

Sustainability Report 2010

Growing Together



Our Vision and Mission

Vision

Powering a cleaner world.

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.

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About this Report

This is Pacific Hydro's second Sustainability Report and covers our economic, environmental and social performance from 1 July 2009 to 30 June 2010, unless otherwise stated. The information in this report covers our majority-controlled assets in Australia, Brazil and Chile, and does not include minority or 50:50 joint ventures, except where this is noted.

We have applied the Global Reporting Initiative's (GRI) G3 guidelines and the Electric Utility Sector Supplement to a self-declared B level. The GRI G3 guidelines are the world's most widely-used sustainability reporting guidelines. By applying these guidelines, we are ensuring that our report is in line with global best practice. All figures in this report are in Australian dollars unless otherwise stated.

The data for this report has been gathered from our operations in Australia, Brazil and Chile using standard measurement techniques which conform to national or international guidelines or regulatory requirements. Specific calculations are referenced in the report where appropriate.

Cover image: Young dancers from a traditional dance community group supported by Pacific Hydro's Sustainable Communities Fund, "Creciendo Juntos" in Coya, Chile



Above images (Left to right): 1. Pangal Powerhouse, Cachapoal Valley, Chile 2. Aquaplay Community Program, Portland, Australia 3. São Paulo Office, Brazil 4. Dancing group, Coya, Chile

"Growing Together" in FY 2009/10

1.3 million

Tonnes of greenhouse gas emissions abated by our assets¹

\$0.6 million

Spent on Sustainable Communities Funds²

3,500 MW

500MW in operation, 238MW in construction, over 1,000MW in advanced development, and a further 1,700MW in the early stages of development

\$0.8 million

Spent on direct employee training and development

¹ Includes 50 per cent joint venture portion

² Includes 50 per cent joint venture portion

A Message from our CEO



Cachapoal River, Cachapoal Valley, Chile

*DELIVERY OF OUR RENEWABLE ENERGY
PROJECTS PROVIDES POSITIVE ECONOMIC,
SOCIAL AND ENVIRONMENTAL OUTCOMES
TO OUR SHAREHOLDERS, HOST
COMMUNITIES AND THE ECONOMIES
OF OUR CORE MARKETS*

Pacific Hydro's commitment to sustainability is entrenched in our vision – *Powering a cleaner world*.

Delivery of our renewable energy projects provides positive economic, social and environmental outcomes to our shareholders, host communities and the economies of our core markets.

This report outlines the four cornerstones of our sustainability strategy for the 2009/10 financial year. The strategy focuses on key outcomes for communities, the environment, the workplace and our economic performance.

The importance of sustainability for our host communities and employees was acutely highlighted to us in Chile this year. In February 2010 a severe earthquake struck Chile in the early hours of the morning. Fortunately, none of our employees nor their immediate families were among the victims of the earthquake. However, many people within our host communities suffered from the impacts of the event. We worked and continue to work closely with those affected to help rebuild and restore their communities.

In Brazil we were proud to deliver our first Sustainable Communities Fund initiative during the reporting period, providing school uniforms to 2,400 school children in Mataraca in Paraíba State, the host community for our Millennium and Vale dos Ventos Wind Farms.

We are proud of our continued environmental commitment with the generation of more than 1.6 million megawatt hours (MWh) of clean renewable energy in the reporting period. With this we abated more than 1.3 million tonnes of carbon dioxide equivalent (CO₂-e), having the same effect as removing more than 300,000 cars off the road*. We aim to further contribute to a lower-carbon world by understanding, measuring and then reducing our own carbon footprint. We have established the framework in this reporting period to achieve this. I look forward to sharing our progress with you in our next report.

As part of this commitment, our two operating wind farms in Brazil, Millennium and Vale dos Ventos, achieved accreditation to the ISO 14001 environmental management standard during the year.

We operate in a dynamic environment and our people are critical to our success. Personal and professional growth is encouraged and we are proud to have received the Employer of Choice Award at the Australian Human Resources Leadership Awards in late 2009.



PACIFIC HYDRO'S COMMITMENT TO SUSTAINABILITY IS ENTRENCHED IN OUR VISION – POWERING A CLEANER WORLD

We constantly aim for 'zero harm' to our people, communities and the environment as part of our Health Safety and Sustainability strategy and are pleased to report that our Total Recordable Injury Frequency Rate reduced by almost 17 per cent in the year. Tragically, however, there was a fatality at our Chacayes project in Chile in April 2010. This incident caused us to double our commitment and efforts to improve the health and safety performance of the company.

We are on track to deliver the growth and shareholder returns that are critical to our owner (Industry Funds Management) and in turn, millions of Australian superannuants. In Australia, we delivered our 56.7 megawatt (MW) Clements Gap Wind Farm on time and below budget and in Chile, construction of the 111MW Chacayes project progressed on time and on budget.

The growth of the renewable energy industry in Australia, Brazil and Chile requires decisive action on climate change policy both globally

and domestically. We continue to support each government's commitment to renewable energy targets as well as their ability to provide a stable regulatory framework. This is essential for our continued investment in projects that power a cleaner world and the economies in which we operate.

I would like to thank everyone who has contributed to the growth and continued success of Pacific Hydro this past year. I look forward to working together as we continue our sustainability journey and deliver on our company's vision.

Yours faithfully

A handwritten signature of Rob Grant in black ink.

Rob Grant
Chief Executive Officer

* Based on 4.3 tonnes of CO₂-e emissions per small car per annum

Our Sustainability Performance

Our Performance against our Sustainability Targets



Ararat VRI Bowls Club, Sustainable Communities Fund recipient, Australia

Our first report outlined our goals for the 2009/10 reporting period. The following tables illustrate our performance against these goals, and our targets for the next reporting period.

Sustainability Goals 2009/10		Progress
Sustainability	<p>Improve overall sustainability performance and reporting.</p> <p>Review and refine our sustainability strategy.</p>	<ul style="list-style-type: none"> ● We published our first Sustainability Report at the end of FY 2008/09 and are committed to reporting annually on our sustainability performance. ● We held international workshops to review existing strategy. Risks and opportunities were identified. Our revised strategy was drafted but was not published until after the reporting period.
Community	<p>Improve our understanding of, and engagement with, our stakeholders.</p> <p>Improve operation of the Sustainable Communities Fund in Australia.</p> <p>Support communities through the introduction of a formal Sustainable Communities Fund in Brazil.</p> <p>Improve operation of the Sustainable Communities Fund in Chile.</p>	<ul style="list-style-type: none"> ● Please refer to the 'Our Stakeholders' section in this report. ● Please refer to the 'Community' section in this report. ● Please refer to the 'Community' section in this report. ● Please refer to the 'Community' section in this report.
Environment	<p>Measure and reduce our carbon footprint.</p> <p>Improve environmental monitoring and control in Brazil.</p>	<ul style="list-style-type: none"> ● In 2009/10 we measured our carbon footprint. We will report on our reductions in the next reporting period. ● Received ISO 14001 accreditation at our Millennium and Vale dos Ventos Wind Farms.
Workplace	<p>Increase the sustainability awareness and behaviour of our employees.</p> <p>Implement ongoing initiatives to improve the health and safety of our employees.</p> <p>Improve workplace satisfaction in Chile.</p>	<ul style="list-style-type: none"> ● Please refer to page 33 for details of our Employee Health, Safety and Sustainability initiatives. ● Please refer to page 33 for details of our Employee Health, Safety and Sustainability initiatives. ● The Organisation Alignment Survey indicated employee support for the organisation has increased, but the need for improvement was identified in some areas. Please refer to the 'Workplace' section in this report.
Business Partners	<p>Further develop renewable energy opportunities in all markets.</p> <p>Further advocate for renewable energy policy in all markets.</p> <p>Develop sustainability criteria for business partners in Chile.</p>	<ul style="list-style-type: none"> ● Please refer to the 'Economic' section in this report. ● Please refer to the 'Economic' section in this report. ● We have developed and implemented criteria for the assessment of potential business partners' health, safety and environmental performance. We aim to fully align this criteria with our sustainability framework.

● Achieved ● In progress

Sustainability Goals for 2010/2011

Pillar	Strategy	Deliverables (by June 30 2011)
Sustainability	<p>Bring consistency to the way in which we manage interfaces with host communities and assist business units to maintain up-to-date information on stakeholder priorities and build sustainable relationships and communication channels with key stakeholder groups.</p> <p>Develop a sustainability framework and a long-term sustainability vision and strategy.</p>	<ul style="list-style-type: none"> • Develop and roll-out a Company-wide Community Charter; • Maintain and improve stakeholder issues list; and • Refine policy and procedures for stakeholder engagement and materiality assessments. • Prepare sustainability framework guidance material for the development and communication of the Company's sustainability vision, mission and values; • Combine stakeholder engagement and materiality assessment process to determine key issues for strategy development for the 2011/12 strategy; and • Develop a five-year sustainability strategy.
Community	<p>Integrate United Nations Global Compact (UNGC) into business strategy, operations and culture.</p> <p>Incorporate UNGC principles into decision-making processes.</p> <p>Engage in partnerships to advance broad development goals (such as the Millennium Development Goals).</p>	<ul style="list-style-type: none"> • Provide practical guidance and develop complementary policies, where necessary, to support the principles of the UNGC and assist with implementation across each geographic business unit; • Identify ways to incorporate UNGC principles into decision-making processes; • Identify partnership opportunities in relation to UNGC; and • Integrate reporting requirements of UNGC into sustainability reporting process. • Advocate the UNGC within our sphere of influence.
Environment	Reduce the Company's carbon footprint.	<ul style="list-style-type: none"> • Develop full costing and implementation plan for carbon reduction strategies.
Workplace	Continual improvement in health and safety performance, culture and competency across all business units and levels of the organisation.	<ul style="list-style-type: none"> • Achieve a 15 per cent reduction in the Total Recordable Injury Frequency Rate (TRIFR) by 30 June 2011, against the 30 June 2010 actual TRIFR; and • Implement a health safety and sustainability software system.
Business Partners	Provide accurate and reliable information to external stakeholders regarding company strategy and performance.	<ul style="list-style-type: none"> • Develop and maintain corporate strategic marketing material for key stakeholders and support investor activities.



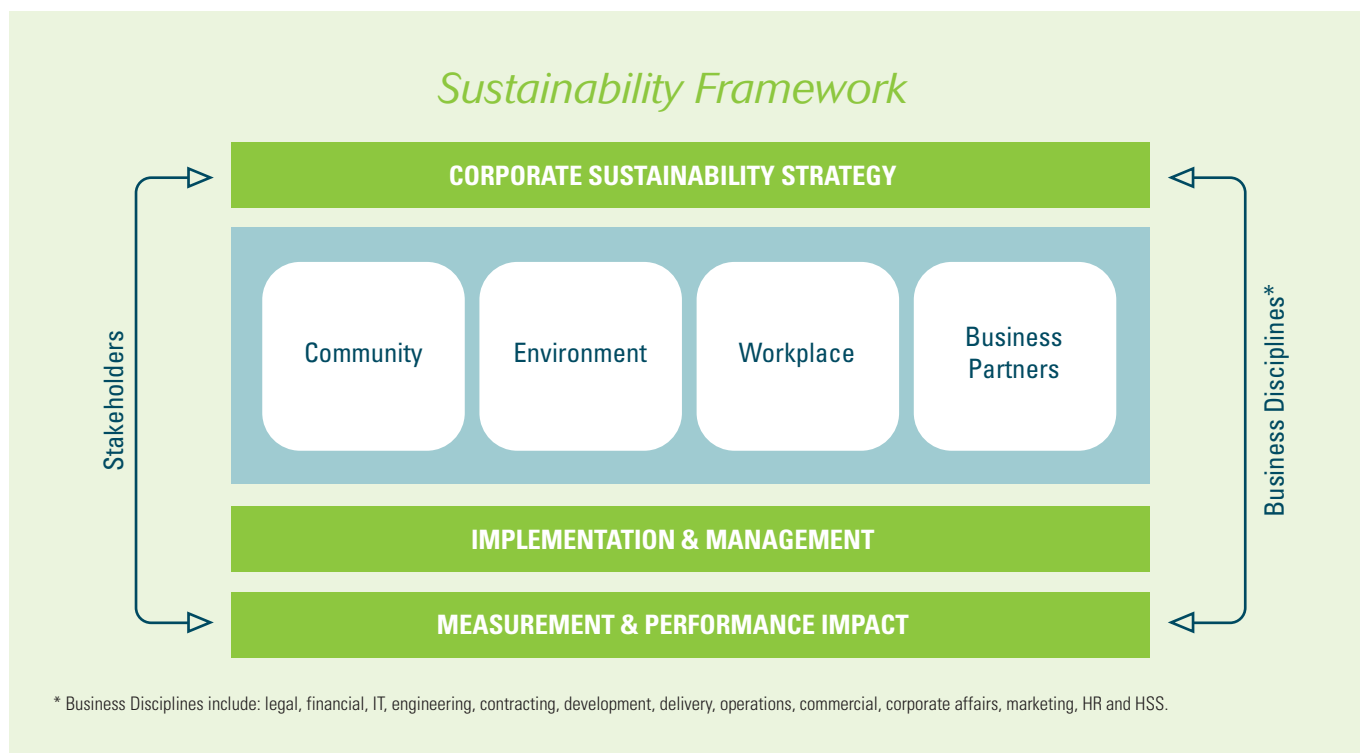
Portland State Emergency Service, Sustainable Communities Fund recipient, Australia

Our Sustainability Performance (continued)

Our Sustainability Strategy

Sustainability is at the heart of what we do. It's our social and environmental obligation, and our business imperative, to ensure our company operates and grows as a sustainable business. Our sustainability framework and management practices are based on the 'four pillars' illustrated in the diagram below. These pillars are material to our activities, and also encompass the material issues of our stakeholders.

In early 2010 we reviewed our sustainability strategy. This led to the establishment of a Sustainability Working Group which consists of 30 employees from Australia, Brazil and Chile, more than ten per cent of our full time workforce. We subsequently held workshops to determine the key focus areas for our sustainability strategy, and we are now exploring ways to integrate the strategy into the annual business planning process.



Company Profile



Members of our management team Rachel Watson and Paul Townsend with CEO, Rob Grant

Key Figures

Industry Fund Management (IFM)

Owner

1992

Year Established

8.1 million

Tonnes of CO₂ equivalent abated since 1994

16

Operating assets³

\$144.8 million

Sales Revenue⁴

\$11.1 million

Net Operating After Tax⁵

291

Number of direct employees

Pacific Hydro Pty Ltd (Pacific Hydro) is one of the world's leading independent clean energy companies. We are committed to delivering renewable energy projects that provide positive social, economic and environmental outcomes to businesses and communities.

We have 3,500MW of hydro and wind energy projects at varying stages of development, construction and operation primarily in Australia, Brazil and Chile. Our vision, capability and commitment combines to bring clean energy projects and premium carbon abatement products and services to our customers across these different political, socio-economic and geographic landscapes.

Our innovative clean energy projects not only benefit the environment and our communities,

OUR VISION, CAPABILITY AND COMMITMENT COMBINES TO BRING CLEAN ENERGY PROJECTS AND PREMIUM CARBON ABATEMENT PRODUCTS AND SERVICES TO OUR CUSTOMERS

but also deliver significant value to our partners and shareholders.

We play an important role in meeting demand in three of the world's most rapidly growing clean energy markets: Australia, Brazil and Chile. All three countries have ratified the Kyoto Protocol and have strong regulatory frameworks that

support the development of renewable energy projects. As each economy grows, so too will their demand for clean energy. We will continue to develop our business with our communities, our employees, our partners and our investors to meet the clean energy demands of tomorrow.

