



ANNUAL
REVIEW
AND
SUSTAINABILITY
REPORT
2013

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ABOUT THIS REPORT

SCOPE AND BOUNDARIES

This is Pacific Hydro Pty Ltd's fifth annual Sustainability Report, covering the period 1 July 2012 to 30 June 2013. This report covers the sustainability performance of Pacific Hydro Pty Ltd and its wholly and majority-owned subsidiaries, including the assets and offices in Australia, Brazil and Chile that we operate in. Tinguiririca Energía (TEJV) is a 50:50 joint venture between SN Power and Pacific Hydro in Chile. While not operated by Pacific Hydro, 50 per cent of TEJV performance is included except where stated. All TEJV information covers the period 1 January 2011 to 31 December 2012 in line with TEJV local reporting.

This, and prior sustainability reports dating back to 2009, are available at pacifichydro.com


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

All information included in this report is correct at the time of printing.

The Global Reporting Initiative (GRI) G3.1 Guidelines and the Electric Utilities Sector Supplement have been applied to a B+ Level and checked by KPMG. This report has received limited assurance from KPMG on a number of key performance indicators (see p.43) and we aim to expand our assurance scope in future years as part of our Sustainability Strategy.

MEASUREMENT CRITERIA

STATUS CRITERIA

✓	On track or exceeding deliverables expectations
o	Some issues in achieving deliverables, but manageable
✘	Major issues in achieving deliverables, requiring senior management attention for resolution
	Follow the links when you see this symbol to find out more

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ABOUT US

Pacific Hydro is a global clean energy solutions provider.

Operating for over 20 years, we develop, build and operate renewable energy projects and sell electricity and carbon abatements products to customers in our chosen markets.

Working collaboratively and sharing the benefits with our communities throughout the entire lifecycle of our projects is consistent with the values and behaviours that guide us.

With hydro, wind, solar and geothermal power projects at varying stages of development, construction and operation in Australia, Brazil and Chile, we are well positioned to achieve our purpose and vision.

OUR PURPOSE AND VISION

OUR PURPOSE

Achieving investor returns by powering a cleaner world.

OUR VISION

To create economic, social and environmental value by being our customers' preferred clean energy solutions provider.

OUR VALUES AND BEHAVIOURS

ACTION:

- Getting things done
- Working together

DEDICATION:

- Demonstrating a commitment to zero harm
- Delivering a service culture
- Committed to respecting and protecting the interests of all our stakeholders

ENERGY:

- Supporting others and being adaptable
- Creating an energising place to work and celebrating success

INCLUSION:

- Showing respect, compassion and consideration for others

LEADERSHIP:

- Leading by example
- Being accountable
- Empowering people
- Encouraging innovation



A MESSAGE FROM OUR CHAIRMAN

GARRY WEAVEN
CHAIRMAN

The last two years presented great challenges for Pacific Hydro, primarily due to a 20 month outage at one of our joint venture assets in Chile, but also because of the worst drought in 60 years and the regulatory uncertainty being driven by the political environment in Australia.

Throughout this period, IFM remained committed to the long term value of the business on behalf of its investors. As you can see in this report, we had a number of important achievements across all parts of the group in the last financial year and the future is looking bright for Pacific Hydro.

We closed the year with 100 per cent of our assets in operation, an outstanding Health and Safety performance result, and with a positive outcome of the 2012

Renewable Energy Target review in Australia, which will help protect the country from the rising cost of fossil fuels over the long term.

Going forward, Pacific Hydro continues to be an important part of the IFM Australian Infrastructure Fund, which has delivered net returns of 12.1 per cent per annum since its inception (to 30 June 2013) to more than five million Australian members of industry superannuation funds.

Whilst the drought in Chile is forecast to continue into the new financial year, our future strategies, underpinned by our new Purpose, Vision, Values and Behaviours, will foster the development of exciting opportunities for Pacific Hydro as a global clean energy solutions provider.

RENEWABLE ENERGY GENERATED

2.04 MILLION MEGAWATT HRS (MWH)

GREENHOUSE GAS EMISSIONS ABATED

1.49 MILLION TONNES

REVENUE*

\$224 MILLION

COMMUNITY FUND COMMITMENTS*

\$319,000

OPERATING ASSETS

18

TOTAL RECORDABLE INJURY FREQUENCY RATE

5.0

EMPLOYEES*

294

EMPLOYEE TRAINING & DEVELOPMENT SPEND*

\$554,000

*excludes TEJV.



A MESSAGE FROM OUR CEO

ROB GRANT
CHIEF EXECUTIVE OFFICER

Robert Grant

Welcome to our Annual Review and Sustainability Report 2013.

Pacific Hydro celebrated 20 years of clean energy and 10 years in South America during the 2012–13 Australian financial year. We also celebrated a successful ending to a challenging year, with operations resuming at our Tinguiririca Energía joint venture.

Following the conclusion of 20 months of works to repair a 20 metre collapse in its 17 kilometre tunnel, the 155MW La Higuera run-of-river hydro plant resumed operations in May 2013.

We are now looking forward to a bright future for Pacific Hydro as we embark on the next 20 years of the company's life. The launch of our new Purpose, Vision, Values and Behaviours, which underpin our future strategies, marked the beginning of this journey.

Through our new vision to create economic, social and environmental value by being our customers' preferred clean energy solutions provider, Pacific Hydro is well placed to live out its new purpose: achieving investor returns by powering a cleaner world.

We were very proud of our Health and Safety performance across all our businesses, achieving a Total Recordable Injury Frequency Rate of 5.0 against a target of 6.1 or less in the 12 months to 30 June 2013.

The Chilean National Safety Council awarded Pacific Hydro the Health & Safety Excellence Award in the category "Public utilities companies" and we completed 1,886 days without an LTI in Brazil.

More than 2.04 million megawatt hours (MWh) of clean, renewable energy were generated by our assets, leading to the abatement of over 1.49 million tonnes of greenhouse gas emissions.

Throughout the year, we continued to work and support our host communities through our award-winning community investment funds and a range of community relations activities.

Our commitment to working collaboratively and sharing the benefits with our communities throughout the entire lifecycle of our projects prompted a review of our practices. As a result, we are assessing new approaches to improve the way we work with this important stakeholder group to maintain our competitive advantage and meet our communities' expectations.

We continued to support and promote the ten principles of the United Nations Global Compact throughout our business, further aligning our operations and strategies with these key areas.

The United Nations Framework Convention on Climate Change approved the registration of our Chacayes run-of-river hydro plant in Chile under the Kyoto Protocol's Clean Development Mechanism. This accreditation was an important milestone for the asset, which was also named "Best Hydro Project of the Year" at the Renewable Energy Projects of the Year Awards 2012 in Orlando, USA.

Operationally, our assets in Australia and Brazil, and our majority owned assets in Chile, performed well with high levels of availability and efficiency. The Chacayes hydro plant completed its first year of operations with outstanding operational performance, despite continued dry hydrological conditions in the Cachapoal Valley.

The Codrington wind farm, one of Australia's first wind farms, passed its midlife health check and, despite the harsh coastal environment that it is located in, results showed that the asset is performing in accordance with our expectations.

Despite our best efforts, the overall financial results for the group were materially impacted by the 20-month long outage of La Higuera, its remediation costs and insurance recovery delays.

We are confident that the new financial year will be a turnaround year for Pacific Hydro now that La Higuera has returned to service. Our future strategies will require our people to become more customer focused and to aim for even higher levels of operational excellence.

Following a global executive search during the financial year, we appointed Joseph Keenan to the new role of Chief Operating Officer for the Pacific Hydro group. Mr Keenan joined us from Orica, where he has most recently held the position of President of Orica Latin America, and brings a wealth of experience to the company leading our corporate business unit.

We remain committed to our three core markets – Australia, Brazil and Chile. These economies have weathered the global financial challenges well and continue to demonstrate future opportunities and demand for our clean energy solutions.

In Australia, we will advance with our retail strategy and progress with our wind and solar development projects. We will progress the development of our first wind farm in Chile and increase our focus to optimise generation from our run-of-river hydro plants, as dry hydrological conditions are forecast to persist. In Brazil, we will continue to pursue and develop relationships with new clients and partners to bring our development assets to market and explore acquisition opportunities in parallel.

Finally, we were very proud to be named as the winner at the Corporate Responsibility Reporting Awards 2013 in the "Openness & Honesty" category for our first combined Annual Review and Sustainability Report, a format we introduced in 2012.

I hope you enjoy reading about our business and sustainability performance achievements over the reporting period.



OUR GLOBAL PROJECTS



ANNUAL REVIEW

AUSTRALIA

Expanding our existing business to include electricity retail was one of the major milestones for Pacific Hydro Australia during the reporting period. We now offer solutions for businesses looking for a reliable, flexible and cost-effective service to meet their electricity supply needs.

We maintained high levels of operational availability across our renewable energy generation assets. Whilst we experienced the windiest August on record at a number of our Victorian wind farms, lower wind speeds throughout the year meant our overall generation was down on expectations, particularly in South Australia. Our Ord hydro plant in Western Australia underwent significant upgrades during the year, including replacing out dated equipment, which will improve its reliability.

Throughout the year we remained focused on the ways that we work with communities. As part of the evolution of the Sustainable Communities Fund, we trialled community fund panels within all our wind farm host communities.

The panels include community members, local council and Pacific Hydro staff who are not normally involved in this activity. All participants have given their time generously to ensure a very positive outcome. The panels will be an ongoing feature of the program.

In line with our commitment to working collaboratively and sharing the benefits with our communities throughout the entire lifecycle of our projects, we reviewed our consultation and complaint handling processes. Sadly, we found that we are meeting neither community expectations nor our own. We have since commenced work to rectify this situation. Over the next two years, we will be implementing a range of initiatives including training and new procedures to better meet expectations in the community and to ensure our company's values and behaviours are being demonstrated through our actions.

The Climate Change Commission's Renewable Energy Target (RET) review in 2012 confirmed that the RET had driven around 90 per cent of total greenhouse gas abatement in the electricity sector from 2001–12. Without this, Australia would have been unable to meet its Kyoto Protocol commitment for 2008–12. The review also found that the cost to consumers is around 4.5 per cent of their electricity bills (about 1.5 per cent of that is due to the large scale target) which will help protect Australians from the rising cost of fossil fuels over the long term.

Over the coming year, we will continue to focus on the way that we work with communities, expand our retail strategy and progress with projects including the Moree Solar Farm, in New South Wales. This supports our vision to create economic, social and environmental value by being our customers' preferred clean energy solutions provider.



BRAZIL

Maintaining an outstanding health and safety track record and achieving the highest levels of compliance and operational excellence were some of Pacific Hydro Brazil's key achievements in the reporting period.

We completed 1,886 days without health and safety incidents and achieved ISO 14001 recertification of our Environmental Management System.

Operationally, our assets in the country's northeast performed well and efficiently, meeting our 98 per cent availability target and delivering clean, renewable electricity to client Eletrobrás.

A long-running operational performance review with wind turbine supplier Wobben was finalised towards the end of the reporting period, achieving positive outcomes.

Throughout the year, we continued to work and support our host communities in Mataraca, Paraíba, through a range of community relations initiatives in the areas of health, environment, education, culture and community development.

In line with our commitment to working collaboratively and sharing the benefits with our communities throughout the entire lifecycle of our projects, we commenced consultation with the community of Touros, Rio Grande do Norte, which will host our Galinhos wind farm project, currently under development.

Following the appointment of Adriana Waltrick as General Manager, Brazil in June 2012, and the subsequent implementation of a new team of experienced professionals from the local energy sector, the business unit took on a new strategic direction. Two wind clusters were developed in the south and northeast of Brazil, while we continue to target the unregulated market and its large customers.

New business development and finance teams were created in our São Paulo office and a new in-country wind engineering centre was implemented in Natal, working closely with our corporate engineering services team in Australia.

A joint venture with mining company Vale, announced in 2012, has undergone a review during the year. Due to a strategic decision by Vale to focus on its core business, the company is expected to be a potential future energy client rather than an investment partner. For this reason, we decided to prepare the Paraíso Azul and Paraíso Farol wind projects for the Federal Government's Energy Auctions scheduled for the second half of 2013.

The year presented a number of new opportunities for commercial partnerships and mergers and acquisitions in the northeast and south of the country. Our focus in the new financial year will be on further developing these opportunities to enable the future growth of Pacific Hydro Brazil.



CHILE

As we celebrated 20 years of clean energy, Pacific Hydro also celebrated 10 years in Chile.

Completing an outstanding first year of operations at our Chacayes run-of-river hydro plant and resuming operations at our Tinguiririca Energía joint venture were two major milestones for Pacific Hydro Chile.

Operationally, our majority-owned assets performed well with high levels of availability and efficiency. Electricity prices in Chile have helped us weather the impacts of continued dry hydrological conditions in the Cachapoal Valley.

Safety remained a priority. The Chilean National Safety Council awarded Pacific Hydro with the Health and Safety Excellence Award for the lowest index of recorded incidents in that category.

Chacayes was named 'Best Hydro Project of the Year' at the Renewable Energy Projects of the Year Awards and was successfully registered under the Clean Development Mechanism to issue and trade in carbon credits.

We continued to support our host communities through our Creciendo Juntos community investment fund and a range of initiatives such as the Alto Cachapoal Scientific Investigation Fund.

As active participants in the Water Users Organisations of both Tinguiririca and Cachapoal Valleys, we hold seats on the Board of both organisations, allowing us to coordinate the operation of our plants with other water rights holders.

We received environmental approval to build Punta Sierra wind farm, our first wind farm in Chile. In line with our commitment to working collaboratively and sharing the benefits with our communities, we commenced consultation with Punta Sierra's host community and facilitated the appointment of a local distribution company to secure energy supply for the Chacayes community.

Both Tinguiririca Energía's assets, La Higuera and La Confluencia hydro plants, were operating at the end of the reporting period, despite continued dry hydrological conditions in the Tinguiririca Valley. An arbitration with the main contractor for La Higuera has been in progress since 2011.

We also completed our largest financial transaction with local banks, a US\$340 million, 14-year loan to refinance Chacayes with a consortium including Itaú BBA (of Bank Itaú Chile), Bci and CorpBanca. In addition, we completed the refinancing of Coya and Pangal with DNB Bank ASA, Agencia Chile. These transactions are a testament to the quality and value of our operating assets, demonstrating the growing appetite of local financial institutions for renewable energy assets.

A new Advisory Council for Pacific Hydro Chile was created to oversee the development and implementation of our future strategies. Jose Antonio Valdes, previously General Manager of Pacific Hydro Chile, was appointed as Executive Chairman of this Advisory Council.

DELIVERING ECONOMIC VALUE

ECONOMIC PERFORMANCE

Sales revenue was \$AUD224 million for the reporting period, an increase of 14 per cent on the previous year. This was primarily driven by higher spot prices in Chile and Australia, and higher generation in Chile. However, this increase was partially offset as a result of lower

generation and losses on energy derivatives in Australia and lower prices in Brazil.

The economic impacts below exclude Pacific Hydro's equity accounted investments except where otherwise stated.

