfill.

Initiated by our IT department, the program ensured that the equipment was disposed of in a way that protects the environment and eases the burden to landfill space and the consequent release of toxins.

For employees who were unable to bring the equipment into the office we offered a pick-up service where three staff volunteered their time over the weekend to collect the items. In total approximately 60 electrical items were sent to MRI for recycling. We plan to hold this program on an annual basis.

Protecting Native Species in Chile

As a part of our commitment to the local community and the environment near our run-of-river plant Chacayes in Chile, we have opened a tree nursery.

The nursery will grow 11 native species from the Alto Cachapoal valley, including hawthorn, mountain cypress and peumo evergreen trees. The nursery, which has the capacity to grow over 400,000 plants and trees, confirms our commitment to develop environmentally-friendly sustainable energy whilst protecting local flora and fauna.

Powering a Cleaner Environment (continued)

Threatened and Vulnerable Species Monitored by Pacific Hydro

Australia

Orange-bellied Parrot *(Neophema chrysogaster)*

'Critically Endangered' - International Union for Conservation of Nature (IUCN) Red List

We monitor the utilisation and behaviour of the birds in the vicinity of our wind generators and at the alternative improved habitats in south western Victoria, including audits of food sources.

White-bellied Sea-eagle *(Haliaeetus leucogaster)*

'Least Concern' - IUCN Red List

We monitor the utilisation and behaviour of this species of bird in the vicinity of our wind generators in the Portland area.

Southern Bent-wing Bat *(Miniopterus schreibersii bassanii)*

'Critically Endangered' - Australian Environmental Protection and Biodiversity Conservation Act

We monitor the utilisation and behaviour of this species of bat in the vicinity of our wind generators in the Portland area and their nearby roosting sites.

Chile

Small Catfish *(Tricomycterus areolatus)*

'Vulnerable' - Chilean CONAF Red Book

This species is native to Chile. We have implemented a management plan for this species which includes monitoring to generate additional information on habitat requirements of this species for the Cachapoal and neighbouring basins to be incorporated into ecological flow considerations.

Torrent Duck/Pato Cortacorrientes *(Merganetta armata)*

'Least Concern' - IUCN Red List

We are evaluating habitat, distribution and monitoring population during construction at Chacayes in Chile. If monitoring indicates a decrease in population, we have committed to implementing the necessary mitigation measures.

Tricahue Parrot/Loro Tricahue/ Burrowing Parakeet *(Cyanoliseus patagonus)*

'Least Concern' - IUCN Red List and 'Vulnerable' Chilean CONAF Red Book

Although considered widespread by the IUCN Red List, this species is considered endangered under Chilean legislation. We have implemented our management plan at our Chacayes project, which included further evaluation of habitat, distribution as well as population and nesting area monitoring.

Puya/Chagual *(Puya berteroniana)*

'Vulnerable' - Chilean CONAF Red Book

Rescue, relocation and planting in the restoration areas. Tree nursery to produce the necessary compensation plants.

Red Cactus/Cacto Rojo *(Eriosyce curvispina)*

'Vulnerable' - Chilean CONAF Red Book

Rescue and relocation exemplars and planting in the restoration areas. Tree nursery to produce the necessary compensation plants.

Cipreses River National Reserve *(Reserva Nacional Rio de Los Cipreses)*

The Cipreses Reserve has been categorised as a Category IV IUCN protected area or 'Habitat/ Species Management Area'. Special environmental design of the Chacayes project to minimise environmental impacts. Design changes equated to a $6.8 million additional cost to the project.

Brazil

Not applicable. There are no threatened plant or animal species requiring monitoring at construction or operational sites in Brazil.

Bird Strike

Bird strike occurs when a bird collides with a wind turbine. This is a common concern which receives a lot of media attention.

As part of the planning process, extensive bird survey and assessment work is carried out to ensure that our turbines are not located in areas of sensitive bird activity. We also monitor bird and bat strike and are required to regularly report on the results of monitoring activities to environmental authorities. We are very careful to avoid protected habitats and migratory flight paths and our wind farms are specifically designed to minimise risks to birds and bats as much as possible. Our research to date shows that we have had very little impact on bird or bat species. Even so, we continue to monitor bird and bat strike to ensure that we have reliable, up-to-date information.