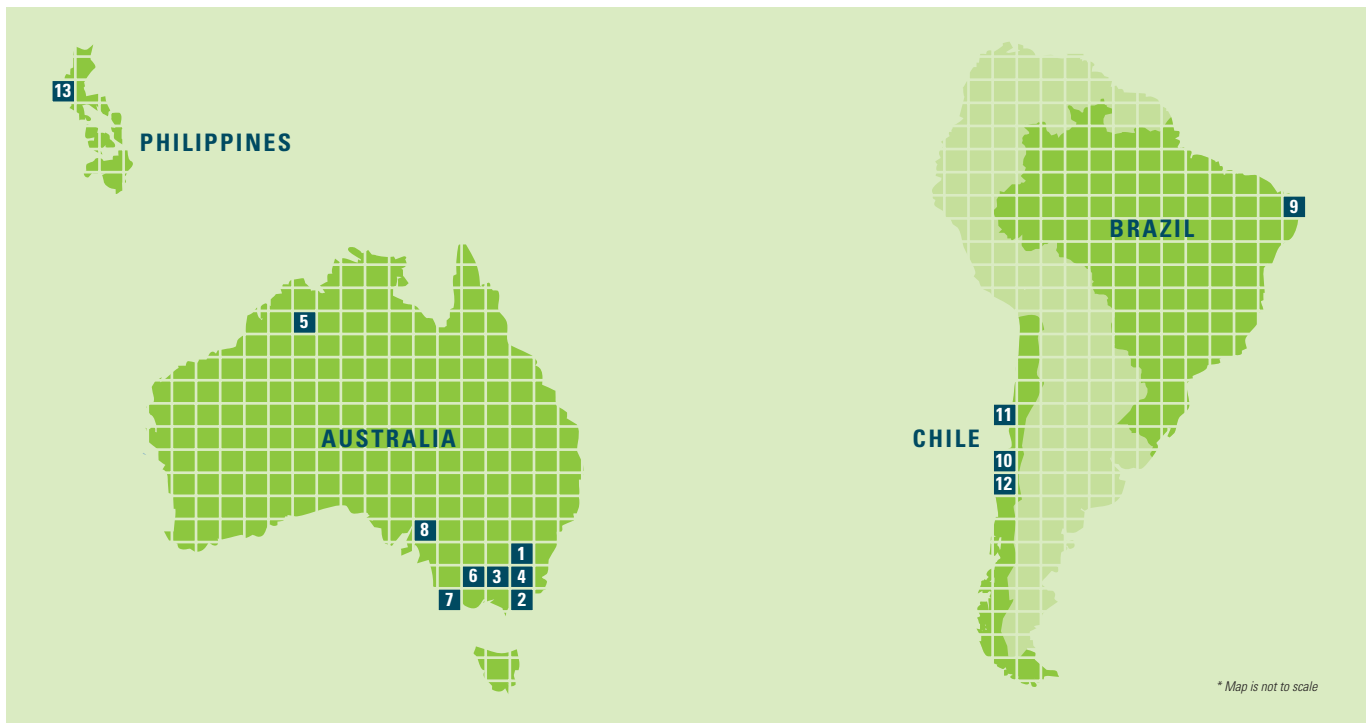
³ Includes joint venture assets

⁴ Excludes equity accounted investments

⁵ Includes equity accounted profit from joint ventures

About Us (continued)

Pacific Hydro's global asset footprint as at June 30, 2010



Ref	Asset Name	% Ownership	Phase	Capacity	Type
1	The Drop	100%	Operations	2 MW	Hydro
2	Glenmaggie	100%	Operations	4 MW	Hydro
3	Eildon Pondage	100%	Operations	5 MW	Hydro
4	William-Hovell	100%	Operations	2 MW	Hydro
5	Ord	100%	Operations	30 MW	Hydro
6	Challicum Hills	100%	Operations	53 MW	Wind
7	Codrington	100%	Operations	18 MW	Wind
7	PWEP I – Yambuk	100%	Operations	30 MW	Wind
7	PWEP II – Cape Bridgewater	100%	Operations	58 MW	Wind
7	PWEP III – Cape Nelson South	100%	Operations	44 MW	Wind
8	Clements Gap	100%	Operations	57 MW	Wind
9	Millennium	100%	Operations	10 MW	Wind
9	Vale dos Ventos	100%	Operations	48 MW	Wind
10	Coya & Pangal	100%	Operations	76 MW	Hydro
10	Chacayes	73%	Construction	111 MW	Hydro
11	Colmito	50%	Operations	58 MW	Thermal Backup
12	La Confluencia	50%	Construction	158 MW	Hydro
12	La Higuera	50%	Construction	155 MW	Hydro
13	Bakun	50%	Operations	70 MW	Hydro

PWEP = Portland Wind Energy Project

Our Response to the 2010 Chile Earthquake

On 27 February 2010, a severe earthquake measuring 8.8 on the Richter scale struck central Chile in the early hours of the morning. The earthquake epicentre was approximately 300 kilometres south west of Santiago and directly affected communities near our Coya, Pangal and Chacayes hydro projects.

While all staff and contractors were accounted for and safe, in central Chile a total of 497 people were killed, and an estimated two million people across Chile were affected by the earthquake. Affected communities suffered severe structural damage to homes, roads and buildings, and consequently food shortages and disruption to essential services.

We responded immediately to the emergency situation, concentrating our initial efforts in supporting the communities near our assets. Along with our partners and contractors, and in co-ordination with the Municipality of Machalí, we led a joint effort to identify and assist affected families, providing support through the supply of food, tents and emergency prefabricated homes. In all these efforts, we worked closely with the Emergency Committee of the Coya township.

In response to the disaster, we provided the following assistance:

- Workers to support the community with cleaning, demolition, distribution of aid and communications;
- Machinery, trucks and water tankers;
- A donation towards construction materials for the municipality;
- Construction of ten emergency homes, supplied by charitable organisation, Fundación de Viviendas Hogar de Cristo; and
- Transport and assembly of prefabricated homes.

Our employees were critical in ensuring a rapid and targeted response. Jose Antonio Valdes, our General Manager, Chile said “even with so much uncertainty and turmoil going on all around

WE LED A JOINT EFFORT TO IDENTIFY AND ASSIST AFFECTED FAMILIES, PROVIDING SUPPORT THROUGH THE SUPPLY OF FOOD, TENTS AND EMERGENCY PREFABRICATED HOMES

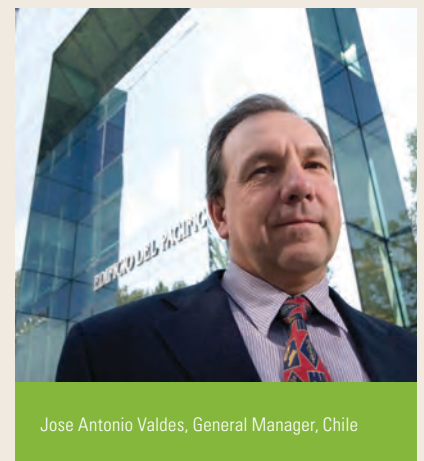
us, the level of dedication, professionalism and empathy shown by our employees who participated in the recovery process makes me very proud. Not only were we able to provide assistance to our local communities to help them to start rebuilding their lives, we were also able to restart our own activities quickly, both in the operation of Coya and Pangal, and in the construction of Chacayes.”

Several internal fundraisers were organised to benefit the Machalí community. In Chile, employees held a head shaving competition, while in Australia funds were raised through a bake sale. The total amount raised and donated by employees was matched by Pacific Hydro. Astaldi, our main Engineering, Procurement and Construction contractor at Chacayes, ran a similar program with their employees to support the efforts in Chile.

We also made a significant contribution to the regional reconstruction by leading a joint effort with our partners and contractors to rebuild the municipal building of Peralillo, a small locality of the O’Higgins Region (VI Region) devastated by the earthquake.

Our Actions in Response to the National Campaign ‘Levantemos Chile’

The Chilean government is leading a national campaign called ‘Levantemos Chile’ (Let’s Get Chile Back on its Feet) to reconstruct basic infrastructure in affected



Jose Antonio Valdes, General Manager, Chile

areas in the country. The President of Chile, Sebastián Piñera, has called on the private sector to help rebuild schools, hospitals, government offices and municipalities. In response, we are working with our partners and contractors to make a significant financial contribution to the campaign. By participating in ‘Levantemos Chile’, we are helping to rebuild the communities in which we work and live, while strengthening our relationship with the new Chilean government and our local communities.

About Us (continued)

Our Stakeholders

Our stakeholders are those individuals and groups impacted by our activities or who can impact our future development. As a responsible company, honest and open communication with our stakeholders is vital. Our operations span different cultures, languages, time zones and jurisdictions, and as we strive to identify opportunities and risks, it is imperative that we actively listen to our stakeholders' interests and concerns.

Active stakeholder participation allows us to build strong and sustainable relationships with our stakeholders. These relationships ultimately help us to maintain our licence to operate.

Our commitment to providing accurate and transparent information to our stakeholders is one of the reasons we produce a Sustainability Report.

Determining our Key Issues

This report aims to present the sustainability issues that are most material to our business and to our stakeholders. In-depth interviews were conducted with 27 external stakeholders, and research findings were plotted on a matrix to categorise issues of high, medium, or low materiality. Results of the assessment have helped to guide decisions about report content and will be used to shape future strategy development.

The issues listed below are those identified during our research which were found to be material to our stakeholders.



Elmhurst Community Festival, Sustainable Communities Fund recipient, Australia

Stakeholders' Material Issues	Section	Page
Community		
Community consultation and engagement	Engaging and Supporting Sustainable Communities	12
Community impacts (social, economic and environmental)	Sections on Community, Environment, Workplace and Economic	12-17, 19, 27, 37
Social impacts of renewable energy	Sections on Community, Environment, Workplace and Economic	12-17, 19, 27, 37
Environment		
Biodiversity impacts (other than birds)	Protecting our Wildlife	21
Bird strike	Protecting our Wildlife	24
Carbon footprint and greenhouse gas emissions	Reducing our Carbon Footprint	20
Climate change	Our Response to Climate Change	39
Environmental impacts of renewable energy	Environment	19-24
Noise and visual impacts of operations	Noise	19
Workplace		
Gender, racial, cultural and linguistic diversity of the workforce	Diversity in the Workplace	28
Local employment	Providing Local Employment Opportunities	27
Collective bargaining and freedom of association	Respecting Rights at Work	32
Health and safety training	Training and Development	30-31, 33
Injury rates	Ensuring the Health and Safety of our People	30
Bribery and corruption	Code of Conduct	45
Business Partners		
Carbon credits, trading and certified emissions reductions	'Carbon Credits and Trading' and 'Renewable Energy Certificates and GreenPower'	39
Compliance with the Equator Principles	Equator Principles	45
Lobbying activity	Our Response to Public Policy	39
Procurement practices (local sourcing and ethical or human rights criteria)	'Respecting Human Rights' and 'Providing Local Business Opportunity'	15, 37
Economic impacts of renewable energy	Sections on Workplace and Economic	27, 37

Stakeholder Engagement

A goal for the 2009/10 reporting period was to improve understanding of, and engagement with, our stakeholders around the world. During the reporting period, we made significant progress towards this goal, yet we recognise there is more work to be done in this area.

We have a wide range of stakeholders and our methods of engagement include:

Stakeholder Group	Type of engagement activities
Employees	<ul style="list-style-type: none"> Fortnightly newsletters from CEO; Quarterly business report detailing progress against targets; Monthly lunchtime forums hosted by CEO, general managers or functional teams; Annual Organisation Alignment Survey; Intranet; and Consultation to obtain material issues for this report.
Contractors and Suppliers	<ul style="list-style-type: none"> Tender process; Progress meetings; and Consultation to obtain material issues for this report.
Banks and Financiers	<ul style="list-style-type: none"> Health Safety and Sustainability reporting as required; Reports provided to banks via a third party company (auditor) detailing our performance against the Equator Principles; and Consultation to obtain material issues for this report.
Shareholders	<ul style="list-style-type: none"> Board and Committee meetings; Investor updates; and Consultation to obtain material issues for this report.
Communities and Landholders	<ul style="list-style-type: none"> Formal and informal community consultation sessions and newsletters; Sustainable Communities Fund; and Consultation to obtain material issues for this report.
Customers	<ul style="list-style-type: none"> Regular meetings; and Consultation to obtain material issues for this report.
Government Authorities – local, state and federal	<ul style="list-style-type: none"> Regular meetings; Written submissions; and Formal participation and representation on industry and other bodies.



Landowners, Challicum Hills Wind Farm, Australia



Participants in the Run for a Safe Climate, Codrington Wind Farm, Australia

Growing with our Communities



Coya Community, Chile

Key Figures

\$0.6 million

Spent on programs for our Sustainable Communities Funds⁶

4

Number of Funds in Australia

1

Number of Funds in Brazil

2

Number of Funds in Chile⁷

1

Number of Funds in Philippines⁸

Forging sustainable relationships with our host communities is fundamental to our long-term success and viability, and we take our social responsibility seriously. Some of our projects are located in remote areas, often with limited access to basic services and growth opportunities. As a responsible corporate citizen, we work closely with the communities in which we operate to achieve our common goals.

Engaging and Supporting Sustainable Communities

We have a multi-faceted approach to engaging and supporting communities in our areas of operation, including our:

- community consultation;
- community management plans;
- Sustainable Communities Fund program; and
- community donations, sponsorships and cultural activities.

Examples of each are provided on the following pages.

AS A RESPONSIBLE CORPORATE CITIZEN, WE WORK CLOSELY WITH THE COMMUNITIES IN WHICH WE OPERATE

Community Consultation in Australia

Community consultation begins when we identify a potential project site. We engage with local landowners, neighbours and community representatives in the early stages of the project to identify local environmental, social and cultural considerations to incorporate into the project design. This engagement also helps identify the potential opportunities and outcomes our project brings to the local community, for example, employment and other economic benefits.

Prior to a planning application being submitted, we undertake community consultation to inform local residents about the project and seek their input into aspects of project design. This can take the form of information sessions at local halls, publications in local newspapers, letter drops and door knocking.

We maintain communication with local stakeholders throughout the development, construction and operation of the project. We aim to maintain open and honest communications with local stakeholders at all times, and we strive to respond to any issues or concerns raised in a timely and transparent manner.

⁶ Includes 50 per cent joint venture portion

⁷ Includes joint venture fund

⁸ Includes joint venture fund

Community Management Plans in Chile

In 2009 we developed and implemented a community management plan for our Chilean projects. The plan is based on three fundamentals:

- a community complaints management action plan;
- local community working groups to understand community needs; and
- a local employment and training strategy.

Pacific Hydro Sustainable Communities Fund

Our Sustainable Communities Fund supports local projects and activities that encourage community cohesion and sustainability. The program is active at most of our operating sites. It returns a portion of the revenue from the project back to the local community. The Sustainable Communities Funds support community projects each year in the areas of education, health and safety, the environment, sports, arts and culture. *Creciendo Juntos*, our Sustainable Communities Fund in Chile, means 'growing together' in Spanish and is reflective of our overall community philosophy.

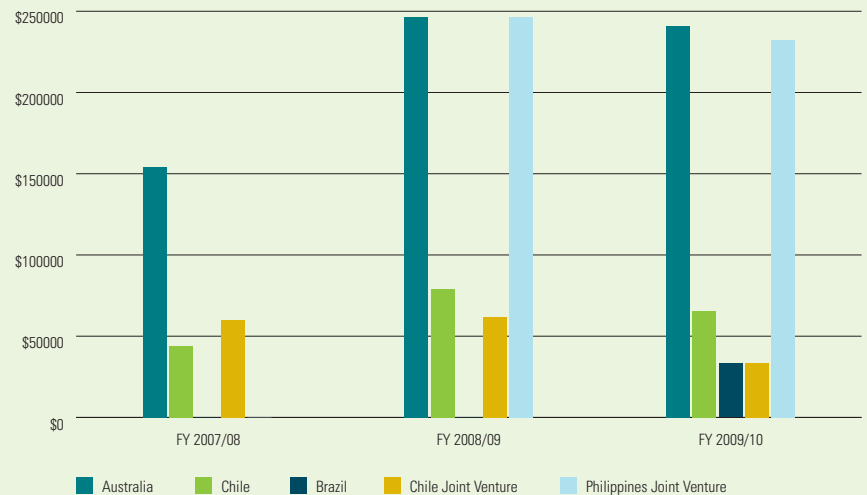
Applications are assessed against Fund Guidelines to ensure that the program provides social, environmental and cultural benefits based on the needs identified by the local community. Through the Fund, we aim to:

- build stronger communities in the areas in which we operate;
- encourage innovative solutions and new approaches to local issues;
- encourage organisations to work together and to form partnerships which deliver community services;
- promote positive and long-term outcomes for wider community benefits; and
- promote local awareness and commitment to the aspiration of a sustainable community.

In addition to our own Sustainable Communities Funds, we continue to work with and support projects in our joint venture communities.

Some of the initiatives we supported in 2009/10 are shown on the following pages.

Sustainable Communities Fund Expenditure



Elmhurst Community Festival, Sustainable Communities Fund recipient, Australia

Sustainable Communities Fund Recipients (Australia)

Australian Red Cross Personal Mentors and Helpers Program

Depression and mental health issues are recognised as major problems in regional Australia. Social isolation and financial difficulties are both factors that can increase a person's susceptibility to mental health problems. The Personal Mentors and Helpers Program, run by the Australian Red Cross, aims to improve the lives of vulnerable people and people living with a severe mental illness. The Australian Red Cross received \$8,600 from the Sustainable Communities Fund to help fund workers for the program.

The program consists of an eight to ten-week course of activities and outings for participants in Crystal Brook and surrounding areas near our Clements Gap Wind Farm in South Australia. It enables participants to experience a range of fun, social group activities designed to build interpersonal skills and confidence. As a result, participants will have improved self-esteem, be better able to manage their daily activities and develop stronger community and friendship networks. Participants receive one-on-one support from qualified mental health workers to support them on their recovery journey.

THE FESTIVAL AIMS TO FOSTER RECONCILIATION THROUGH MUTUAL RESPECT AND UNDERSTANDING BETWEEN INDIGENOUS AND NON-INDIGENOUS PEOPLES

Lake Bolac Eel Festival

During the reporting period, our Sustainable Communities Fund donated \$1,000 to the Lake Bolac Eel Festival, near our Chalicum Hills Wind Farm in Victoria. Underpinned by a concern for the environment and respect for Indigenous culture, the festival revives the traditional autumn gathering of Indigenous Australians on the banks of Lake Bolac to share food (including eels), trade and enjoy music and dance. Activities include a healing walk, an art exhibition, live music, an environmental forum, music, dance, Indigenous displays, markets, workshops and children's events.

The festival aims to foster reconciliation through mutual respect and understanding between Indigenous and non-Indigenous peoples, as

well as promoting the restoration of Lake Bolac and the surrounding waterways. Lake Bolac has been severely affected by drought, which has impacted local businesses and the town's tourism industry, including boating and other water sports, camping and fishing.