DIRECT ECONOMIC IMPACTS*

\$AUD	AUST \$'000	BRAZIL \$'000	CHILE \$'000	CORP \$'000	FY12-13 TOTAL \$'000	FY11-12 TOTAL \$'000	FY10-11 TOTAL \$'000	FY 09-10 TOTAL \$'000
ECONOMIC VALUE GENERATED FY 2012-2013								
Revenue	107,320	22,365	94,596	-	224,281	196,560	151,904	114,836
ECONOMIC VALUE DISTRIBUTED FY 2012-2013								
Cost of Sales**	30,438	5,761	21,161	-	57,360	50,840	45,376	38,192
Employee wages and benefits	5,848	1,420	12,514	10,891	30,673	28,269	26,474	18,930
Earnings Before Interest Tax Depreciation and Amortisation***					122,274	112,024	81,179	86,759
OTHER CASH (OUT)/IN FLOWS								
Interest payments to providers of finance	36,166	6,859	16,438	-	59,463	51,178	56,677	39,470
Payments of income tax			4,477		4,477	20,502	8,144	3,224
Community fund commitments	240	6	73		319	377	353	339
CAPITAL EXPENDITURE								
Project development expenditure****	4,507	2,716	4,150	-	11,373	13,545	10,725	7,621
Construction and minor capital	4,090	685	26,942	229	31,946	34,905	141,480	204,438
Shareholders' equity*****					913,433	858,210	896,384	1,029,537

Restatement: In the previous report, Shareholder's Equity was reported as \$862,451,000.

* Derived from our Annual Financial Statements which were prepared in accordance with IFRS (excludes Community fund, which is funds committed, not paid).

** Operating costs includes the portion of employee wages and benefits amounts charged to operating assets.

*** Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) is calculated by taking results from operating activities adjusted for depreciation, amortisation. EBITDA includes FX gains/losses and bank fees.

**** Relates to pre-construction development expenditure in order to progress each project's technical and commercial elements.

***** Includes shareholder loans and relates to mark to market revaluation movements on TEJV hedges.

WHAT SUSTAINABILITY MEANS TO US

SUSTAINABILITY STRATEGY

During the reporting period we reviewed and enhanced our Purpose, Vision, Values and Behaviours statements as well as our Business Planning framework. A Sustainability Policy and Strategy were developed in line with these changes, particularly around our Vision: "To create economic, social and environmental value by being our customers' preferred clean energy solutions provider".

The Sustainability Policy was launched to provide clarity and direction around what sustainability means to us and to address our sustainability commitments at the highest level. Sustainability had previously been captured in our Health Safety and Sustainability Policy, but it was identified that an individual policy would support and enhance existing and future sustainability initiatives. Some of the key aims of our Sustainability Policy are displayed in the table to the right.

A three-year Sustainability Strategy was developed to ensure effective implementation of the Policy. It is aligned with our new Business Planning framework and three-year planning cycle, outlining our long-term sustainability vision and supporting objectives, deliverables and KPIs. A number of strategic objectives are described under the "Looking Ahead" section on page 15.

KEY AIMS FROM OUR SUSTAINABILITY POLICY

ECONOMIC

- Achieve investor returns and create long term value for our shareholders
- Sustainable business practices are used to maintain ethical conduct, a culture of accountability, responsible procurement and overall governance
- Comply with and respect all laws, regulations, treaties and conventions, including Pacific Hydro policies and our Code of Conduct
- Customer needs are met or exceeded

SOCIAL

- Deliver long term benefits to our host communities, including Indigenous groups, through direct and indirect economic investment, capability building and other development initiatives and programs
- Respect for our people in terms of health and safety, employee development and through fostering a diverse and inclusive workplace
- Relationships with all stakeholders are ethical, responsive and collaborative in an effort to Create Shared Value

ENVIRONMENT

- Minimise our impact on the environment
- Use resources efficiently
- Help to reduce the global reliance on fossil fuels by developing more new renewable energy projects
- Help our customers address their climate change and mitigation obligations
- Play an active role in environmental advocacy in areas that affect or which create and enhance positive environmental outcomes



COMMUNITY MEMBERS AND PACIFIC HYDRO CHILE STAFF AT THE PRESENTATION CEREMONY FOR A LOCAL TRAINING PROGRAM

“WE CONTINUOUSLY
SEEK TO UNDERSTAND
OUR STAKEHOLDERS’
EXPECTATIONS”



STAKEHOLDERS

We define our stakeholders as individuals and groups who are impacted by our activities, or those who can have an impact on our future development. Due to the diverse interests of each stakeholder group, which varies in each of our countries of operation, we adapt our approach, communication channels and

engagement activities as appropriate. Through this tailored approach, we continuously seek to understand our stakeholders' expectations and demands and reflect these in our Sustainability Strategy, report and overall business activities.

The table below displays our key stakeholder groups and illustrates some of the ways we have engaged with them in the past year.

KEY STAKEHOLDERS AND ENGAGEMENT METHODS

STAKEHOLDERS	HOW WE ENGAGE
Shareholders (our owner)	Monthly Board and periodic Committee meetings; periodic Industry Funds Management investor briefings; annual three year Business Planning process; regular strategy reviews
Banks and financiers	Regular formal and informal meetings; ad-hoc reporting, written correspondence and phone calls; site visits; health, safety, sustainability and operational reporting as required; social media
Communities and landholders	Formal and informal community consultation sessions and work tables as required; one-on-one meetings as required; occasional site visits; ongoing interaction with community and landholder liaison officers; regular newsletters; regular community engagement and investment activities; employee visits to community; social media
Employees	Monthly online CEO update; monthly line manager communications; monthly lunchtime forums hosted by CEO, general managers or functional teams; six monthly and annual performance reviews; regular social functions and events; annual Organisational Alignment and Engagement Survey; regular intranet news updates; social media
Contractors and suppliers	Expressions of Interest; execution of quotations and tender processes, consideration of formal economical and technical evaluations; regular meetings; Sustainable Supplier Assessments as required; contracts across the project lifecycle – development, delivery and operations; social media
Customers	Regular meetings; ongoing written communications and phone conversations with existing customers; on-going relationship development with a range of prospective customers through meetings, attendance at market events and sponsorship of market-related seminars and conferences; social media; ad hoc screenings for free market clients and the regulated market
Water rights holders (irrigators) and landholders in Chile	Regular formal participation in the Board of the Water Users Organisations; one-on-one meetings with landowners and negotiations as required; occasional site visits; ongoing interaction with landholder liaison officers; social media
Government authorities – local, state and federal	Regular meetings; regular written submissions as required; occasional site visits; ongoing formal participation and representation on industry associations and other bodies; social media
Opinion leaders	Regular meetings; regular written information; occasional site visits; social media
General Public	Social media, including Twitter, Facebook, LinkedIn, Google+ and YouTube

MATERIALITY

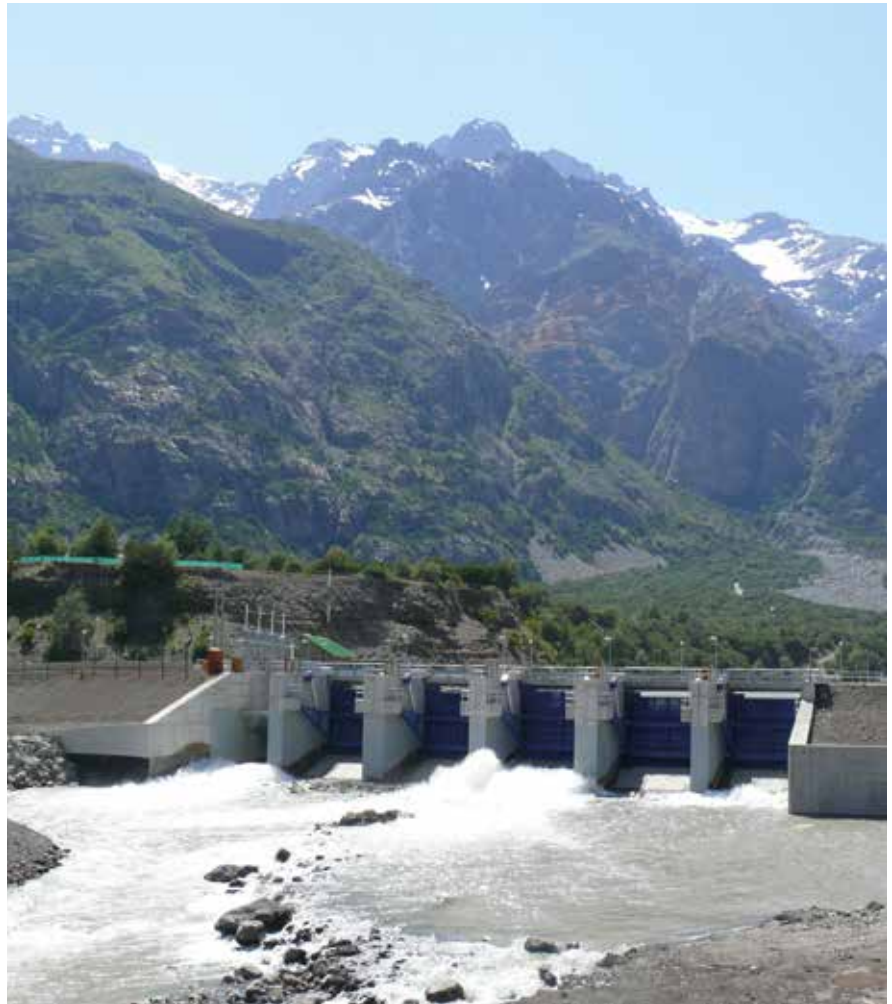
We undertake materiality assessments to help us identify the topics that are of most significance, or material, to our stakeholders. Once identified, the topics are considered in our Business Planning process, and are used to establish sustainability strategies and deliverables and to identify topics for inclusion in this report.

Our process for determining materiality was developed in line with the Global Reporting Initiative (GRI) guidance on materiality and completeness. Firstly, we survey a broad range of stakeholders in each country to obtain anonymous feedback on topics or issues they feel are important for us to address. We then perform an internal analysis of company policies and business strategies, our risk framework and registers, other stakeholder feedback, our peers and business norms to determine internal issues to prioritise.

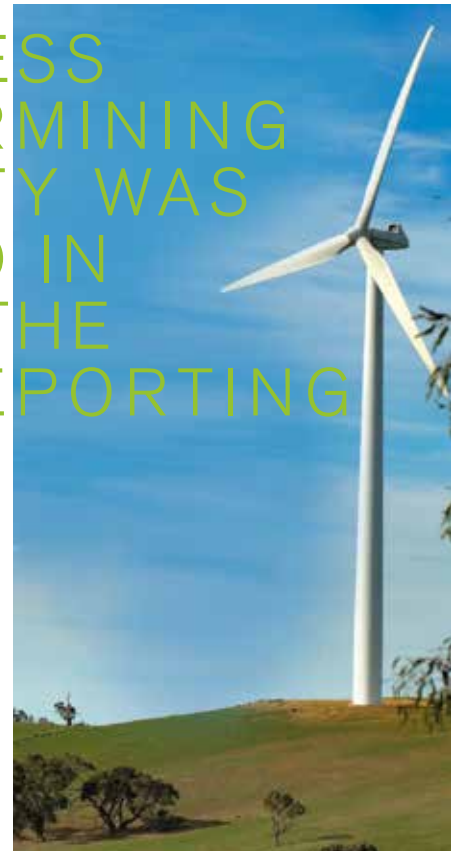
Internal analyses are conducted annually and stakeholder surveys are conducted biennially. The most recent stakeholder survey was conducted in January 2012. We received 53 responses from stakeholders and allocated topics an 'external ranking' based on the number of times the topic was mentioned by respondents.

In order to adequately consider topics raised in consultation with stakeholders, the results of the 2012 and 2013 Materiality Assessments have been consolidated to identify the topics of greatest significance to the business for the past two years.

The table on page 13 shows the topics of greatest internal and external significance as identified through our 2012 and 2013 Materiality Assessments, and how these have been addressed in our report.



“OUR PROCESS FOR DETERMINING MATERIALITY WAS DEVELOPED IN LINE WITH THE GLOBAL REPORTING INITIATIVE”



TOPICS OF INTERNAL AND EXTERNAL SIGNIFICANCE

	TOPIC	LOCATION IN REPORT
BUSINESS OPERATIONS AND FINANCE	Delivering value	Delivering Economic Value, p.9
	Operational excellence (Responsible power generation)	Operational Excellence, p.21–22
	Governance and transparency	Governance, Ethics and Respecting Rights, p.16–18
	Procurement practices	Procurement practices, p.23
	Government lobbying and public policy	Government lobbying and public policy, p.23–24
WORKPLACE	Internal communications and alignment	Internal communications and employee alignment, p.27
COMMUNITY	Consultation and engagement with communities and Relationships with communities	Consultation and engagement with communities, p.32–33
	Support and development of communities	Support and development of communities, p.33–35
ENVIRONMENT	Climate change, GHG and energy management	Climate change, GHG and energy management, p.36–39
	Environmental compliance and planning	Environmental compliance and planning, p.39
	Environmental impacts of Pacific Hydro activities	Environmental impacts of Pacific Hydro activities, p.39–42



PERFORMANCE AGAINST GOALS

	WHAT WE SAID WE WOULD DO	STATUS	WHAT WE DID
BUSINESS OPERATIONS AND FINANCE	ECONOMIC RETURNS		
	Achieve above benchmark economic returns for shareholders	✘	Did not achieve required returns due to overall reduction in forecast bundled (green and black) prices and delay in La Higuera tunnel rectification works
	DEVELOPMENT		
	Continue project development to bring new clean energy supply to each of our markets	✓	Our Punta Sierra wind farm in Chile moved closer to completion, receiving environmental approval and commencing engagement activities with local communities
BUSINESS OPERATIONS AND FINANCE		○	In Australia, we progressed with a number of development opportunities, including the final stage of our Portland Wind Energy Project
		✓	In Brazil, we signed a letter of intent to develop a 2MW pilot solar power plant as part of our technological diversification strategy
BUSINESS OPERATIONS AND FINANCE	CLEAN ENERGY POLICY ADVOCACY		
	Influence legislation and market mechanisms favourable to clean energy investment	✓	Worked with government and regulatory teams to influence changes in renewable energy law
WORKPLACE	HEALTH AND SAFETY		
	Build and sustain a strong health and safety culture within the company and have zero harm to employees and others	✓	There were no fatalities and we achieved a Total Recordable Injury Frequency Rate of 5.0, a 31 per cent reduction on the previous year
		✓	Implemented risk mitigation plans for high risk H&S areas in all Business Units
	EMPLOYEES		
WORKPLACE	Attract, recruit, develop and retain employees through the Human Resources Framework to maximise performance	✓	Developed a global sourcing strategy to source and target the right candidates at lower cost, and implemented over 80 per cent of initiatives resulting from our annual Alignment and Engagement Survey
	Promote an inclusive culture that embraces diversity	✓	Diversity and Inclusion strategy was successfully rolled out across all three Business Units, including workshops on cultural awareness, unconscious bias and communications
COMMUNITY	COMMUNITY RELATIONS		
	Develop, implement and manage programs that positively engage local communities	✓	Successfully resolved water rights issues with local irrigators in Chile
		○	In Australia, we undertook a review of our complaint handling and identified a significant number of improvement opportunities
COMMUNITY	COMMUNITY INVESTMENT		
	Promote and improve our community investment programs	✓	Continued our successful community investment programs in Australia and Chile
ENVIRONMENT		✓	In Brazil, we supported a number of initiatives to enhance and protect cultural and environmental heritage
	ENVIRONMENTAL MANAGEMENT		
	Maintain environmental management systems and meet compliance obligations	✓	All Business Units maintained Environmental Management Systems that are aligned with or certified to ISO 14001
		✓	We received no environmental fines
ENVIRONMENT	CARBON AND ENERGY MANAGEMENT		
	Implement carbon strategies and management plans, including achieving a reduction in office electricity consumption over a two year period	✓	Reduction strategies implemented in all three Business Units, on track

