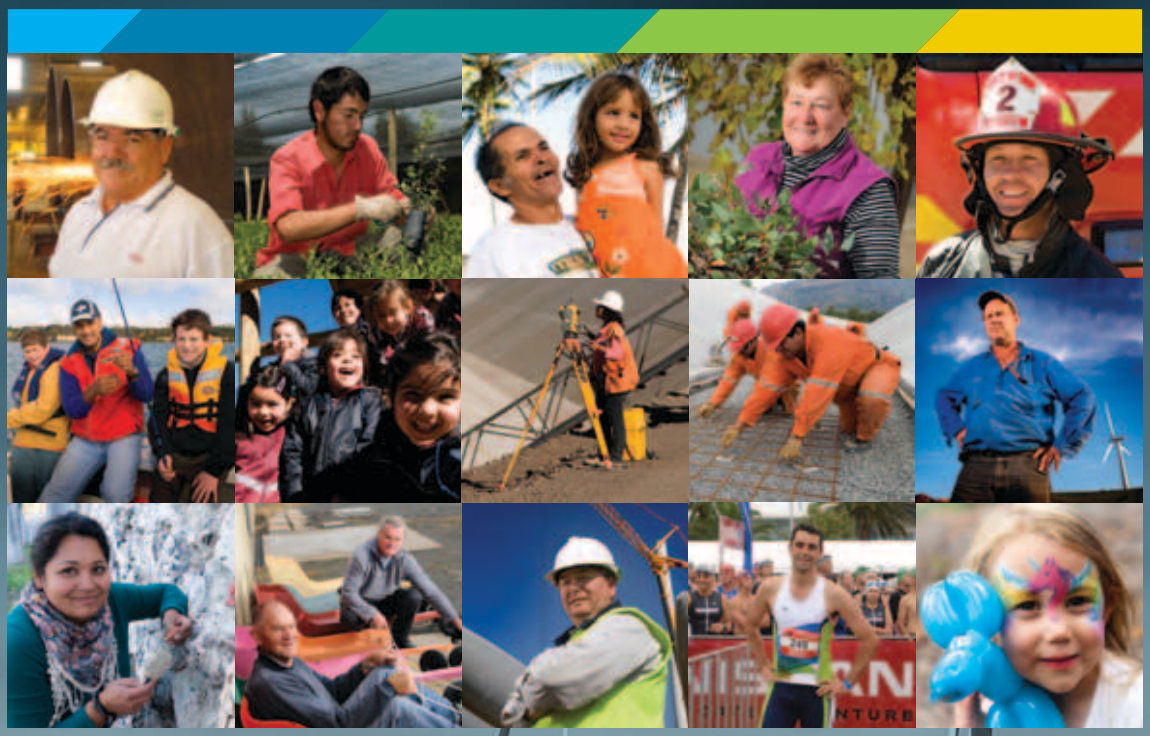
Sustainability Report 2011



PacificHydro

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- Front cover image: Codrington Wind Farm, Australia

About this Report

This is Pacific Hydro Pty Ltd's third annual Sustainability Report, covering the period 1 July 2010 to 30 June 2011. The document reports on sustainability topics and indicators for all of our majority-controlled assets and offices in Australia, Brazil and Chile, except where noted. Tinguiririca Energía (TE), our 50:50 joint venture in Chile, produces its own Sustainability Report, which can be viewed at www.tinguiriricaenergia.cl

We have applied the Global Reporting Initiative (GRI) G3.1 Guidelines and the Electric Utilities Sector Supplement to a B Level. This has been checked by the GRI. The report is not externally assured. Work towards obtaining external assurance will commence in 2012 as part of our 5-year sustainability plan.

All dollar amounts are in Australian dollars, unless otherwise stated.

During the reporting period, we divested our share of the Bakun Hydro project in the Philippines to our joint venture partner AboitizPower.

About Us

Clean energy generated

1.7million megawatt hours (MWh)

Employees

314

Operating assets

17

Net sales

$151.9million

Company Profile

Pacific Hydro is a leading renewable energy company, producing clean power from natural resources.

For nearly 20 years, we have lived our vision – powering a cleaner world – by identifying, delivering and operating renewable energy projects and providing clean power and carbon abatement products and services to customers across the globe.

With hydro, wind, solar and geothermal power projects at varying stages of development, construction and operation in Australia, Brazil and Chile, we continue to provide strong returns for the environment, local communities and investors.

We have over 850 MW of operating hydro and wind assets and a further 2,000+ MW in our project development pipeline. Our operating assets abate an estimated 1.5 million tonnes of greenhouse gas emissions every year.

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

A Message from our CEO

Welcome to our 2011 Sustainability Report.

We are committed to building a sustainable future for Pacific Hydro and our stakeholders. Over the past financial year, we have continued to live our vision – "powering a cleaner world" – through the development, delivery and operations of our renewable energy projects, making substantial progress towards achieving our business objectives and long-term growth.

It was a year of great challenges and achievements for our business.

More than 1.7 million megawatt hours of clean, renewable energy were generated by our assets, leading to the abatement of 1.3 million tonnes of greenhouse gas emissions.

We remained committed to continuous improvement in health, safety and the development of our people.

Our Total Recordable Injury Frequency Rate (TRIFR) reduced by ten per cent from last year. During the year we also achieved 100 per cent compliance with our lead health and safety key performance indicators, which will translate to further TRIFR improvements next year.

We had a large number of internal placements company-wide, which have created opportunities for our staff to take on new roles and further develop their careers.

We remained profitable despite our hydro assets in Chile experiencing the driest hydrological year in the past 50 years, transmission constraints, project commissioning delays and regulatory challenges. In addition, we saw depressed energy and Renewable Energy Certificates prices in Australia throughout the reporting period.

Despite these challenges, we achieved a number of significant milestones.

In Australia, we celebrated the ten year anniversary of the completion of theCodrington Wind Farm, the country's first commercial wind farm. We were also selected to build Australia's largest solar photovoltaic project as part of the Moree Solar Farm consortium. This represents a milestone in achieving our technology and geography diversification objectives in that market.

Our wind farms in Brazil's northeast achieved their second full year without any lost time or medical treatment injuries. Brazil became the world's seventh biggest economy in 2010 and is currently experiencing favourable social and economic development, creating many potential opportunities for Pacific Hydro in the clean energy sector.

Following the successful inauguration by the President of Chile in October 2010, our joint venture hydro power plants La Higuera and La Confluencia commenced generation, making Pacific Hydro one of the largest renewable energy companies in Chile. As we closed the financial year, we were on track to deliver our Chacayes hydro project on time and to budget.

Locally and globally, we take pride in our social development programs and the excellent relationships we maintain with our host communities. Our community programs in Australia, Brazil and Chile continue to provide opportunities for innovation and social cohesion, achieving positive, long-term community goals.

In July 2010, we were accepted into the United Nations Global Compact and are committed to further integrating this initiative into our operations.

The year ahead is looking promising for Pacific Hydro.

In Australia, changes to the policy environment for the clean energy industry are set to create new opportunities for us as we look to progress our wind, solar and geothermal development projects. Our Brazilian business unit will explore growth opportunities in the unregulated clean energy market to attract large mining, industrial and utility companies as potential customers for our projects.

Finally, a shortage of new projects in an energy-constrained Chilean economy is very promising for our pipeline of development projects in the Cachapoal Valley following the conclusion of the Chacayes project.

I hope you enjoy reading about our continued sustainability journey.

Robert Grant.

Rob Grant

Vision
Powering a cleaner world.

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

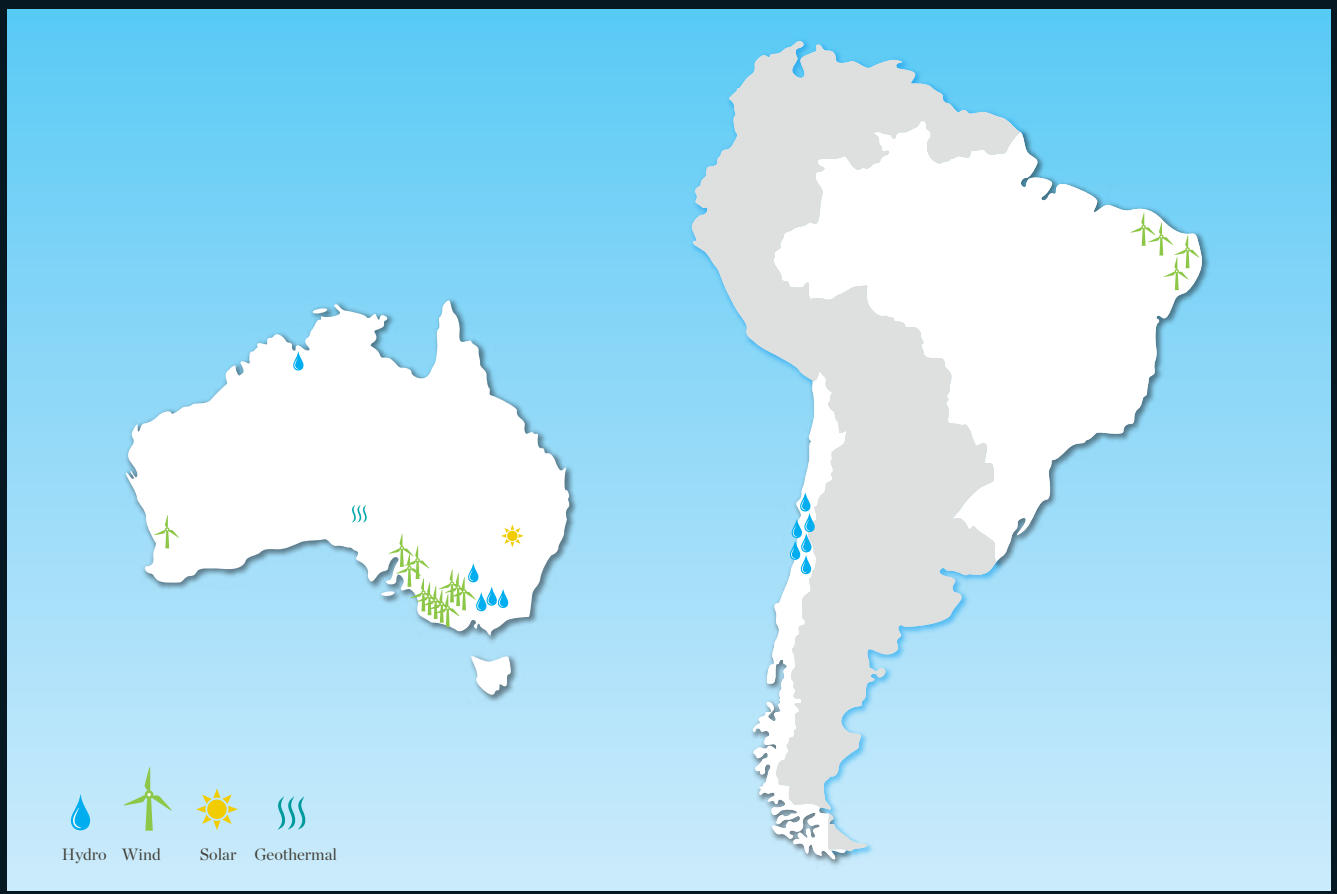
Our LEADing Values
Leadership – Having the courage to lead and innovate.

Energy – Helping to meet the world's energy needs while 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 positive outcomes for our communities.

Our Global Projects



What Sustainability Means to Us

Our Sustainability Framework

We are committed to ensuring the sustainability of our industry and company and this is embedded in the way we work. As we develop, deliver and operate renewable assets in our host communities, we take a long-term view of the environment in which we operate and the relationships we develop with all our stakeholders. This enables us to maintain a social license to operate for the lifecycle of the assets, identify and develop business opportunities, manage risks, advocate the best clean energy policies and attract and retain the best staff.