Township of Crystal Brook near Clements Gap Wind Farm, Australia

Sustainable Communities Fund Recipients (Brazil)

Supporting Education in Mataraca, Brazil

We implemented our first Sustainable Communities Fund initiative for Brazil in 2009/10.

The initiative provided 5,674 uniforms to 2,400 schoolchildren in Mataraca, a city near our Vale dos Ventos and Millennium Wind Farms, which has a population of around 7,000 people.

In response to a request by the Mataraca City Government, the initiative funded the provision of two school uniforms for each child registered in the city's publicly-run schools. Worn both at school and on special occasions, the school uniforms play a symbolic role in Mataraca. A public ceremony was held for the handover of the uniforms, during which the Mayor and the Education Secretary of Mataraca thanked us for supporting education in the community.

"PROJECTS LIKE THIS CAN MAKE A TANGIBLE DIFFERENCE TO OUR COMMUNITY"

Mark Argar, General Manager of Pacific Hydro, Brazil, said "we are honoured to have had the opportunity to provide this much needed support to the children of Mataraca. Projects like this can make a tangible difference to valued members of our community by instilling passion and a desire for learning in our youth."



Mark Argar, General Manager, Brazil

Sustainable Communities Fund Recipients (Chile)

Chacayes Huasos Club

Through the *Creciendo Juntos* Fund, we gave \$14,000 to the Chacayes Huasos Club for a multi-purpose indoor facility. The facility will provide an indoor space for culture, sport and recreation for the Chacayes community, and will allow community members to participate in activities in any season. The Huasos Club is now responsible for the upkeep of the facility, which is expected to last at least 50 years and will allow the entire community to come together. The club completed the first stage of the facility with their own resources and our contribution has helped the club complete the project.

Villa los Cipreses Recycles – ‘On the Way to Sustainability’

The Villa los Cipreses community headquarters benefited from a \$7,800 contribution towards the construction of a greenhouse, recycling point and home waste containers for recycling solid waste and composting organic matter. The purpose of the project is to educate community members about environmental awareness in the home, creating a cultural change and greater commitment to home recycling.

THE PURPOSE OF THE PROJECT IS TO EDUCATE COMMUNITY MEMBERS ABOUT ENVIRONMENTAL AWARENESS

The project aims to benefit the community by:

- reducing the amount of waste per house and inhabitant;
- producing compost with home organic waste, which is then collected from homes; and
- reforesting permitted areas with native and common species.

In order to achieve these objectives, an environmental team, led by an environmental engineer and representatives from the Villa los Cipreses neighbours committee will patrol the community and offer advice to ensure the program has been successfully implemented by local residents.



Creciendo Juntos event, Sustainable Community Fund, Chile

Donations, Sponsorship and Cultural Activities

As part of our corporate social responsibility program in Chile, we supported various cultural activities of the Cachapoal communities, which included sponsorship and donations for:

- the Chacayes Rodeo;
- two rodeos held at Coya;
- hunting and fishing championships, organised by Cachapoal communities;
- the Machalí Criollo week, a celebration of national independence month including a Catholic mass, parades, folklore activities and other presentations;
- a visit to the Chacayes construction sites by all the teachers from the towns near Coya;
- trees for the replanting of the ‘Colegio Bellavista’ yard in Coya;

- school sports ‘Olympics’ in Coya;
- the junior group ‘Los Cipreses’ to visit our greenhouse nursery at Chacayes;
- a five-day movie festival, which was attended by over 400 people from Coya and Chacayes towns; and
- a local documentary, ‘*El Despertar de un Pueblo Indómito*’ (The Awakening of an Indomitable People) which was exhibited in Coya’s municipal stadium.

Responding to Community Concerns

An environmental study conducted prior to the construction of the Chacayes hydro project found that local residents in Coya were concerned about the possibility of heavy traffic and congestion in their town. To mitigate these concerns and to facilitate the transport

requirements of the project, we constructed the \$10 million Termas Road to bypass the town. Since construction, the road has addressed the concerns of the Coya residents and also provided several indirect benefits to the local and surrounding communities. For example, in June 2010, Rally Mobil used the road in the third stage of its race, the Rancagua Grand Prix. Rally Mobil attracts thousands of spectators each year, increasing employment opportunities and tourism for local hotels, restaurants and other businesses, thus increasing the economic benefits for the Chacayes township.

Respecting Human Rights

We value cultural, linguistic and gender diversity and recognise that respect for the rights of our people, our communities and our contractors is critical to being a good corporate citizen and maintaining our social licence to operate.

Community (continued)

Indigenous Rights

Our Health, Safety and Sustainability (HSS) Policy ensures that land and resources under our care are managed with sensitivity, and that we have due regard for cultural heritage, local conditions and concerns.

In Australia, we acknowledge that Aboriginal people are the traditional guardians of the land where we operate and are committed to avoiding, minimising and mitigating our impacts on Indigenous and non-Indigenous cultural heritage and archaeological value. If any part of a project disturbs an area of Aboriginal cultural heritage sensitivity, wind farms are required to complete a Cultural Heritage Management Plan.

We conduct Cultural Heritage Impact Assessments for all our potential wind farm sites in Australia. These assessments are carried out by consultant archaeologists and anthropologists who work with the traditional owners of the land to conduct archaeological and ethnographic surveys. During the archaeological surveys, physical searches

for evidence of previous Aboriginal land use are carried out and in some instances may involve sub-surface excavations. Cultural sites uncovered during the surveys may include artefacts, ceremonial locations or scarred trees.

During the ethnographic surveys, Indigenous groups will identify culturally important or sensitive locations. Aboriginal sites and objects are often located near major food sources such as rivers, creeks, lakes, swamps and the coast. Prominent land features such as hills, mountains, bluffs and ridgelines are also a common focus of Aboriginal activities and culture.

We also engage with the traditional owners of the land during all stages of the project development. This occurs primarily through formal agreements or management plans and can also include Aboriginal heritage monitoring during wind farm construction works.

During the recent construction of Clements Gap Wind Farm in South Australia, monitors from both the Nukunu and Narungga Peoples were present on site during all excavations and

earthworks. Similarly, at our Portland sites the Gunditjmara People have been actively involved in both the cultural heritage assessment and the construction monitoring for all stages of the project.

Child and Forced or Compulsory Labour

Our Code of Conduct seeks to ensure that ethical employment practices are part of the way we conduct business. We recognise the core conventions of the International Labour Organisation (ILO) through the national legislation of the countries in which we operate, and we comply with the spirit and the letter of all relevant legislation. Furthermore, as signatories to the United Nations Global Compact, we are committed to the effective abolition of child and forced labour. In jurisdictions where legislation places lower expectations than our employment practices, we ensure that our policies and standards prevail in business.

Supporting Women in our Communities

International Women's Day is celebrated around the world on March 8 as a day to honour women's achievements and to recognise the continuing challenges in achieving equity and fairness between the sexes. In 2010 we supported the day by hosting a lunch for students and staff from Portland and Heywood Schools in Victoria, Australia.

We are continually looking for ways to add value to the communities in which we operate. International Women's Day provided a valuable opportunity to empower and inspire young women in Victoria.

Women from diverse fields shared their experiences with the students. Guest speakers for the event included:

- Janine Hoey, Pacific Hydro General Manager, Group Operations and Commercial;
- Kirsty Hill, Portland Observer Cadet Photographer;
- Lee-Anne Nelson, Youth Resource Officer with Victoria Police;
- Maja Barnett, Pacific Hydro Project Engineer; and
- Holly Marsh, Pacific Hydro Community Relations Coordinator.

"THE PERCENTAGE OF WOMEN WE EMPLOY IS INCREASING STEADILY"

The sustainability of local communities is a challenge for regional Australia, with young people increasingly leaving regional towns to work in the city. The lack of opportunities for women in traditional fields such as engineering is also a challenge to young women in regional areas.

The lunch highlighted the opportunities that are available to young women in Portland, and aimed to empower the young girls to achieve their full potential and to celebrate the special attributes women bring to business.

Pacific Hydro's General Manager, Group Operations and Commercial, Janine Hoey, said "we are proud that the percentage of women we employ is increasing steadily. These women bring valuable skills and attributes to their roles and the Company."

We plan to hold similar events at our Australian operating wind farm sites in 2011.



Janine Hoey, General Manager,
Group Operations and Commercial

Regional Program to Address Child Labour in Mataraca, Brazil

In recent years, substantial progress has been made with labour standards and legislation around the world. However, research from the Brazilian Institute of Geography and Statistics (IBGE) estimates that around 4.5 million children between the ages of five and 17 in Brazil are engaged in work. Although we have not identified any of our operations as being at risk of employing child labour, we actively supported a program to address child labour (Programa de Erradicação do Trabalho Infantil, PETI) after being invited to do so by the Mataraca City Hall Social Action Secretary.

In March 2010, we participated in a planning meeting with the Social Action Secretary of Mataraca City Hall. An action plan was developed and implemented as a result of the meeting, which included site visits to our Vale dos Ventos Wind Farm, and a presentation to parents and students in Mataraca about PETI, social degradation and the national program for the social inclusion of teenagers.

By hosting visits to the Vale dos Ventos Wind Farm, we aim to provide the city's young adults with knowledge about wind energy production, and the benefits of continuing their education. The project is expected to contribute to the sustainable development of the region, and consequently strengthen our relationship with the Mataraca community.



THE PROJECT IS EXPECTED TO CONTRIBUTE TO THE SUSTAINABLE DEVELOPMENT OF THE REGION



Community members, Brazil

Growing our Commitment to Renewable Energy



Vale dos Ventos Wind Farm, Brazil

Key Figures

1.6 million MWh

Generated more than 1.6 million MWh of clean energy

More than 1.3 million

Tonnes of CO₂ equivalent abated

More than 8 million

Tonnes of CO₂ equivalent abated since 1994

13

Sites certified to ISO 14001

We are committed to managing the impacts of our activities, and strive to set an example of best practice environmental management for renewable energy based on sustainable development principles.

Our Environmental Management System (EMS) helps us to identify all environmental impacts of our operations and respond promptly and effectively to any known or new significant environmental impact caused by operations under our control. We have a responsibility to protect and improve the environment, and are committed to conducting our business in accordance with the spirit and letter of all applicable environmental laws and regulations.

Our EMS includes a register of all relevant environmental legislation, regulations and other requirements and our compliance against this register is assessed on a regular basis. All Pacific Hydro Directors and employees are obliged to observe the EMS as part of our Code of

Conduct. At an operational level, responsibility for environmental management is undertaken by relevant line managers with additional support from dedicated environmental professionals.

We strive for continual improvement in our environmental performance. During the reporting period, both of our Brazilian operations achieved certification to the international environmental management standard ISO 14001. Our Australian operating assets are also certified to ISO 14001, and our Chilean hydro projects are aiming for certification in 2010/11.

Environmental Advocacy

We recognise the importance of educating and engaging the broader community around environmental issues, and we advocate for wind power, renewable energy, action on climate change, and the environment. For example, we participate in World Environment Day programs, present to schools and community groups and publish information on local flora and fauna.

Our Future Energy Plans

As a growing renewable energy company, developing a diversified portfolio of projects, both in terms of geographic spread and technology, will support the long-term growth of our business and increase value for our investors.

Our strategy is to act on clean energy opportunities in our core markets of Australia, Brazil and Chile. To deliver this strategy we have over 1,000 MW of advanced development projects spread across our three key regions. These projects cover a range of renewable energy technologies including run-of-river hydro, wind energy and geothermal energy. We expect to deliver more than 350 MW of these projects over the next five years.

We are an entrepreneurial organisation. In our short history we have ventured into a range of renewable energy technologies including hydro, geothermal, wind, wave, tidal, solar and biomass energies. We have gained experience in Australia, Brazil, Chile, Philippines, New Zealand,

Nepal, Peru, Thailand, Fiji and the United States. In keeping with our entrepreneurial spirit and innovative approach, we continue to closely monitor and assess new technologies and emerging markets so we can respond quickly to opportunities as they become technically and commercially viable.

Reducing our Carbon Footprint

As a renewable energy company, we understand that reducing the impacts of climate change begins with our own activities.

Energy Use

Energy use at our corporate office in Melbourne was offset by the purchase of 100 per cent GreenPower in the 2009/10 financial year.

We also supply our Chacayes construction project in Chile with 100 per cent renewable energy from our Coya and Pangal hydros.

Waste

As a sustainable company we constantly seek to minimise the environmental impacts of our operations. We understand that the full extent of our environmental impact is not limited to our operating and construction sites' carbon footprint, but that we also have a responsibility to reduce the impacts of our corporate offices.

We currently monitor and set targets for paper usage in our Portland office, but unfortunately we achieved only 79 per cent of our target for the reporting period. We have since commenced tracking paper purchased for our Melbourne corporate office, and we aim to report on our paper usage for all corporate offices in the future. We will continue to monitor paper usage to enable us to track our reductions in the future.

In 2009, waste segregation units were implemented at both our Portland and Melbourne offices with the aim of reducing the amount of waste sent to landfill. We began monitoring waste in both of these offices and a reduction target of two per cent has been set for 2010/11. We will report on our performance on waste in our next Sustainability Report.

Visual Impacts

During the planning process for Carmody's Hill, one of our proposed wind farm projects in South Australia, we submitted an Aviation Safety Lighting Plan which complied with

the requirements of the Civil Aviation Safety Authority (CASA). CASA required all structures over 110 metres to be lit with aviation safety lights. The resultant Aviation Lighting Plan for Carmody's Hill Wind Farm included 32 medium-intensity, flashing red lights. During our community consultation process a number of community members expressed concern about the visual impact of these lights within a rural (dark) setting.

Subsequent to our submission, CASA withdrew the recommendations requiring safety lights. In direct response to community concerns, we investigated ways in which we could reduce the impacts of the lighting on the community while still taking account of aviation safety needs.

We commissioned an independent aviation risk assessment at the site. Following this we were able to amend our Aviation Safety Lighting Plan, decreasing the number of lit turbines at Carmody's Hill by over 50 per cent from 32 to 15, resulting in a significant reduction in the visual impacts experienced at night by the community. Making these changes enabled us to address both our duty of care to the aviation sector and community concerns.

Noise

The noise produced by wind farms is a key concern for landholders and local communities. Wind generators have moving parts and therefore do create some noise as the blades cut through the air, driving the generator. However, well designed and appropriately sited wind generators should not produce disturbing levels of noise to residences, even to those just a few hundred metres away. In fact, it should be possible to carry out a conversation at a normal volume at the base of a generator.

In Victoria, Australia, where most of our wind farms are located, the maximum permitted noise level from a wind farm at any surrounding dwelling is 40 decibels, or five decibels above a usual level of existing background noise, whichever is louder. This usually means generators are placed at least 400 metres away from existing dwellings. The table to the right compares the noise level experienced 350 metres from a ten turbine wind farm to noise levels from some selected activities.

As with any new technology, wind turbines are not without controversy. Those who oppose the development of wind farms contend that wind

turbines can adversely impact the health of individuals living in close proximity.

A report recently published by the National Health and Medical Research Council, 'Wind Farms and Health'⁹ addresses concerns primarily related to low frequency noise, often referred to as infrasound, generated by wind turbines. Infrasound is generally inaudible to the human ear. The report presents evidence relating to potential impacts of wind turbines on human health and confirms a statement made by the World Health Organisation that "there is no reliable evidence that sounds below the hearing threshold produce physiological or psychological effects".

Compliance with local authority noise requirements is a key design criterion in the development of our wind farms. In Australia, we undertake on-site noise monitoring prior to construction to determine background noise levels at homes near to the wind farm site. We return to the same locations after the wind farm is complete to conduct further monitoring to ensure our wind farms comply with the noise requirements. We also have a procedure for local residents to inform us of any concerns they have relating to the wind farm, including any issues relating to noise. Informing local landholders, neighbours and communities about noise generated by wind farms, our design approach, our compliance assessment and our complaints procedure is an important part of our community consultation process for wind farm sites.

Noise levels compared to a ten turbine wind farm

Activity	Sound pressure level (dBA*)
Noise in a busy office	60
Car travelling at 64kph at 100m	55
Wind farm (10 turbines) at 350m	35-45
Quiet bedroom	35
Background noise in rural area at night	20-40

* The 'A' represents a weighting of measured sound to mimic that discernable by the human ear, which does not perceive sound at low and high frequencies to be as loud as mid-range frequencies.

Carbon Footprint Project

One of our key sustainability goals is to gain a better understanding of our own carbon footprint. In our 2009 Sustainability Report, we made a commitment to measure and reduce our carbon footprint. To that aim, we engaged Perenia Carbon, our carbon consulting business, to prepare a greenhouse gas (GHG) emissions inventory for our majority-owned assets and to provide a methodology with which we are able to calculate our carbon footprint. We intend to develop and implement a company-wide GHG reporting system based on this study.

In Australia, we are required to report energy consumption, energy production and GHG emissions under the National Greenhouse and Energy Reporting System (NGERS), as we trigger the energy production threshold. Each year, we aim to abate over 1.3 million tonnes CO₂-e through the energy generated by our projects. Although the NGERS legislation only applies to our Australian activities, we have chosen to apply the same methodology to our majority controlled projects in Brazil and Chile to gain an overall understanding of how our activities impact the environment and to enable us to readily respond to future legislative requirements in these markets.