LOOKING AHEAD

	WHAT WE WANT TO ACHIEVE	HOW WE ARE GOING TO GET THERE	FOCUS AREAS FOR NEXT FINANCIAL YEAR
ECONOMIC	Deliver value to our shareholders	Achieve above benchmark economic returns for shareholders	✓
	Operational excellence	Deliver on committed availability, efficiency, maintenance and investment programs	✓
	Transparent governance structure	Review current governance structures to reflect stakeholder and shareholders requirements	✓
	Sustainable procurement practices	Review the supply chain for major contracts	✓
Value chain / materiality mapping		Year 2	
Develop a global procurement strategy		Years 2–3	
SOCIAL	Healthy and safe workplace*	Driving down workplace injuries, improving our management systems, building a strong H&S culture and conducting assurance activities	✓
	Improve employee alignment and engagement	Embed values and behaviours into PH culture	✓
		Investigate an employee volunteering program	Year 2
	Promote inclusion and diversity*	Implement mentoring programs with an external organisation	✓
		Ensure gender equality in development and remuneration	✓
		Engage staff on cultural awareness through training and activities	✓
	To be trusted by the community and have positive relationships with a high level of integrity	Early engagement and consultation with community	✓
		Where feasible, have a local representative / employee within the community	Years 2–3
		Community engagement plans developed and implemented at all sites	Years 2–3
		Develop a global community engagement strategy	✓
Develop a global community investment strategy		✓	
ENVIRONMENT	Understand climate change and GHG impacts on the Company	Conduct a study to identify and assess the impacts of climate change on PH's business	✓
		Implement changes to our business (if required) based on the assessment of the impacts of climate change	Years 2–3
		Improve process of data collection on greenhouse gas and energy consumption	✓
		Assess requirements of Equator Principles III and update systems and reporting	✓
	Environmental compliance	Implement the global Health Safety Environmental Management System (HSEMS) Standards at all sites	✓
		Audit against the HSEMS Standards as per audit schedule	✓
		Maintain ISO14001 at current sites and consider ISO14001 accreditation for all new sites	✓
	Management of environmental impacts	Measure environmental impacts of construction projects throughout the construction lifecycle and implement reduction strategies	Years 2–3
		Ensure that areas of land/habitat reinstated exceed the amount disturbed	✓
		Improve understanding of water use, quality, flows and measure (year 1), assess (year 2) and report (year 3) on the environmental impacts	Years 1–3
Implement greenhouse initiatives as per the Action Plans developed for each business unit		✓	

Items with an "*", whilst not significant topics in the Materiality Assessment, were identified as being important to us and have also been included in our Strategy.

GOVERNANCE, ETHICS AND RESPECTING RIGHTS

OUR OWNER

Pacific Hydro is a wholly-owned subsidiary of the Industry Funds Management (IFM) Australian Infrastructure Fund. IFM is a world-leading investment manager, with over A\$46 billion in portfolios across listed equities, private equity, infrastructure, debt and private assets. It is wholly-owned, through Industry Super Holdings Pty Ltd, by a large number of Australian superannuation funds.



OUR BOARD

Our Board of Directors is committed to principles of sustainability and has overall responsibility for ensuring that the company maintains an appropriate corporate governance structure.

We have a diverse mix of Directors, incorporating different skill sets, business and executive experience and qualifications. Having both independent and owner's representatives operating under our governance standards protects and enhances shareholder value, provides appropriate internal controls and provides reporting integrity through continuous disclosure to our shareholders.

The Board has delegated responsibility for oversight of specific governance areas to three permanent Committees (Health, Safety, People and Sustainability; Audit, Finance and Risk; and Projects and Operations). While the Health, Safety, People and Sustainability Committee has specific responsibilities for sustainability issues and performance, the Board receives monthly economic, social and environmental performance reports from management.

For more information on our directors please refer to:



BOARD MEMBERS

NAME	POSITION	COMMITTEE MEMBERSHIP	DATE OF APPOINTMENT	MEETING ATTENDANCE
Garry Weaven	Chairman and Owner's Representative (IFM)	Board	29 July 2005	11 of 11
		Audit, Finance and Risk		3 of 7
		Projects and Operations		4 of 5
Brett Himbury	Non-Executive Director and Owner's Representative (IFM)	Board	29 July 2010	8 of 11
		Health, Safety, People and Sustainability		5 of 5
Kyle Mangini	Non-Executive Director and Owner's Representative (IFM)	Board	9 Oct 2009	9 of 11
		Audit, Finance and Risk		3 of 7
		Projects and Operations		5 of 5
Geoff Coffey	Independent Non-Executive Director	Board	26 March 2004	11 of 11
		Audit, Finance and Risk (Chair)		7 of 7
		Projects and Operations		5 of 5
Roger Gill	Independent Non-Executive Director	Board	1 December 2010	11 of 11
		Health, Safety, People and Sustainability		4 of 5
		Projects and Operations (Chair)		5 of 5
Anita Roper	Independent Non-Executive Director	Board	27 March 2012	11 of 11
		Health, Safety, People and Sustainability (Chair)		5 of 5
		Audit, Finance and Risk		7 of 7

OUR GENERAL MANAGEMENT COMMITTEE

Our General Management Committee (GMC) works closely with the Board to develop and implement long-term strategy within agreed policy parameters. Members of the GMC are directly responsible for the performance of our geographical and functional Business Units, and are supported by a team of highly-skilled executive managers. This year, our general management team was further strengthened with the addition of Joseph Keenan as our Chief Operating Officer.

RISK MANAGEMENT

We adopt an end-to-end approach to risk management, using our Enterprise Wide Risk Management Framework (EWRMF) to identify, understand and manage risk. Integrating the framework into business practices, processes and functional responsibilities helps us deliver corporate objectives and provide greater certainty and confidence to our shareholders.

Periodic risk reviews are conducted for all development opportunities, delivery and operations as well as at other critical decision points.

The EWRMF incorporates strategic development and commercial sustainability, risk profile and review, governance, controls and compliance and assurance mechanisms. Internal and external assurance processes are adopted in some areas to ensure the effectiveness of these mechanisms.

The Audit, Finance and Risk Committee oversee the framework, while the CEO and GMC are responsible for implementing appropriate risk management strategies in line with the EWRMF. Risk management processes and performance are supported by our Risk Management Policy and management system. We will examine the EWRMF in 2014 to ensure its continued relevance to our business.

COMPLIANCE

As a responsible clean energy company, we are committed to complying with all relevant laws, regulations and standards. Various compliance mechanisms are built into our Enterprise Wide Risk Management Framework to ensure this.

Management responsibility for compliance is reinforced by an Annual Compliance Report prepared by each general manager addressing the state of compliance within the areas of their responsibility. Any non-compliances are subject to a rectification plan and opportunities for avoidance of similar non-compliance in the future are identified. We had no non-compliances in the reporting period.

ETHICAL BEHAVIOUR

Pacific Hydro is established on a foundation of ethical behaviour, operating with integrity and honesty to ensure our longevity and earn the continual trust of our stakeholders.

CODE OF CONDUCT

Our Code of Conduct provides guidance on ethical behaviour for our employees and Directors. All new employees receive training in the Code of Conduct as part of the HR Policies and Procedures induction and are required to sign the Code. The Code outlines our approach, responsibilities to our stakeholders and guides employees and contractors on issues such as bribery and anti-competitive behaviour.

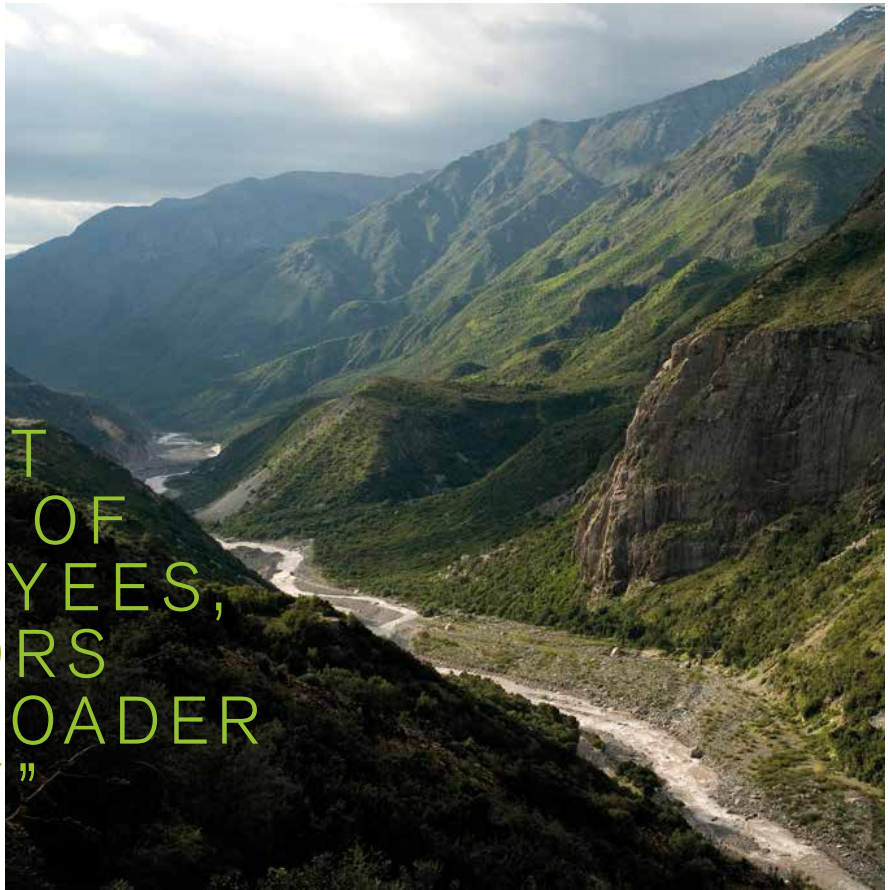
CORRUPTION AND ANTI-COMPETITIVE BEHAVIOUR

All employees who regularly deal with overseas counterparties receive periodic training on corruption, covering the policies and procedures relevant to the jurisdictions in which we operate.

Our Whistleblowers Disclosure and Investigation Procedure covers allegations of improper or corrupt conduct, as well as breaches of Company policy, the Code of Conduct and any relevant laws. There were no reported incidents of corruption or anti-competitive behaviour during the reported period.



“WE RESPECT
THE RIGHTS OF
OUR EMPLOYEES,
CONTRACTORS
AND THE BROADER
COMMUNITY”



DONATIONS

We participate in political fundraising activities across the political spectrum to enhance accessibility and communication with policy makers, however we do not make donations to political parties in accordance with our Code of Conduct.

RESPECTING RIGHTS

We respect the rights of our employees, contractors and the broader community. Compliance mechanisms within our risk management framework allow us to identify and comply with all relevant laws relating to human rights. Our human rights commitments are covered by the following high-level documents:

- Code of Conduct
- Equal Opportunity Policy
- Whistleblowers Disclosure and Investigation Procedure
- Health and Safety Policy
- Sustainability Policy
- Community Charter
- Flexible Working Guidelines

There were no identified incidents involving human rights or indigenous rights during the reporting period.

We have formal complaints procedures, which can be used by employees and members of the community for concerns relating to Pacific Hydro.

UNITED NATIONS GLOBAL COMPACT

We continued to strengthen our commitment to the principles of the United Nations Global Compact (UNGC). Considerations of environment, anti-corruption, labour and human rights have been further integrated into our strategies and day-to-day business operations. More information about our progress relating to these principles is included throughout this report.

 unglobalcompact.org

BUSINESS OPERATIONS AND FINANCE

INSTALLED CAPACITY

ASSET	LOCATION	PHASE	OWNERSHIP	TECHNOLOGY	CAPACITY* (MW)
The Drop	Australia	Operations	100%	Hydro	2.5
Glenmaggie	Australia	Operations	100%	Hydro	3.5
Eildon Pondage	Australia	Operations	100%	Hydro	4.8
William-Hovell	Australia	Operations	100%	Hydro	1.8
Ord	Australia	Operations	100%	Hydro	30
Challicum Hills	Australia	Operations	100%	Wind	52.5
Codrington	Australia	Operations	100%	Wind	18.2
Portland Wind Energy Project (PWEPI) – Yambuk	Australia	Operations	100%	Wind	30
PWEPII – Cape Bridgewater	Australia	Operations	100%	Wind	58
PWEPIII – Cape Nelson South	Australia	Operations	100%	Wind	44
Clements Gap	Australia	Operations	100%	Wind	56.7
Millennium	Brazil	Operations	100%	Wind	10.2
Vale dos Ventos	Brazil	Operations	100%	Wind	48
Coya & Pangal	Chile	Operations	100%	Hydro	74
Chacayes	Chile	Operations	73%	Hydro	110
La Higuera	Chile	Operations	50%	Hydro	154.7
La Confluencia	Chile	Operations	50%	Hydro	163.2
Colmito	Chile	Operations	50%	Thermal Back-up	58

* Refers to nameplate capacity.



OUR PRODUCTS

AUSTRALIA

WHOLESALE

ELECTRICITY

We are active in the wholesale (traded) electricity markets, hedging the price received from selling generation into the National Electricity Market (pool). This is done in a number of ways, including Power Purchase Agreements (PPAs) with other electricity retailers and large consumers, as well as selling electricity derivatives in the Over The Counter (OTC) electricity markets.

LARGE-SCALE GENERATION CERTIFICATES

All electricity retailers and some large electricity consumers are required to purchase a minimum amount of electricity from renewable sources under the Large-scale Renewable Energy Target (LRET). These companies meet the requirement by procuring Large-scale Generation Certificates (LGCs), formerly known as Renewable Energy Certificates, or RECs. All of Pacific Hydro's Australian renewable energy projects commissioned after January 1997 are qualified to produce LGCs.

RETAIL

We commenced our retail activities during the reporting period, offering solutions for medium and large organisations looking for a reliable, flexible and cost-effective service to meet their electricity supply needs. Our current retail offerings (as of September 2013) include:

- Energise by Pacific Hydro
- EnergiseGreen by Pacific Hydro
- GreenPower by Pacific Hydro

For more information about each of these products visit:

 pacifichydro.com.au/retail



BRAZIL

Our two wind farms located in the state of Paraíba, in the northeast of the country produce more than 140MW per year of clean energy, supplying approximately 200,000 homes annually. We sell energy to Eletrobrás through an incentive program for alternative energy sources (*Programa de Incentivo às Fontes Alternativas de Energia Elétrica*, or PROINFA).

During the past year, we have been screening opportunities with industrial clients and will continue to participate in government auctions and potential mergers and acquisitions. We have also been looking for financial investors to partner in an investment fund structure (*Fundo de Investimentos em Participações*, or FIP), and will continue this search in the coming year.