Our Sustainability Framework is built on four pillars: community, environment, workplace and business partners. These pillars provide our business with a clear focus and drive our sustainability practices.

Community

We aim to develop mutual trust and respect with communities through honest and open communication. Our goal is to deliver community programs and initiatives that provide clear benefits and meaningful outcomes that make a lasting difference to our host communities and which are aligned with the company's objectives. Actions are undertaken in line with our global Community Charter which is a guiding framework for consistent standards across our global operations.

Environment

We aim to provide a net benefit to our planet by producing clean energy with minimal impact on biodiversity, natural resources and our climate. Environmental Management Systems are implemented at our sites and we set environmental objectives and targets. We are working to measure and reduce our own carbon footprint. We engage with policy makers, communities and the public on renewable energy issues and advocate climate change policies.

Workplace

As an industry-leading employer of choice, we aim to provide a workplace that is safe from injury and harm for our staff and contractors. We support initiatives to improve employee health and wellbeing in the workplace. Training and development opportunities are provided for employees at all levels and we value diversity in our organisation.

Business Partners

We aim to deliver long-term value to our shareholders and partners in a transparent, ethical and economically sustainable way. Best practice and continuous improvement are sought in the management of our development, construction and operation of sites and is governed by our internal Management Systems and Asset Management Framework. As a signatory to the United Nations Global Compact, we advocate for responsible business practices within our sphere of influence.

• Right: Coya Intake, Cachapoal River, Chile

Key Sustainability Issues

Our business planning and risk processes and engagement with stakeholders help us to identify our key sustainability impacts, risks and opportunities. All of the economic, social and environmental issues are assessed, resulting in the identification of priority areas for each of our Sustainability Pillars, summarised on the right. This process enables us to determine the topics to be included in the report and are taken into account when we set our business strategies and goals for 2011/16 (refer to p.8).

Our Priority Areas

Community

- Consultation and Engagement
- Community Development and Funding

Environment

- Biodiversity
- Compliance, Reporting, Accountability

Workplace

- Health and Safety
- Attracting, Rewarding and Retaining Staff

Business Partners

- Financial Returns
- Renewable Energy Policy and Advocacy

Our Stakeholders

Our stakeholders are those individuals and groups impacted by our activities or those who can impact on our future development. The group is diverse and we adapt our approach and engagement activities as required to best address their areas of interest. The table on the right shows the stakeholder groups who have been identified as the key audiences for this report. These groups were consulted specifically to determine material issues for this report.

Communication and engagement with our stakeholders occurs in the following ways:

Stakeholder group	Methods of engagement
Shareholders (Owner)	Board and Committee meetings; investor updates; 5 year Business Planning process; strategy reviews
Banks and Financiers	Formal and informal meetings; written correspondence and phone calls; site visits; health, safety, sustainability and operational reporting as required
Communities and Landholders	Formal and informal community consultation sessions; community liaison officers; newsletters; community engagement and investment activities
Employees	Monthly e-news and CEO update; monthly lunchtime forums hosted by CEO, general managers or functional teams; 6 monthly performance reviews; regular social functions and events; annual Organisational Alignment Survey; intranet
Contractors and Suppliers	Expressions of Interest; quotations and tender processes; meetings; survey on sustainable functions of suppliers and contractors; contracts across the project lifecycle – development, delivery and operations
Customers	Regular meetings
Government Authorities – Local, State and Federal	Regular meetings; written submissions; formal participation and representation on industry and other bodies

Determining Materiality

In order to produce a meaningful and relevant report, we have a number of internal and external processes to help us identify the issues that are most important to our business and our stakeholders.

To determine material issues we analysed our past corporate reports, company policies and business strategies, risk registers, stakeholder feedback and sustainability reports produced by peers and competitors.

In addition to this, interviews were conducted to help us understand the issues stakeholders feel most strongly about and to provide feedback on last year's report. Independent consultants spoke with 43 internal and external stakeholders, resulting in a list of material issues recommended for inclusion in the report. For each pillar of our sustainability framework, issues are listed in order of decreasing priority. All key issues identified through our process of determining materiality have been addressed in this year's report:

Community: consultation and engagement (p.19); impact assessment (p.19); renewable energy advocacy (p.15); development (p.21); spending (p.19); education of the community (p.19–20); and local political dialogue and public debate (p.15).

Environment: biodiversity (p.24); bird strike (p.25); noise (p.29); climate change and related public policies (p.14, 26); compliance and regulatory issues (p.29); water (p.28); and environmental accountability and reporting (inside front cover).

Workplace: health and safety (p.31); diversity and equal employment opportunity (p.34); training and development (p.35); internal communication and coordination (p.36); turnover reduction (p.35); improving contractor safety (p.31); and transparency around job levels and remuneration (p.35).

Business Partners: improving financial returns (p.12); economic development of communities (p.12); purchasing policies and local sourcing (p.20); development and promotion of renewable energy (p.13–14); bribery and corruption (p.10); business case for sustainability (p.14); and government lobbying and public policy (p.15).

External Commitments

In early July 2010, we were accepted into the United Nations Global Compact (UNGC), a voluntary framework which helps businesses align their strategies and operations with ten universally–accepted principles on human rights, labour standards, environmental protection and anti-corruption.

During the year we have been working on our diversity policies and initiatives, launched a Whistleblower Disclosure and Investigation Procedure and continued with the development of renewable energy projects while advocating climate change policies and awareness. We also developed and trialled a sustainability supply chain survey and evaluation tool, which will help us to understand and assess supply chain risks and impacts.

We have included more information regarding our progress against the UNGC principles throughout the report. See the UNGC and GRI Index for more details (p.37).

• Above: Vale dos Ventos Wind Farm, Brazil

THE GLOBAL COMPACT

WE SUPPORT

Our Sustainability Performance and Goals

Progress on Our Sustainability Goals for 2010/11 ✓ Achieved o In Progress ✕ Not Achieved

	Strategies	Progress on Deliverables
Community	**Stakeholders** Bring consistency to the way in which we manage interfaces with host communities, assist business units to maintain up-to-date information on stakeholder priorities and build sustainable relationships and communication channels with key stakeholder groups.	✓ Developed and commenced roll-out of a company-wide Community Charter ✓ Maintained and improved our stakeholder issues list ✓ Refined our procedures for materiality assessments
	United Nations Global Compact (UNGC) Integrate UNGC principles into business strategy, operations, culture and decision-making processes.	o Currently identifying and analysing key areas that UNGC principles can be effectively integrated into ✓ Integrated reporting requirements of the UNGC into our sustainability reporting practices ✓ Advocated the UNGC within our sphere of influence
	Partnerships Engage in partnerships to advance broad development goals (such as the Millennium Development Goals).	✕ We intend to identify partnership opportunities once we have completed the work above
Environment	**Carbon Management** Reduce the company's carbon footprint.	o Our carbon reduction strategies are still in development. We are in the process of agreeing on reduction targets within our business units ✓ We continue to measure our carbon footprint and achieved a 37 per cent reduction since the previous year
Workplace	**Health and Safety** Continual improvement in health and safety performance, culture and competency across all business units and levels of the organisation.	✕ We achieved a Total Recordable Injury Frequency Rate (TRIFR) of 7.2 which was a 10 per cent reduction. However we had set a TRIFR target of 6.8 (15 per cent reduction) ✕ A health, safety and sustainability software system was not implemented as the roll-out of health and safety standards across the group became a higher priority
	Employees Educate employees on the importance and relevance of sustainability.	✓ Every employee participated in at least three initiatives which promoted or educated employees about an aspect of health, safety and sustainability
Business Partners	**Strategy and Performance** Provide accurate and reliable information to external stakeholders regarding the company's strategy and performance.	✓ Strategic marketing material for key stakeholders and to support investor activities was developed ✓ Quarterly briefing process for investors was introduced
	Sustainability Strategy Develop a sustainability framework and a long-term sustainability vision and strategy.	o Consultations regarding the long-term sustainability vision and strategy are ongoing ✓ Our materiality assessment process was used to help determine key issues for strategy development for the 2011/12 strategy

Sustainability Goals for 2011/16

	Community	Environment	Workplace	Business Partners
2011/12	**Community Relations** Engage openly with our local communities and maintain our community relations programs **Community Investment** Continue and enhance our community investment programs (e.g. Sustainable Communities Fund in Australia and Creciendo Juntos in Chile)	**Environmental Management** Maintain environmental management systems and meet compliance obligations **Carbon Management** Develop a carbon strategy and value proposition including corporate goals and targets **Operational Excellence** Incorporate sustainability metrics (e.g. benchmarking against the International Hydropower Association Sustainability Assessment Protocol) into annual operations performance reviews	**Health and Safety** Achieve a real year-on-year improvement for both lead and lag health and safety key performance indicators Benchmark construction and operational assets against relevant industry benchmarks Develop and deliver health and safety leadership training **Employees** Attract, recruit, develop and retain employees to ensure the achievement of business goals Develop and implement a global diversity strategy	**Economic Returns** Maximise shareholder returns **Renewable Energy Policy and Advocacy** Develop policy and regulatory positions for the company and pursue these positions via appropriate channels **Sustainable Supply Chain** Review and improve our supply chain assessment processes
2012/16	Further enhance community relations and investment programs	Continue to reduce our carbon footprint Improve data collection to enable full ecological footprint calculation Develop a corporate environmental audit program	Continue to improve health and safety performance Continue to measure, maintain and improve employee satisfaction and alignment	Continue to maximise shareholder returns Develop a sustainable supply chain strategy

Governance

Our Owner

Pacific Hydro is a wholly-owned subsidiary of the Industry Funds Management (IFM) Australian Infrastructure Fund. IFM is an investment management company specialising in the management of investment products across private equity, infrastructure, debt and listed equity portfolios and is wholly owned, through Industry Super Holdings Pty Ltd, by a large number of Australian superannuation funds. Please see www.ifm.net.au for more information about IFM.

Our Board

Our Board of Directors is highly committed to the principles of sustainability. The Board is responsible for ensuring that the company maintains an appropriate corporate governance structure, which protects and further enhances shareholder value by ensuring the integrity of reporting and by maintaining appropriate internal controls.

Although unlisted, the Board of Directors refers to the Australian Stock Exchange Corporate Governance Council's "Corporate Governance Principles and Recommendations" (ASX Standards) as the benchmark for standards of good governance practice. The Principles and Recommendations lay solid foundations for management and oversight, ensure the effectiveness of the Board, promote ethical decision-making, safeguard integrity and transparency, respect shareholder rights, recognise and manage risk, and ensure fair remuneration practices.

As at 30 June 2011, the board consisted of six non-executive members and one alternate Director. These included three representatives from IFM along with three independent Directors and one alternate independent Director. This structure ensures robust governance and continuous disclosure to our shareholder. The Board comes from diverse backgrounds, professions and working environments. Thirty-three per cent (2) of Board members are between the ages of 30–50, and the remaining 67 per cent (4) are older than 50. Eighty-three per cent (5) are male and 17 per cent (1) are female.

Board members are appointed by IFM based on their qualifications and expertise in the relevant areas. Each member performs a periodic self-assessment to evaluate their performance. They are paid Directors' fees at a level in line with the market. Their fees are not performance-based. To avoid conflicts of interest, members are required to update a Declaration of Interest at every board meeting. This is confirmed on an annual basis.

The Board has three permanent committees whose objectives are to consider and give direction on specific areas on behalf of the Board. The Board receives a monthly report from management on our economic, social and environmental performance, while the Health, Safety, People and Sustainability Committee has specific responsibilities in relation to sustainability performance and issues and meets at least four times a year.