We obtained a wide range of information from sites under our operational control, and calculated the emissions caused by our activities. This data included the use of different types of fuel (diesel, natural

MEASURING AND REDUCING OUR OWN ENERGY AND CARBON CONSUMPTION IS AN IMPORTANT STRATEGIC GOAL

gas, petrol and LPG), electricity consumed, vehicle use and transportation, as well as wastewater treatment.

Due to the nature of our business, our carbon footprint will fluctuate from year to year, depending on the stage of our projects. While the emissions associated with construction activities can be significant, once a project begins operation, our assets generate only minimal emissions.

During the reporting period we released a total of 12,358 tCO₂-e into the atmosphere, as outlined in the table below. Chile accounted for 95 per cent of those emissions, with 92 per cent attributed to activities at the Chacayes project. Doug Hattersley, General Manager, Engineering Services explains that "this is due to the size of the project, and the vast amount of activities associated with the construction of run-of-river hydro projects, primarily through the use of diesel vehicles. As the project advances towards completion, the emissions associated with this site will drop significantly."



Doug Hattersley, General Manager, Engineering Services

Measuring and reducing our own energy and carbon consumption is an important strategic goal for us. Although our carbon reduction strategy has not yet been finalised, work is underway to develop and implement a robust system to significantly reduce our emissions. Ultimately, our goal is not only to reduce our own carbon footprint, but also to gain a strategic understanding of the areas in which we have the greatest opportunity to make a real and lasting carbon impact.

Country	Scope 1 (t CO ₂ -e)	Scope 2 (t CO ₂ -e)	Total GHG (t CO ₂ -e)	Percentage of Total GHG
Australia	88.3	461.0 (13.3)	549.3 (101.6)	4.4% (1.4%)
Brazil	56.9	19.4 (19.4)	76.3 (76.3)	0.6% (1.0%)
Chile	6,973.3	4,759.1 (196.2)	11,732.4 (7,169.5)	94.9% (97.6%)
Total	7,118.5	5,239.5 (228.9)	12,358.0 (7,347.4)	100% (100%)

Scope 2 figures represent emissions from electricity consumption calculated using regional emissions factors (kg CO₂-e/kWh) determined by the regions energy supply mix (coal, gas, nuclear, renewable). As most of our electricity is sourced directly or indirectly from our renewable energy projects, which have no greenhouse gas emissions, we have indicated in brackets the actual emissions generated by our electricity use. While the figures in brackets are not technically compliant with greenhouse reporting legislation such as NGERS, they provide a more accurate representation of our real carbon footprint.

The emissions factor we used to calculate our abatement figures for Victorian operations changed in September 2009, due to new guidelines released by the state government agency, Sustainability Victoria. This new emissions factor gives a more accurate calculation of abatement by wind farms.

All other state and country emissions factors remained the same.

The abatement figure for Chile stated in the 2009/10 Sustainability report changed from 213,000 tonnes CO₂-e to 246,000 tonnes CO₂-e due to corrections to our generation total.

The total abatement figure stated in the 2009/10 Sustainability Report changed from 1,146,000 tonnes CO₂-e to 1,169,000 tonnes CO₂-e due to corrections to our generation total and the correct apportioning of CO₂-e abated by our 50:50 joint ventures.

Staff GreenPower Program

The environmental initiatives undertaken by our employees help link our vision and mission with our responsibility to the environment in which we operate. Our Organisation Alignment Survey results (see 'Engaging our Employees') show that 92 per cent of employees agree that we are committed to being environmentally responsible.

Through our Staff GreenPower Program, we provide our Australian employees with the opportunity to reduce their personal climate change impacts by purchasing blocks of GreenPower (sourced from our wind farms) for their homes. Terry Teoh, Executive Manager, Development, said "it's about reducing my personal environmental footprint. The great thing about the scheme is that I can cover not just my direct electricity use, but also my entire household carbon footprint."

Employees can choose between purchasing four options: 5MWh, 10MWh, 15MWh or 20MWh at competitive rates. By choosing to salary sacrifice their GreenPower purchase, our employees are supporting the renewable energy industry by creating additional demand.

Creating this demand for clean energy was the main driver for participation in the program for many employees. Caitlin Wilson, Operations Engineer, said "I participate purely to be part of creating a demand for renewable power. I want to continue having the convenience of

WE PROVIDE OUR AUSTRALIAN EMPLOYEES WITH THE OPPORTUNITY TO REDUCE THEIR IMPACTS ON CLIMATE CHANGE

turning the switch on but I don't want that to be detrimental to the environment I live in."

By offering GreenPower to staff, we are also strengthening employee confidence in our purpose and mission. Kim Derriman, Senior Environmental and Planning Officer, said "Australians are among the highest per capita carbon emitters in the world and buying GreenPower helps increase the demand for non-polluting renewable energy in preference to fossil fuel sources."

During the reporting period, 24 employees from our Australian operations participated in the program. We will continue to offer this program to all Australian employees. For more information about GreenPower and carbon credits, see the section 'Our Response to Climate Change'.



Matthew Nimmo and Andrew Hyland,
Commercial team

Biodiversity

We recognise the importance biodiversity and our natural ecosystems have in maintaining a healthy planet. We have a responsibility to protect and conserve the integrity and value of our natural environment which sustains our food supply, protects our natural resources and supports life.

We are committed to protecting the environments in which we operate and enhancing the biodiversity value of those environments. We seek to go beyond legislative requirements, and conduct extensive

environmental impact assessments at each of our sites prior to construction and during the operation of our projects. Understanding the impact of construction and operation on native vegetation, fauna and habitats is an important part of our environmental impact assessments.

During construction of our projects, we aim to minimise any impacts on native vegetation and fauna. If native vegetation or habitat is removed, we offset or mitigate this impact to ensure that we maintain compliance with our obligations and uphold our environmental responsibilities.

In accordance with appropriate regulations and guidelines, we monitor and report any threatened and vulnerable species at or near our sites.

The following table identifies the International Union for Conservation of Nature (IUCN) and nationally-specific protected species that we monitor in Australia and Chile. In Australia, this includes species covered under the Environment Protection and Biodiversity Conservation (EPBC) Act 1999. There are no threatened plant or animal species that require monitoring at sites in Brazil.

Environment (continued)

Threatened and Vulnerable Species with habitats in areas near to Pacific Hydro operations

Species – Common and Scientific name	Location	IUCN Red Species List Categories	EPBC Act 1999 conservation status	Chilean CONAF Red Book	Regulations for the Classification of Wildlife Species, Supreme Decree 75, 2004
Australia					
Orange-Bellied Parrot <i>Neophema chrysogaster</i>	Portland – Coastal areas that supports Coastal Beard-Heath (<i>Leucopogon parviflora</i>)	Critically Endangered	Critically Endangered, listed Marine and Migratory JAMBA ¹⁰ status	-	-
White Bellied Sea Eagle <i>Haliaeetus leucogaster</i>	Coastal areas and coastline near Portland	Least Concern	Listed as Marine and Migratory CAMBA ¹¹ status	-	-
Southern Bent Wing Bat <i>Miniopterus schreibersii bassanii</i>	Coastal areas and coastline near Portland	-	Critically Endangered	-	-
Chile					
Small Catfish <i>Tricomyscus areolatus</i>	Chacayes	-	-	-	Vulnerable
Torrent Duck/Pato Cortacorrientes <i>Merganetta armata</i>	Chacayes	Least Concern	-	-	-
Trichahue Parrot/Loro Trichahue/Burrowing Parakeet <i>Cyanoliseus patagonus</i>	Chacayes	Least Concern	-	Vulnerable	-
Puya Chagual <i>Puya berteroniana</i>	Chacayes	-	-	Vulnerable	-
Red Cactus/Cacto Rojo <i>Eriosyce curvispina</i>	Chacayes	-	-	Vulnerable	-
Cipreses River National Reserve <i>Reserva Nacional Rio de Los Cipreses</i>	Machalí, O'Higgins Region	Category IV IUCN protected area or habitat/species management area	-	-	-

¹⁰ Japan-Australia Migratory Birds Agreement

¹¹ China-Australia Migratory Birds Agreement



Yambuk Wind Farm, Australia

In Australia, the Southern Bent Wing Bat is a species that requires caves for roosting and breeding. Some roosting caves are located in the vicinity of our operations, including along coastal cliffs, although no breeding caves at or near our Cape Bridgewater Wind Farm in Victoria have been identified.

The potential for any of these species to occur at site has motivated us to develop a Bird and Bat Mitigation Manual for each of our Australian operational sites. As part of our ongoing management procedure, movements of protected species within the wider wind farm area are tracked during key periods of activity, and mitigation measures are enacted if necessary. The flight behaviour and presence of any of these species on one of our wind farms can, in a worst case scenario, trigger a shutdown response, whereby turbines within the wind farm are turned off while the bird or bat is in close proximity to the turbines. The effectiveness of our communications protocols and the shutdown times of turbines are tested periodically to ensure a rapid response, should this occur.

Brolga Study

With a total number of breeding pairs estimated between 200 and 250, the Brolga (*Grus rubicunda*) is listed as a vulnerable species in Victoria, Australia.

Although wind farms have not been a threatening factor in the Brolga's decline, the wind industry is keen to gain a better understanding of Brolga behavior to help avoid future impacts on the species.

As an industry partner, we are currently involved in our second year of the South-West Victorian Brolga Study. Along with other wind industry partners, government and non-governmental organisations, we have committed to provide funding for the study, and participate in the project's Steering Committee.

One of the aims of the research project is to increase scientific knowledge of the species' range and territory size, flight paths and habitat use.

ONE OF THE AIMS OF THE RESEARCH PROJECT IS TO INCREASE SCIENTIFIC KNOWLEDGE OF THE SPECIES RANGE AND TERRITORY SIZE, FLIGHT PATHS AND HABITAT USE

As a result of the study, Brolga nesting sites have been recorded, and eight Brolga chicks, two juveniles and one adult have been colour banded. The juveniles and adult have also been fitted with a satellite transmitter, and their habitat use and range history can now be monitored, providing invaluable insight for researchers and the wind industry.

The research project's website can be assessed on <http://victorianbrolgastudy.com.au/>



Mataraca Revegetation Program: Employing Local Residents in Brazil

Our 48 MW Vale dos Ventos Wind Farm is located on private farming land, two kilometres from our first Brazilian wind farm Millennium, in Paraíba state.

The 60 wind generators take up only five per cent of the total wind farm area, and sugar cane farming is able to continue in the region uninterrupted. Nonetheless, some negative environmental impacts do occur during construction.

Our response to any significant environmental impacts caused by operations under our control is guided by our HSS Policy. The revegetation of areas impacted by our operations is one way we demonstrate our commitment to the environment and help support local biodiversity. Revegetation programs increase native flora, which aids in improving the habitat of local species.

In 2009, we commenced a revegetation program with local residents in the Mataraca municipality in Brazil to minimise the disturbance to the local environment caused during construction of the Vale dos Ventos Wind Farm.

TWO LOCAL FAMILIES ARE EMPLOYED THROUGH THE PROGRAM AND SUPPLY US WITH 3,000 NATIVE PLANTS THAT ARE FOUND IN THE FOREST AREA SURROUNDING THE VALE DOS VENTOS PROJECT

Two local families are employed through the program and supply us with 3,000 native plants that are found in the forest area surrounding the Vale dos Ventos project. In November 2009, we began selecting the seeds and soil in order to prepare the plants for sowing. The 3,000 seedlings and plants were then distributed to areas around Vale dos Ventos in April and July 2010.

The program aims to create positive economic impacts in the community while reducing our environmental impacts. Poverty and economic

development in Mataraca are major issues, with the average annual per capita income as little as \$3,200, far below the Brazilian average of \$11,900 per annum. Participating in the revegetation program not only generates an income for the families now, but also provides future opportunities by allowing them to gain valuable horticultural experience.

Protecting our Bird Life

The potential impacts of wind farms on birds and other native wildlife is a common stakeholder concern. Wind energy is a benign technology, but we consider our environmental responsibility goes further than just using low impact technology. Therefore, minimizing our environmental impact is a key focus during site selection, development, design, construction, operation and decommissioning of all of our renewable energy projects.

All new wind farm sites in Australia undergo an initial site assessment by our development team. In this assessment we use flora and fauna databases to identify any endangered or threatened species, including birds and bats, in the immediate area or region. The initial site survey helps us identify any species we may need to assess in more detail, such as investigating the way a certain bird species utilises the site.

Ecology consultants such as ecologists, botanists and ornithologists also conduct detailed flora and fauna assessments of each new site. This information allows us to develop a layout which is sensitive to the ecology of the site, and the ecologists' reports are included in our applications to local planning authorities.

Bird and bat monitoring is often a condition of wind farm planning approvals, and is intended to prevent wind farms from causing significant bird or bat mortalities. We are currently conducting a two year monitoring program at our Cape Nelson South Wind Farm in Australia, where a team of one human and one dog search the site for evidence of bird and bat mortalities on a monthly basis. A number of trials over recent years have found the reliability rate of a human/dog combination was between 85 and 100 per cent. In comparison, a lone human searcher

takes twice as long to achieve only half the reliability rate of the human/dog combination.

Emma, one of our consultants, and Elmo, her German Shorthaired Pointer, monitor a predetermined sample set of the 22 wind generators at Cape Nelson South Wind Farm every month to look for any bird and bat mortalities. The data collected provides us with valuable information, and helps us meet our planning permit obligations. We have also engaged a second team, Phil and Sam (a Labrador) to work on other wind farm sites in the area.

During the reporting period, evidence of eight bird and four bat mortalities was found at the Cape Nelson Wind Farm, none of which were endangered species.

Native Vegetation

We ensure that we adhere to local and national regulations relating to native vegetation at all of our sites and if there is a breach we take action to ensure future compliance.

During the development of our Victorian wind farm projects we are required to offset all losses of native vegetation in accordance with Victoria's *Native Vegetation Management: A Framework for Action*. Native Vegetation Management Plans are prepared for each of our Victorian sites. These plans document the regeneration works to be carried out on site, as well as the works required to offset any losses of native vegetation. Native vegetation offsets allow vegetation of a desired conservation value to be protected and secured in perpetuity.

The native vegetation offset sites being used to offset our Cape Bridgewater Wind Farm have been permanently secured to avoid future vegetation removal at the sites, and are being actively managed to improve the quality over a ten-year period. Some sites have been fenced off to protect against predation, and each year activities such as weed removal and further plantings are carried out with the ultimate aim of achieving sufficient quality improvements to provide a net gain in native vegetation incurred at the wind farm site.

To secure the offset sites, we have entered into a number of long-term, legally-binding agreements with landowners. These agreements provide long-term security for the landowners, as well as ensuring conservation values are managed and implemented over the ten-year period. One method that we have recently employed to help us achieve these goals is the BushBroker scheme, managed by the Victorian Department of Sustainability and Environment. This scheme has allowed us to purchase native vegetation credits on appropriate secure sites which are then managed to improve conservation values.



Revegetation program, Australia

We also participate in a number of voluntary initiatives which aim to protect and conserve local flora and fauna while providing greater understanding of the ecosystems in which we operate. The biological diversity found throughout the Cachapoal Valley near our Chacayes hydro project is one of the most significant in central Chile and the native orchids that grow in the Reserva Nacional Rio de Los Cipreses attract national and international visitors. Along with the Corporación Nacional Forestal de Chile (the National Forest Corporation of Chile), we installed a greenhouse within the Reserva Nacional Rio de Los Cipreses to cultivate these distinctive flowers, which are also protected by law. The greenhouse is also used as an educational facility, encouraging the study of this group of flowers. Flowers grown in the greenhouse are relocated to areas within the national park.

We are also involved in a study with the Forest Science Faculty at the University of Chile to increase understanding of the ecosystems in the Cachapoal Valley. The program focuses on the cypress forest found in the foothills of the Cachapoal Valley, 'el Cipreses de la Cordillera', which have been significantly impacted by human activities, and currently occupy less than 600ha of the Cachapoal Valley. As well as understanding more about the environments in which these species thrive, the study aims to analyse the relationships between other species in the Valley. Additionally, potential new sites for regeneration programs have been identified, a recovery strategy developed, and the results made available to the general public and the scientific community.



Short-haired Pointer, Elmo, at Cape Nelson South Wind Farm, Australia

Growing with our People



Dusan Hadzi-Nikolov and Danny Halstead, members of our Australian Delivery team

Key Figures

291

Employees worldwide

Over \$800,000

Spent on employee training globally

91%

of all Corrective Actions raised were closed out

Over 16%

reduction in Total Recordable Injury Frequency Rate

94%

of employees support our vision, mission and values

We recognise our people are paramount to the success and longevity of our business. To support our employees we:

- provide industry-leading training and development opportunities for staff at all levels and ensure they receive fair and competitive remuneration;
- aim to provide a safe and healthy workplace for all employees and support initiatives to improve their wellbeing; and
- value diversity in our organisation, uphold employees' rights to freedom of association and do not tolerate discrimination in any form.

DEVELOPING OUR ORGANISATION TOGETHER WITH OUR EMPLOYEES IS FUNDAMENTAL TO THE SUCCESSFUL DELIVERY OF OUR BUSINESS STRATEGY

Developing our organisation together with our employees is fundamental to the successful delivery of our business strategy.

As of 30 June 2010, we had a total of 291 employees across our global operations. The table below provides the number of employees by type of employment and country of operation.