In actively looking for new development opportunities, we signed a solar prospection and letter of intent with a solar photovoltaic manufacturer to develop a 2MW pilot solar power plant near our Vale dos Ventos wind farm.

CHILE AND TINGUIRIRICA ENERGÍA

CERTIFIED EMISSION REDUCTIONS (CERS)

Our La Higuera, La Confluencia and Chacayes operating projects are all registered to produce Certified Emission Reductions (CERs).

CERs are an international carbon based instrument 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.

WHOLESALE ELECTRICITY

Our operational renewable energy assets supply energy to electricity retailers and large mining clients in the Chilean energy market through Power Purchase Agreements and sales to the spot market

OPERATIONAL EXCELLENCE

LIFECYCLE EXCELLENCE

Our goal is to achieve excellence across the lifecycle of our business, focusing on the development, delivery and operations of our assets.

Our corporate functions in these three areas align the entire portfolio of projects and assets to our Business Plan with the intention of maximising our three markets' potential.

We have over 2,000MW in our project development pipeline, including technologies such as hydro, wind, solar and geothermal. Careful technology diversification in development helps us reduce revenue volatility across our pool of operational assets and ensures we are well positioned for further transformation of country-level energy matrices.

This year, we focused on three areas in our pursuit of development and delivery excellence: leveraging the combined development and scheduling knowledge within the group; capturing project lifecycle lessons to continuously improve development capability; and exploring technology shifts in our three markets.

Our strategy for achieving excellence is structured through a number of internal systems and frameworks designed to complement national and international standards. Our integrated Health Safety and Environmental Management System, including our HSE Standards, have been rolled out across the business, acting as a framework to drive alignment of the business unit management systems. The first round of audits against the Standards was conducted in Chile and Brazil as part of our staged approach to implementation. Australia will receive their first audit against the Standards in 2013–14.

Our Asset Management Framework provides an evaluation and management system within which to operate. The framework and associated management systems ensure operational aspects are well managed, providing greater certainty about operating costs, short and long-term availability, reliability, and the safety of our generation assets. As part of our continuous feedback cycle, these elements are also considered during the development and delivery phase, thereby ensuring lifecycle costs are optimised.

We conducted a number of asset management benchmarking exercises and operations performance reviews during the reporting period. These initiatives evaluate the effectiveness of our systems and processes, and of asset performance and condition. The outcomes of these studies form the basis of our strategic decisions in relation to the use, maintenance and expectations of the asset's lifetime performance.

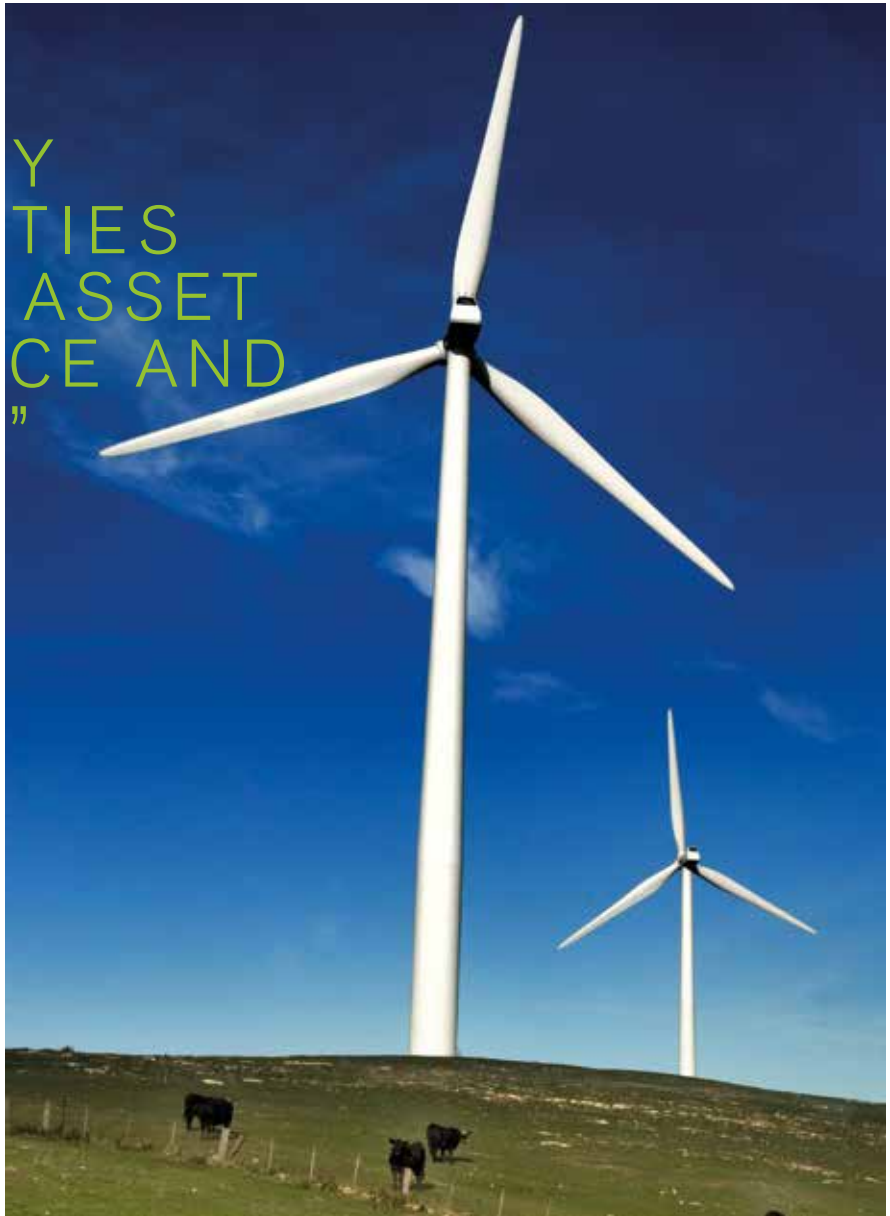


“TO IDENTIFY OPPORTUNITIES TO IMPROVE ASSET PERFORMANCE AND RELIABILITY”

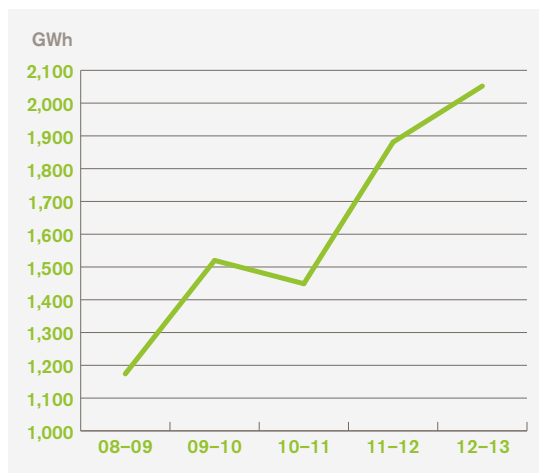
One of Australia's first wind farms, the 18.2MW Codrington wind farm, passed its midlife health check in September 2012, clocking in over 12 years of generation. Since it commenced operations, Codrington has generated over 530,000MWh of electricity, equivalent to the annual energy needs of around 8,000 homes, and abated more than 624,000 tonnes of carbon emissions. The midlife health check includes a thorough checking of all turbine componentry and inspection for signs of aging or under-performance and is performed as part of our Asset Management Framework. We are already seeing the benefits of the improvements made as part of this check.

Remote instrumental systems were installed at La Higuera, in Chile to monitor the tunnel's structural behaviour and performance. They provide real-time information on various parameters and instruments and give advance warning of certain events. The tunnel will have a scheduled emptying and inspection procedure at 14 months to assess its performance.

The Engineering Services team also works to identify opportunities to improve asset performance and reliability. The team conduct performance assessments for some of our operating wind farms to evaluate how efficiently the assets are performing after a five year period. This provides us with the basis for energy reporting assumptions.



GENERATION – GIGAWATT HOURS (GWh)



PROCUREMENT PRACTICES

We continued to seek improvement opportunities within our supply chain in the context of globalisation. We aim to select our suppliers responsibly, maintain diversity and accountability and build capability within our suppliers while respecting human rights. This year we developed a set of Sustainable Procurement Principles which were rolled out to parts of the business where major contracts are developed, refined our sustainable supplier tool for large suppliers and developed a less intensive tool for use in small to medium organisations. We assessed 12 suppliers against our sustainable supplier tool this year and we will continue to refine our processes around supplier engagement and assessment in the coming years as part of our Sustainability Strategy.

AUSTRALIA

We implemented a number of measures during the past year to improve relationships with our suppliers and contractors, including setting key performance indicators around invoice processing. Since last July, we improved our performance considerably, from 82 per cent of all invoices being processed within 30 days, to more than 91 per cent.

CHILE

This year our Operations team developed an historical register of contractors used within the team, to record contractor performance against a standard set of evaluation criteria. The register assists with decisions for future contractual commitments, and evaluates contractor performance by looking at compliance against technical specifications, health and safety record, administrative management and timing of the task completed. It is aligned with our Purchase and Contracts procedure, which underwent a review during the reporting period. The procedure shall include an updated process to evaluate the economic element of the bidding process, and provides an allocation of additional scores for local contractors, in order to make their offers more competitive to the whole evaluation process.

GOVERNMENT LOBBYING AND PUBLIC POLICY

Our public policy activities are unique to each Business Unit. For each public policy issue impacting our business we have identified our position below.

AUSTRALIA

PUBLIC POLICY ISSUE	OUR POSITION
Renewable Energy Target	The Renewable Energy Target (RET) is a key pillar in Australia's clean energy transition. The RET is low cost and high return in terms of regional investment, generation and future energy security. Maintaining the large scale target at 41,000GWh is important for investor confidence, energy market investment stability and delivery of clean energy and low-carbon outcomes.
Wind farm planning regulations	Pacific Hydro supports the development of appropriate, balanced and merit-based planning schemes. In relation to energy infrastructure of all types, we believe that the community needs confidence in the regulatory and planning authorities and the information provided by them about wind farms.
Community engagement	We support the development of enhanced standards across the industry and were actively involved in the June 2013 launch of the Clean Energy Council's new community engagement guidelines for wind. We accept we can still do better with community engagement and are revising our strategy in line with a commitment to continual improvement and innovation.



BRAZIL

PUBLIC POLICY ISSUE	OUR POSITION
Transmission limitations for wind power generation	We support the proposal of a prioritisation scheme for grid reinforcement in northeastern Brazil. The proposal is supplemented by a study undertaken by Pacific Hydro, and was presented to the National Operator of the System (Operador Nacional do Sistema Eléctrico) and the National Planning Agency (Empresa de Pesquisa Energética, EPE). It addresses investor concerns relating to a systemic crisis in the energy sector, where energy not transmitted is idle, thus increasing energy costs and sector risk for investors. EPE has already taken action as only projects with available transmission lines will be awarded Power Purchase Agreements in the next wind auctions.

CHILE

PUBLIC POLICY ISSUE	OUR POSITION
Electrical concessions	Meeting Chile's growing energy needs requires strong supporting legislation. Current waiting periods for the concessions' approvals process are listed at 150 business days, but can take over 700 business days. This generates speculation about the negotiation of easements, negatively impacting the market and Chile's ability to develop necessary energy assets. We support a new electrical concessions bill intended to generate efficiency and effectiveness in the process.
Non-Conventional Renewable Energy Law	The current Non-Conventional Renewable Energy Law precludes large scale (>40MW) run of river hydro projects from being considered "renewable energy". We have been strongly advocating for the review of this law to allow assets with an installed capacity of greater than 40MW, which produce renewable energy and in many cases registered under the United Nations Clean Development Mechanism, be recognised as renewable energy under this law. Removal of this limit would promote development of larger renewable energy projects, which are better placed to efficiently utilise Chile's abundant water resources, stimulate further investment and achieve or possibly even exceed current targets for renewable energy.

WORKPLACE



HEALTH AND SAFETY

We aim for continual improvements in our health and safety performance with the ultimate goal of achieving zero incidents, injuries and 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 Environment Policy outlines our commitments to ensuring a healthy and safe environment for our employees, contractors and visitors. Aggressive targets are set annually at a corporate and business unit level to identify, eliminate or minimise exposure to hazards in the workplace, with the aim of decreasing injury rates, improving management systems and increasing employee ownership for improving our health and safety performance. We have set a TRIFR target of 5.1 for 2014, which equates to a 15 per cent reduction on last year's target.

Performance against these objectives is directly linked to employees' performance appraisals and bonus payments.

We also increased our focus on HSE risk evaluation and mitigation during the reporting period. Each Business Unit was required to nominate, evaluate and mitigate their top three key risks to an acceptable level. While not all action items were completed within required timeframes, we were very successful overall. Effective measures were implemented to mitigate key risks, which also drove significant cultural change due to a large number of employees involved across the business.

AUSTRALIA

An emergency simulation exercise was held at Cape Nelson South, involving our own staff, contractors and the local emergency service. We were very impressed with the quick response and level of professionalism displayed by all involved.

We have also made improvements to our risk and hazard identification processes. As a result, all new service vans were fitted with cranes to improve general safety and reduce manual handling. All turbines are now fitted with climb assists to enable our service technicians to safely climb the towers.

Next year, our focus will shift to developing detailed risk reduction programs for confined spaces, occupational noise and hazardous manual handling.

BRAZIL

Our Emergency and Contingency Plan requires annual simulations of chemical spills, fires or explosions, insect bites and poisonous animals. The plan involves local emergency service providers, who often run training sessions about responding to emergencies. Their training is valuable to both us and the local community members, who learn important skills including how to respond to a simulated forest fire and surf life-saving. This training has attributed to Brazil's 1,886 days without health and safety incidents.

SUPPORTING HEALTH AND WELLBEING IN THE WORKPLACE

AUSTRALIA



We ran an intensive Health and Wellbeing Program this year after receiving a \$10,000 grant from the Victorian Government. Supported by our new Health and Wellbeing Policy, some of the activities undertaken as part of the Program included participating in the Global Corporate Challenge, healthy cooking demonstrations, mental wellbeing sessions, installation of adjustable ergonomic work areas and offering a Quit Smoking short course.

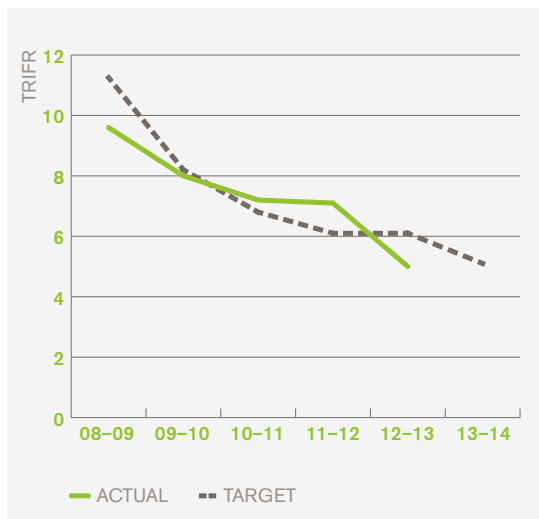
Mental health is becoming more recognised as a workplace health and safety risk, also identified as a top priority for Pacific Hydro. Work to address mental health was tied in with an overall company objective of Business Unit Risk Mitigation, which was directly linked to the performance appraisal and bonus payment for all corporate employees.