More information about the Board and our governance can be found at pacifichydro.com/investors/corporate-governance/

Pacific Hydro Board Members (As at 30 June 2011)

Name	Position	Committee Membership
Directors		
Garry Weaven	Chairman and Owner's Representative – IFM	• Audit, Finance and Risk • Projects and Operations • Health, Safety, People and Sustainability *
Brett Himbury	Non-Executive Director and Owner's Representative – IFM	• Audit, Finance and Risk • Health, Safety, People and Sustainability
Kyle Mangini	Non-Executive Director and Owner's Representative – IFM	• Audit, Finance and Risk • Projects and Operations
Kate Spargo	Independent Non-Executive Director	• Health, Safety, People and Sustainability
Geoff Coffey	Independent Non-Executive Director	• Audit, Finance and Risk • Projects and Operations
Roger Gill	Independent Non-Executive Director	• Projects and Operations
Bernard Wheelahan *	Alternate Director to Garry Weaven	• Health, Safety, People and Sustainability

Ethical Behaviour

Our Code of Conduct provides guidance on ethical behaviour for our employees and Directors globally and outlines our approach and responsibilities to customers, landholders, commercial partners, shareholders and the financial community. All new employees receive training in and are required to sign our Code of Conduct which outlines the company's standards and position on bribery, anti-competitive behaviour and discrimination and applies to all employees and contractors.

All Managers and employees who regularly deal with overseas counterparties receive periodic training on Foreign Corrupt Practices in Australia, Brazil and Chile. The training explains the policies and procedures relevant to the jurisdictions in which we operate.

During the year we developed a Whistleblower Disclosure and Investigation Procedure for investigating reports from whistleblowers. It covers allegations of improper or corrupt conduct, breaches of company policy, the Code of Conduct and any relevant laws.

While monetary donations to political parties are prohibited under our Code of Conduct, we do occasionally participate in political fundraising activities to enhance our communication with policy makers.

There were no reported incidents of corruption, anti-competitive behaviour or discrimination during the period.

Risk Management and Compliance

Sustainability is embedded in our Enterprise Wide Risk Management Framework (EWRMF) and is key to achieving the company's vision and mission, delivering corporate objectives, managing risk and providing greater certainty and confidence to our owner.

We periodically undertake a rigorous risk assessment of all development opportunities and operations. Our enterprise-wide approach includes the establishment of governance, controls and compliance mechanisms to manage key risks in all of our business units. Internal and external assurance processes are adopted and any anomalies trigger further investigation.

The Audit, Finance and Risk Committee oversees and reviews the effectiveness of the framework while the CEO and General Management team are responsible for implementing the appropriate risk-mitigation strategies in accordance with the EWRMF. Management responsibility for compliance is reinforced by a yearly requirement for each General Manager to provide an Annual Compliance Report dealing with the state of compliance within the areas of their management responsibility.

There were no reported non-compliances with any laws or regulations during the reporting period.

Awards

- Climate Alliance's "Business Leader of the Year" Award
- Human Resources (HR) Leader Compass Award for:
  - "Best Talent Management Strategy" (2nd place) and
  - "HR Champion (CEO)" (winner)
- CIGRE 2010 'New Entrepreneur' awarded to Tinguiririca Energía by the Chilean Committee of the International Council on Large Electric Systems
- "Best Project Developer – Asia Pacific" in the Renewable Energy Finance category (*Environmental Finance* and *Carbon Finance)* by Platts Environmental Finance
- "Best SME Report" for our 2009 Sustainability Report – Corporate Responsibility Reporting Awards 2011.

Development expenditure

$10.7million

Increase in sales revenue since 2009/10

5%

Our installed capacity increased by 24%

622.5 MW

Construction capital expenditure

$136.9million

Our Approach

As governments around the world embrace the need for significant cuts in carbon emissions, the opportunities for cleaner energy production have never been greater. In an increasingly competitive market place, our strong reputation, expertise and innovative culture set us apart. We have a clear strategy to achieve growth, increase shareholder value and returns, and provide clean energy to meet increasing demand.

Our strategy for sustainable economic growth involves:

- Optimising the operational efficiencies and earning from existing assets;
- Developing a diversified portfolio of renewable energy assets through development or acquisitions that deliver growth and add economic value;
- Reviewing and capturing appropriate emerging renewable developments and acquisitions; and
- Developing vertical integration opportunities that complement the operation and development of new projects.

Our Economic Performance

Sales revenue was $151.9 million for the reporting period (excluding equity accounted investments), an increase of five per cent from the previous year. This was driven by the increase in contract price for the supply of power from the Ord Hydro, higher energy prices in Chile and partially offset by lower spot prices in South Australia and the unfavourable impact of the weakening US dollar.

Capital spend of $136.9 million was incurred in the 2010/11 financial year, primarily on the Chacayes project in Chile.

Indirect Economic Impact

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

Our developments assist in stimulating local economic and social development, such as providing local employment and business opportunities and establishing new local business and areas of expertise in our host communities. Impacts are described in more detail on pages 16, 20 and 21.

We have identified an opportunity to improve our methods of quantification of indirect economic impacts, including job creation and indirect local expenditure estimates.

Installed Capacity (MW)

As at 30 June 2011 (includes only installed capacity owned by Pacific Hydro)

Australia – Total	**303**
Hydro	43
Wind	260
Brazil – Total	**58**
Wind	58
Chile – Total	**261.5**
Hydro	232.5
Thermal backup	29
Total Installed Capacity	**622.5**

Further information on our development projects and operating assets can be found at pacifichydro.com/projects/our-global-projects/

Direct Economic Impact

	FY 2010/11 Total $'000	FY 2009/10 Total $'000	FY 2008/09 Total $'000
Economic Value Generated			
Revenues	151,904	144,836	118,767
Economic Value Distributed			
Operating Costs	(45,376)	(38,192)	(32,935)
Employee Wages and Benefits	(41,607)	(34,930)	(34,346)
Payments to Providers of Finance	(56,677)	(39,470)	(19,673)
Payments of Income Tax	(8,144)	(3,224)	(5,904)
Community Fund Investments	(450)#	(604)	(632)

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

Decreased due to exit of Pacific Hydro from the Philippines.

Products and Services

Pacific Hydro produces renewable energy from a portfolio of wind farm and hydro power assets in Australia, Brazil and Chile. We sell and trade electricity, electricity derivative products and energy-related environmental products, including Renewable Energy Certificates and EU Certified Emission Reduction Credits. Our customers include energy retailers, mining companies and large consumers such as businesses and government.

Details of the energy-related environmental products we sell are provided below.

- **Certified Emission Reductions (CERs):** International carbon-based instruments that can be utilised by countries that have committed to carbon emission reduction targets through the Kyoto Protocol, or by companies required to reduce emissions under mandated schemes such as the European Emissions Trading Scheme.
- **Renewable Energy Certificates (RECs):** In Australia, all electricity retailers and some large consumers of electricity, are required to purchase a minimum amount of electricity from renewable sources (20 per cent by 2020) under the Renewable Energy Target (RET). These companies achieve this by procuring RECs. All of Pacific Hydro's Australian renewable energy projects commissioned post-January 1997 are qualified to produce and sell RECs.

- **GreenPower:** As part of the Australian GreenPower Accredited Renewable Energy Program, GreenPower can be purchased voluntarily by Australian electricity consumers in preference to non-renewable electricity sources. This voluntary action adds to the demand for renewable electricity created by the Australian RET. All of Pacific Hydro's Australian renewable energy projects commissioned post-January 1997 are qualified to produce and sell GreenPower.

There were no incidents of non-compliance with regulations concerning marketing communications, nor any complaints regarding breaches of customer privacy during the reporting period.

• Below: Danny Halstead, Wind Farm Supervisor at Portland, Australia

Operational Excellence

With two new projects achieving first generation during the reporting period, we experienced a turning point, moving from a construction to an operational focus, making operational excellence a key priority.

Operational excellence is sought in the management of all our operational sites and is governed by our internal management systems and Asset Management Framework. Our asset evaluation and management systems ensure that operational aspects are considered in the design phase, resulting in greater certainty of operating costs, short and long-term availability and reliability of our generation assets.

A number of asset management benchmarking exercises and operations performance reviews were conducted during the reporting period. These initiatives evaluated the effectiveness of our systems and processes, our asset performance relative to business expectations and general asset condition. These studies form the basis of our strategic decisions in relation to the use, maintenance and expectations of the plant.

In Australia, we continue to bring the operations and maintenance of our wind farms in-house, and have experienced substantial cost savings and availability improvements as a result.

Globally, our installed capacity increased by 24 per cent to 622.5 MW, and our clean energy generation increased by 7 per cent to 1.7 million MWh (including joint ventures).

We divested our 50 per cent stake in the Luzon Hydro Corporation, Philippines, in line with our strategy to focus on our core markets of Australia and South America.

Our Response to Climate Change

Our commitment to powering a cleaner world reflects our dedication to addressing climate change. We are committed to reducing greenhouse gas emissions while meeting growing global energy needs. There are four key components to our response to climate change:

1 Developing more new renewable energy projects to help reduce the global reliance on fossil fuels;

2 Helping our customers meet their climate change mitigation obligations by providing more products and services;

3 Advocating for government action to reduce carbon emissions; and

4 Minimising our own carbon footprint.

Our development pipeline of renewable energy projects includes run-of-river hydro facilities, wind farms, conventional geothermal projects and a large-scale solar farm. These projects are located in Australia, Brazil and Chile and are at various stages of development.

We are looking at ways to improve our products and services to meet the current and future needs of our customers. Perenia, one of our joint ventures, is a specialist firm established to support companies looking to respond to the opportunities and challenges associated with the impact of climate change (refer to p.17).

Across our three key geographic markets, we advocate policy and industry responses to climate change. This occurs in a range of ways, from working with governments to address regulatory market issues impacting renewable energy generation, to lobbying for the introduction of a well-designed carbon price to support the transition to a low-carbon economy (refer to p.15).

This year our carbon footprint reduced by 37 per cent, primarily due to a decrease in construction activities (refer to p.26).

Climate change presents significant opportunity to our business and also considerable risk. Changes to long term rainfall and wind speed trends and the number of extreme weather events, have the potential to impact our revenue and operating costs. Regulatory changes related to climate change in areas such as carbon, electricity and governance, pose potential risks or opportunities. Our business model will allow us to act on opportunities to expand our geographic spread and diversify into other renewable technologies such as solar and geothermal. In addition, we are well placed to increase business and community awareness of climate change through our stakeholder relationships.

Opening of La Higuera and La Confluencia

Tinguiririca Energía, our 50:50 joint venture with Norwegian company SN Power Invest, was created to develop clean energy projects in the Tinguiririca Valley in Chile. Through this partnership, two large-scale run-of-river hydro projects were developed – La Higuera and La Confluencia. Both hydros were officially opened by Chilean President, Sebastian Piñera, at an inauguration ceremony in October 2010.

Combined, the projects inject more than 300MW of new generation capacity into the Chilean energy market, equivalent to powering one million Chilean homes annually. They are the largest hydros to be commissioned in Chile since 2000 and are our first development projects to be delivered in Chile. Construction of the two projects cost over $800 million and their completion saw Pacific Hydro ranked amongst the largest renewable generators in Chile. Both projects produce tradeable carbon credits and are registered under the Kyoto Protocol's Clean Development Mechanism.

The construction of these projects had a significant impact on local economies, creating jobs for local residents and providing opportunities for contractors and suppliers. Infrastructure such as roads were built or improved and the influx of workers provided other business opportunities including cafes, restaurants, accommodation and tourist attractions.

Tinguiririca Energía has a comprehensive Community Relations Plan, which aims to strengthen ties between the company and local communities.

- Above: President Piñera with members of Pacific Hydro's Board and General Management Team

Public Policy and Advocacy

We play a leading role in advocacy for the renewable energy industry. Independently and as part of broader industry bodies, we promote the benefits of renewable energy and actively seek opportunities to provide accurate information and informed advice to a range of local, state and federal policy makers and regulatory bodies. In addition, we contribute to public policy development and debates by providing information and comment to our external stakeholders, including local communities, service providers, media, politicians and policy makers.