Protecting the Orange-bellied Parrot at Yambuk Wind Farm

Located next to our Codrington Wind Farm near Port Fairy in south west Victoria, the Yambuk site was chosen for its ideal wind conditions - its average annual wind speed of 30km/h is perfect for producing clean electricity. Commissioned in January 2007, the wind farm contributes up to 30MW of clean electricity to the National Electricity Grid, enough to supply the annual electricity needs of 17,000 Victorian homes.

During the reporting period Yambuk Wind Farm displaced up to 109,000 tonnes of global warming pollution produced by traditional power generation methods, equivalent to removing 25,000 cars from our roads. However, the environmental impacts at Yambuk are delicately balanced, as this is also a natural habitat to one of the world's most endangered species, the Orange-bellied Parrot (OBP).

With the help of Greening Australia Victoria, we have gathered data and taken steps to protect the OBP. We supported Greening Australia to prepare habitat enhancement plans, agreements with stakeholders and landowners and to implement habitat improvements that enable Yambuk to achieve its statutory environmental obligations. We have been monitoring the Yambuk area for OBP presence since 2001. This includes annual monitoring of feeding areas, site utilisation by OBP, roosting location, co-flocking observation and flight path tracking. We also monitor habitat improvements and undertake audits of OBP food sources.

We work closely with local Department of Sustainability and Environment and Birds Australia staff during the monitoring program enabling data and information collected by all parties to be shared and findings communicated. This approach has improved the knowledge of the habitat requirements and behaviours of this critically endangered species.

Protecting the Tricahue Parrot in the Tinguiririca and Cachapoal Valleys

In Chile we have undertaken important work in relation to the Tricahue Parrot, classified as Vulnerable in Chile and a protected species found in Region VI, near our projects in the Tinguiririca and Cachapoal Valleys. We have been studying and monitoring the Tricahue Parrot in both valleys.

In the Cachapoal Valley we have been monitoring the Tricahue Parrot for the past three years and are leading the way in gathering important information with respect to this species. We have been working with Chilean experts in this field in order to understand and protect this vulnerable species and have invested more than $272,000 in research studies and monitoring plans.

In FY 2008/09, as part of our environmental management regime for our projects in the Cachapoal Valley, we implemented a comprehensive Tricahue Parrot Management Plan. This management plan provided for the implementation of specific protection measures for this important species and prescribed an intensive monitoring program during the nesting season. The cost associated with this plan was approximately $122,000 in FY 2008/09 and as the plan continues to be implemented, the cost is not expected to change significantly in subsequent years. The results of this management plan have already helped to ensure that the construction activities of the Chacayes project advance with minimal environmental impacts to the Tricahue Parrot population.

In the Tinguiririca Valley, our joint venture, Tinguiririca Energía, signed an agreement with the Metropolitan Zoo Park of Santiago to develop a three year investigation and preservation program for the Tricahue Parrot. Studies in this valley have been ongoing since 2005 and are planned to continue with an investment of $600,000 over the next 3 years.

GRI Table

This report applies the Global Reporting Initiative (GRI) G3 guidelines to a B level. Core indicators appear in bold.

GRI Indicator	GRI Description	Comments	Page No.
1.1	Statement from the CEO		3-4
1.2	Key impacts, risks, and opportunities		3, 9, 14-19, 21, 33
2.1	Name of organisation	Pacific Hydro Pty. Ltd.	
2.2	Primary brands, products, and/or services		7-8
2.3	Operational structure of organisation		13-14
2.4	Location of organisation's headquarters		Back cover
2.5	Number of countries where the organisation operates	Australia, Brazil and Chile (joint ventures in Chile, Fiji and the Philippines)	
2.6	Nature of ownership and legal form	100% owned by IFM Industry Funds Management (Nominees) Limited as trustee of IFM Infrastructure Funds	7
2.7	Markets served		5
2.8	Scale of the reporting organisation		5
2.9	Significant changes during the reporting period	As this is our first public Sustainability Report there are no significant changes during the reporting period	
2.10	Awards	PEC Award in Chile for excellence in health and safety performance in Region XI	
3.1	Reporting period	July 1st 2008 – June 30th 2009	
3.2	Date of most recent previous report	This is our first public Sustainability Report	
3.3	Reporting cycle		1
3.4	Contact point for the report		Back cover
3.5	Process for defining report content		1, 11
3.6	Boundary of the report		1
3.7	Limitations on the scope/boundary		1
3.8	Reporting on joint ventures and other entities		1
3.9	Data measurement techniques	Greenhouse gas emissions and energy - p20 Health and safety statistics - p30	20, 30
3.10	Explanation of re-statements	This is our first public Sustainability Report	
3.11	Significant changes from previous reporting periods	This is our first public Sustainability Report	
3.12	Table of standard disclosures		38-40
3.13	External assurance	We have not used external assurance for this report	
4.1	Governance structure		13-14
4.2	Chair of the highest governance body		13
4.3	Independent and/or non-executive board members		13
4.4	Mechanisms to provide recommendations to the board		13-14
4.5	Compensation and performance		26-27
4.6	Avoidance of conflicts of interest		14
4.7	Board selection process		13
4.8	Mission and values statement		7
4.9	Management of performance		26-27
4.10	Performance evaluation	The Board performs a self-assessment every two years which includes a management questionnaire	
4.11	Precautionary principle addressed		14, 17, 33
4.12	Externally developed economic, environmental, and social charters	None	
4.13	Memberships in associations		10
4.14	List of stakeholder groups		11
4.15	Basis for identification and selection of stakeholders		11