We decided to take a preventative approach to mitigating this risk, addressing mental health issues through training provided to managers and staff on anxiety and depression awareness and change management. Additional programs implemented during the year included the establishment of a Working Mothers Support Group and Retirement Transition Guidelines. Risk mitigation activities already in place include training for all staff on emotional resilience and occupational stress, and ongoing programs including our Employee Assistance Program, Leave Purchase Program and informal flexible working arrangements.

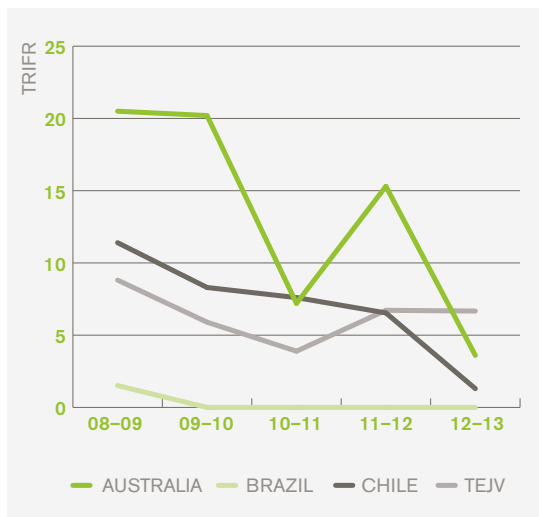
Although our government funding will cease in 2013-14, we will continue to promote health and wellbeing initiatives and mental health risk mitigation in the workplace.

STAFF IN MELBOURNE PARTICIPATING IN A HEALTHY COOKING DEMONSTRATION

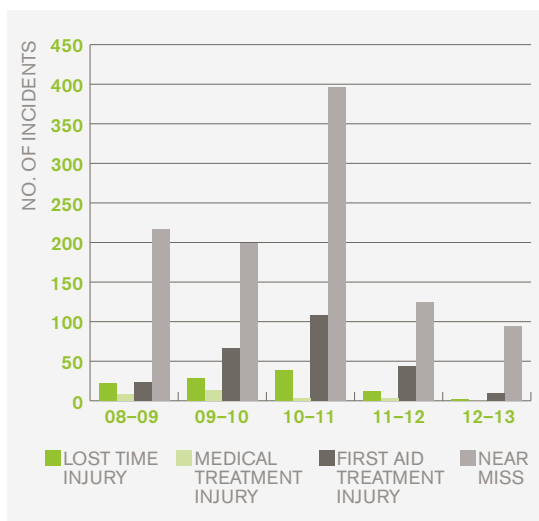
OVERALL TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)*



TRIFR BY BUSINESS UNIT*



TOTAL NUMBER OF INCIDENTS REPORTED**



* Includes 100% of TEJV.

** Excludes TEJV.

We follow OSHA US Department of Labour standards in each of our countries of operations in classifying and responding to incidents.

'Lost Time' refers to number of scheduled work days or one shift or more lost during a specified period.

TRIFR in a given time period is calculated as such: $(\text{Number of Lost Time Injuries/Illnesses} + \text{Number of Medical Treatment Injuries/Illnesses}) / \text{Number of Hours Worked in that period} \times 1,000,000$.

CHILE

We produced positive health and safety results, implementing a number of new programs and initiatives and winning two awards in recognition of this. Our primary intention is to further embed a safety culture in Chile, and we are using a Safety Improvement Road Map to move from compliance, to commitment, to culture. As a result of increased reporting to identify and control hazards or risks in a timely manner, we achieved 408 days without a Lost Time Injury, including contractors.

We finished the financial year with a Total Recordable Injury Frequency Rate of 1.3, an 80 per cent reduction on the previous year. Our performance aligns with an increased focus on preventative safety through non-conformance reports – over the previous two years, we received an average of 133 reports per year, compared to only 12 the year before.

During the past year, we introduced a '5 steps' safety tool, used daily by all Operations and Project staff. The tool identifies hazards and risks prior to commencing works, or any changing conditions. We also developed a Behaviour-Based Safety Observations Program at our operational sites to encourage identification of unsafe behaviours. It allows us to hold a continuous conversation about dangerous behaviours and the need to align our behaviours with international safety standards. Finally, we implemented a global best-practice induction program for our operational sites, which has been shared with other Business Units for potential adaptation.

In early January, the Cachapoal and Pangal rivers which feed our Coya and Pangal hydro plants flooded, causing a landslide upstream which threatened our assets. Following our Emergency Response Manual as part of our Crisis Management Standards, we leased a helicopter to rescue our employees who were isolated at the Pangal intake. The National Emergency Office of the Interior Ministry (ONEMI) requested we also use the helicopter to rescue stranded community members and tourists, and we worked closely with ONEMI, sharing information and resources to ensure a timely, appropriate response.

Following the flood, we assessed our response against the Emergency Response Manual and determined our actions were in alignment with the Standards. However, all Operations staff and relevant contractors received retraining in the Standards during March to further establish emergency response activities into our day to day operations.

TINGUIRIRICA ENERGÍA (TEJV)

Management of the TEJV have the highest concern for the welfare of its employees, shareholders and the community, promoting health, safety and environmental responsibility.

Individual training plans track employee training requirements, with a focus on health, safety and first aid. The TEJV operate their health and safety program using principles of Health and Safety. The principles work to establish harmonious relationships between employees, foster a safe working environment that minimises risk and ensures the welfare of each staff member.

The TEJV achieved an operational TRIFR of 4.0 against a target of <5.0 and a project-related TRIFR of 4.8 against a target of <3.0. They also achieved a 98 per cent compliance rate for safety audits in 2012. Other TEJV H&S performance results are included on page 26.

EMPLOYEE WELLBEING

Looking after the health and wellbeing of our employees improves productivity and engagement within our business. We have a broad range of strategies within our health and wellbeing program designed to prevent serious conditions and illnesses in employees. We established a formal Health and Wellbeing Policy to raise awareness about these issues and to promote a positive and equitable workplace.

CHILE

A number of activities were developed around employee wellbeing and mental health. All employees completed annual training in our Equal Opportunity (EO) Policy, and we now have seven facilitators, of whom four were new and received training. A new Health and Wellbeing Policy was launched and is aligned with our corporate Health and Wellbeing Policy.

A Sports Committee was also established and has organised activities such as boot camp and men's and women's soccer.

INTERNAL COMMUNICATIONS AND EMPLOYEE ALIGNMENT

In response to results from Pacific Hydro's annual Alignment and Engagement Survey (AES), four key areas were identified as requiring particular attention, leading to the campaign 'AES 2012: We're Hearing You'. The campaign implemented a number of initiatives in the following areas:

- Global communications
- Business Plan communications and KPIs
- Company Vision and Values
- Career development

Almost 80 per cent of initiatives were implemented within the required timeframe and we will judge the success of the campaign based on results of the 2013 survey. Results were unavailable at the time this report was finalised, but will be reported next year.



“...DEVELOPING EMPLOYEES, SHARING SKILLS AND IMPROVING CULTURAL AWARENESS...”

TRAINING AND DEVELOPMENT

Developing our staff to their full potential allows us to meet our business needs, fulfil employees' personal aspirations and exceed shareholders' expectations. We offer a broad spectrum of internal training courses to all office and site-based staff. Funding is available to employees to attend external training or to pursue further education opportunities. Our training and development spend for the reporting period was \$554,000, which equates to over \$1,800 per employee.

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 and manual handling programs.

All employees receive annual performance appraisals, in which performance targets are set in line with our Business Plan. Six-monthly reviews assessing performance against targets are also conducted. Professional development opportunities are identified and discussed during employee performance appraisals.

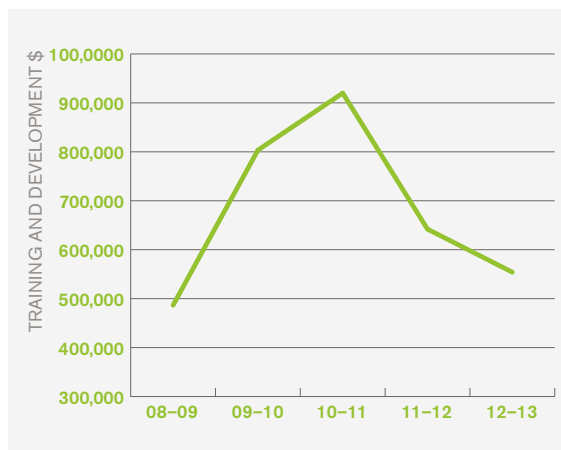
We also encourage movement between Business Units as a way of developing employees, sharing skills and improving cultural awareness between our countries of operation.

Language classes are held in all business units to promote communication and cultural awareness. Staff in Australia can learn Spanish, while staff in Brazil and Chile can learn English.

Our successful Education Sponsorship Program continued, helping employees to further develop their careers through vocational and further educational opportunities. We had seven participants in Australia, 2 in Brazil and 11 in Chile.



TRAINING AND DEVELOPMENT SPEND*



* Excludes TEJV.

Restatement: In the previous report, employee training and development spend was reported as \$642,600. The correct amount was \$593,800.

AUSTRALIA

We implemented a software package, Training Manager, to help us track employee training data. In conjunction with Training Manager, an HSE training matrix was developed based on job role and position description to identify required training for each employee. These tools will allow us to continue to foster employee development and the long-term success of our business.

Leadership lunches were held, with prominent business leaders speaking to staff about leadership and career management. As part of our Diversity and Inclusion strategy, we developed Back-To-Work coaching for maternity and paternity leavers to assist with their transition back into the workplace. Managers and staff were also trained about unconscious bias and cultural awareness. Career resilience workshops were held for staff, to offer advice on managing their careers and identifying growth and development opportunities. We also offered Managing and Leading Teams training and mentoring for new managers.

CHILE

We welcomed 16 employees into new temporary and permanent roles. All staff participated in refresher training of HR Policies during April 2013.

TINGUIRIRICA ENERGÍA (TEJV)

During the reporting period, training was focused on safe work environments and leadership, in response to an Employee Engagement and Work Environment Survey conducted in 2011. The TEJV will continue to strengthen its work environment, conflict resolution, relationships, reactions and communication through a Manager Leadership Training Program.

In 2012, the TEJV launched a Working Environment Plan, which covered the following five areas:

- Internal and external communications
- Employee benefits and remuneration
- Identity and work environment
- Training and development
- Leadership

A broad range of initiatives have been developed and will continue to be implemented to drive performance improvements in these key areas.

DIVERSITY AND INCLUSION

The promotion of inclusion and diversity within our organisation allows us to embrace and leverage from our differences, enhancing our competitive advantage. We are proud of our inclusive and diverse culture and have taken steps to strengthen this through our comprehensive Inclusion and Diversity Strategy. Equal employment opportunity and anti-discrimination are specifically addressed in our Code of Conduct and Equal Opportunity Policy.

Our workplace is family friendly and we encourage employees to balance family commitments with work responsibilities through a host of initiatives including part-time employment, job sharing, working from home and staggered start and finish times where appropriate. Our Parental Leave Policy extends beyond statutory requirements relating to parental leave rights in Chile and Australia.

AUSTRALIA

We implemented Retirement Transition Guidelines to enable eligible employees to plan for their transition. Similar policies are under development for Chile and Brazil.

BRAZIL

Due to our small and relatively new office, we had our first maternity leave taker during the reporting period. To ensure a smooth transition back to work for her, we developed a new induction program, supported by activities implemented in our corporate function.

CHILE

A Parental Leave Policy was launched, including benefits such as coaching for new mothers and five extra days of leave for new fathers. We ranked 9th out of 25 organisations in Chile Unido's annual survey for "Best Companies for Working Parents".

RESPECTING RIGHTS AT WORK

We comply with all applicable laws, regulations and other legal requirements with respect to the rights of our employees. We have not identified any risks at any of our operations relating to the employees' rights to freedom of association or collective bargaining.

Employee grievances are covered by our Grievance Procedure, Whistleblower Disclosure and Investigation Procedure, Equal Opportunity Policy and Code of Conduct. These policies and procedures encourage employees to seek and use appropriate mechanisms to address any grievances. Any issue not adequately addressed through these provisions can be taken to our Employee Assistance Program or relevant external organisations.



MEMBERS OF OUR FINANCE TEAM IN CHILE

AUSTRALIA

Where required, restructuring processes are managed through our Redundancy Policy. Our Retirement Transition Guidelines provide employees with the flexibility to plan for their retirement and ensures that the management of separation of employment due to retirement is appropriate, timely and fair, and conforms to all applicable contracts of employment.

A total of 7.1 per cent of Australian employees are covered by collective bargaining agreements and our Enterprise Bargaining Agreement renegotiations were successfully completed during the reporting period. All employees complete annual training in our Equal Opportunity (EO) Policy.

A complaint under the EO Policy was made and investigated during the period and appropriate disciplinary action was taken.

TINGUIRIRICA ENERGÍA (TEJV)

An employee assistance service has been provided for employees and their immediate families since 2009. The service gives employees access to independent, confidential and autonomous advice in the areas of health, legal, finance and counselling, including three face-to-face sessions.

The TEJV is committed to equal opportunity and non-discrimination of any kind. It is committed to strengthening diversity and valuing people of different backgrounds.

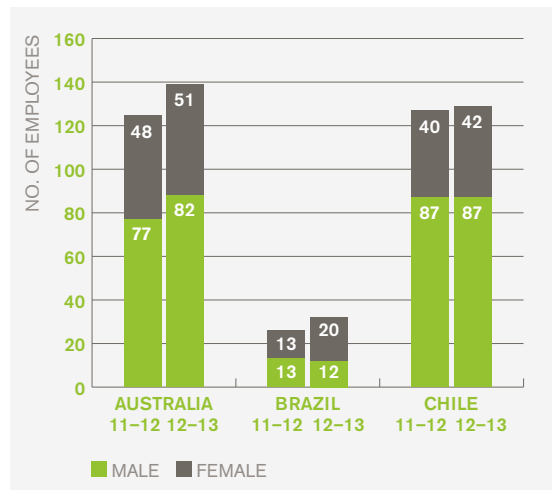
REMUNERATION AND BONUSES

Our Remuneration Policy aims to attract, motivate and retain employees by aligning team and individual rewards with business performance to achieve value creation for shareholders. It ensures employees are remunerated in a way that is both market competitive and consistent with best practice. Executive Manager level roles upwards are sized and benchmarked externally to ensure executives are remunerated fairly. Global consistency of our remuneration structure and rewarding both financial and non-financial performances are key aspects of the Policy.

Our minimum wage levels across all regions meet or exceed the legal minimum. All benefits provided to full-time employees are granted to part-time employees on a pro-rata basis.