The key strategic advocacy issues in Australia during the reporting period were as follows:

• Above: Cape Nelson South Wind Farm, Australia

ISSUE	POSITION
Carbon price policy package	An explicit price on carbon is the most important foundation policy to assist Australia's transition to a low carbon economy, driving jobs and investment towards cleaner energy and lower carbon industries. Long term investor certainty will also be achieved.
International emissions trading	International emissions trading provides economic efficiency and global environmental benefits. Provided sufficient safe-guards on quality and integrity are in place, international emissions trading enables the most cost-effective carbon abatement to be sourced, delivering economic efficiency and environmental outcomes. Additionally, internationally linked carbon trading supports other countries' efforts to encourage global investment and interest towards lower carbon opportunities.
Energy market reforms	There is a clear role for a process of complementary energy market reform. We continue to advocate for reforms to transmission and interconnector investment frameworks, transmission project funding reforms, and emissions standards for new generation plants.
The Australian Senate Inquiry into the Social and Economic Impact of Rural Wind Farms	While we do not believe there is a link in health complaints and wind turbine operation, we are willing to participate in a properly conducted study which considers all health factors, including psychosomatic issues.
The value of industry-lead best practice community engagement	We are committed to maintaining our high standard of planning and community consultation internally and promoting standards across the industry.

Codrington Wind Farm Celebrates 10 Successful Years of Operation

Located near Port Fairy in south-west Victoria, the Codrington Wind Farm was our first wind energy project, and Australia's largest, when it was officially opened in 2001. We celebrated Codrington's ten year milestone in June 2011 with two separate events, both intended to thank the local community and the Moyne Shire Council for their strong, continued support of the project.

Creating sustainable communities

Since establishing the Codrington/Yambuk Sustainable Communities Fund, we have invested over $280,000 into 63 local community projects, supporting local projects and encouraging community cohesion and sustainability.

Powering a cleaner world

In its first ten years of operation the project has already abated more than half a million tonnes of greenhouse gas emissions and produced 437,895 MWh of electricity, the equivalent energy needs of around 10,000 Australia homes annually.

Renewable jobs

The project was the first private wind project to be developed in Australia, marking the beginning of the wind industry in Australia. Our presence in the area has provided opportunities to a number of local businesses:

Days Electrical

Family owned and run business, Days Electrical, were the main electrical contractor for Codrington. Days Electrical have since provided electrical services for some of our other wind farm projects, including the Yambuk, Cape Bridgewater and Cape Nelson South Wind Farms.

Codrington Settlement and Gardens Bed and Breakfast

Geoff Tonks, along with his wife Yuan, operates the Codrington Settlement and Gardens Bed and Breakfast, welcoming thousands of visitors annually. Like other neighbouring residents, Geoff is a strong supporter of the wind farm. He has constructed a viewing platform on the grounds of the property to take advantage of the panoramic wind farm views and to further educate his guests on renewable energy.

Keppel Prince Engineering

The Codrington wind farm towers were the first wind farm towers manufactured by Keppel Prince Engineering in Portland, Victoria. Since then, Keppel Prince have become a well respected wind tower manufacturer in Australia, providing jobs for around 150 local people.

- Left: Community members attending the ten year celebrations at Codrington Wind Farm; Right: Steve Garner, General Manager of Keppel Prince Engineering, Portland

Memberships

Strategic memberships with local, national and global associations help drive the sustainable development of our industry. These associations include:

- ABEEolica (Brazilian Wind Energy Association)
- Australia Brazil Chamber of Commerce
- Australia Chile Chamber of Commerce
- Australia Latin America Business Council
- Australian Government's Council on Australia Latin America Relations
- Australian Sustainable Energy Association
- Brazilian National Technical Rules Association (Health and Safety Committee)
- Chilean Generator Association
- Clean Energy Council
- Committee for Portland
- Global Foundation
- The Chilean Association of Renewable Energy
- The Climate Institute
- The Committee for Economic Development of Australia

In addition, we hold positions within the following organisations: Council on Australia Latin America Relations; Renewable Energy Taskforce of the Asia Pacific Partnership on Clean Development and Climate; Clean Energy Council of Australia; Chilean Generator Association; ABEEolica; and a Coalition of Australian businesses supporting Australia's transition to a low-carbon economy.

Perenia

Our carbon consulting business, Perenia, is a joint venture with engineering consultants, Snowy Mountains Engineering Corporation (SMEC) and Japanese trading house, Mitsui & Co. Ltd. Perenia offers complete carbon solutions. This includes partnering with private and public sector clients to audit and assess their operations, develop strategies to manage greenhouse gas emissions and satisfy regulatory requirements, facilitate emission reduction projects and create and broker the transaction of carbon credits. Perenia has developed a diverse portfolio of emission reduction projects in both developing and industrialised countries, operating throughout Australia and Asia.

Moree Solar Farm Partnership

In 2009 the Australian Federal Government announced the $1.5 billion Solar Flagships program, an initiative to support the construction of up to four large-scale, grid-connected solar power stations in Australia, using thermal and photovoltaic (PV) technologies. The primary objective of the program is to provide the foundation for large-scale, grid-connected, solar power to make a significant contribution to Australia's future electricity supply.

Together with consortium partners Fotowatio Renewable Ventures (FRV) and BP Solar, Pacific Hydro applied for funding through the program. In June 2011 the Moree Solar Farm consortium was identified as the successful bidder and was chosen to develop Australia's first utility-scale solar PV project under the Solar PV technology category.

Based in Moree, New South Wales, the project is set to be one of the world's largest solar PV generation facilities and will operate for at least 25 years.

This ground-breaking utility scale solar power plant will be developed using multi-crystalline solar PV technology. The installation will provide a demonstration of the viability of utility scale solar projects in Australia and will address a number of key research issues, including enhancing understanding of the interaction of utility scale solar with the Australian electricity grid.

The project will deliver multiple benefits to various stakeholders. These include:

- Creating many employment opportunities both in and around Moree;
- Delivering additional indirect economic opportunities;
- Creating new educational and skills-based training opportunities;
- Delivering new clean electricity to meet Australia's increasing energy needs and providing enough solar power for approximately 45,000 homes;
- Reducing the town's reliance on agriculture;
- Creating opportunities for the Indigenous community;
- Furthering the development of the Australian solar PV industry; and
- Attracting additional tourists to Moree.

Sustainable Supply Chain

In 2010 we developed a sustainability supplier survey and evaluation tool to help us better understand our supply chain impacts on people, the environment and the economy, and identify key sustainability risks and opportunities in our supply chain. The survey addressed governance, ethics, policies, risk management, systems, reporting and key areas including safety, labour standards, community engagement and environmental management.

The questionnaire was trialled on two procurement components of a wind energy development project in Western Australia. This process helped us identify opportunities, including suppliers already active in local Indigenous programs, as well as areas we would need to work with suppliers such as improving capabilities in reporting greenhouse gas emissions.

Our next step will be to refine and adapt the survey to support various parts of the business.

Community

Invested in Communities

$450,000

Employees agree that we contribute positively to the wider community

93%

Community funds

7

Developed Pacific Hydro's first Community Charter

IN 2010

Our Approach

Locally and globally, we aim to be socially responsible, maintaining good relations with our host communities. Our global strategy is to deliver positive outcomes to our host communities by being a responsible neighbour and community member.

We aim to be involved in, and support, public events near our project sites so we can better understand and become part of our host communities. This may be in the form of sponsorship, consultation, participation in local events or financial contributions through our community investment programs.

Local community engagement, impact assessments and development programs have been implemented at all of our operations.

Community Consultation

Our community consultation process provides stakeholders with the opportunity to participate in the development of a proposed project. Consultation styles are adapted to best suit each community's needs. Our methods of communication include formal and informal community consultation sessions, community liaison officers, newsletters, surveys and via our community engagement and investment activities.

We developed a Community Charter during the year (pacifichydro.com/wp-content/uploads/2011/10/Pacific-Hydro-Community-Charter.pdf) which is a guiding framework on how we engage and work with communities in a consistent way across the globe. Implementation of the Charter will continue over the coming year. In Brazil, we continue to implement our Community Affairs Policy which is aligned with the Community Charter and provides guidance to employees on developing and sustaining relationships with local communities.

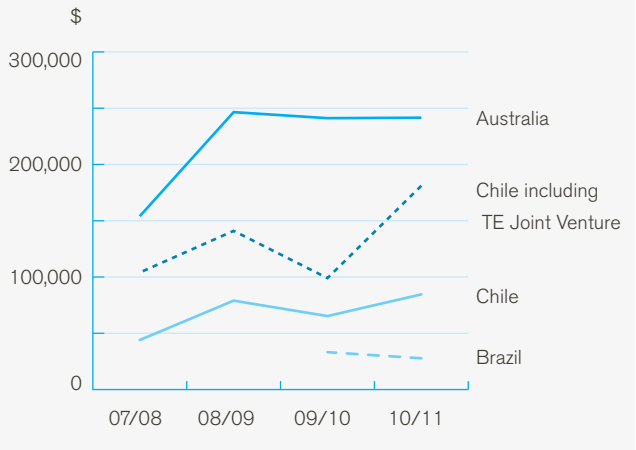
Impacts

Community Investment Programs

In an effort to encourage social development and sustainability initiatives, local community engagement, impact assessments and development programs have been implemented at 100 per cent of our operations. Except for our Australian hydro projects, community investment funds have also been established at all of our operations.

A portion of profits made by each project are invested back into the local community through grants in the areas of education, health and safety, sport, environment, culture and the arts.

Community Investment Fund Spend



Our approach is not philanthropic, but strategic. Through our funds, we promote innovative solutions to local issues, encourage organisations to form partnerships to deliver community services and work towards positive, long-term outcomes for broader community benefits.

Applicants must meet certain criteria and we have a comprehensive process for determining successful applicants. This includes meeting with regional authorities and representatives from the local municipality to ensure funding is being allocated appropriately within the region.

Australia

The benefits of our Sustainable Communities Funds reach much further than the immediate beneficiary groups or individuals. One of our fund recipients this year was the Men's Shed in Port Fairy, Victoria. Men's Shed plays a critical role in regional communities, helping address mental and physical health issues and social isolation with the ultimate aim of improved health awareness. As well as providing a place for men to talk freely about issues, Men's Shed participates in ongoing community-based projects. This allows older retired men to continue to use their skills, including woodwork and metalwork, while mentoring younger men in the community.

Brazil

Now in its second year, our Brazilian community fund was broadly based on the company-wide framework. However, we are implementing a number of local changes to ensure the fund is structured appropriately for the communities where we are located. Our Community Liaison Officer is working with the local communities to develop an application method which can be utilised by all community members. In addition to working with individuals and community groups as part of the community fund, our Community Liaison Officer also works with local authorities to focus efforts on sustainable development and other community concerns.

Chile

Creciendo Juntos, the name of our Chilean fund, translates to 'growing together'. We have taken this approach literally, with the scope of the fund growing as we aim to contribute to improving the quality of life for local communities. In addition to the fund, our community investment activities include supporting cultural, sporting and communal events and providing material contributions for local initiatives. This year, we have continued to grow our community investment program, establishing and leveraging a number of public-private partnerships. Involving community members, local businesses and other stakeholders, the partnerships provide opportunities for self-sufficiency and promote tourism and local development.

Tinguiririca Energía, our 50:50 joint venture in Chile, also has a community investment program, Tinguiririca Participa, or 'Tinguiririca Participates'. As well as providing funding opportunities for locals living in the Tinguiririca Valley, Tinguiririca Participa works with community and grassroots leaders, providing training and assisting with preparing social and community needs assessments. The program also works with community groups and individuals to identify additional public and private sources of funding.

Job Opportunities and Local Sourcing

Hiring employees and contractors locally provides benefits to both local communities and our business. While no formal policy exists regarding local employment, we hire from local communities where appropriate and we encourage our contractors to do the same.