Country	Permanent	Part time	Contractor/ Casual	Expats	Total	Average Turnover
Australia	105	5	3	0	113	16%
Chile	128	0	6	12	146	9%
Brazil	27	1	3	1	32	19%
Total	260	6	12	13	291	13%

Workplace (continued)

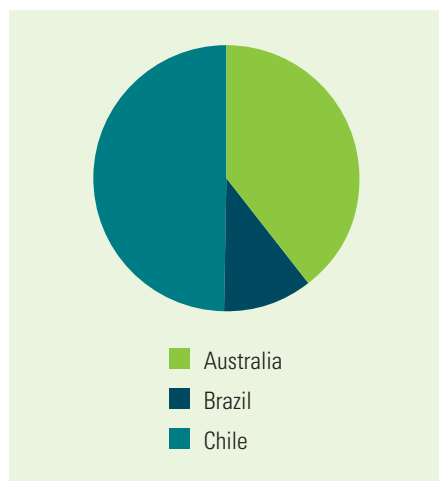
Turnover

Talent management is critical to our continued success. The ability to attract and retain the most talented people is one of our biggest challenges in meeting our strategic objectives.

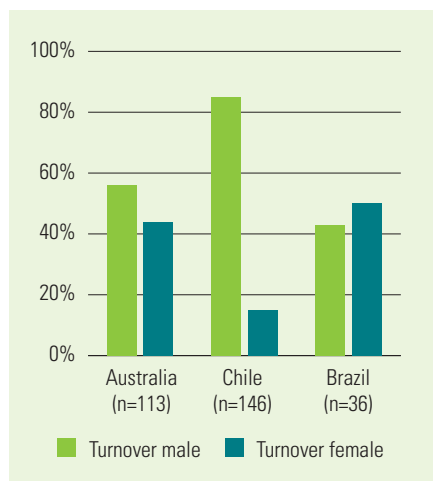
The average turnover for our global operations in the 2009/10 reporting period was 13 per cent.

The demographic profile of this turnover is consistent with the different cultural and legislative environments in which we operate.

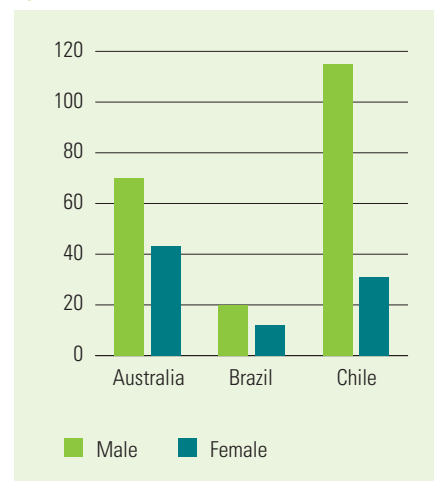
Number of Direct Employees



2009/10 Turnover by Gender



Direct Employee Numbers Split by Gender



Pacific Hydro Employer of Choice

Being an employer of choice is important to us. We strive to attract, recruit, develop and retain talented employees to ensure we achieve our business goals.

In October 2009, we were presented with the Frontier Software Award for Employer of Choice at the annual HR Leader Awards in Australia. The award was given to us for our:

- reputation within the broader industry and business community;
- recognition of talent and skill as a corporate priority;
- broad-based personal and professional career/development opportunities;
- evidence of ongoing measurement and positive results of employee engagement;
- strong leadership and inclusive management style;
- flexible work practices and demonstrable work/life integration; and
- performance-linked competitive reward and recognition.

WE STRIVE TO ATTRACT, RECRUIT, DEVELOP AND RETAIN TALENTED EMPLOYEES

The award recognised our efforts in implementing programs that build a healthy and productive workplace and a high-performing culture.

Being an employer of choice in this intensely competitive industry helps set us apart from the competition and provides superior value to our shareholders.



Sarah Iro, Elizabeth Miles and Kathy Deegan, members of our Human Resources team

Local Employment Training in Chile

For the third consecutive year, Pacific Hydro has invested in an employment training program for local residents in the Alto Cachapoal Valley, Chile.

The training is provided by Corporación La Esperanza and Organismo Técnico Intermedio de Capacitación (Technical Training Agency, OTIC O'Higgins). Corporación La Esperanza is a non-governmental organisation aimed at promoting development, particularly for individuals, families, groups or communities living in poverty or marginalised sections of the community.

The training program was introduced to provide local residents with the tools to develop skills for new business initiatives or strengthen their existing skills, with the aim of improving their quality of life. Victor Lopez, Operations Manager in Chile, says the initiative is part of our commitment to the communities in which we operate. "Our

"OUR COMPANY HAS A LONG-TERM COMMITMENT TO THE REGION OF O'HIGGINS"

Company has a long-term commitment to the region of O'Higgins and especially to the people of the Alto Cachapoal Valley. It is a real honour to develop these workshops and to contribute to increasing the entrepreneurial capabilities of the people living in the communities surrounding our projects."

We received over 70 applications for the 2009/10 program, which provided free workshops to local residents in the Alto Cachapoal Valley. A group of 57 women and men from the Valley received certificates in first aid training, food handling, tailoring and clothing repair and secretarial training.

The first aid training was the first workshop introduced as part of the program because of the ten kilometre distance from Chacayes to the nearest medical care centre. This has become an issue in recent years, and participants of the course are now qualified to administer first aid treatment in the absence of more specialised care.

Locals who were trained in tailoring and clothing repair not only learned to tailor and manufacture clothes, but also gained valuable skills for product development and managing budgets, encouraging them to create their own businesses.

Entry-Level Wages

Our employees receive competitive salaries in their employee category. Our minimum wage levels across the three regions we operate in are well above the legal minimums. The ratio of entry-level wages was 1.27 in Australia and 2.03 in Chile, compared to the statutory minimum wage for each country. There were no entry-level employees in Brazil in the reporting period.

We recently conducted a review of the relevant salary levels in Australia with the Victorian Employers' Chamber of Commerce and Industry (VECCI) to ensure that they are compliant with the new Modern Awards under the National Employment Standards, which were brought into effect on 1 January, 2010. Currently, all Australian-based employees are paid in accordance with the standards.

Providing Local Employment Opportunities

We support people living in the communities where we operate by encouraging contractors to employ locally. We also inform local businesses and employment agencies about potential employment opportunities provided by our construction projects where possible.

Hiring employees and contractors locally provides mutual benefits to the community and our Company. We hire staff from local communities where possible, and we also encourage our contractors to do the same. During the construction of our Clements Gap Wind Farm, 425 people were employed onsite, all from South Australia, and many from local communities. The majority of these employees were skilled labourers specialising in the electrical, civil and turbine installation works.

We often engage local consultants during development, construction and operation of our projects. Ecologists, Aboriginal Heritage experts and bird and bat monitors are typically sourced from within the relevant region because of their familiarity with and proximity to the site.

At our Chacayes hydro project in Chile, we have specific contractual requirements for hiring locally wherever possible. Construction contractors are required to report the number of local employees hired in their monthly report to Pacific Hydro.

The total workforce at Chacayes comprises 822 employees from our main contractor and 1,525 sub-contractors. Of these, 849 are local or residents from neighbouring towns.

The following tables provide a total of number of hours worked by our contractors and employees in the reporting period.

Workplace (continued)

Our business is highly specialised and we constantly require talented personnel to operate and maintain our assets. For planning permits it is essential that we have environmental control measures in place. To do so demands specialist or technical expertise such as bird monitors, cultural heritage monitors and environmental officers that are often sought from local communities. Additionally, we aim to employ a proportion of our site-based staff from local communities.

Diversity in the Workplace

We are an equal opportunity employer. Our Equal Opportunity policies promote equal opportunity as an integral part of our employment practices and set out the rights and responsibilities of all employees. Our workplace practices, rules and behaviours aim to ensure a positive workplace for all employees and contractors, free from all forms of unlawful discrimination and

harassment. These behaviours are governed by our Discrimination, Harassment and Bullying in the Workplace Policy. Workshops on this policy were run for all managers in Australia during the reporting period. While these policies currently only apply to our Australian operations, we are guided by the same principles in our Brazilian and Chilean business units.

Diversity in Leadership

We value the diversity of our workforce. We recognise that diversity, especially in leadership positions, is an ongoing challenge for many organisations, including our own. As the first step towards addressing this issue, and in anticipation of reforms to be implemented by the ASX Corporate Governance Council in the area of board diversity, we plan to develop a 'Women in Leadership' program by June 2011 which has the support of the CEO. Currently we have one female Director, one female General Manager, and three female Executive Managers.

Parental Support

We provide support to parents returning to work from parental leave (maternity or paternity) by providing gradual return to work programs, flexible working hours and working from home options as well as a designated breastfeeding room in the Melbourne office. In addition to paid parental leave, employees who have been with the Company for at least one year are entitled to a bonus payment when they return to work after parental leave. The bonus payment is 20 per cent of the employee's salary. The bonus is pro-rated for those who return part-time and as they increase their working days they receive the percentage bonus entitlement.

Training and Development

Talent management is critical to our success. Providing our employees with the support and tools they need to develop their careers is critical to our business.

We developed and implemented a talent management and succession planning framework during 2010 which identifies potential successors for senior management roles. The framework is also designed to identify business critical roles and action plans to mitigate risk around those roles.

Total Labour Hours Worked

Site	2009/10		2008/09	
	Employees	Contractors	Employees	Contractors
Australia				
Operations	19,014	59,341	7,520	30,785
Construction	1,921	3,762	9,849	107,105
Office	63,346	793	85,948	2,684
Brazil				
Operations	6,060	65,839	3,329	19,968
Construction	0	0	8,245	587,700
Office	50,111	26,322	39,786	5,201
Chile				
Operations	43,809	291,248	42,445	311,159
Construction	85,486	3,778,934	45,736	1,586,476
Office	145,798	8,276	127,636	0
Corporate				
Office	111,092	4,446	97,452	6,288



Kate Summers, Rachel Watson, and Tom Keddle, Pacific Hydro employees

Leadership Development

All 24 Executive Managers are currently participating in a ten-month Global Leadership program. The program includes a week in Melbourne, a week in Chile and coaching sessions throughout this time. Executive Managers from Australia, Brazil and Chile come together to take part in the course. The course is run by an external provider and includes internal knowledge-sharing sessions.

The objective of the program is to elevate and expand the leadership capabilities within the executive management group to:

- generate and own the targets for the delivery of projects for the next five years and beyond;
- deliver sustained breakthrough performance in each project;
- create a culture of performance and accountability;
- enhance collaboration and high performance with internal and external stakeholders;
- take effective action in the face of uncertain circumstances; and
- confront and resolve difficult issues

The General Management team have also participated in workshops to enable them to build a more powerful partnership between their group and the Executive Managers.

We provide business coaching for all Executive Managers and General Managers, in addition to an 'Emerging and New Leaders' training program, which was implemented in Australia during the reporting period. These initiatives support the growth and development of our current and future team of senior managers.

Training

We invest in our employees to ensure that we can provide them with the best possible career pathways. We pride ourselves on the fact that we invest heavily in training to ensure we can offer relevant development to all of our employees worldwide. The following graph presents the amount spent on training, per country, in the 2009/10 reporting period. The significant increase in annual training investment resulted from an increase in employee numbers and the introduction of the Global Leadership program.



Andrew Richards and Emily Woods, members of our Government and Corporate Affairs team

All employees receive annual performance appraisals and career development reviews. Objectives are agreed and aligned with the targets of the five-year business plan, and employees are given the opportunity to exchange feedback with their managers. A review is conducted after six months and employees are assessed on their performance against those targets. This process also identifies aspirations and opportunities for employees to move into different areas of our business, in line with our Internal Recruitment Policy.

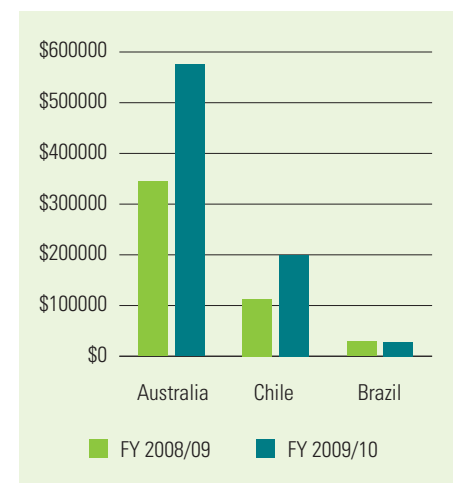
Training for all employees on effective performance appraisals is conducted globally.

Redundancies

In the case of redundancies, we provide access to resources to assist in the transition period. Our Redundancy Policy applies to all Australian employees. Employees in Brazil and Chile are covered by statutory requirements which include similar provisions for separation payments.

Our Redundancy Policy provides an outplacement service to assist employees in finding work and provides employees and their families with free access to our Employee Assistance Program for three months post-redundancy. The program provides members with professional counselling and assistance to help deal with work and life issues.

Employee Training Expenditure



Workplace (continued)

Ensuring the Health and Safety of our People

To help us provide a healthy and safe environment for our employees and contractors, we have a HSS Policy. Our aim is to be an industry leader in the management of occupational health and safety, maintaining and continuing to improve our credentials as an employer of choice.

We endeavour to ensure that all of our employees have a workplace that is free of injury and harm, and we have dedicated significant resources to ensuring the health and safety of our staff, contractors and other stakeholders. In delivering on this goal we must comply with all applicable occupational health, safety and environmental laws and aspire to cause 'zero harm' to people, the environment and our host communities.

We regularly monitor our health and safety

performance to identify ways to reduce the number of incidents. Specific health and safety training provided to our employees that work on site helps us to improve our performance. By implementing safer work methods, our aim is to reduce our overall Total Recordable Injury Frequency Rate (TRIFR) and Lost Time Injury Frequency Rate (LTIFR) year-on-year.

We follow the UK Occupational Safety and Health Administration classification system when reporting all workplace injuries. Injuries that are reportable are either Lost Time Injuries (LTI) or Medical Treatment Injuries (MTI). Other categories of incidents are First Aid Treatment Injuries (FATI) and Near Misses (NM). During the reporting period, we had a total of 361 incidents, 96 of which were reportable. The tables below summarise our reportable injuries and targets for the 2009/10 reporting period, and include both employee and contractor data.

2009/10 Total Recordable Injury Frequency Rate (TRIFR) by Business Unit

Country	2009/10 Actual	2009/10 Target	2008/09 Actual	2008/09 Target
Australia	20.3	17.4	20.50	11.64
Chile	8.0	9.7	11.36	14.78
Brazil	0.0	1.3	1.51	8.29
Overall	8.0	8.2	9.6	11.25

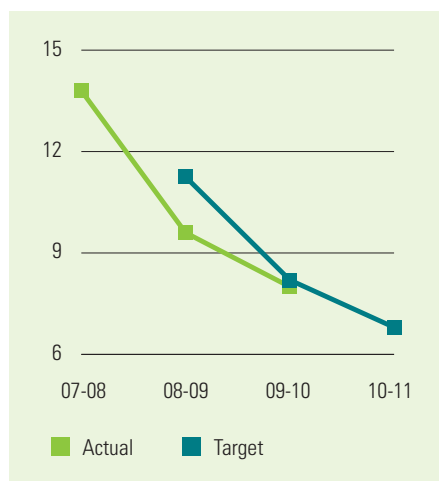
How we calculate TRIFR

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

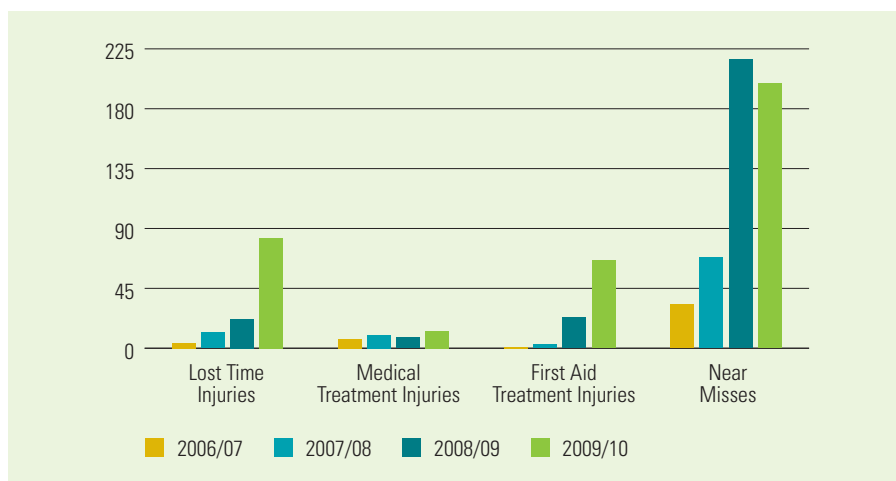


Darren James, Executive Manager,
Group Health Safety and Sustainability

2007-2011 Overall Total Recordable Injury Frequency Rate (TRIFR)



Total Number of Incidents Reported



Despite the reduction in our TRIFR, tragically, there was a fatality at our Chacayes project in Chile in April 2010. Mr Adolfo Donoso Queiro, an employee of a sub-contractor to our main Engineering, Procurement and Construction contractor, Astaldi Fe Grande (AFG), was fatally injured when the truck he was driving rolled off a site access road and down a ravine. The incident was fully investigated by Pacific Hydro and AFG and numerous corrective and preventive actions have been implemented to minimise the chance of another incident of this type occurring again. Our thoughts and condolences go out to Mr Donoso Queiro's family and loved ones.