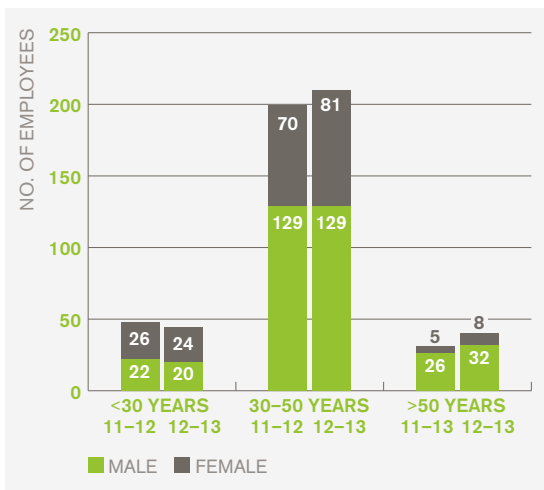


EMPLOYEES BY GENDER AND REGION

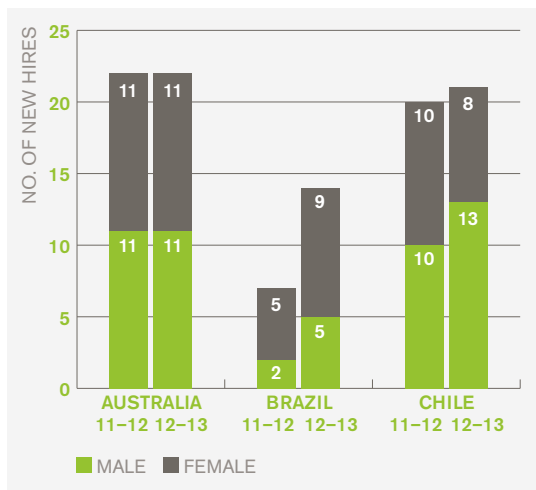


All graphs and tables on pages 30 & 31 exclude TEJV.

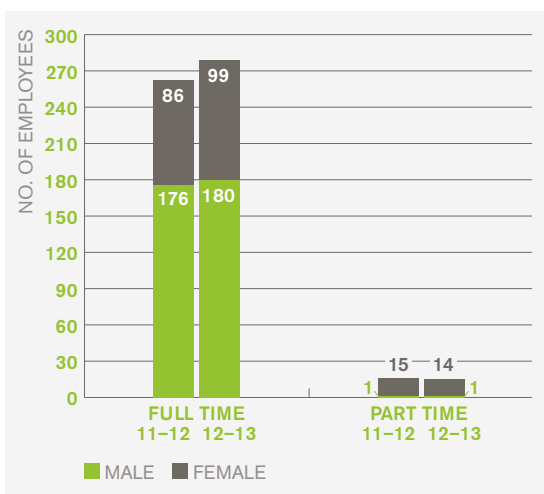
EMPLOYEES BY AGE AND GENDER



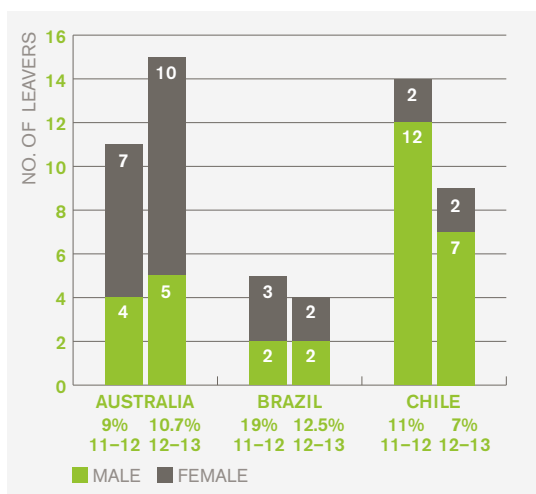
NEW HIRES BY GENDER AND REGION



EMPLOYEES BY TYPE AND GENDER



VOLUNTARY TURNOVER BY GENDER AND REGION



EMPLOYEES BY LEVEL AND AGE

	2011-12		2012-13		2011-12		2012-13	
	<30 YRS		30-50 YRS		>50 YRS			
Staff	47	43	130	141	10	22		
Manager	0	1	43	43	14	10		
Executive Manager	1	0	19	18	5	5		
General Manager	0	0	7	8	2	3		
Director	0	0	2	2	4	4		
TOTAL	48	44	201	212	35	44		

EMPLOYEES BY LEVEL AND GENDER

	2011-12		2012-13	
	FEMALE	MALE	FEMALE	MALE
Staff	78	109	93	113
Manager	16	41	13	41
Executive Manager	4	21	4	19
General Manager	3	6	3	8
Director	1	5	1	5
TOTAL	102	182	114	186



COMMUNITY

CONSULTATION AND ENGAGEMENT WITH COMMUNITIES

Forging sustainable relationships with our local communities is fundamental to making a long-term, positive contribution to society while engaging our people and strengthening our business. Our consultation process is designed to keep stakeholders well informed and provides community members with the opportunity to participate in the development of proposed projects. Each community is different, with varying needs, and we have consequently recognised the need to adapt our engagement and consultation styles to meet the needs of each local community and other stakeholders.

Our Community Charter provides a framework to guide how we engage and work with communities in a consistent manner globally.

Our proposed global community engagement strategy for 2013–14 will outline the overall principles of community engagement and consultation for our business and be implemented between 2014–16.

AUSTRALIA

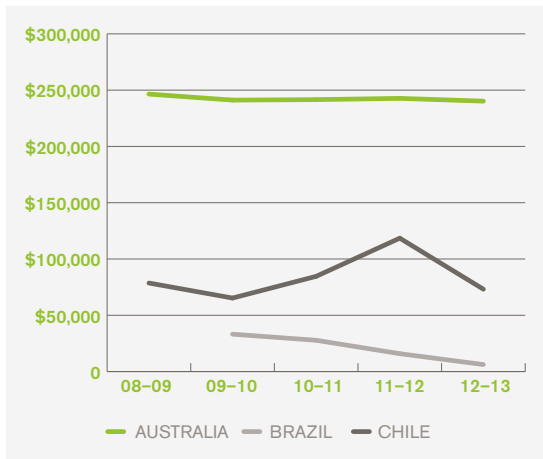
Our strategies for community engagement include community consultation, community management plans, community investment funds, donations, sponsorships and participation in local events. Our approach is tailored for each community we work in.

During the year we commenced a review of our community complaints process, and have spent considerable time improving our processes to ensure we are achieving optimal outcomes for all parties.

Undertaking this review will help us be more responsive, achieve mutually agreeable outcomes and foster neighbourly and collaborative relationships within our local communities. We're at the start of a long, challenging journey, and are excited about the opportunity to engage on a deeper and more transparent basis with those living and working near our assets.

We have developed a Working Group to prepare our first Reconciliation Action Plan, which aims to strengthen relationships and enhance respect between Aboriginal and Torres Strait Islander peoples and other Australians. Indigenous heritage is protected under federal and state legislation in Australia as well as through our Health, Safety and Environment (HSE) 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.

COMMUNITY FUND COMMITMENTS



VISUAL AND OTHER AMENITY

AUSTRALIA

Around nine residents located near our Clements Gap wind farm noticed TV reception interference. We replaced their regular analogue antennas with a VAST satellite system and everyone has now reported improved reception quality.

STRATEGIC ALLIANCE WITH TINGUIRIRICA RIVER SUPERVISORY BOARD

TINGUIRIRICA ENERGÍA (TEJV)

After the La Higuera and La Confluencia hydro power plants completed construction, commissioning for both plants ensured technical and operational reliability prior to moving into commercial operations. However, the testing stage revealed operational impacts on other river users, particularly downstream irrigators.

The TEJV worked with local authorities and irrigators to identify solutions to improve irrigation canals and assist with canal gate repairs. At the same time, engineering and operations solutions were introduced to the power plants, easing natural variations in river flow with a constant flow of water to ensure resource demand was met.

A number of disagreements with the irrigators prompted the TEJV to request a roundtable discussion and invite irrigators to visit the power plants, in line with their commitment to transparency and collaboration. Unfortunately, no understanding was reached, which triggered a public demonstration in nearby San Fernando. Conflict mediators were engaged and talks resumed to a point where a mutually beneficial agreement was reached.

Irrigators in this area are represented by the Tinguiririca River Supervisory Board, whose role is to manage and distribute the waters from natural sources while overseeing the water interests of its members and water users in the basin.

Currently, the TEJV has three representatives on the Tinguiririca River Supervisory Board. This has been critical to maintaining the relationship between TEJV and the irrigators, with constant, open communication between TEJV, the irrigators, authorities and other key players. TEJV has offices in San Fernando with employees exclusively dedicated to stakeholder relations with local irrigators.

SUPPORT AND DEVELOPMENT OF COMMUNITIES

COMMUNITY INVESTMENT PROGRAMS*

As part of our commitment to encouraging social development and sustainability initiatives, community investment funds operate in Australia, Chile and Brazil. A portion of the profits generated from each project are invested back into local communities, supporting initiatives in the areas of education, community development and tourism, health, safety and recreation, sport, the environment, culture and the arts. This promotes innovative solutions to local issues, encourages organisations to form partnerships to deliver community services and ultimately work towards positive, long-term outcomes for broader community benefits.



* Community investments are reported in line with the GRI definition of community investment.

QUADRILHA MANGUE UÇÁ DANCE GROUP

BRAZIL



The Barra do Camaratuba community near our Vale dos Ventos and Millennium wind farms had been experiencing some issues with their local youth, disrupting the harmony of the community.

A dance teacher, who has lived in the area for 13 years, proposed that we create a cultural dance group partnership with some local teenagers. The group meets three times a week with the volunteer teacher, who coordinates training and actively seeks opportunities for the group to perform to other communities. In exchange for Pacific Hydro providing the group with their dance costumes, the students agreed to return home directly after practice rather than congregating noisily in public places. They also signed a commitment to work with the Barra do Camaratuba School and other local groups to ensure the recovery of local culture and improve the academic performance of student participants.

The initiative has directly and indirectly involved around 20 per cent of the community's 800 residents. We are proud that it has helped address social issues and provided local teenagers with a creative outlet while learning responsibility and accountability.

AUSTRALIA

Our Sustainable Communities Fund continued into its eighth year, with the fund's structure being reinvented to allow community members to participate in allocation of funds. The allocation panels now consist of our Wind Farm Manager, three other self-nominated employees, four self-nominated community members and a member of council who works with community groups. This ensures that the entire process is transparent and more importantly, that communities have ownership of the Sustainable Communities Fund. We supported 80 projects during the year.

BRAZIL

We invested in many areas within the community through supporting socio-cultural activities and providing safety-related training for local residents.

We sponsored the Quadrilha Mangue Uçá, a dance group from Barra do Camaratuba, the village near our Vale dos Ventos and Millennium wind farms. Sponsorship included the purchase of materials for costumes, and payment for a local dressmaker. More on this sponsorship and its impact on the community can be found in the case study to the left.

We also supported 'McHappy Day', which helps maintain the hospital's Support Group for Children and Adolescents with Cancer (AACC). Each year, the hospital accommodates over 30,000 patients.

The Aquatic Rescue and Prevention Minicourse trains residents in water safety, due to the community's close proximity to the ocean and the river. We supported the training, which was provided by the 3rd Battalion of Military Firefighter, one of the most respected institutions in Brazil.

In order to strategically tie this work together, we have been developing a formal community investment fund, which we expect to implement during 2013–14.

CHILE

We celebrated the seventh year of our community investment program, Creciendo Juntos, and devised a new program scope called Participative Development. The new approach encourages cross-stakeholder initiatives, benefitting the communities of Coya, Chacayes, Perales and Termas de Cauquenes. An evaluation committee of Pacific Hydro employees assesses each project against a set of criteria. Projects meeting the criteria are eligible for funding of up to 50 per cent of the entire fund, which last year totalled over A\$70,000. We supported 21 projects during the year.

TINGUIRIRICA ENERGÍA (TEJV)

In 2007, TEJV created Tinguiririca Participa, a community investment fund which provides resources for social projects aimed at improving the living conditions in the upper Tinguiririca Valley. The program promotes the training of grassroots leaders, formulating social and community needs assessments and included sourcing public and private funding.

During 2012–13, Tinguiririca Participa placed particular emphasis on providing training for local community associations and the development of various organised community activities.

COMMUNITY DEVELOPMENT

AUSTRALIA

Our Community Relations team provide in-kind support to many of our partner organisations. For example, the Portland Young Professionals Network aims to address some of the challenges around attracting and retaining young professionals in regional areas. It offers social, personal and professional development opportunities for members as well as supporting local events through volunteering. We have supported the group by providing social media training, administrative and communications support and event facilitation.

BRAZIL

Our 'Open Doors' program continues its success with students from several schools in and around Mataraca City. During their visits to our wind farms, students learn about the need to respect health, safety and the environment, as well as learning about wind energy and renewable generation.

We continue to maintain essential infrastructure such as the road connecting the Barra do Camaratuba village with Mataraca City. A few times a year, we hire a local grader to seal the roads, which become damaged during the wet season, affecting the villagers' ability to attend school, seek medical treatment and access other essential services. Road upgrades also improve tourists' access to the beach and village, providing a boost to their small tourism industry.

Regular discussions with local community leaders and other interested parties are held to establish and identify other improvement opportunities that can provide benefits to both the community and to us.

CHILE

We continued our involvement with the local technical capacity-building institution, OTIC (Organismo Técnico Intermedio de Capacitación O'Higgins), providing 70 residents in the Alto Cachapoal Valley with certifications in local handicrafts, tourism, food handling and community development. The training program allows participants to develop and enhance skills and knowledge, and acquire tools that provide them with new opportunities to work and contribute to their local community.

We also participate in cultural and artistic activities with local communities, providing financial assistance, in-kind support and attendance at concerts and other events. One event we were proud to sponsor was the inaugural Machalí Night Run. The Run was organised in honour of 16 fans of the O'Higgins Soccer team who were sadly killed in an accident while supporting their team.

LOCAL SOURCING AND EMPLOYMENT OPPORTUNITIES

Although our policies and procedures do not specifically mandate using locally based contractors and suppliers, or directly employing locally, we endeavour to support local communities wherever possible. Supporting local workers and industry provides benefits for us and ensures sustainable development of the region. We actively seek and engage local suppliers and contractors who are competitive in price, quality and service.

We also employ apprentice workers as part of our commitment to develop young workers in rural and regional areas. Again, the benefits are twofold. Apprenticeships recognise employees' existing skills, provide training, employment and experience and lead to nationally recognised qualifications. In addition, offering local employment opportunities can assist with the prevention of population decline in regional areas.

AUSTRALIA

Sheltered workshops for people with disabilities provide maintenance services at our Ararat workshop and also perform some uniform embroidery work. We also support local manufacturing and engineering firms, and have parts manufactured in Australia and engineering services provided by firms within local communities.

BRAZIL

We support local businesses wherever possible, and use local restaurants and catering services, carpentry services, local accommodation and training facilities, which all help to generate income for local residents, improving their living conditions.

CHILE

We strongly believe that our presence in the Alto Cachapoal Valley, and associated impact, is positive. We actively promote local suppliers participation, and include them in every possible activity. Some of our local suppliers are now able to provide us a service due to having previously completed one of the OTIC training courses we sponsor.

SECURING ENERGY SUPPLY FOR THE CHACAYES COMMUNITY

CHILE



When we purchased our Coya and Pangal run-of-river hydro assets from Codelco in 2004, there was no electricity distribution company in the area, and Codelco had been supplying the small Chacayes community with energy.

As part of our commitment to social responsibility, we chose to continue this energy supply to the community. Over time, however, the community grew in size and many homes were using electrical installations that were unsafe and required urgent regularisation. CGE also became the legal energy distribution company in the area, so we made the decision to remove ourselves as energy distributors.

In June 2012, we began working with CGE, the Chacayes community and regional and local authorities to reach an agreement. The community now has safe electrical facilities and we are moving towards a satisfactory outcome which is expected to be achieved by late 2013.