As part of our commitment to local employment, we have committed to hiring a local Indigenous consultant to survey earthworks once construction commences at our Crowlands Wind Farm in Victoria, Australia.

In Chile, all our major contracts require contractors to provide job opportunities to local residents where possible. We also provide training to local community members to gain the skills necessary for employment and to develop their own businesses as service providers on our projects.

At our Chacayes Hydro project, we work closely with a local Workforce Committee that assists unemployed men and women from nearby towns to gain employment. As construction comes to an end, the number of employees and contractors required on site diminishes. The Committee negotiated with our main contractor to ensure that the remaining workers on site are predominantly from the local towns in order to prolong their employment. In addition, the Committee has negotiated for a number of ongoing maintenance services to be provided by local workers after project completion. As part of our continuous commitment to improve community relations, we have provided the Committee with an office, computers and training on how to keep and analyse accurate statistical data.

As well as hiring local employees, it is common practice to source from local or regional suppliers where products and services are competitive in quality, price and service. During the early stages of project development in Australia, road shows are held with local industry, providing information to local contractors and suppliers on business opportunities created by our project. We undertake detailed assessments of the health, safety, environmental and sustainability performance of contractors prior to any major contract being awarded.

Sourcing locally improves supply, supports the local economy, increases efficiency and helps us maintain good community relations.

Visual Impact – Wind Farms

Construction of a wind farm inevitably creates a change to the local landscape and leads to visual impact which, in some cases, is not always welcomed by all members of the community. We strive to be open and responsive to community concerns, working with communities to find solutions to valid concerns.

Landscape and Visual Impact Assessments are included in the environmental assessments undertaken when planning a wind farm. The purpose of these assessments is to identify significant features of the landscape within the vicinity of a wind farm; assess the landscape and visual values of the site and area within the wind farm; and discuss any potential mitigation measures that can be used to avoid visual impacts to surrounding neighbours.

During the community consultation process, photomontages are produced as a way for communities to visualise the existing landscape from different vantage points before and after the wind farm is constructed.

At one of our development sites, located in Keyneton, South Australia, ongoing community consultation revealed neighbours' concerns about the proposed wind farm relating to the cluster of turbines closest to them. A number of issues were raised, including visual amenity. Based on the concerns raised, three turbines have been completely removed from the initial project design and a further two were relocated.

Noise and infrasound impacts can be found in the Environment section (refer to p.29).

Creating Opportunities in Local Communities

The temporary nature of some employment opportunities in the Alto Cachapoal Valley, near our Chacayes project in Chile, is a major issue faced by local residents. This means that once employment ceases, some households lose their sole source of income.

In an effort to address this issue, improve quality of life and promote sustainable entrepreneurship in the Valley, we developed a capacity-building training program. By delivering specialised training programs to teach or strengthen existing skills and increase entrepreneurial capabilities, households could be provided with additional means of income. We partner with Organismo Técnico Intermedio de Capacitación and Corporación La Esperanza to provide this training annually. Corporación La Esperanza is a non-governmental organisation that promotes development for individuals, families, groups and communities living either in poverty, or in marginalised sections of the community.

Representatives from Pacific Hydro meet with local community members on a monthly basis to discuss any issues or opportunities arising from our construction project. Communities identify areas of development interests, which we then work towards achieving collaboratively. It is at these meetings that potential training courses are determined, evaluated against criteria including social relevance, technical feasibility, social equity, sustainability, timing and cost.

Through the training program, many small businesses have been established and existing businesses given the capacity to expand. Berta Gema Contreras, a local resident, has participated in a number of courses offered and runs a small fast food business in Coya.

"I've been able to learn and utilise new tools that have enabled me to become a micro entrepreneur, deliver a better service and boost my business. The support I've received from Pacific Hydro during the course and even following its completion, has helped me to achieve my personal goals", she said.

• Below: Local employee at Chacayes tree nursery, Chile

Indigenous Rights

Indigenous heritage is protected under Federal and State legislation as well as through our Health, Safety and Sustainability (HSS) Policy, which ensures that land and resources under our care are managed with sensitivity and that we have due care for cultural heritage, local conditions and concerns.

In Australia, we acknowledge Aboriginal people as being the Traditional Owners of the land where we operate and recognise their place as primary guardians of Aboriginal cultural heritage. As part of our environmental assessment and planning process, consultant archaeologists and anthropologists work with the Traditional Owners to undertake cultural heritage and ethnographic surveys of the site. This process allows us to identify and avoid impacting areas of cultural or ethnographic value. Prior to construction, Cultural Heritage Management Plans or similar agreements are developed with the Traditional Owners. These plans outline methods used to avoid, minimise and mitigate our impacts on areas of cultural heritage, archaeological value or Indigenous significance.

In Chile, sites of cultural or archaeological heritage value are also protected. As part of the Environmental Impact Assessment for our Chacayes hydro project, a Cultural and Archaeological Property Management Plan was developed and continues to be implemented. The Plan ensures that sites of potential cultural or archaeological value are not impacted negatively by our presence. Archaeological clearing and inspection activities occur prior to and during excavation activities, and if any areas of potential significance are identified, construction activities cease until the relevant authorities are notified, and appropriate measures applied.

According to studies conducted before construction of our wind farms, none of our projects in Brazil are located near indigenous or cultural heritage.

Respecting Rights

We respect the rights of our employees, contractors and the broader community. We comply with all relevant laws relating to human rights and our human rights commitments are covered by the following policies:

- Equal Opportunities Policy
- Code of Conduct
- Whistleblowers Disclosure and Investigation Procedure
- Health, Safety and Sustainability Policy
- Community Charter

Our recent supply chain work includes a sustainability assessment which contains criteria on human rights (refer to p.17). We are also active members of the United Nations Global Compact Human Rights Working Group for Business, both presenting and participating in sessions intended to share learnings on human rights challenges and opportunities for businesses.

There were no incidents of grievances related to human rights during the reporting period.

- Top: Surveying at our Chacayes hydro project, Chile; Bottom: Local community members, Brazil

Environment

Clean energy generated

1.7million MWh

CO_2-equivalent (CO_2-e) abated during the reporting period

1.3million TONNES

CO_2-e abated since 1994

9.4million TONNES

Employees agree that Pacific Hydro is environmentally responsible

98%

Our Approach

Producing energy from clean, renewable energy sources and abating harmful greenhouse gas emissions helps us to power a cleaner world.

We apply a clear, strategic approach to managing our environmental footprint, implementing environmentally sound practices across our global operations. Land and resources under our care are managed with sensitivity, having due regard for cultural heritage, local conditions and the biodiversity of the region.

Biodiversity

We recognise that our presence has an effect on biodiversity and we aim to minimise our impact on the natural environment wherever possible. Biodiversity is a major consideration when planning development projects and we are committed to preserving biodiversity in areas where we are present.

Part of the annual maintenance at The Drop, one of our hydro power plants located in New South Wales (NSW), Australia, includes draining the pondage area. The pondage is home to a number of fish species, some of which are threatened. We work with Fisheries NSW to relocate the fish to a nearby river and to remove any exotic fish harmful to native species. This year, almost 800,000 fish were relocated as part of this program.

We are also conducting an ongoing cumulative effects study in the Alto Cachapoal Valley in Chile. Currently in its first phase, the study will help us predict and mitigate future effects, not only for specific projects, but also the impact of all future projects in the Valley. During this period, environmental and social impacts occurring as a result of our presence in the Valley are closely monitored. Once enough data has been captured to perform trend analysis, we will move to the second phase. This will involve developing a tool to assist with future projects by allowing us to better manage the significant environmental and social impacts of our current and future projects.

Two of our wind farms are located near an area of permanent environmental protection close to the coast in northern Brazil. This area is home to a species of monkeys which had been the target of illegal hunters. Since the projects were completed, the presence of our wind farm operators and security personnel has prevented the hunters from returning, allowing the monkeys to return to their native habitat and preventing illegal tree-cutting in the area.

The table on tt identifies conservation-significant species with habitats which may potentially be affected by our operations. While none of these species are directly impacted by our operations, they are identified in our environmental management plans and appropriate mitigation measures are also in place. These include regular and seasonal monitoring activities, reclaiming disturbed areas as quickly as possible and promoting habitat diversity within reclaimed areas.

GreenPower program helping the Victorian State Government

The Victorian Government is committed to delivering services sustainably and has a proven track record in managing greenhouse gas emissions. Aside from improving energy efficiency across government operations, resulting in substantial emissions reductions and cost savings, the Government has also purchased significant amounts of GreenPower. In 2010 and 2011, all departments, as well as 12 agencies, sourced a minimum of 25 per cent of electricity from renewable sources through the purchase of accredited GreenPower.

This purchasing effort was led by the Department of Sustainability and Environment (DSE) on behalf of the Government. The DSE leads the Victorian Government's efforts to sustainably manage water resources and catchments, climate change, bushfires, parks and other public land, forests, biodiversity and ecosystem conservation.

The DSE ran a formal competitive tender process to select a GreenPower provider. The evaluation criteria included requirements of any large purchasing process, such as technical capability, past performance and value for money. In addition to these standard factors, applicants were assessed on quality systems, ethical purchasing policies, environmental management systems and corporate attitude and actions on sustainability. Based on our performance against the evaluation criteria, Pacific Hydro was chosen to become the GreenPower supplier to the Victorian State Government.

The Victorian State Government's management of its own carbon emissions is a strong example of Government leadership and we are proud to have assisted the Government in achieving this target.

- Above: Cape Bridgewater Wind Farm, Victoria, Australia

Species – Common and Scientific Names	Conservation Status
AUSTRALIA	
Orange-bellied Parrot *(Neophema chrysogaster)*	Critically Endangered [1] Critically Endangered, Marine and Migratory [2] Threatened [3]
White-bellied Sea Eagle *(Haliaeetus leucogaster)*	Least Concern [1] Marine and Migratory [2] Threatened [3]
Southern Bent-wing Bat *(Miniopterus schreibersii bassanii)*	Critically Endangered [2] Threatened [3]
CHILE	
Small Catfish *(Tricomycterus areolatus)*	Vulnerable [5]
Torrent Duck/Pato Cortacorrientes *(Merganetta armata)*	Least Concern [1]
Tricahue Parrot/Loro Tricahue/Burrowing Parakeet *(Cyanoliseus patagonus)*	Least Concern [1], Vulnerable [5]
Puya Chagual *(Puya berteroniana)*	Vulnerable [4]
Cactus Rojo *(Eriosyce curvispina)*	Vulnerable [5]
Ciprés de la Cordillera *(Austrocedrus chilensis)*	Vulnerable [1] Vulnerable [4]
Bailahuén *(Haplopappus taeda)*	Vulnerable [5]

1 International Union for Conservation of Nature (IUCN) 'Red List',

2 Environment Protection and Biodiversity Conservation (EPBC) Act 1999

3 The Flora and Fauna Guarantee (FFG) Act 1988

4 National Forestry Corporation of Chile (CONAF) Red Book (1989 & 2007 editions)

5 Regulations for the Classification of Wildlife Species (Supreme Decree 75, 2004) of the General Secretariat of Government (Supreme Executive Decree 50, published on March 24, 2007) and (Supreme Executive Decree 51, published on June 30, 2008)

Birds and Bats

Concerns relating to the potential impact of wind turbines on bird life are occasionally raised by stakeholders. As part of the planning and environmental assessment process, extensive surveys and site assessment studies are performed to identify and quantify bird and other fauna in and around the site. The studies allow us to predict the extent and magnitude of potential impacts. Consultant ecologists provide recommendations for mitigation measures, such as avoiding certain habitat types or inclusion of buffers around nesting and breeding sites.

These recommendations can be incorporated into the project design, allowing our project engineers to avoid placing turbines in areas with sensitive bird activity, including migratory flight paths and nesting sites.

Monitoring the activity of birds and bats for a number of years following wind farm construction is often a requirement of the planning permit. While we have met our bird monitoring obligations for our wind farms to date, we continue to monitor bird activity in the Portland area to increase our understanding of their movements.