Health, Safety and Sustainability Corporate Objectives

We set corporate HSS objectives each year to reduce injury rates, improve our management systems and engage employees on HSS issues. The objectives, which emphasise continual improvement, are incorporated into each employee's performance appraisals.

The table below summarises the HSS corporate objectives for the 2009/10 reporting period.

Despite all HSS objectives for 2009/10 being met, employees across the company were not rewarded the portion of bonus related to injury rates because of the fatal incident that occurred at our Chacayes project in April 2010.

More information about our employee HSS initiatives can be found in the 'Health, Safety and Sustainability Staff Initiatives' case study.

Objective		Achieved
Injury Rates	Achieve a TRIFR no greater than 8.2 by 30 June 2010. This required a 15 per cent reduction in TRIFR compared to 2008/09.	● We achieved a TRIFR of 8.0 for this period.
Management System Improvements	Close out 80 per cent of all HSS-related corrective actions raised from July 1 2009 to 30 June 2010 by their due date.	● Total number of corrective actions closed out by their due date was 91 per cent.
Employee Engagement	Recommend and implement one HSS initiative within their business or functional unit per quarter.	● Employees worked within their teams, where three or more employees report to one manager. All teams completed the required number of initiatives.

Employee Wellbeing

Protecting the overall health and wellbeing of our employees is as important as protecting their safety. We have in place various relevant training and risk control programs aimed at preventing serious conditions and illnesses in our employees.

In the 2009/10 reporting period, noise maps were developed for all operating sites in Australia to determine the noise level of

associated infrastructure. In future, key operational and construction personnel and staff required to visit operating sites in Australia, Brazil and Chile are to undertake audiometric testing to assess hearing levels and to determine any losses year to year.

Our Health and Wellbeing program includes a wide variety of initiatives. Core initiatives are implemented globally, such as free daily fresh fruit, annual health checks, regular ergonomic

assessments of work stations and an Executive Health Program. Other initiatives are unique to the business region.

In our Melbourne office, staff benefit from numerous initiatives including our extra leave purchase policy; a mothers feeding room; an annual stress management and work-life balance seminar; and annual sponsored sporting events, such as mixed basketball, lunchtime soccer, fun runs and the Corporate Triathlon. In Santiago, staff wellbeing initiatives include access to childcare in the office building; an emergency loan policy; annual flu vaccinations; an Employee Assistance Program; and annual company sponsored fun run and football team, as well as many others. Brazilian staff initiatives include a dental plan, meal vouchers and health insurance.

Staff also enjoy a range of social activities provided by the company, including family Christmas festivities, end of financial year celebrations, monthly celebrations of employees birthdays (in Latin America), casual Fridays and commemorations to mark important events and milestones for the company. Other examples of staff activities held during the reporting year include groups of employees participating in the Melbourne Marathon, a weekend cycling tour of the Grampians and an overnight hike in the reserve near one of our Chilean hydro projects.



Construction of turbine inlet, La Higuera Hydro, Chile

End of an Era

After almost eight years as Chairman of the Board, Bernard Wheelahan recently tendered his resignation effective October 2010.

Throughout his time as Chairman, Bernard has provided the leadership and vision that has helped transform Pacific Hydro from a small renewable energy company into an industry leading international organisation. Bernard's contribution to our Company has been immense, particularly his support of, and passion for, HSS and Latin America.

Guiding and representing the Company through periods of significant change and challenge, Bernard's integrity, dedication and focus have been constants. Bernard sat on, and contributed

significantly to all four Board Committees: the Remuneration Committee, the Sustainability and Risk Committee, the Finance and Audit Committee and the Projects Committee.

As a measure of the high level of esteem in which Bernard is held throughout the Company, the onsite residential camp at our Chacayes hydro construction project has been named 'Campamento Don Bernardo'.

While Bernard's legacies and contribution to Pacific Hydro will live on long after his resignation, we take this opportunity to wish Bernard all the very best in his work after Pacific Hydro and thank him again for all that he has contributed to Pacific Hydro.



Bernard Wheelahan, Chairman Pacific Hydro, 2003 – 2010

Engaging our Employees

Respecting Rights at Work

We respect the rights of our employees by adhering to all relevant national labour laws and regulations. Fundamental workers' rights across our global operations are supported by our Company's policies, practices and procedures.

Six permanent Australian employees (5.3 per cent of our total workforce) are covered under a Greenfields Agreement approved by Fair Work Australia December 2009, which sets out the terms and conditions of employment at Pacific Hydro. Our employees in Brazil are also covered by legislation which includes employees' right to freedom of association and a requirement for all employees to be covered under collective bargaining agreements. No employees in Chile are covered by collective bargaining agreements.

Grievance Practices

We recognise that from time to time employees may be concerned about occurrences, actions or inactions in the workplace that they feel are inappropriate. Our Company's Grievance Procedure, Code of Conduct and supporting policies encourage individuals to raise these issues and provide mechanisms to resolve them in a timely and fair manner. Under these procedures, employees are also entitled to seek advice from the relevant equal opportunity and workplace relations authorities in Australia.



Kevin Sze and Daniel Baird, members of the Corporate Finance team



Pacific Hydro employees, Melbourne

Health, Safety and Sustainability Staff Initiatives

To increase employee awareness and understanding of HSS issues in the workplace, the environment and our communities, we implemented the HSS staff initiatives program. In the program, small teams of employees are responsible for developing and implementing four HSS initiatives each year. The timely implementation of these initiatives is linked directly to employee short-term incentives. Below are some examples of the initiatives applied in the reporting period.

GreenSteps Recycling and Waste Management Program, Australia

Recycling and reducing the amount of waste going to landfill is one of the simplest ways we can minimise the environmental impacts of our corporate office in Melbourne. One of the HSS initiatives implemented by a team in Melbourne sought to do just that by improving waste management in the Melbourne office.

As part of the initiative, staff behaviour was assessed and desk bins were removed to assess employees' behavioural change. The assessment found that the staff kitchen areas in the office did not have the capacity for staff to recycle efficiently, and that both organic materials and co-mingled recyclables were not being disposed of correctly.

As a result of these findings, general waste bins in the corporate office staff kitchen have now been replaced with bins for organic, mixed recycling, landfill and paper waste. The new waste management program is expected to reduce the amount of waste going to landfill by up to 120 litres every day.

SMALL TEAMS OF EMPLOYEES ARE RESPONSIBLE FOR DEVELOPING AND IMPLEMENTING FOUR HSS INITIATIVES EACH YEAR

Company Vehicle Dry Wash Initiative, Brazil

Employees in Brazil are showing their commitment to reducing water usage by implementing an HSS initiative in the cleaning of our vehicle fleets. Previously, all company vehicles were washed using water and soap. One group of employees in Natal, Brazil implemented a dry wash system for our site and office-based vehicles to replace the water-based method traditionally used.

The initiative has had a positive impact on the water footprint of our Brazilian operations, saving around 3,000 litres of water in the first month. Additionally, the dry wash system does not use any harmful chemicals, which are used in conventional car-washing, reducing our overall environmental impacts.

Road Safety Initiative, Chile

Road traffic accidents are a major risk across our business. Managing and controlling this risk at our Chacayes run-of-river hydro project is a priority because a large number of vehicles travel to and from the site each day, in addition to the large volumes of traffic moving within the site. A team in Chile decided to help address this risk by developing a guide which includes information on traffic management, safety recommendations and actions to be taken in the event of an



GreenSteps Recycling and Waste Management Program

emergency at the site. The guide is aimed at our employees, visitors, suppliers, consultants and other representatives that travel to the site, and includes advice on the safest route to the project site.

Organisation Alignment Survey and Results

Surveying our employees is one of the ways we assess staff satisfaction and identify areas for improvement. Since 2006 we have conducted annual staff surveys for employees in all countries of operation. This is a useful way to benchmark ourselves and improve our performance year-on-year.

Building on these surveys, in 2010 we conducted our second Organisation Alignment Survey (OAS) with a global response rate of 87 per cent. The OAS framework is based on three components: clarity of articulating a long-term focus to staff; consistency of converting aspirations into operational strategies, projects and day-to-day actions; and commitment of engaging staff through a strong sense of mutual contact.

Overall, the results indicated that we have maintained a strong capacity to execute our plans and projects with sustainable outcomes. Since the 2009 survey, these scores have remained high or increased in both absolute terms and according to external benchmarks.

Employees were asked to rate the consistency of eight categories that align our mission and values with our strategic direction over the short, medium and long-term. The greatest improvement was shown in the two areas of leadership, management and change capability; and communication and knowledge, with a ten and six per cent improvement respectively from last year.

The following table provides a results summary of the categories in the survey with the greatest increases and decreases in alignment, across all country operations.

The results highlight three areas where we can improve, and we will focus on these areas in 2011: the strategies and plans related to people and learning; our structure and systems; and the perception of support for employees.

The results of the OAS demonstrate that our people feel that our vision, mission and values are integrated into the way we do business. The results show that 94 per cent of staff support our vision, mission and values, indicating strong shared confidence about our future. With support from our employees, we are in a robust position to achieve our long-term objectives.

WE HAVE MAINTAINED A STRONG CAPACITY TO EXECUTE OUR PLANS AND PROJECTS WITH SUSTAINABLE OUTCOMES



Wind Services team

OAS categories with greatest increase and decrease in scores

Pacific Hydro	2010	2009	Diff
Management Capability	86	76	+10
Communications and Knowledge: Projects & Processes	87	81	+6
People and Learning: Actions & Outcomes	76	70	+6
The organisation's support for its employees	73	81	-8
People and Learning: Strategies and Plans	75	84	-9
Structure and Systems: Strategies and Plans	58	67	-9

Growing our Economic Sustainability



Ord Hydro, Australia

Key Figures

22%

Increase in sales revenue since 2008/09

\$202.9 million

Capital spend

\$7.8 million

Development expenditure

1 million

Approximate number of carbon credits per year to be generated in maturity

We have a clear strategy for economic success, growth, increasing shareholder value and providing clean power to meet rising demand.

Our financing strategy is to deploy a prudent and conservative amount of debt to each project and to use equity in the most efficient and value enhancing way.

Our strategy for sustainable growth involves:

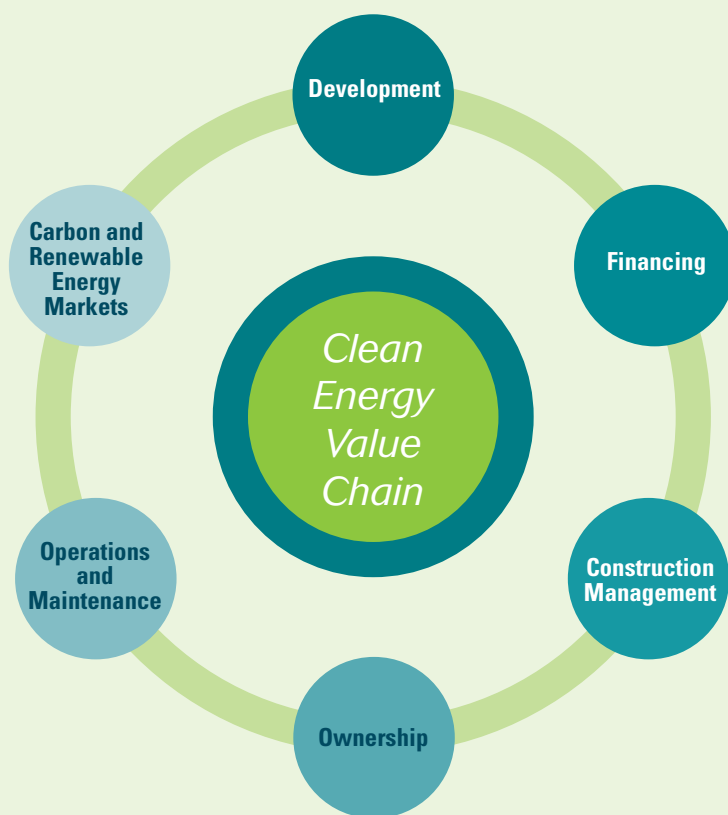
- optimising operational efficiencies and earnings from existing projects by reshaping and leveraging our asset portfolio;
- increasing market share and profile in our core markets through value accretive greenfield developments or acquisitions; and
- developing a diversified portfolio of renewable energy projects through greenfield developments or acquisitions that deliver growth, add economic value and reduce market risks.

Economic Performance

Sales revenue was \$144.8 million for the reporting period (excluding equity accounted investments), an increase of 22 per cent from the previous year. This was driven by new generation from Clements Gap and PWEF III in Australia and Vale dos Ventos in Brazil.

Capital spend of \$202.9 million was incurred in the 2009/10 financial year, primarily on construction projects including Clements Gap in Australia and Chacayes in Chile.

Net operating profit after tax was \$11.1 million, a decrease of 66 per cent over the prior year. This was due to the later than expected completion of our 50:50 joint venture La Higuera project in Chile, unfavourable impact of exchange rates, lower energy prices in Chile and lower than expected wind speeds in Brazil. Unfavourable variances were partially offset by the Clements Gap Wind Farm performance, which was completed ahead of schedule and received higher electricity prices earlier in the year. Further, Australian hydro plants performance improved due to the late irrigation season in Victoria and additional power demand at the Ord Hydro.



Highlights of our Direct Economic Performance

	Australia	Brazil	Chile	Other (incl. Fiji and Philippines)	Total 2009/10	Total 2008/09	Total 2007/08
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Economic value generated FY 2009/10							
Sales revenue	84,797	19,778	40,261	0	144,836	118,767	75,600
Net Operating Profit After Tax	(1,052) [#]	(4,119)	13,715	2,605	11,149	32,449	13,700
Capital Expenditure on Infrastructure Projects	18,411	0	184,444	0	202,855	393,344	255,843
Deferred Development Expenditure and Advanced Works	2,409	2,519	2,899	0	7,827	15,845	24,057
Economic value distributed FY 2009/10							
Operating Costs	(21,741)	(5,156)	(11,273)	(21)	(38,192)	(32,935)	(21,041)
Employee Wages and Benefits	(20,051) [#]	(2,651)	(12,217)	(11)	(34,930)	(34,346)	(29,035)
Payments to Providers of Capital					(39,470)	(19,673)	(15,531)
Payments to Government (e.g. taxes)					(3,224)	(5,904)	(1,811)

(Numbers in brackets represent a cost, loss or cash outflow)

[#] Includes Head Office and Corporate overheads



Ararat North Primary School, Sustainable Communities Fund recipient, Australia

Our Contribution to Local Economies

Our communities are vital to us and economic development is vital to our communities. Participation in local economies is one way we hope to create lasting positive economic impacts in our communities. Contributing to local economies includes bringing real, tangible outcomes by providing our communities with support in the areas where they need it the most.

Our presence in the communities in which we operate fosters economic development through indirect means such as support and patronage for local businesses. We also seek to support local communities where we can by providing commercial, in-kind or pro bono support and services. Some of the ways we have contributed to local economic and social development in 2009/10 include:

- staff volunteering at a tree-planting day with the Cape Nelson Landcare group in Portland;

- running free sustainability workshops and children's activities for community members;
- assisting a local cycling club to develop a fundraising plan to ensure future growth;
- providing event planning and management support in relation to the Portland Upwelling Festival;
- running wind farm tours to local community groups;
- providing micro-loans in Chile; and
- providing media support and training for local community groups.

Providing Local Business Opportunity

Across our global operations, it is common practice to source from local suppliers where they provide quality products and are competitive in price and service. We also encourage our contractors to source locally where possible, but we do not name preferred suppliers in any of our contracts.

When shortlisting contractors for projects in the early stages of development, we present the project to local businesses in the project area, and a database of suppliers is gathered and provided to the major contractors to consider. All major suppliers and contractors undergo a detailed screening on health, safety and environmental criteria.

Increasing Local Tourism

Wind farms often provide benefits to local economies through alternative tourism opportunities. The additional visitors that wind farms attract can help boost local businesses and employment.

For example, Codrington Wind Farm in Victoria attracts thousands of visitors a year. It also supports a successful tour operator business which has been operating since 2001 and provides educational tours to groups, coach tours and schools.

Green IT at Pacific Hydro

Green IT incorporates the entire environmental impact of information technology, from the paper we load in our networked printers to the hazardous electronic waste (e-waste) we dispose of. Environmental responsibility has always been an integral part of our approach to IT procurement and management. Our international team of nine IT experts in Australia, Brazil and Chile consider the long-term needs, benefits, costs, opportunities and risks associated with our IT equipment, systems and processes. This has meant looking further than just comparing up-front cost and warranty periods. Issues such as product longevity, power consumption and management, virtualisation, telecommuting, donating, recycling and e-waste have been on the agenda at Pacific Hydro for many years.

Paul Townsend, Chief Financial Officer, strongly endorses this approach. "Understanding and minimising the environmental footprint of our IT function is fundamental to our positioning as a leading renewable energy company. With the evolution of more environmentally friendly ways to work smarter, our IT department has a very clear mandate to leverage these opportunities."