ENVIRONMENT

CLIMATE CHANGE, GREENHOUSE GAS AND ENERGY MANAGEMENT

OUR RESPONSE TO CLIMATE CHANGE

Our dedication to addressing climate change reflects our commitment to achieving our purpose. We have consciously chosen to be in the renewable energy sector and we are committed to reducing greenhouse gas emissions while meeting growing global energy needs.

Our response to climate change is structured around four key activities:

1. Developing more renewable energy projects to help reduce the global reliance on fossil fuels;
2. Helping our customers address their climate change mitigation obligations and reach their voluntary targets by providing suitable products;
3. Advocating for government action to reduce carbon emissions; and
4. Minimising our own carbon footprint.

Our development pipeline of renewable energy projects, including run-of-river hydro plants, wind farms, conventional geothermal and large-scale solar projects, will allow us to improve our products and services to meet the current and future needs of our customers.

We sell a range of products associated with the operation of our wind farm and hydro power assets. These products include electricity, electricity derivative products and energy-related environmental products, such as European Union Certified Emission Reduction credits (CERs), Large Generation Certificates (formerly known as Renewable Energy Certificates) and GreenPower. We have also expanded our product offering, entering the retail market to provide medium and large businesses with a reliable, flexible and cost-effective service.

Our goal is to play a positive role in a carbon constrained world, and be mindful of our responsibilities as a leader in this emerging field. We actively engage with governments in order to understand policy settings and participate in public policy discussions. As a leader in the clean energy industry, we work hard to engage policy makers, local communities and the general public on climate change issues while promoting the vital role renewable energy can, and must play, if we are to leave a safer world for generations to follow.

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

We have established various energy and resource efficiency initiatives which are described on pages 37–40.

Climate change presents significant opportunities as well as considerable risk to our business. Changes to long-term climatic conditions such as extreme weather events have the potential to impact our revenue and operating costs. Additionally, uncertainty around climate change legislation generates uncertainty around our revenue streams. Climate change risks are addressed using our Risk Management Framework, knowledge gathered from weather forecasting services and risk management practices. Regulatory changes related to climate change in areas such as carbon, electricity and governance, pose potential risks and opportunities. Our business model will allow us to act on opportunities to expand our geographic spread and diversify into other renewable technologies. In addition, we are well placed to increase business and community awareness of climate change through our stakeholder relationships.

We continue to look for opportunities to better understand and respond to climate change issues. This coming year, we will conduct research into the environmental impacts of short-term climate variability, and long-term changes in the climate, on our operating assets and within our development pipeline.

GREENHOUSE GAS EMISSIONS, ABATEMENT AND ENERGY USE

This year our assets¹ generated more than two million megawatt hours of renewable energy, leading to the abatement of almost 1.5 million tonnes² of greenhouse gas emissions.

The operation of assets and office-based activities generated 4,022 tonnes³ of scope 1 and 2 greenhouse gas emissions and consumed 24,899 gigajoules of energy.

Emissions decreased nine per cent from the previous year, primarily due to Chacayes hydro plant transitioning to the less energy intensive operational phase. However, this was offset by the addition of an indirect stationary electricity emission source at Coya-Pangal hydro.

To maintain reporting consistency, scope 2 (indirect) stationary electricity emissions reporting is aligned with Australian NGER legislation, which attributes a state-based emissions factor to all electricity consumption. Therefore, the total does not recognise the primary source of stationary electricity of our assets is usually their own generation. Considering the use of renewable energy and green power purchases, total scope 1 and 2 emissions decrease from 4,022 to 641 tonnes of greenhouse gas.

The emissions intensity of our operations is significantly lower than conventional electricity generators due to use of zero-emission fuel sources such as wind and water rather than combustion of fossil fuels.

Emissions from air travel have been reported for the first time and contribute almost 20 per cent of emissions, primarily attributable to the Corporate Head Office in Melbourne, Australia.

REDUCING EMISSIONS AND OTHER ENERGY USE INITIATIVES

A target was set to reduce office energy consumption by five per cent over two years. After one year, we achieved a three per cent decrease in the Santiago Office, but no significant change in the Melbourne and São Paulo offices. However, we expect more savings will be made over the next year as reduction initiatives continue to be implemented.

During the year, we moved to new offices in Natal and Rancagua, therefore the baseline target is different to the actual. Energy consumption in Rancagua decreased by 72 per cent and increased by 11 per cent in Natal. Baseline targets will be updated to reflect these changes. Scope 3 emissions reduction initiatives implemented during the year included reducing air travel and promoting the use of video conferencing.

EMISSIONS INTENSITY OF OPERATIONS*

COUNTRY	EMISSIONS INTENSITY (TCO ₂ -E/MWH)
Australia	0.00131
Brazil	0.00064
Chile	0.00222

¹ All graphs and charts on pages 37–39 exclude TEJV.

² Abatement generated by projects is calculated: asset abatement = generation of asset x state/ regional based electricity emissions factor or asset-specific emissions factor if registered under the Kyoto Protocol's Clean Development Mechanism. For jointly owned assets, only Pacific Hydro's portion of generation is considered.

³ Includes scope 1 and 2 greenhouse gas emissions of assets and offices over which Pacific Hydro has operational control (TEJV emissions have thus been excluded).

* Operational sites only – assumes all stationary electricity-use is non-renewable, in line with Australian NGER legislation.

UNDERSTANDING CATCHMENT BEHAVIOUR AND THE IMPACTS OF CLIMATE CHANGE IN CHILE

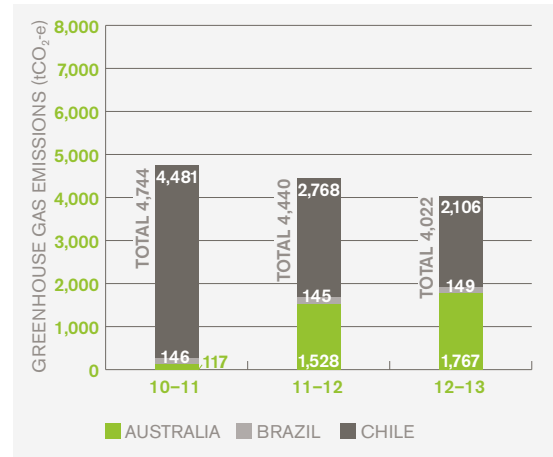


We commenced monitoring catchment behaviour in the Cachapoal Valley in order to improve our understanding of the impacts of climate variability and long term climatic changes on our assets. The works we have undertaken include quantifying water resources (annual precipitation, air temperature and river flow) to better understand catchment influences on long-term river flows for our existing and future hydro schemes.

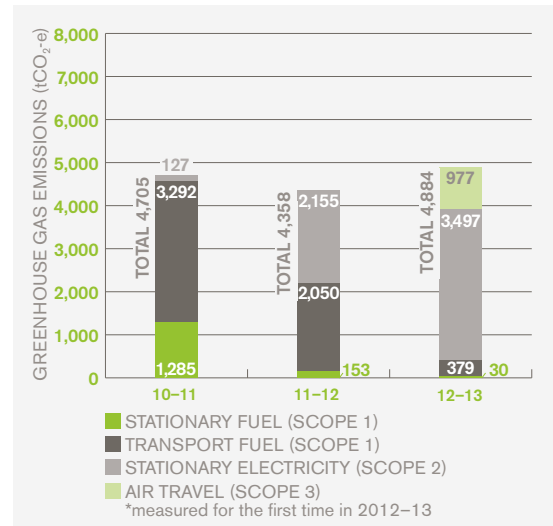
Our hydros feed off the largest glaciers in central Chile, and their glacier melt provides around 20–25 per cent of the mean annual runoff volume. Recent warming (estimated at +0.15 degrees centigrade per decade over the last 30 years) in conjunction with reduced annual precipitation means that we are experiencing more glacier melt, and if this trend continues can expect less glacier melt in future decades. We conducted our first round of glacier monitoring during the reporting period to help estimate changes to the major ice masses and seasonal snow volumes in the Cachapoal Valley's upper catchments.

Another climatic implication is the shift in seasonality. The warming manifests as a change in precipitation from solid to liquid in winter. That means precipitation lands as rain, not snow, so not only is there less snow to melt (during spring/summer), the warm rain can increase river flows above scheme capacities where the excess water cannot be utilised for hydro generation. Having a deeper understanding of the potential impacts will allow us to adjust forecasting and respond to changes that have the potential to significantly impact our business.

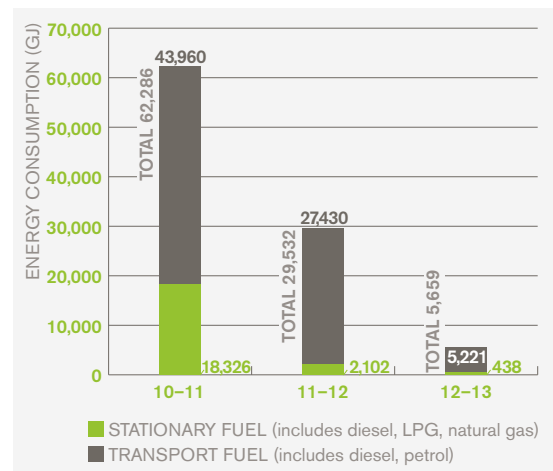
GREENHOUSE GAS EMISSIONS (SCOPE 1 AND 2) BY COUNTRY



GREENHOUSE GAS EMISSIONS (SCOPE 1, 2 AND 3) BY SOURCE*



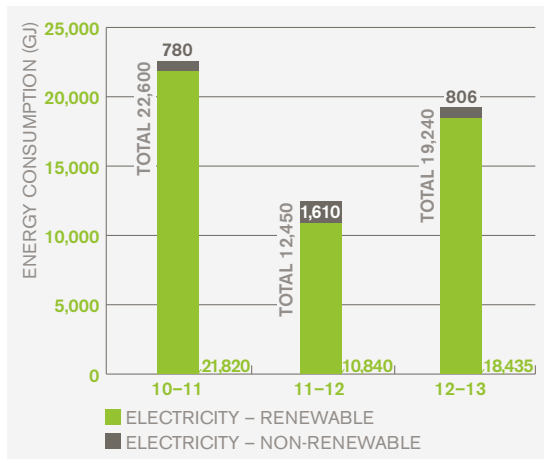
DIRECT ENERGY CONSUMPTION (SCOPE 1) BY PRIMARY SOURCE



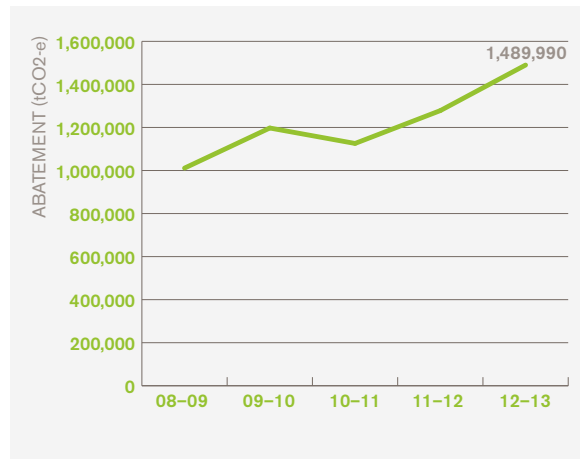
The methodology for calculating greenhouse gas emissions was developed in accordance with ISO 14064-1: 2006 Part1: Specification with guidance at the organisation level for quantification and reporting of greenhouse gas emissions and removals.

* Fugitive (2%) and wastewater (0.2%) emissions make up a small proportion of the total and have been excluded for graphing purposes.

INDIRECT ENERGY CONSUMPTION (SCOPE 2) BY PRIMARY SOURCE



GREENHOUSE GAS ABATEMENT FROM PACIFIC HYDRO'S RENEWABLE ENERGY PROJECTS



ENVIRONMENTAL COMPLIANCE AND PLANNING

ENVIRONMENTAL MANAGEMENT

We aim to be an industry leader in environmental management through continuous improvement in our environmental performance and practices. We conduct our business in accordance with the spirit and letter of all applicable environmental laws and regulations.

Our Health Safety and Environment (HSE) Policy includes our environmental aims and the manner in which we seek to achieve those aims. The Policy is applicable to all employees and Directors, contractors and visitors to our sites or offices. Implementation of our HSE Policy occurs in part through our Environmental Management System (EMS). Every operational site operates under an EMS, which is based upon or certified to the international standard in environmental management systems, ISO 14001. Regular internal and external audits occur to ensure compliance against ISO 14001, the responsibility of which lies with country-level environment managers.

AUSTRALIA

We completed an ISO 14001 recertification audit in August 2012, meaning all of our operational sites are certified to the international environmental management standard.

BRAZIL

Our EMS works to prevent, mitigate and remedy direct or indirect impacts arising from our activities. We regularly monitor essential parameters in the areas of water, air, noise, energy, fuel use and waste. The monitored data is compared to our compliance obligations under Brazilian environmental legislation and any anomalies trigger the development of an action plan.

Both Vale dos Ventos and Millennium wind farms were recertified to ISO 14001 during the reporting period.

We monitor black smoke emissions in all diesel vehicles used by our employees through the Ringelmann scale and according to standards accepted by Brazilian legislation.

CHILE

All our sites have Environmental Management Systems based on ISO14001. To improve our systems, we conducted an internal environmental audit and undertook an audit against Pacific Hydro's Health Safety and Environment Management Standards. We also implemented initiatives resulting from an external audit in May 2012 as part of a gap analysis between our EMS and ISO 14001.

TINGUIRIRICA ENERGÍA (TEJV)

Both La Higuera and La Confluencia were reviewed by environmental authorities and received the Environmental Qualification Resolution No 116/2004 and No 282/2007. From these, more than 120 environmental commitments were made. The environmental commitments during the operations phase are less than those required during construction, but are still constantly monitored through the Environmental Management System, Community Relations activities and independent environmental audits. These commitments have provided the opportunity to generate valuable knowledge about the flora, fauna and cultural resources of the area. Ongoing studies and monitoring are focused on the basin's biodiversity.

ENVIRONMENTAL IMPACTS OF PACIFIC HYDRO ACTIVITIES

BIODIVERSITY AND NATIVE REVEGETATION

We aim to realise wider goals of climate change mitigation while protecting local environmental qualities and avoiding or significantly mitigating impacts. It is widely recognised that renewable energy sources such as wind have significantly less impact on wildlife than traditional fossil fuel sources. Nevertheless, all our projects are preceded by an assessment of potential impacts on flora and fauna. These assessments inform and influence project design to predominantly avoid or minimise impacts.

AUSTRALIA

We continued to finalise offset agreements for our Portland wind farms, securing 25 mature native trees under the Native Vegetation Register. Partnership opportunities are also actively sought. We have been working with a landowner at our Challicum Hills wind farm to investigate the most effective stabilisation method for soil erosion. While not occurring on our wind farm or offset area, the soil erosion is impacting the local ecosystem and wider ecological significance of the area.

We also sponsored the Wind and Wildlife conference in late 2012, which promotes continual improvement of environmental performance within the industry and demonstrates our commitment to supporting quality research and advances in science.

BRAZIL

Energy generation from wind sources is considered a low environmental impact in Brazilian environmental legislation. Our potential impacts include noise and damage to biodiversity. We did not have any negative impacts to biodiversity during the reporting period, and all our monitoring data relating to noise and other indicators was within legislative limits.