GRI Indicator	GRI Description	Comments	Page No.
4.16	Approaches to stakeholder engagement		2, 11, 12
4.17	Key stakeholder topics and concerns		11
Economic	Disclosures on management approach		9, 15-16
EC1	Direct economic value generated and distributed		5, 15
EC2	Financial implications of climate change		17-19
EC5	Standard entry-level wage/local minimum wage		27
EC6	Locally-based suppliers		12, 21, 27-28
EC7	Procedures for local hiring		12, 21, 27-28
EC9	Indirect economic impacts		16
Environmental	Disclosures on management approach		33-37
EN3	Direct energy consumption by primary energy source		20
EN4	Indirect energy consumption by primary source		20
EN6	Initiatives to provide energy-efficient products and services		7-8, 19
EN7	Initiatives to reduce indirect energy consumption and reductions achieved		20
EN8	Water use		34
EN11	Land in biodiversity habitats		34, 36-37
EN12	Impact on biodiversity rich areas		34-37
EN13	Habitats protected or restored		35-37
EN14	Managing impacts on biodiversity		34-37
EN15	IUCN red list species		36
EN16	Direct and indirect greenhouse gas emissions		20
EN18	Initiatives to reduce greenhouse gas emissions		20
EN23	Total number and volume of significant spills		33
EN28	Non-compliance - environmental laws	There were no incidents of non-compliance with environmental laws	
Labour	Disclosures on management approach		26-32
LA3	Benefits for full-time and part-time employees	The same benefits are provided to all employees (pro-rata for part-time employees)	
LA4	Collective bargaining agreements	Nil	
LA7	Absentee rates and injuries		30
LA8	Programs for serious diseases	We offer flu shots once a year to all staff globally paid by the company	
LA10	Training per employee		32
LA11	Career and skill development programs		32
LA12	Employee performance reviews		27
LA13	Workforce by diversity		26
Human Rights	Disclosures on management approach	Our stakeholders see human rights as intimately connected to labour and contractor relations	2, 11
HR4	Total number of incidents of discrimination and actions taken	Nil	
HR5	Risk to freedom of association and collective bargaining	All employees are allowed to join and cannot be discriminated against for being a member of a union	
HR9	Incidents involving Indigenous people	Nil	
Society	Disclosures on management approach		21-25
SO1	Managing impacts on communities	Indirect Economic Impact - p16 Commitment to Local Communities - p21 Community Consultation - p21-22 Cultural Heritage - p23-24 Sustainable Communities Fund - p24-25	16, 21-25

GRI Table (continued)

GRI Indicator	GRI Description	Comments	Page No.
SO5	Public policy positions and lobbying		10
SO6	Political donations		14
SO7	Anti-competitive behaviour	Nil. All employees in the Australian business unit who deal regularly with customers, suppliers or competitors are required to undergo trade practices law compliance training every two years	
SO8	Non-compliance with laws and regulations	Nil	
Product Responsibility	Disclosures on management approach		7-8
PR2	Non-compliance - Health and safety impacts of products and services	Nil	
PR3	Product and service information requirements		7-8
PR4	Non-compliance with regulations and voluntary codes on product and service information	Nil	
PR6	Marketing communications compliance		8
PR7	Marketing communications non-compliance	Nil	
PR9	Monetary value of significant fines	Nil	

Contact Us

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