We also provided support to one of our bird monitoring consultants, Emma Paulding, to present at an international conference during the reporting period on the effectiveness of using dogs to monitor bird and bat mortalities.

Greenhouse Gas Emissions

This year Pacific Hydro assets generated more than 1.7 million megawatt hours of clean, renewable energy, leading to the abatement of more than 1.3 million tonnes of greenhouse gas emissions.

During 2010/11, 4,744 tonnes of greenhouse gas emissions[1] were generated through project construction, on-going operations and office-based activities of our majority-owned assets. The construction of the Chacayes run-of-river hydro project in Chile accounted for 83 per cent of the company's total greenhouse emissions during the reporting period. Over 1.1 million litres of diesel fuel was consumed at Chacayes, primarily by construction vehicles. As the project neared completion towards the end of the reporting period, diesel fuel consumption decreased. This resulted in a 42 per cent reduction in project greenhouse emissions and a 37 per cent reduction in the company's total greenhouse emissions from the previous year.

In Australia, greenhouse emissions were more than 60 per cent lower than the previous year, largely due to the construction of Clements Gap Wind Farm reaching completion during 2009/10.

In Brazil, the main source of greenhouse emissions was vehicle fuel consumption. Brazil is the first of the three geographic business units to commence tracking indirect (scope 3) greenhouse gas emissions such as air travel.

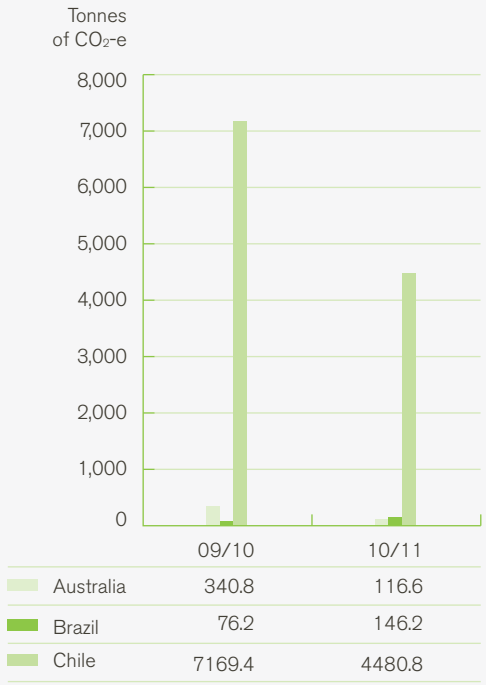
Emissions from our joint venture projects, La Higuera and La Confluencia, are detailed in the Tinguiririca Energía Sustainability Report, *"Reporte de Sostenibilidad 2009–2010."*

Greenhouse Intensity of Operations (tonnes CO_2-e/MWh)

Country	Greenhouse Intensity
Australia	0.00012
Brazil	0.00128
Chile	0.00134

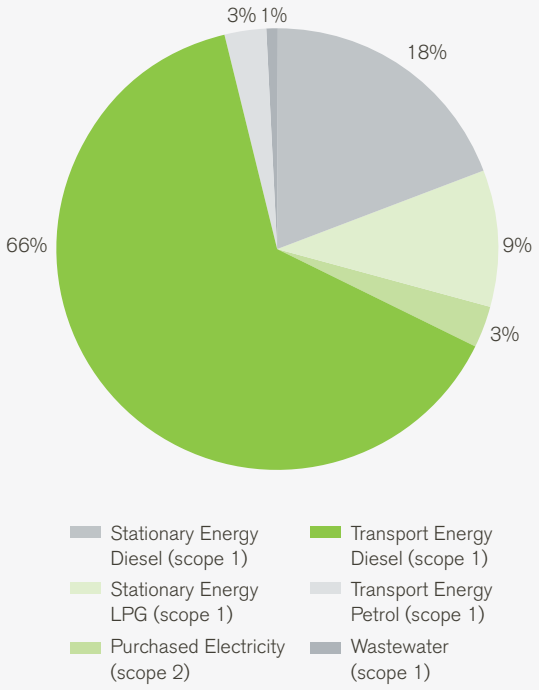
1 Includes scope 1 and 2 emissions only. Includes 100 per cent of emissions from Chacayes Hydro project (73 per cent ownership). Excludes regional or national emissions factors for purchased electricity in cases where electricity is sourced directly from local renewable energy sources.

Total Greenhouse Gas Emissions – Scope 1 and 2



	09/10	10/11
Australia	340.8	116.6
Brazil	76.2	146.2
Chile	7169.4	4480.8

Global Emissions by Source



Children's Books Developed in Chile

Each year, we undertake initiatives to increase environmental awareness in the Alto Cachapoal Valley, located in the O'Higgins region in Chile. As a part of our environmental and social obligations to financiers under the loan agreement for the Chacayes project, the initiatives provide us with an opportunity to strengthen ties with our neighbours and local communities while producing net environmental benefits.

Two years ago we developed the *'Alto Cachapoal Valley Atlas: Stories about its flora and fauna.'* The Atlas described the glaciers, rivers, plants and other species that live within the Valley. Collectable cards were published with the local newspaper and schoolchildren were encouraged to collect the series to create their own localised atlas. The success of the Atlas drove us to continue the initiatives and this year we commissioned two children's authors to write a series of short stories on the rich ecological and cultural value of the Valley. The books were distributed to all schools in Machalí, the area closest to our sites and all public schools in Rancagua, the nearest regional centre. A play with an environmental theme was performed at the launch and copies of the books were also provided to national senators and deputies, local dignitaries and authorities.

We also developed a map of the whole Valley, which contains interesting environmental facts, to be distributed to the visitors of the Cipreses River National Reserve. These initiatives support our commitment to the environment and our desire to have a closer relationship with the communities neighbouring our projects.

- Above: Alfredo Zañartu, Development Manager, presenting the books to local school children

Energy Use

In Chile, we ran a campaign on efficient energy use, focusing on reducing our paper and electricity consumption. Our Santiago office replaced dichroic bulbs with LED luminaries to reduce energy consumption. The electricity consumed during construction of Chacayes came from Coya and Pangal, our operational hydro power plants, located nearby.

Our Melbourne office purchases 100 per cent GreenPower and the majority of energy consumed at our wind farms sites in Australia is sourced from our own generation.

In Brazil, we replaced regular windows with glass bricks to aid insulation and have recorded savings of 120 kWh per month.

Total Direct Energy Consumption (Scope 1) by Primary Source

Energy Type	Gigajoules
Stationary Energy – Diesel	11,490
Stationary Energy – Petrol	2
Stationary Energy – LPG	6,834
Transport Energy – Diesel	41,810
Transport Energy – Petrol	2,000
Transport Energy – E-25	150
Total	**62,286**

Total Indirect Energy Consumption (Scope 2) by Primary Source

Electricity Type	Gigajoules
Electricity – Renewable	21,820
Electricity – Non-renewable	780
Total	**22,600**

Native Vegetation

We adhere to local and national regulations relating to all aspects of native vegetation. Occasionally our construction activities require us to remove or interfere with native vegetation. Through systematic site vegetation surveys, we are able to minimise the removal of vegetation. Following construction, we rehabilitate the site to its natural condition as much as possible. Contractors are also required to abide by this commitment. At our Chacayes construction project in Chile, a group of community members were employed to restore native vegetation, providing an invaluable service to our environmental performance on site. The workers were involved in the native species nursery, forest planting and other associated maintenance activities.

Our species relocation program at Chacayes has also been successful. After assessments revealed our construction activities would have a negative impact on Puya Chagual and Cactus Rojo, two native species of flora, a number of relocation sites were identified and soil protection and preparation works undertaken. The species were rescued and relocated, and to date, 95 per cent of relocated plants are now well established. Losses are being replaced tenfold.

In Victoria, Australia, project developers are required to offset the removal of native vegetation by preserving a similar type, quality and area of native vegetation elsewhere. Under the Native Vegetation Register, Native Vegetation Credits purchased by project developers ensure that vegetation of a specific conservation value (similar to that lost) is protected and secured in perpetuity. For example, the losses incurred at our Cape Nelson South Wind Farm were offset by the purchase of credits through the Victorian Government Department of Sustainability and Environment's Bushbroker scheme. These credits came from an area of native vegetation adjacent to the wind farm site.

Water

Although our rights are non-consumptive, we rely on water to power our hydro projects. Water is diverted from a river or pre-existing storage source through our power stations and then returned to the adjacent river system. This method ensures minimal flooding and has a low environmental impact.

In Chile, we monitor water levels to ensure water flow is adequate to preserve aquatic life and river bank-dwelling species. Water quality is also monitored for all new projects. Our water consumption fluctuates depending on the stage of our projects, with construction sites requiring water for production of concrete and in certain cases, dust suppression.

Our wind farms require only minimal water and water tanks have been installed for this purpose. In Australia we do not currently have systems in place to measure our water usage at many sites as we have chosen to focus on reducing paper, energy consumption and waste generation instead. In Brazil, we measure our water use and have set a five per cent water reduction target.

Waste

Regular donations of electrical hardware are made to local community groups, providing them with equipment such as personal computers and printers. Our Information Technology team in Melbourne coordinated the third annual e-waste recycling program during the reporting period.

Recycling occurs at all sites in Australia except Ord Hydro in Western Australia. Although we are still developing a formal waste measurement system, a number of initiatives were implemented to reduce waste generation. Waste audits for all sites were undertaken and a number of areas were identified as weaknesses. We are improving our systems and will identify and implement three initiatives to reduce waste during the next reporting period.

In Santiago, our waste paper is managed by adoption charity *Fundación San José*. As well as achieving the environmental benefits of recycling, the charity receives cash in return for recycling paper.

In April 2011, we conducted a major recall of hazardous waste stored at our main warehouse at Chacayes. A total of 12,960kg of soil, sawdust, cardboard and other fabrics were disposed of from minor spills and maintenance activities. Waste measurement systems have been established at some of our sites in Brazil and we will begin tracking waste at the remaining sites during the next reporting period. At our Vale dos Ventos and Millennium sites, we achieved a one per cent reduction in waste since the previous year.

• Below: Revegetation works at Chacayes, Chile

Environmental Compliance

We recognise our 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. In each of our countries of operation, all obligations required by law or by our environmental management system are kept in a register. We did not record any significant spills and did not receive any fines or non-compliances for environmental incidents during the reporting period.

Country-level Health, Safety and Environment Managers are responsible for achieving compliance against this register. The environmental commitments within our Health Safety and Sustainability Policy are implemented through our Environmental Management System (EMS), which allows us to monitor and improve environmental management practices on site. Our Australian and Brazilian operating sites are certified to the international environmental management standard, ISO 14001. Two of our Chilean operating assets, Coya and Pangal Hydros, are not currently certified to ISO 14001. These projects are almost 100 years old and many of the permits required for certification did not exist at the time these sites were built. We are in the process of obtaining these permits to enable us to apply for certification under ISO 14001.

Noise

While modern wind turbines are designed to minimise noise levels, they still produce some noise. Wind turbine noise can be attributed to two main sources. Mechanical noise comes from components within the turbine itself, such as the generator or gearbox. Advanced engineering means that this is not a significant feature of the total noise emissions. The main source is aerodynamic noise originating from the wind passing over the blades, making a 'swish' sound, the levels of which depend on the wind speed. These noise levels diminish with distance from the wind farm and may be masked considerably by the background noise environment, especially from wind passing though trees and around buildings. Near to the wind farm, it may be audible at times depending on the location and factors such as the number of turbines operating, wind speed and wind direction and other atmospheric conditions like temperature or humidity. Importantly, the noise levels at surrounding dwellings are restricted according to government regulations and/or planning conditions protecting the amenity of the surrounds.