Below are some examples of the IT team's sustainable achievements:

- early uptake of virtualisation savings in hardware, power and cooling expenses;
- IT hardware donated to charity, turning our waste into a valuable asset for community groups and avoiding e-waste ending up in landfill;
- e-waste recycling for all office equipment and extended to staff for personal e-waste to be collected and recycled at the company's expense;
- videoconferencing to improve communications and reduces travel costs and emissions;
- energy use considered in equipment procurement for server upgrade which minimised lifetime energy and cost;
- 100 per cent recycled paper used in Melbourne office for all standard printing;
- all batteries recycled (and employees encouraged to recycle their household batteries through the company service);
- all toner cartridges recycled (and employees encouraged to recycle their household toner cartridges through the company service);
- all mobile phones recycled (and employees encouraged to recycle their personal mobile phones through the company service);
- photocopier upgrade which included investigating energy use efficiency and consolidation (i.e. replace numerous small printers with one larger capacity printer), raw material and energy use;
- training and support for employees to ensure they use IT equipment efficiently e.g. turn it off correctly, change settings to minimise power use and default double-sided printing; and
- IT support for employees working from home to promote flexibility and work life balance for employees.

In June 2010, we held our second annual Electronic Goods Recycling Drive in our Melbourne corporate office. Electronic equipment can contain lead, mercury, phosphor and other dangerous toxins, which, if not disposed of carefully, can leach into soil, groundwater and other waterways. Electronic components also contain valuable raw materials such as copper, iron, silicon, nickel and gold, all of which are recyclable.

Our employees' electronic goods drive encourages the recycling of old equipment like computers, printers and televisions, limiting the amount of electronic waste sent to landfill.

This initiative aims to increase staff awareness about the impacts electronic goods disposal has on biodiversity and our environment, and encourage employees and their families to minimise their individual environmental impacts.



Daniel Hayward, Global IT Manager

Our Response to Climate Change

Generating renewable energy and carbon credits is all about contributing to a sustainable future, and this includes responding to climate change. Carbon abatement through the deployment of more renewable energy projects is a crucial part of the solution to climate change. Our mission, “to produce electricity through the innovative commercialisation of clean energy resources” and provide carbon abatement products reflects our commitment to protecting the environment and contributing to a sustainable future.

The impacts of climate change are not just environmental; there are significant economic and social consequences. National and global public policy developments in response to climate change that have occurred in the reporting period have the potential to affect us and the way we do business.

Our Response to Public Policy

In the absence of robust international and national policies on climate change, our business reflects the precautionary principle. This is evident in our core business of providing clean energy and carbon credits to help reduce our reliance on traditional fossil fuel-based power generation, one of the main drivers of climate change.

We have also assisted the Chilean Government in working towards achieving the stable and competitive regulatory market needed in order to meet the Chilean target of 20 per cent renewable energy by 2020.

We have participated in discussions with the Energy Minister and representatives from the CNE (La Comisión Nacional de Energía) to address constraints in the current transmission system, make modifications to the Renewable Energy Law to be more inclusive of run-of-river hydro schemes, and ensure implementation of the new methodology released by the CNE relating to firm capacity. The successful implementation of this methodology is linked with our key investment criteria, and we are working closely with the authorities to ensure that we are able to access renewable energy opportunities within the country.

It is crucial that these areas are considered and adequately addressed in order to allow us to assist the Piñera Government in developing the renewable energy resources required to meet the ambitious 2020 vision.

Our involvement in public policy advocacy reflects

our view that policies on renewable energy are both a major opportunity for our business and one of the key risks that we face.

Carbon Credits and Trading

The Carbon Credit Market is made up of a number of regional based Emissions Trading Schemes, of which the European Union is the largest. These schemes have been implemented to help each region's Kyoto Protocol emission reduction target, which requires developed countries that are signatories to the Protocol to reduce their greenhouse gas emissions.

Chilean hydro projects generate tradeable carbon credits including Certified Emissions Reductions (CERs), which are internationally tradeable credits through projects in developing countries that are eligible under the Kyoto Protocol's Clean Development Mechanism (CDM). To be eligible, CDM projects must provide additional emissions reductions to what may have otherwise occurred.

In Chile, our hydro projects have the potential to generate almost one million carbon credits per year. In addition, our significant pipeline of future projects, once complete, will generate up to a further 1 million carbon credits each year. In particular, our La Higuera hydro project received registration under CDM in 2006, and in doing so, became the largest hydro project and the first in Chile, to be registered.

Renewable Energy Certificates and GreenPower

In Australia, generating electricity from renewable energy sources means that we are able to create Renewable Energy Certificates (RECs) which we can then sell to parties that need to meet targets set under the Australian Government's Mandatory Renewable Energy Target (MRET). Australia's electricity retailers make up the vast majority of parties that have a liability under MRET. We sell most of our RECs to electricity retailers under a range of short and long-term contracts, including Power Purchase Agreements ('PPAs'), where the RECs are bundled together with the underlying electricity, and REC-only sales contracts known as 'RECPAs'. We are also active in the secondary REC market, where we sell our uncontracted RECs into the 'spot' REC market.

Our RECs can also be sold as GreenPower to medium and large business customers. GreenPower is the Australian Government's



Markus Ziemer, General Manager, Corporate Services

accreditation for renewable energy. A voluntary, consumer driven scheme, GreenPower requires the surrender of RECs that would otherwise be used for the Australian Government's Renewable Energy Target. GreenPower sales are subject to strict guidelines and annual independent audits.

Perenia

Perenia Carbon is our carbon consulting business and is a joint venture with Australian engineering consulting firm SMEC, and Japanese company Mitsui & Co. Ltd. Perenia provides expertise throughout the project development, carbon credit creation and commercialisation value chain. It assists developers of emission reduction projects creating and selling carbon credits under the CDM. Markus Ziemer, General Manager Corporate Services and Director of Perenia Carbon, explains “Perenia provides complete carbon solutions for companies looking to proactively respond to the opportunities and challenges associated with the impact of climate change.”

For more information about the carbon market, visit the 'Classroom' section of our website <http://pacifichydro.com.au/en-us/classroom/carbon-market.aspx>.

For more information about Perenia Carbon, visit www.pereniacarbon.com.



The Renewable Energy Target

In August 2009, the Australian Government legislated the expanded Renewable Energy Target (RET) scheme to ensure that 20 per cent of Australian energy comes from renewable energy sources by 2020. We made several submissions to the government in the development of the expanded RET, however in the past year three subsequent submissions were made in response to mechanisms in the legislated scheme which distorted the market and prevented investment.

The market was distorted by an oversupply of tradeable Renewable Energy Certificates (RECs) from small-scale renewable energy projects for households and businesses, such as solar hot water and photovoltaic systems, mainly caused by compounding state and federal subsidies. The oversupply of RECs dropped the market price and caused significant uncertainty for large-scale renewable energy projects. Prior to the expanded RET being legislated, we alerted the Minister for Climate Change, Energy Efficiency and Water, Senator the Hon. Penny Wong, to this issue and its impacts for large-scale renewable energy projects if the RET went ahead unamended.

Through a formal submission we encouraged Parliament to pass the scheme as quickly as possible while incorporating amendments to address the market distortions, but the legislation was passed in August 2009 in its initial form.

Given the legislated scheme's shortcomings, we continued to make representations to government by meeting with relevant ministers and through media communications. Working with the Clean Energy Council and a consortium of renewable energy companies, we developed proposed amendments to the RET which would split the market into a large-scale and a small-scale scheme, thereby providing the large-scale market with certainty while continuing to support strong uptake of domestic-scale technologies. These amendments were eventually adopted by the Rudd Government

as a workable solution to the issue which was preventing us and other large-scale renewable energy developers from investing in new projects. We also worked closely with the Department for Climate Change and Energy Efficiency to help them better understand the existing market failures and the reasons the amendments were necessary.

It was vital to then ensure the proposed amendments had bi-partisan support to be passed through both houses of Parliament and be entered into law. We, along with other renewable energy companies, met with the relevant ministers and shadow ministers regularly in the months leading up to the introduction of the amendments into Parliament to garner this support.

In the process of ensuring the required amendments were adopted, we were a key participant in another round of formal submissions outlining detailed mechanisms for the operation of what was now termed the enhanced RET, and a round of Senate Committee hearings covering the topic of the costs to consumers of the enhanced scheme.

During the process of ensuring the enhanced RET was legislated, the Government's carbon pricing policy, the Carbon Pollution Reduction Scheme (CPRS), was also put on hold following a lack of business and political consensus on the scheme design. This collapse of support was a serious setback for Pacific Hydro, and the renewable energy industry as a whole. Lane Crockett, General Manager Australia, explains that "a carbon price is vital in the Australian economy to drive down emissions, underpin the efficient transformation to a low emissions economy and allow renewable energy technologies to compete with very low cost fossil fuel generators."

With the delay of the CPRS, the enhanced RET remains the key climate change policy in Australia that is driving the transformation of the energy market to a low-carbon future.

THE ENHANCED RET WILL DRIVE \$25 BILLION IN INVESTMENT IN NEW RENEWABLE ENERGY GENERATION CAPACITY



Lane Crockett, General Manager, Australia

The enhanced RET will drive \$25 billion in investment in new renewable energy generation capacity, and is expected to lead to approximately 8 gigawatts of new large-scale renewable energy projects. In combination with an energy efficient policy, it will also create up to 26,000 jobs, primarily in rural and regional areas.

Our Corporate Governance

Our Owner

Pacific Hydro is a wholly-owned subsidiary of the Australian Infrastructure Fund managed by Industry Funds Management (IFM).

IFM specialises in the management of wholesale investment products across Australian and international infrastructure, private equity, debt investments and Australian-listed equity portfolios. The Company is wholly owned by 36 major Australian industry superannuation funds.

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.

More information about IFM can be found at www.industryfundsmanagement.com.

Our Board

Our Board of Directors is appointed by our parent company, IFM, and is responsible for the governance and strategic direction of the company. The governance structure ensures the delivery of value while ensuring and protecting the interests of the community, landholders, employees, customers,

suppliers and the environment. The Board is committed to the Australian Stock Exchange Corporate Governance Council's Corporate Governance Principles and Recommendations, which are intended to maximise corporate performance and accountability for the benefit of shareholders and for the overall protection of the integrity of the broader economy.

Two Directors tendered their resignation during the 2009/10 Financial Year: Damien Moloney (Non-Executive Director and Owner's Representative) and Grahame Campbell (Independent Non-Executive Director).

After the end of the reporting period, Independent Non-Executive Chairman, Mr Bernard Wheelahan resigned as Chairman with effect from 31 October 2010. Garry Weaven was appointed as Chairman effective 1 November 2010. During this time Brett Himbury was also appointed to the Board as a Non-Executive Director and Owner's Representative.

Detailed information about our Board of Directors is available at <http://www.pacifichydro.com.au/en-us/who-we-are/our-board.aspx>.

The performance of the Board is evaluated every two years through a self-assessment, which includes a management questionnaire. The roles and responsibilities of the Board are outlined in the Pacific Hydro Board Charter, available at <http://www.pacifichydro.com.au/>

[en-us/who-we-are/our-board/corporate-governance.aspx](http://www.pacifichydro.com.au/en-us/who-we-are/our-board/corporate-governance.aspx). The Charter also sets out the matters which may be referred to the owner for decision and approval.

We provide continual disclosure to our shareholders through owner representation on the Board. Senior executive accountability for compliance and disclosure is set out in written policies. We also make disclosures to our other stakeholders through this report, our website and other media.

Our Board Committees

Our Board has four permanent committees whose objectives are to consider and give direction on specific areas on behalf of the Board:

- Finance and Audit Committee;
- Projects Committee;
- Remuneration Committee; and
- Sustainability and Risk Committee.

Each of these committees has its own Charter, which outlines its respective roles and responsibilities. In particular, the Sustainability and Risk Committee oversees the management of our social, health and safety, environmental and economic risks and opportunities. The Board also establishes ad hoc committees as the need arises.

Pacific Hydro Board Members

Name	Date of Appointment	Position	Committee Membership	Qualifications
Kate Spargo	26 March 2004	Independent Non-Executive Director	Sustainability and Risk Committee Remuneration Committee	LLB (Hons), BA, FAICD
Geoff Coffey	26 March 2004	Independent Non-Executive Director	Finance and Audit Committee Projects Committee	FCCA, ACIS, Dip FP, GAICD
Garry Weaven	29 July 2005	Non-Executive Director and Owner's Representative – IFM	-	BSc, DipEd
Kyle Mangini	9 October 2009	Non-Executive Director and Owner's Representative – IFM	Finance and Audit Committee Remuneration Committee Projects Committee	BEC/Gov
Brett Himbury	29 July 2010	Non-Executive Director and Owner's Representative – IFM		MBA, FIMO

Ensuring the Reliability of our Assets

To ensure the economic and operational viability of our company, we understand the need to make asset management principles part of our standard business practice. This includes optimising the lifecycle performance to allow us to manage our resources and assets more effectively.

Challenges related to the reliability of wind turbines affect much of the wind industry and Pacific Hydro is no exception. Wind turbines are equipped with gearboxes to accelerate the speed of a turbine's generator. The reliability of these gearboxes is a key challenge that we face.

On average, gearboxes are designed to have a 20-year life, but as they need to cope with a range of high loads through various operating conditions, they have experienced early failures. With a large fleet of turbines, some gearbox failures will inevitably occur. As a result, gearbox failure and reliability is a significant area of focus for our operations teams in order to maximise the availability and generating potential of our wind power generators.

Our Asset Management Framework guides our strategy on gearboxes. Our operations teams monitor the operation of the gearboxes, developing repair options for failed gearboxes and identifying and implementing improvement opportunities for our existing turbines. "Having a strong asset management focus allows us to maximise output from our assets and really helps us to identify improvement opportunities on our gearboxes", says Alistair Mills, an Asset Management Engineer from our corporate office.

We use a range of systems to monitor the condition of our gearboxes, which helps provide an early warning of deterioration in performance or condition. We undertake online temperature and vibration monitoring on various points through the gearbox. Oil and oil filters are changed during routine maintenance. At each of our sites we also conduct regular visual inspections of gears and filters, and regular oil analysis which includes a count of any metallic particles found in the oil. Early detection of any problems means that we can provide more efficient and cost-effective repairs where necessary, reducing the need for complete gearbox changes.

*"A STRONG ASSET MANAGEMENT FOCUS
ALLOWS US TO MAXIMISE OUTPUT FROM
OUR ASSETS AND REALLY HELPS US TO
IDENTIFY IMPROVEMENT OPPORTUNITIES"*



Nigel Baker, Alistair Mills and Daniel Tejera, members of our Group Operations team

In the early days of the Australian wind industry, failed gearboxes were shipped back to Europe, and a replacement unit was sent to Australia. With the increased number of turbines in operation, we now hold spare gearboxes in the country. A secondary repair industry has also developed in Australia for the repair and refurbishment of failed gearboxes. We encourage this development, as it avoids emissions incurred by transporting equipment from Europe and benefits local industry as well as the availability and cost-efficiency of our operations.

We are actively pursuing opportunities to improve the performance of our existing operating gearboxes. During the reporting period, we began a project to identify such improvement opportunities. Working with

external experts, a team of our engineers conducted an analysis of all historical failures, detailed measurements were taken of gearboxes in operation and both the physical installations and maintenance practices were reviewed. Detailed gearbox failure modes and contributing factors were then identified. A number of actions have subsequently been implemented. The team continue to work on these issues to continuously improve the performance of our gearboxes.

We recognise that it is not feasible to eliminate all gearbox failures, but by reducing the frequency, severity and cost of failures, we can significantly improve our operations.



Clements Gap Wind Farm, Australia

Our External Commitments

In June 2010, we applied to become a signatory to the United Nations (UN) Global Compact, an initiative to promote responsible corporate practice.

Companies who sign the UN Global Compact commit to respecting human rights, upholding labour standards, supporting environmental protection and working against corruption.

As a signatory we will report on our progress against the UN Global Compact principles in the 2011 Sustainability Report.

Memberships

To promote the development of the clean energy sector we participate in local, national and global associations, taskforces and industry bodies.

Our memberships 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 America Relations;

- The Chilean Association of Renewable Energy;
- Clean Energy Council;
- Committee for Portland;
- Global Foundation;
- The Climate Institute;
- The Committee for Economic Development of Australia; and
- Western Australian Sustainable Energy Association.

Our CEO, Rob Grant, is also Chairman of the Clean Energy Council of Australia, is a Board Member of the Council on Australia Latin America Relations and sits on the Renewable Energy Taskforce of the Asia Pacific Partnership on Clean Development and Climate.