CHILE

A number of improvements were made within the Reserva Nacional Río de Los Cipreses in partnership with the National Forestry Corporation, CONAF. Worth around \$1.8 million, the works included improvements to 7.3km of an existing road, construction of a suspension bridge and 12km of two new tourist trails.

The works were done after an extensive environmental impacts study, and will contribute to the development of the tourism industry in the Cachapoal Valley and to the reserve, which has significant environmental and biodiversity value.

TINGUIRIRICA ENERGÍA (TEJV)

To revegetate forest impacted by construction activities, TEJV committed to a reforestation program with CONAF. Approximately 112 hectares of local land will be revegetated using a local seed collection of more than 16 native species of trees and shrubs. The seedlings were grown in a local nursery and replanted at a density of 1,250 plants per hectare. Drip irrigation systems and protection fences were installed to protect the plants from wild animals and the reforested areas are monitored. Survival rates for the plants are currently around 70 per cent, which should ensure future growth for the native forest.

RESOURCE EFFICIENCY

BRAZIL

We measure and have set targets for water, waste and energy usage at operational sites. At Vale dos Ventos and Millennium, we have set water reduction targets of seven and 17 per cent respectively from the previous year. For energy, there is a 1.5 per cent reduction target for site. For waste, we have set an increase of no more than eight per cent, which takes into account the increased amount of scheduled maintenance required in year five of a five-year maintenance cycle. These targets were set for the calendar year, so we will be able to report on progress in next year's report.

CHILE

We implemented a 'Four R's' recycling program, using the principles of Reduce, Reuse, Recycle and Recover. Several other initiatives were developed to reduce our overall carbon footprint, including running an energy efficiency campaign, participating in Earth Hour, promoting the use of video conference, reducing air travel, and installing bicycle racks in the Santiago building to encourage bicycle use.

WIND FARM NOISE MONITORING AND HEALTH

AUSTRALIA

There has been significant debate and media coverage on the effects of wind farms on health, wildlife and amenity, with an emphasis on a spectrum of noise known as infrasound.

While wind farms do create some noise, wind farm operators must meet strict criteria in order to operate. Noise criteria are intended to limit the impact of noise on local residents, especially overnight. Meeting noise criteria does not necessarily mean that local residents will never hear the wind farm and we continue to work with individual community members to understand and address their concerns.

Noise levels at dwellings near to our wind farms are modelled, measured and ultimately restricted in accordance with government regulations and planning conditions.



PACIFIC HYDRO STAFF IN THE RESERVA NACIONAL RÍO DE LOS CIPRESSES, CHILE

We communicate with landholders, neighbours and communities about wind farm noise emissions from the design stage through to planning application, construction and operation. We commission independent acoustic consultants to provide noise impact assessments, including background noise monitoring, to demonstrate compliance with the government regulations and planning conditions.

We recognise that how a person experiences noise can be subjective and influenced by their perception about the noise source. People may experience noise from natural and man-made sources differently and can find one more annoying than the other.

Noise is also influenced by weather conditions including wind direction (such as being down or upwind of the turbines) and wind speed (higher wind speeds usually drown out any noise created by the turbines' operation).

Reputable health bodies such as the National Health and Medical Research Council, Environmental Protection Authority and Victorian Department of Health currently advise that there is no specific sound spectrum from wind farms that is not already produced in our environment and that they do not emit noise at levels which could have a direct impact on health. However they do recognise that some people may find audible noise from wind farms annoying.

We have undertaken testing at two of our wind farms to check infrasound levels. Data was gathered at very close range to the turbines (about 200m) while the wind farms were operating and with the wind farms not operating. The results indicated that infrasound naturally exists in our environment and that there was a negligible difference (1dBA) in infrasound when the wind farms were operating. This report is available on our website.

We have called for a review of the health impact from all forms of power generation in order for policy makers and communities to make informed choices on the best technologies for the future. In addition, we have called for health impact assessments to be included in the planning decisions for all new power generation plants.



“THERE IS NO SPECIFIC SOUND SPECTRUM FROM WIND FARMS THAT IS NOT ALREADY PRODUCED IN OUR ENVIRONMENT”



In general terms our six operating wind farms in Australia do not cause annoyance to our neighbours living nearby. At one of our operating sites we have had multiple complaints from three families who report that they experience negative impacts. While complaints differ across the three families, they include concerns about audible and inaudible noise, vibration, and health. We are seeking to work collaboratively with the families to undertake further testing so that we may better understand the conditions under which they experience issues, what is causing them and how we can help mitigate them. All of Pacific Hydro's wind farms have demonstrated compliance with the relevant noise standards.

WATER

CHILE

Monitoring of water quality and aquatic life presence in the Cachapoal and Cipreses Rivers occurs seasonally, and no negative impacts were identified.

WATER RIGHTS HOLDERS ENGAGEMENT

We actively participated as members of Water Users Organisations in the Tinguiririca and Cachapoal Valleys. Holding seats on both boards has allowed us to coordinate the operation of our power plants with other water rights holders in the valleys. We have also developed projects of common interest, generating benefits for downstream water users and for our own business such as water quality monitoring and cloud seeding programs.

DUST

CHILE

We did not experience any environmental or community-related issues concerning dust during the reporting period. This is attributed to a reduction in activities associated with the creation of dust, as well as employee education and awareness of dust avoidance strategies.

UNDERSTANDING CUMULATIVE IMPACTS IN THE ALTO CACHAPOAL VALLEY

CHILE

We have undertaken a comprehensive Cumulative Impacts study in the Alto Cachapoal Valley, gathering information to develop an environmental territorial strategy and gain a deeper understanding of the valley in which we already operate and plan to develop more projects. After scanning, geo-referencing and organising all the information, we identified where our efforts are best focused to ensure that all environmental measures proposed are designed to have the least negative impact possible. We are also developing an integrated management system of water resources in the upper Cachapoal basin, based on the integration of available information on the watershed and the implementation of an environmental hydrology model, to more effectively evaluate different scenarios for current and potential future uses of water resources.

We also provided funding support for the second year to a scientific fund in the O'Higgins Region, sponsoring university students to conduct research on environmental issues within the Cachapoal Valley. This research contributes to the identification and understanding of the region's rich flora and fauna and other cultural characteristics.

This year, four projects received funding totalling almost \$55,000, and will study:

- Vegetation of rocky material deposits;
- Composition of river eco-systems in the valley;
- Socio-cultural shaping of communities in the Alto Cachapoal Valley; and
- The relationship between the puma and humans within the Reserva Nacional Rio de los Cipreses.



KPMG ASSURANCE STATEMENT



INDEPENDENT LIMITED ASSURANCE REPORT TO PACIFIC HYDRO PTY LIMITED

We have been engaged by Pacific Hydro Pty Limited (Pacific Hydro) to provide limited assurance in respect of the Assured Information identified below, which has been included in the Annual Review and Sustainability Report 2013 (the "2013 Report") for the year ended 30 June 2013.

In addition, we have been engaged to perform a check of Pacific Hydro's Global Reporting Initiative ("GRI") application level as disclosed in the 2013 Report.

PACIFIC HYDRO'S RESPONSIBILITIES

The directors and management of Pacific Hydro are responsible for the preparation and presentation of the 2013 Report in accordance with the Sustainability Reporting Guidelines (G3.1) of the GRI and the disclosed basis of preparation as described in the inside cover of the 2013 Report, and the information and assertions contained within it; for determining Pacific Hydro's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders and material issues; and for establishing and maintaining appropriate performance management and internal control systems from which the reported Assured Information is derived.

Directors and management are also responsible for the determination of Pacific Hydro's GRI application level in accordance with the GRI Guidelines.

THE ASSURED INFORMATION

The Assured Information covered by our limited assurance engagement are:

ASSURED INFORMATION	2013 REPORT PAGE
Revenue	3, 9
Direct Economic Impact Table	9
Renewable Energy Generated	3
Greenhouse Gas Emissions Abated	3
Community Fund Commitments	3
Total Recordable Injury Frequency Rate	3

OUR RESPONSIBILITY

Our responsibility is to carry out a limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with International Standard on Assurance Engagements ISAE 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information and ISAE 3410 Assurance Engagements on Greenhouse Gas Statements, including all applicable ethical and independence requirements.

LIMITED ASSURANCE OVER THE ASSURED INFORMATION

Our limited assurance engagement on the Assured Information consisted of making inquiries, primarily of persons responsible for the preparation of information presented in the 2013 Report, and applying analytical and other evidence gathering procedures including:

- Inquiries and walkthroughs with Management and relevant staff to gain an understanding of the design and implementation of Pacific Hydro's processes for developing, calculating, collecting, reporting, and aggregating the Assured Information
- Interviews with management and relevant staff at corporate and selected business unit level concerning the Assured Information aspects of Pacific Hydro's Sustainability Strategy and policies for material issues, and the implementation of these across the business
- Visits to Pacific Hydro's head office, with site data being reviewed remotely
- Agreeing the financial data to the audited financial statements of Pacific Hydro for the year ended 30 June 2013
- Performing tests on a sample basis of evidence supporting Assured Information concerning completeness, accuracy and existence

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with International Standards on Auditing and Assurance Engagements.

GRI APPLICATION LEVEL

Our work in relation to the GRI application level check was limited to agreeing that the appropriate indicators have been reported on. We therefore do not provide any assurance on the amounts or information presented.

OUR CONCLUSION – ASSURED INFORMATION

Based on the procedures performed, as described above, nothing has come to our attention that would lead us to believe that the Assured Information of Pacific Hydro for the year ended 30 June 2013, is not, in all material respects, prepared and presented in accordance with the GRI G3.1 Guidelines and the disclosed basis of preparation.

OUR CONCLUSION – GRI APPLICATION LEVEL

Based on the procedures performed, as described above, we concur with the assessment made by Pacific Hydro, that the 2013 Report is consistent with the GRI G3.1 application level B+.

This report has been prepared for Pacific Hydro. We disclaim any assumption of responsibility for any reliance on this report, or the 2013 Report to which it relates, to any persons other than Pacific Hydro, or for any purpose other than that for which it was prepared.

KPMG
Melbourne
29 October 2013

GRI AND UNGC INDEX

The index below provides page numbers for the GRI indicators and UNGC Principles contained within this report. A detailed index can be found at pacifichydro.com

DISCLOSURE/ INDICATOR	CATEGORY	REPORTED	REPORT SECTION	UNGC PRINCIPLE	PAGE
PROFILE					
1.1–1.2	Strategy and analysis	Full	A Message from Our Chairman	COP	3
			A Message from Our CEO		4–5
			Materiality		12–13
			Performance against Goals		14
			Looking Ahead		15
			Governance, Ethics and Respecting Rights		16–18
			Respecting Rights at Work		29–30
2.1–2.10, EU1	Organisational profile	Full	About this Report		Inside cover
			About Us		2
			Installed Capacity		19
			Our Products		20–21
			Contact Us		Back page
			Our Owner		16
			Key Statistics		3
2013 Full GRI and UNGC Index	Online				
3.1–3.4	Report parameters	Full	About this Report		Inside cover
	Report Scope and boundary		2013 Full GRI and UNGC Index		Online
3.5	Report parameters and boundary	Full	Stakeholders		11
			Materiality		12–13
3.6–3.8, 3.13	Report parameters and boundary	Full	About this Report		Inside cover
3.9–3.12		Full	About this Report		Inside cover
			2013 Full GRI and UNGC Index		Online
4.1–4.10, 4.12–4.13	Governance, commitments and engagement	Full	About Us		2
			Governance, Ethics and Respecting Rights		16–18
			Employee Profile		31–31
			2013 Full GRI and UNGC Index		Online
4.11	Governance, commitments and engagement	Full	Governance, Ethics and Respecting Rights		16–18
			Environmental Impacts of Pacific Hydro Activities		39–42
			Our Response to Climate Change		36–37
4.14–4.17	Governance, commitments and engagement	Full	Stakeholders		11
			Materiality		12–13
EC1	Economic performance	Full	Delivering Economic Value	7–9	9
EC2		Partial	Operational Excellence		21–22
			Our Response to Climate Change		36–37
EC6	Market presence	Full	Remuneration and Bonuses	6	30
EC5, EC7		Partial	Employee Profile		30–31
			Local Sourcing and Employment Opportunities		35
EC8	Indirect economic impacts	Full	Support and Development of Communities	1	33–35
EC9		Partial	Support and Development of Communities		33–35
EN3, EN4	Energy	Full	Greenhouse Gas, Abatement and Energy Use		37–38
EN6, EN7		Partial	Our Products		20–21
			Greenhouse Gas, Abatement and Energy Use		37–38

DISCLOSURE/ INDICATOR	CATEGORY	REPORTED	REPORT SECTION	UNGC PRINCIPLE	PAGE
EN12, EN13	Biodiversity	Partial	Biodiversity and Native Revegetation	7, 8	39–40
			Understanding Cumulative Impacts in the Alto Cachapoal Valley		42
EN14		Full	Biodiversity and Native Revegetation		39–40
			Understanding Cumulative Impacts in the Alto Cachapoal Valley		42
EN16	Emissions, effluents and waste	Full	Greenhouse Gas, Abatement and Energy Use	8	37–38
EN18		Partial	Greenhouse Gas, Abatement and Energy Use		37–38
EN28	Compliance		2013 Full GRI and UNGC Index		Online
LA1	Employment	Full	Employee Profile		30–31
LA2, LA3		Partial	Employee Profile		30–31
			Remuneration and Bonuses		30–31
LA4	Labour/management relations	Full	Respecting Rights at Work	3	29–30
LA7, LA8, EU16	Occupational health and safety	Partial	Health and Safety		25–27
			Employee Wellbeing		26–27
LA10, LA11	Training and education	Partial	Training and Development		28–29
LA12		Full	2013 Full GRI and UNGC Index		Online
LA13	Diversity and equal opportunity	Partial	Diversity and Inclusion	6	29
			Employee Profile		30–31
HR3	Investment and procurement practices	Partial	Code of Conduct		17
HR4	Non-discrimination	Full	Respecting Rights at Work	6	29–30
HR5	Freedom of association and collective bargaining	Full	Respecting Rights at Work	3	29–30
HR9	Indigenous rights	Full	Respecting Rights		18
HR11	Remediation	Full	Respecting Rights	1–6	18
S01	Local communities	Full	Consultation and Engagement with Communities		32–33
			Community Investment Programs		33–34
EU19			Partial	Consultation and Engagement with Communities	
			Strategic Alliance with Tinguiririca River Supervisory Board		33
			Water		42
S02, S04	Corruption	Full	Corruption and Anti-competitive Behaviour		17
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S05, S06	Public Policy	Full	Government Lobbying and Public Policy	7	23–24
			Donations		18
S07	Anti-competitive behaviour	Full	2013 Full GRI and UNGC Index		Online
S08	Compliance	Full	2013 Full GRI and UNGC Index		Online
PR2	Customer health and safety	Full	2013 Full GRI and UNGC Index		Online
PR4	Product and service labelling	Full	2013 Full GRI and UNGC Index		Online
PR7	Marketing communications	Full	2013 Full GRI and UNGC Index		Online
PR8	Customer privacy	Full	2013 Full GRI and UNGC Index		Online
PR9	Compliance	Full	2013 Full GRI and UNGC Index		Online

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