In Australia, we communicate with landholders, neighbours and communities about wind farm noise emissions generated by wind farms, including our design approach and compliance requirements, through our community consultation program. During the planning stage, independent acoustic consultants prepare noise impact assessments, including background noise monitoring, to demonstrate compliance with the government regulations and/or planning conditions.

Once construction is complete, we conduct additional noise monitoring to ensure compliance with the regulation is achieved. We also have a formal complaints procedure which can be used by members of the community if they have concerns relating to Pacific Hydro, including issues relating to noise.

Infrasound

There has been recent debate about infrasonic emissions from wind farms. Infrasound can be generated by natural sources such as waves, waterfalls and wind, or man-made sources including vehicles, air-conditioning systems and wind farms. In the interests of informing the debate, in November 2010 we commissioned an acoustic consulting firm, Sonus, to measure and compare infrasound levels from two of our wind farms with other common environmental infrasound sources, both natural and man-made. Their report found that the infrasound generated by wind turbines is well below established guideline perception thresholds and also below levels produced by other natural and man-made sources. The full Sonus report can be found on our website: pacifichydro.com.au/files/2011/10/Sonus-Report.pdf

The recent Australian Senate Inquiry on 'The Social and Economic Impacts of Rural Wind Farms' found that there was no direct link between adverse health effects and wind turbines. In fact, no scientific peer-reviewed literature suggests that infrasound produced by wind farms causes any health impacts. International and national health bodies, government departments and medical professionals reject a link between the two.

• Below: Codrington Wind Farm, Australia

Workplace

Employee training and development spend

$920,000

Total Recordable Injury Frequency Rate

7.2

Reduction in Total Recordable Injury Frequency Rate since 2007

59%

Employees placed through our internal recruitment policy

36

Our Approach

Our people are paramount to our success and their health, safety and wellbeing is our priority. Developing and managing our employees and their talents allows us to improve as a business and we are committed to fostering a diverse, innovative and inclusive work environment. Training and development opportunities are provided to employees at all levels.

Health, Safety and Wellbeing

Health and Safety Performance

We aim for continual improvement in our health and safety performance with the ultimate goal of achieving zero incidents, injuries or illnesses. Significant resources are dedicated to ensuring a workplace safe from injury or harm, although responsibility for health and safety is also placed with each employee.

Our Health, Safety and Sustainability (HSS) Policy outlines our commitments to ensuring a healthy and safe environment for our employees. Aggressive targets are set annually at a corporate and business unit level to improve our workplace health and safety performance. This approach has seen a 59 per cent reduction in Total Recordable Injury Frequency Rate (TRIFR) in the past five years. Preventative and corrective measures are applied through our risk identification processes and incidents are investigated where appropriate to avoid recurrences.

Relevant health and safety training is provided to site and office-based employees and contractors to ensure our staff are equipped with the knowledge required to perform their job safely. This includes first aid education sessions, audiometric testing, heights medical testing, regular health checks, flu vaccinations, access to our Employee Assistance Program and manual handling programs.

Health and Wellbeing Initiatives

Looking after the health and wellbeing of our employees improves productivity and engagement with our business. Our health and wellbeing program has a broad range of strategies, including core initiatives which are implemented globally, in addition to a number of initiatives specific to each region.

Annual health checks are available to all employees, and fresh fruit is supplied to all our offices. English lessons are offered in Chile and Brazil, and Spanish classes are provided to Australian employees. Our leave purchase policy allows employees to purchase additional leave in Australia and Chile. In Australia, initiatives include a mothers' feeding room as well as a return to work bonus from maternity or paternity leave. In Australia and Chile, we provide training sessions on stress management and work life balance. Australian and Chilean employees also have access to our Employee Assistance Program, which provides a free counselling service to employees and their immediate families. In Brazil and Chile, meal vouchers and health insurance are provided to all employees. In Brazil, we also have a dental plan for staff. Our Chile business provides employees with access to childcare located within our Santiago office building and an emergency loan service.

Contractor Health and Safety

Contractors form a large part of our workforce, especially during construction. Contractors accounted for 90 per cent of all hours worked during the reporting period. Therefore, the health, safety and wellbeing of our contractors is important to us. A wide range of contractors perform work on our behalf and are charged with responsibility for associated project risks. All contractors are required to meet our standards, which include relevant internal policies and procedures, legislation, international standards such as ISO 14001, OHSAS 18001 and industry best practice. Audits for contractor performance against these standards and our policies occur regularly to ensure work is being performed in a manner that meets our expectations.

We work closely with our contractors to ensure we are prepared in the event of an emergency. Test exercises and emergency drills are periodically performed at all sites and offices, sometimes involving local emergency services, to prepare employees and contractors for situations including site evacuation, fire, emergency rescue and rescue from heights.

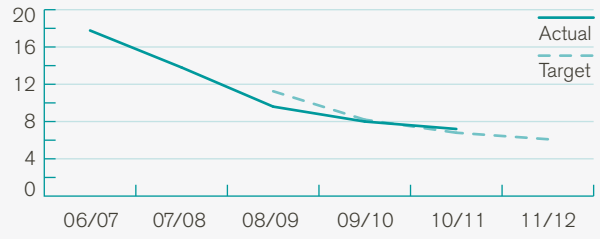
'Be Responsible, Save Lives' Road Safety Campaign

Our Chacayes construction project is located in the foothills of the Andes Mountains, around 150 km south-west of Santiago in Chile. Roads and vehicle accidents are one of the greatest risks to our employees and contractors. We launched a road safety campaign in December 2010 as an engaging and educational way to reduce this risk. The campaign promoted responsible behaviour for employees and contractors, at work and at home.

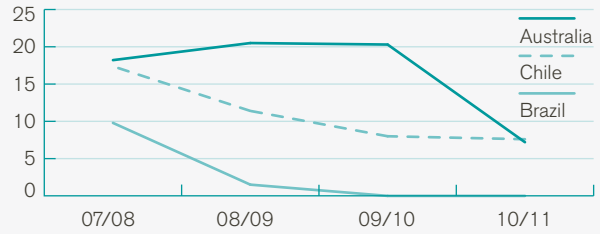
Members of *Carabineros*, the local police, spoke to our employees and contractors about the importance of road safety and pamphlets with safety tips were distributed to all workers entering the site.

The 'Chacayes Cup' soccer tournament was jointly launched by Pacific Hydro and Astaldi Fe Grande, our main Engineering, Procurement and Construction contractor. Twelve teams, representing different functions of the two organisations, participated in the tournament in an environment which fostered friendships and a sense of responsibility for the safety of our colleagues and their families.

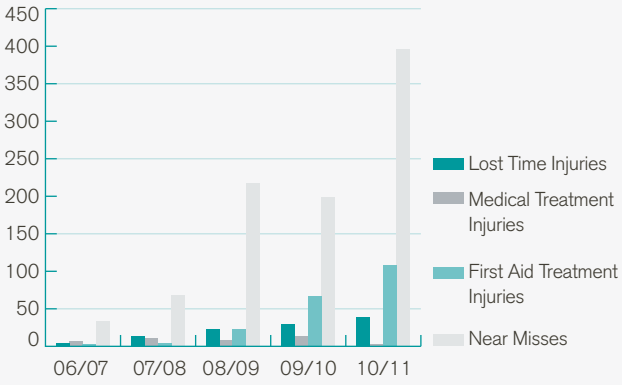
2006/2011
Overall Total Recordable Injury Frequency Rate



2007/2011
Total Recordable Injury Frequency Rate by Business Unit



Total Number of Incidents Reported



Whilst the absolute number of incidents increased, the TRIFR decreased due to an increase in labour hours at our construction project in Chile.

We follow the US Occupational Health and Safety Assessment Series (OHSAS 18001) when reporting workplace injuries.

Total Recordable Injury Frequency Rate is calculated using the following formula:
(Number of Lost Time Injuries + Number of Medical Treatment Injuries) ÷ Number of Hours Worked x 1,000,000.

'Lost Time' refers to number of scheduled work days lost.

Achieving Best Practice Health and Safety in Brazil

Providing a healthy and safe environment for our employees is our top priority. We set challenging health and safety targets each year with the ultimate goal of achieving zero harm to our employees and contractors. Our Brazilian business unit has risen to the challenge, completing 35 months without a Lost Time Injury or Medical Treatment Injury (as at 30 June 2011). This is an outstanding achievement and demonstrates the strong culture of health and safety we have worked hard to establish.

Some of the risks our Brazilian employees face each day on site include working at heights, working with high voltage electricity, contact with poisonous animals and using vehicles on unsealed roads. It is a testament to both our employees and our health and safety management system that these risks have been mitigated and managed so effectively.

Our senior management team in Brazil, as in all our business units, has made a strong commitment to health and safety. The team's dedicated commitment provides a healthy and safe environment for our workers, improves overall employee behaviour and guarantees the efficiency of our health and safety management system.

We aim for continuous improvement and have started implementing an employee behaviour-based safety management program. Designed to support early identification of risks and hazards, the program will increase the safety awareness and understanding of employees and contribute to our overall performance against health and safety targets.

- Above (L-R): Wagner de Assis Quintino, Marci Andrade, Agildo Araújo and Leandro Ribeiro Alves da Silva, members of our Health and Safety and Operations teams in Brazil.

Total Labour Hours

Site	2008/09		2009/10		2010/11	
	Employees	Contractors	Employees	Contractors	Employees	Contractors
Australia						
Operations	7,520	30,785	19,014	59,341	23,028	48,982
Construction	9,849	107,105	1,921	3,762	270	124
Office	85,948	2,684	63,346	793	65,827	552
Brazil						
Operations	3,329	19,968	6,060	65,839	6,246	65,361
Construction	8,245	587,700	0	0	0	0
Office	39,786	5,201	50,111	26,322	53,292	7,742
Chile						
Operations	42,445	311,159	43,809	291,248	51,785	418,692
Construction	45,736	1,586,476	85,486	3,778,934	120,620	4,664,196
Office	127,636	0	145,798	8,276	157,888	7,249
Corporate						
Office	97,452	6,288	111,092	4,446	116,790	6,613

Health and Safety Objectives

Each year, corporate Health, Safety and Sustainability (HSS) objectives are set with the aim of decreasing injury rates, improving management systems and increasing employee engagement. Performance against these objectives is directly linked to each employee's performance appraisal and bonus payment. The table to the right summarises our performance against these targets.

	Objective	Result
Injury Rates	Achieve a TRIFR no greater than 6.8 by 30 June 2011 – a 15 per cent reduction in TRIFR compared to 2009/10.	✕ We achieved a TRIFR of 7.2 which was a 10 per cent reduction.
Management System Improvements	Close out 80 per cent of all HSS-related corrective actions raised from 1 July 2010 to 30 June 2011 by their due date.	✓ Total number of corrective actions closed out by 30 June 2011 was 91 per cent.
Employee Engagement	Recommend and implement three HSS-related initiatives within their business or functional unit by 30 June 2011.	✓ Employees worked in teams and achieved this objective.

Diversity

We are proud of our inclusive and diverse culture. Equal opportunities are provided to all staff and we leverage from and encourage diversity to enhance our competitive advantage. According to our recent employee engagement survey, the Organisational Alignment Survey, 83 per cent of employees agree that our culture and practices are equally fair to all people, irrespective of gender, race, country of origin or religious persuasion.

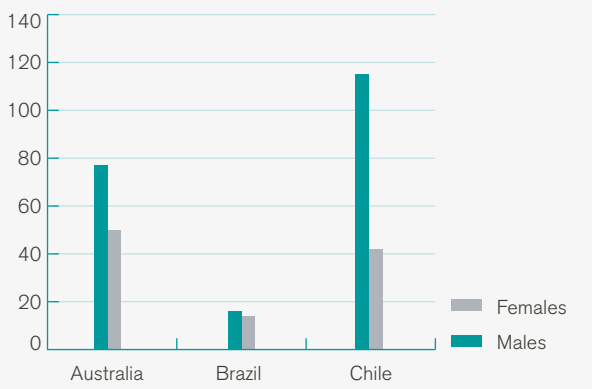
Equal employment opportunity and anti-discrimination are specifically addressed in the Code of Conduct. In addition, we are in the process of developing a Diversity Strategy in line with our overall goal of attracting and retaining talented people.