Our staff also participate in local, national and global associations, taskforces and industry bodies. For example, our Policy Manager in Australia was involved in the development of the Great South Coast Regional Strategic Plan, through its regional roundtable. The Strategic Plan explores the challenges and opportunities the South Australian and Victorian coast will face as it grows over the next decade. An outcome of this involvement

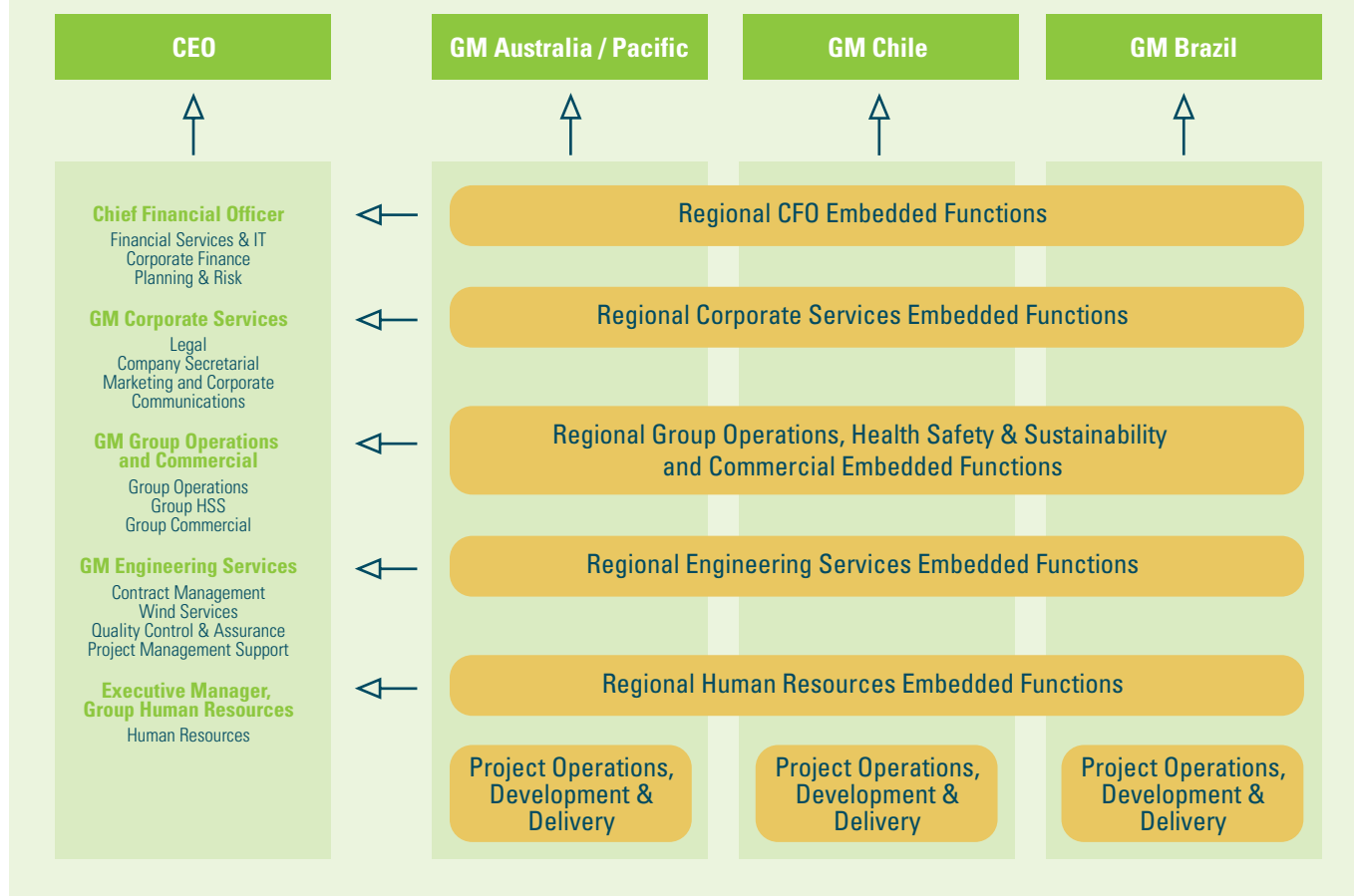
was the establishment of a New Energy Forum in the south west to drive renewable energy development and investment in the region.

General Management Committee

Our General Management Committee (GMC) is charged with developing and implementing long-term strategy within the policy parameters agreed with the Board of Directors. The GMC (comprising our CEO and his seven direct reports) is directly responsible for the performance of geographic business units and functional disciplines within the organisational structure, and is supported by a team of experienced and highly-skilled Executive Managers.

The GMC works closely with the Board to manage the affairs of the Company, including strategic development, corporate governance, and performance against key qualitative and quantitative objectives.

Pacific Hydro's Organisational Matrix Structure



Organisational Structure

Our organisational matrix (above) has evolved to support the Company's corporate and international structure. Each geographic business unit is resourced to function efficiently and effectively with its own staff of skilled professionals. In addition, we also have corporate functional units which provide services to, and corporate governance for, each geographic business unit.

Remuneration

We aim to ensure that senior executives and Directors are remunerated in compliance with the ASX Principle to 'Remunerate Fairly and Responsibly' and we are committed to remunerating our employees in a manner that is market competitive

and consistent with best practice.

The structure of our remuneration packages aligns the interests of our executives with those of our shareholders, with the aim of increasing long-term shareholder value. No individual is directly involved in deciding their own remuneration and our Board members do not receive any compensation relative to performance. More details on our remuneration practices can be found at <http://www.pacifichydro.com.au/en-us/who-we-are/our-board/corporate-governance.aspx>.

In 2010, an external benchmarking review was undertaken by the Hay Group to confirm all executive salaries were in line with our Remuneration Policy. This review is conducted every two years.

Risk Management

Sustainability is embedded in our Enterprise Wide Risk Management Framework, which includes key risk indicators across governance, controls and compliance, and is fundamental to achieving the company's vision and mission, delivering corporate objectives and providing greater certainty and confidence to our shareholder.

We periodically undertake a rigorous risk assessment of all development opportunities and operations. The enterprise-wide approach we apply 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 to ensure the effectiveness of these mechanisms, and any

anomalies that are revealed trigger a further investigation into risks and issues identified in a business unit, project or asset.

In June 2010, we implemented an employee training program on Foreign Corrupt Practices in Australia, Brazil and Chile. All General Managers, Executive Managers, Managers and employees who regularly deal with overseas counterparties receive this training, which details the policies and procedures relevant to the jurisdictions in which we operate.

Code of Conduct

Our Code of Conduct provides guidance on ethical behaviour for our employees and Directors. While monetary donations or in-kind donations to political parties are prohibited under our Code of Conduct, we do participate in political fundraising activities to enhance our communication with policymakers. The Code outlines our approach to ethical and responsible decision making and sets out our responsibilities to customers, landholders, commercial partners, shareholders and the financial community. It also describes our obligations regarding fair and ethical dealings and the responsibility and accountability of individuals for reporting and investigating reports of unethical practice. All new employees receive training in, and are required to sign our Code of Conduct, which prohibits corrupt practices including bribery.

We are in the process of developing a whistleblower statement to be included in our Code of Conduct and a procedure for investigating reports from whistleblowers.

Conflicts of Interest

Our Code of Conduct outlines our policy on personal or financial interests that may conflict with the interests of the Company. All Directors and employees are required to avoid such conflicts of interest. To determine whether such private interests could result in actual or apparent conflict, all Company Directors are required to disclose interests and related party transactions in substantial shareholdings.

Compliance

Renewable energy production needs to meet the various standards and regulations set by relevant government and regulatory authorities,

and we seek to adhere to all relevant local, national and international laws, regulations and standards applicable to assets under our control.

We strive to abide by laws, standards and voluntary codes related to marketing communications including advertising, promotion and sponsorship and to ensure that all employees who have regular interaction with customers are appropriately trained in our products through frequent training sessions.

The marketing of GreenPower products is subject to review to verify compliance with the GreenPower marketing guidelines. For more information about our GreenPower products, see the section on 'Our Response to Climate Change' and the case study on the 'Staff GreenPower Program'.

General Managers complete an annual questionnaire to ascertain the effectiveness of the compliance programs being run in their areas.

Equator Principles

A large number of banks are signatories to the Equator Principles (www.equator-principles.com). These principles are a voluntary set of standards which help banks assess and manage the social and environmental risk in financing projects.

To enable us to fund many of our international projects we often seek financing from banks which are Equator Principles signatories. For example, in order to fulfil our obligations under the loan agreement for our hydro project at Chacayes in Chile, the banks required an external sign-off that the Chacayes Project complies with the Equator Principles. There is also a quarterly Equator Principles Monitoring Review prepared by a third party (consultants Environmental Resources Management). These reviews assess the Project's compliance with the environmental and social requirements established with the lenders as part of our funding arrangements prior to disbursement.

Two other joint venture projects in Chile are funded in part by the International Finance Corporation (IFC), and therefore must adhere to the IFC's Environmental and Social Policies. To ensure sound social and environmental management practices, all other project loan agreements require adherence to relevant local and national laws.

Our Products and Services

We are a specialist renewable energy company focused on developing and operating wind and hydro projects. In addition to generating and selling renewable energy, we also sell environmental products such as carbon emissions reductions and renewable energy certificates. For more information on our green products, see the section on 'Our Response to Climate Change'.

Our mission is to develop, deliver and operate world-class clean energy projects in a sustainable way. Our culture and management approach to product responsibility ensures that:

- as part of the company's Enterprise Wide Risk Management Framework we undertake project lifecycle mapping of our major processes to ensure that they are fully and accurately documented, effectively implemented and regularly reviewed;
- we conduct native vegetation, flora and habitat assessments prior to construction;
- we develop and implement documented management systems that comply with the requirements of the following standards:
 - ISO 9001 (Quality)
 - AS 4801 (Occupational Health and Safety for Australian activities) and ISO 18001 (Occupational Health and Safety for Chilean and Brazilian activities)
 - ISO 14001 (Environment)
 - ISO 31000 (Risk Management); and
- we undertake thorough audits of our processes to verify compliance of our own and our service providers' performance against both corporate and applicable legislative requirements.

Asset Management

We have asset management systems in place to ensure the short and long-term availability and reliability of our wind and hydro power generation assets. Our Asset Management Framework and accompanying codes provide guidance for effective lifecycle management of our wind farms and hydro projects. An Asset Management Plan is developed for each site, and provides guidance on how we strategically operate and maintain each asset for optimum performance throughout its life.

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 Number
1.1	Statement from the CEO.		3
1.2	Key impacts, risks, and opportunities.		3, 40
2.1	Name of organisation.	Pacific Hydro Pty Ltd.	
2.2	Primary brands, products, and/or services.		7, 45
2.3	Operational structure of organisation.		7, 44
2.4	Location of organisation's headquarters.	Level 11, 474 Flinders Street, Melbourne, Australia.	
2.5	Number of countries where the organisation operates.		7
2.6	Nature of ownership and legal form.		41
2.7	Markets served.		7
2.8	Scale of the reporting organisation.		7
2.9	Significant changes during the reporting period.	We divested our two Fijian hydro projects – Wainikasou and Nagado – to our 50:50 joint venture partner, the Fiji Electricity Authority.	3
2.10	Awards.	Software Award for Employer of Choice (fewer than 1,000 employees); Mutual de Seguridad (work related injuries and illnesses insurance company) awarded Pacific Hydro Chile for having achieved 500,000 man hours LTIF (Lost Time Injury Free); and Mutual de Seguridad awarded Pacific Hydro Chile, Chacayes project team (excluding contractors) for having achieved 730 LTIF days. We were also finalists in the Engineering Excellence Awards 2009 run by the Victorian Institute of Engineers under the category 'Plus \$20M Infrastructure Projects'	
3.1	Reporting period.		1
3.2	Date of most recent previous report.	September 16, 2009	
3.3	Reporting cycle.	Annual	
3.4	Contact point for the report.		Back cover
3.5	Process for defining report content.		10
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 – p20 Health and safety statistics – p30	20, 30
3.10	Explanation of re-statements.		20
3.11	Significant changes from previous reporting periods.		1
3.12	Table of standard disclosures.		GRI Table
3.13	External assurance.	We have not used external assurance for this report.	
4.1	Governance structure.		41
4.2	Chair of the highest governance body.		41
4.3	Independent and/or non-executive board members.		41
4.4	Mechanisms to provide recommendations to the board.		41
4.5	Compensation and performance.		44
4.6	Avoidance of conflicts of interest.		45
4.7	Board selection process.		41
4.8	Mission and values statement.		1
4.9	Management of performance.		41
4.10	Performance evaluation.		41
4.11	Precautionary principle addressed.		18, 39

GRI Indicator	GRI Description	Comments	Page Number
4.12	Externally developed economic, environmental, and social charters.		43
4.13	Memberships in associations.		43
4.14	List of stakeholder groups.		11
4.15	Basis for identification and selection of stakeholders.		10
4.16	Approaches to stakeholder engagement.		11
4.17	Key stakeholder topics and concerns.		10
Economic	Disclosures on management approach.		35
EC1	Direct economic value generated and distributed.	●	14, 36
EC2	Financial implications of climate change.	○	39, 40
EC5	Standard entry-level wage/local minimum wage.	●	27
EC6	Locally-based suppliers.	○	37
EC7	Procedures for local hiring.	●	27
EC8	Development and impact of infrastructure investments and services.	○	15
EC9	Indirect economic impacts.	○	15, 37
Environmental	Disclosures on management approach.		18, 45
EN6	Initiatives to provide energy-efficient products and services.	●	39
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	○	39
EN12	Impact on biodiversity rich areas.	●	22
EN13	Habitats protected or restored.	○	23, 24
EN14	Managing impacts on biodiversity.	●	21-24
EN15	IUCN red list species.	●	21
EN16	Direct and indirect greenhouse gas emissions.	●	20
EN18	Initiatives to reduce greenhouse gas emissions.	○	20, 39
EN22	Waste by disposal methods	○	19, 33
EN23	Total number and volume of significant spills.	● No spills were recorded at any operating sites.	
EN26	Impacts of products and services.	●	19, 20, 33
EN28	Non-compliance – environmental laws.	● Pacific Hydro was fined USD\$500 for illegal land clearing by a subcontractor in Chile. There were no other fines or non-monetary sanctions in 2009/10.	
Labour	Disclosures on management approach.		28, 30, 32
LA1	Workforce.	●	29
LA2	Employee turnover.	○	25, 26
LA3	Benefits for full-time employees.	● The same benefits are provided to all employees (part-time pro-rata)	34
LA4	Collective bargaining agreements.	●	32
LA7	Absentee rates and injuries.	○	30
LA8	Programs for serious diseases.	●	31
LA10	Training per employee.	○	28, 29
LA11	Career and skill development programs.	●	28, 29
LA12	Employee performance reviews.	●	29
LA13	Workforce by diversity.	○	28
Human Rights	Disclosures on management approach.	●	16, 28
HR1	Investment agreements with human rights considerations.	○	45
HR2	Supplier screening on human rights.	●	37
HR3	Employee training on human rights.	●	45
HR4	Total number of incidents of discrimination and actions taken.	● There were no incidents of discrimination in FY 2009/10	
HR5	Risk to freedom of association and collective bargaining.	● There are no risks identified at any of our operations to our employees' right to freedom of association or collective bargaining	

Legend: ● Fully reported ○ Partially reported

GRI Index (continued)

GRI Indicator	GRI Description	Comments	Page Number
HR6	Risk of child labour.	●	16, 17
HR7	Risk of forced or compulsory labour.	●	16
HR9	Incidents involving Indigenous people.	● There have been no incidents or native title claim in 2009/10.	
Society	Disclosures on management approach.	●	12, 19
S01	Managing impacts on communities.	● Sustainable Communities Fund – p13 Commitment to Local Communities – p23 Employee Initiatives – p33 Indirect Economic Impact – p37	13, 23, 33, 37
S02	Analysis on corruption.	●	45
S03	Employees trained on corruption.	●	45
S04	Actions taken in response to corruption.	● There have been no incidents of corruption in FY 2009/10	
S05	Public policy positions and lobbying.	●	39, 40
S06	Political donations.	●	45
S07	Anti-competitive behaviour.	● There have been no incidents in 2009/10.	
S08	Non-compliance with laws and regulations.	● None.	
Product Responsibility	Disclosures on management approach.		7, 39
PR2	Non-compliance – health and safety impacts of products and services.	● No incidents have been reported or recorded.	
PR3	Product and service information.	●	45
PR4	Non-compliance with regulations and voluntary codes on product and service information.	● No incidents have been reported or recorded.	
PR6	Marketing communications.	○	45
PR7	Non-compliance – marketing communications.	● No incidents have been reported or recorded.	
PR9	Monetary value of significant fines.	● There were no fines in 2009/10.	
Electric Utility Sector Supplement			
EU1	Installed capacity, broken down by primary energy source and by regulatory regime.	● 1. All Australian assets fall under the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator, except for the Ord in Western Australia, which is regulated by the Economic Regulation Authority of Western Australia 2. All assets in Brazil are regulated by the National Agency of Energy Electricity (ANEEL). 3. Assets in Chile are regulated by CNE (La Comisión Nacional de Energía) and SEC (Superintendencia de Electricidad y Combustibles). Coya Unit 5 is our only asset operated within the SIC (Sistema Interconectado Central). The remaining energy from Coya and Pangal is supplied directly to Codelco's El Teniente mine. 4. All assets in the Philippines are regulated by the Energy Regulatory Commission (ERC).	
EU6	Management approach to ensure short and long term electricity availability and reliability.	○	42, 45
EU8	Research and development activity and expenditure aimed at providing reliable electricity and promoting sustainable development.	○	42
EU13	Biodiversity of offset habitats compared to the biodiversity of the affected areas.	○	24
EU17	Days worked by contractor and subcontractor employees involved in construction, operations and maintenance activities.	○	28
EU19	Stakeholder participation in the decision-making process related to energy planning and infrastructure development.	○	12

Legend: ● Fully reported ○ Partially reported



Main image: Pangal Hydro, Chile

Above images (Left to right):
 1. Chalicum Hills Wind Farm, Australia
 2. Jack & Jill Kindergarten, Sustainable Community Fund recipient, Australia
 3. Construction of powerhouse, Chacayes, Chile



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