Parental Support

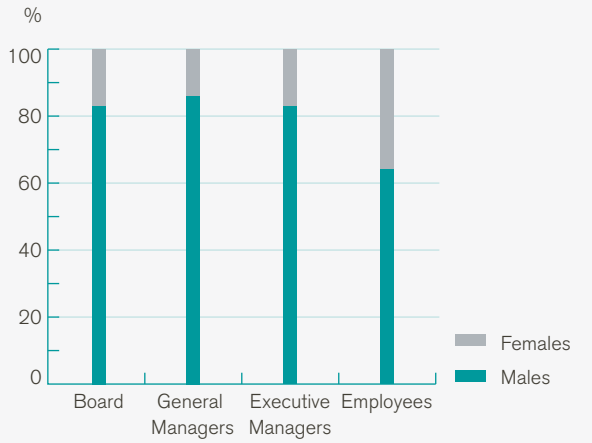
We foster a family-friendly environment in which our employees can manage family commitments with work responsibilities. Our Maternity and Paternity Policies in Australia go beyond statutory requirements with respect to maternity and paternity leave rights. Chilean legislation allows for 18 weeks of capped pay, the balance of which we meet where employees' salaries are above the cap. In Chile, employees also receive a childcare assistance allowance from the government for two years. In Brazil, employees receive 24 weeks of full pay. Australian employees are eligible for four days paid maternity or paternity leave and the primary care giver receives a bonus payment upon their return to work. We also offer flexible working arrangements to ensure a smooth transition for parents returning to work. Since the end of the reporting period, our Maternity and Paternity Leave Policies have been significantly improved for our Australian employees.

A total of eight female employees took maternity leave during the reporting period and all returned to work after their maternity leave period ended.

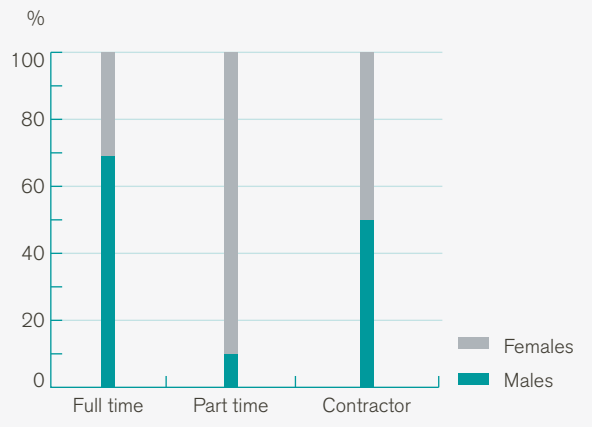
Employee Profile – Males to Females by Region



Percentage of Males to Females by Employee Level



Percentage of Males to Females by Employment Type

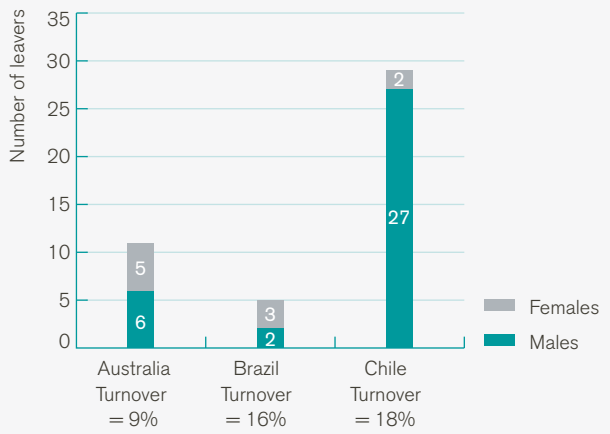


Turnover

Total turnover rate for the reporting period was 14 per cent, a one per cent increase on the previous year. We recognise employee turnover will continue to be an issue this year as the market for employees becomes more competitive in each of our geographic regions.

We have implemented a succession planning framework, continued our global leadership program and initiated other talent management activities. These initiatives are intended to facilitate the development of staff and ensure we are motivating and challenging our employees.

2010/11 Turnover by Gender and Region



Training and General Development

People are our most valuable asset and we seek to develop our staff in line with business needs and personal aspirations.

Each employee is allocated a generous training budget to ensure that our people receive the training and development necessary to keep them motivated and challenged. During the reporting year, the total amount spent on training was $920,000, which equates to almost $3,000 per employee.

All employees receive annual performance appraisals. Performance targets are set in line with our five-year business plan and performance reviews are held after six months to assess progress against targets. Career paths and professional development opportunities are discussed during employee performance appraisals and employees are encouraged to provide feedback to their managers during these reviews. Annual training is offered to all employees and managers on effective performance appraisals.

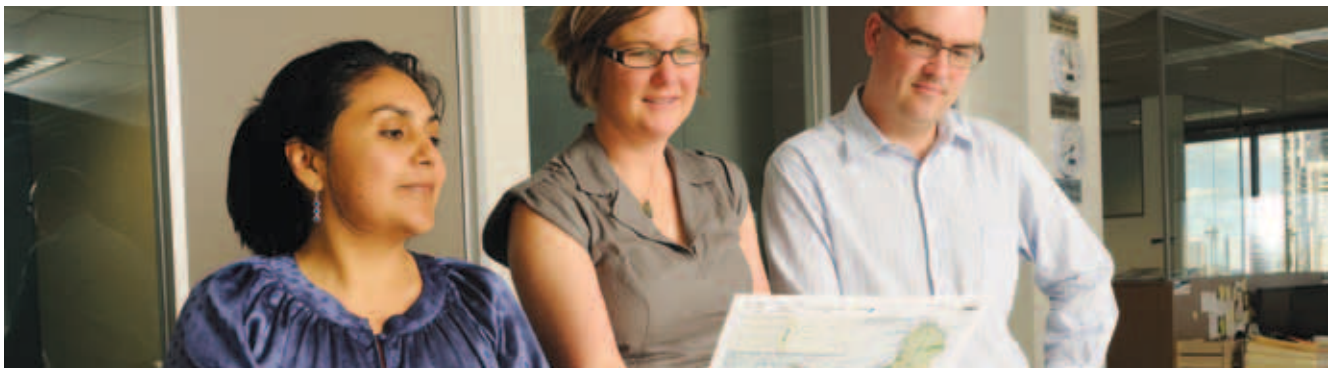
We have systems in place to ensure a smooth transition for employees moving from working life to retirement or redundancy. In Australia, career endings are managed through our Redundancy Policy and statutory requirements in Chile and Brazil include similar provisions for employees in those regions.

Remuneration and Bonuses

Employees are remunerated in a way which is both market competitive and consistent with best practice. Our Remuneration Policy aims to attract, motivate and retain employees by aligning team and individual rewards with business performance. It ensures global consistency of our remuneration structure and rewards both financial and non-financial performance.

We did not employ any entry-level employees in Australia or Brazil during the reporting period, but our minimum wage levels across all our regions of operation are well above legal minimums. In Chile, the ratio of entry level wages was 2.0 compared with the statutory minimum wage.

All benefits provided to full time employees are also provided to part time employees on a pro-rata basis.



• Above: Liz Zorondo, Jilly Adams and Kim Derriman, members of our Australian Development team

Employee engagement

Organisational Alignment Survey

Employee satisfaction is measured and assessed yearly through an Organisational Alignment Survey. This allows us to benchmark our performance against other organisations, address key areas of concern and ensure that the aspirations of our organisation are aligned with our people. While our rankings have decreased slightly since last year, we still consistently rank well above other global organisations using this tool. Compared to all indices of the global database, we are substantially above average in both the 'clarity of our vision, mission and values' (76th percentile) and the 'consistency of our strategies, plans, projects, processes, actions and outcomes' (73rd percentile).

Whilst the organisation's support for employees was substantially above average (72nd percentile), our overall commitment ranking declined from the 74th to the 63rd percentile. The commitment ranking is influenced by three key areas – employees understanding of their role, organisational support for employees and employees' support for the organisation. Our goal for the next financial year is to bring our overall commitment score back above the 75th percentile.

Respecting Rights at Work

We comply with all applicable laws, regulations and other legal requirements with respect to labour. 5.6 per cent of our employees in Australia are covered by collective bargaining agreements. No employees in Chile are covered by collective bargaining agreements and in Brazil employees are covered under their relevant union agreements. We have not identified any risks at any of our operations relating to our employees' rights to freedom of association or collective bargaining.

Grievance Practices

Our Grievance Procedure, Whistleblower Disclosure and Investigation Procedure, Equal Opportunity Policy and Code of Conduct encourage employees to deal with any grievances through appropriate mechanisms. Where internal measures do not sufficiently address issues, employees are entitled to seek external support through our Employee Assistance Program and relevant external organisations.

Internal Recruitment Policy

We recognise that having the right people in the right jobs supports the success and longevity of our business. To this end, we have developed an Internal Recruitment Policy, which allows us to capitalise on the diversity within our workforce by developing and promoting existing employees where possible. The policy, already being used in Australia, was successfully rolled out to our Chilean business unit during the reporting period.

As a relatively small organisation, one of our challenges is being able to offer employees interesting and challenging career paths. Encouraging and facilitating development and cross-promotion of employees assists us with our retention rates and provides opportunities for employees to advance and develop to their full potential.

Internal recruitment is strongly supported by our company culture. Employees are encouraged to develop skills and competencies to open up opportunities for career development within our business. Through our annual review process, potential career goals are identified and employees and their managers are able to plan a career path based on these goals. Staff are also encouraged to make use of internal and external facilities to gain the knowledge, skills and behaviours necessary to meet current and future organisational needs.

There were a total of 110 appointments during the reporting period, 33 per cent of which were internal appointments. Of our total number of internal appointments, 39 per cent were female and 61 per cent male.

- Above: Brett Dutton, Executive Manager, Group Operations, placed through our Internal Recruitment scheme

GRI and UNGC Index

Report section	GRI indicators	UNGC Principle	Page Reference
About this Report	2.1, 2.8, 2.9, 3.1, 3.3, 3.6, 3.7, 3.8, 3.11, 3.13		Inside cover
About Us	1.1, 1.2, 2.2, 2.3, 3.5, 4.8, 4.12, 4.14, 4.15, 4.16, 4.17, EUSS19	7	1–8
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Business Partners	2.5, 2.7, 4.13, 4.14, EC DMA, EC1, EC2, EC8, EC9, EN DMA, EN6, SO DMA, SO5, PR7, PR8, EUSS DMA, EUSS1, EUSS6		11–17
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Environment	EN DMA, EN3, EN4, EN6, EN7, EN9, EN12, EN13, EN14, EN15, EN16, EN18, EN22, EN23, EN28, PR1	7–8	23–29
Workplace	EC DMA, EC5, LA DMA, LA2, LA3, LA4, LA7, LA8, LA10, LA11, LA12, LA15, HR5, EUSS DMA, EUSS16, EUSS17, EUSS21	1–6, 10	30–36

The table above provides page references for the performance indicators reported against and includes the principles of the United Nations Global Compact. A complete GRI Index can be found on our website at pacifichydro.com.au/sustainability/sustainability-report/. The complete set of GRI G3.1 and Electric Utility Sector Supplement indicators are also available from www.globalreporting.org

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **Pacific Hydro** has presented its report "Sustainability Report 2011" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 30 September 2011

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

B
GRI REPORT
GRI CHECKED

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.
www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 23 September 2011. GRI explicitly excludes the statement being applied to any later changes to such material.*

Acknowledgements

The Sustainability team would like to thank all the people, too numerous to mention, who have assisted with and supported this project. It would not have been possible without your input.

• Back cover image: Cachapoal Valley, Chile

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