

Pacific Hydro Communication on Progress

1 July 2014 – 31 December 2015

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1. Statement of Continued Support by the Chief Executive Officer

10 May 2016

To our stakeholders:

I am pleased to confirm that Pacific Hydro reaffirms its commitment to the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labour, Environment and Anti-Corruption.

This Communication on Progress, which covers the period 1 July 2014 to 31 December 2015, describes the actions Pacific Hydro has taken to further integrate the Global Compact and its principles into our business strategy, culture and daily operations.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'M. Fuge', with a stylized flourish at the end.

Michael Fuge

Chief Executive Officer

2. Human Rights Principles

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

2.1 Assessment, Policy and Goals

We respect the rights of our employees, contractors and the broader community. Specific human rights commitments are covered by the following high-level documents:

- Code of Conduct
- Equal Opportunity Policy
- Health Safety and Environment Policy
- Sustainability Policy
- Community Charter, Engagement Framework and Investment Guidelines
- Flexible Working Guidelines
- Whistleblower Disclosure and Investigation Procedure
- Enterprise Wide Risk Management Framework

2.2 Implementation

We have a broad range of strategies within our global health and wellbeing program designed to prevent serious conditions and illnesses in employees. Our Health and Wellbeing Policy raises awareness about these issues and promotes a positive and equitable workplace for employees, and our Employee Assistance Program offers confidential, external counselling for employees and their immediate families.

Flexible Working Guidelines in Australia, Brazil and Chile allow all employees to achieve a balance between managing personal circumstances and ensuring individual, team and business objectives are met.

Our workplace is family friendly and we encourage employees to balance family commitments with work responsibilities. Our Parental Leave Policy extends beyond statutory requirements relating to parental leave rights in Chile and Australia.

We offer a broad spectrum of internal and external training courses to all staff. 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.

The Compliance pillar within our risk management framework sets guidelines for us to identify and comply with all relevant laws, including those laws relating to human rights. A Breach Register enables a transparent process to record, investigate and rectify any breach in a timely manner.

We aim to establish and maintain respectful and collaborative relationships with our local communities. Community support is fundamental to the success of our projects and we believe that mutual trust and respect is only earned through transparent, open and early engagement and communication.

We recognise and respect the rights, local laws, customs and cultures of the people living in the communities where we operate. Through established policies and procedures and through the entire lifecycle of our projects, we work with local communities to identify and mitigate potential impacts (social, cultural, health, safety, environmental) that may result from our activities. We also believe that our work in this area must continue to evolve to ensure we are meeting and exceeding community expectations.

2.3 Measurement of outcomes

Targets are embedded in our Business Plan and are measured periodically throughout the year and also annually.

What we said we would do	What we did
<p>Build and sustain a healthy and safe culture and workplace, with zero harm to employees and others</p>	<p>Our H&S culture was strengthened with a number of safety leadership initiatives. On average, every employee across the business submitted more than 18 safety observations each, and our leadership team conducted more than 4 safety walks each.</p> <p>All three business units made significant improvements in closing out gaps against our Health Safety and Environmental Management System (HSEMS), with all 12 management standards receiving their highest scores ever.</p> <p>Our Total Recordable Injury Frequency Rate was 1.58 at 30 December 2015, against 5.02 the previous year.</p>
<p>Be trusted by the community and have positive relationships with a high level of integrity</p>	<p>We continued to look for ways to improve our engagement and consultation approach with local communities. Our Community Charter, Engagement Framework and Investment Guidelines were reviewed, refreshed and rolled out across all business units.</p> <p>In Portland, Australia, an annual community attitudes survey showed an average improvement in satisfaction with 1:1 experience of Pacific Hydro of 22% from 2014 levels.</p> <p>Through Pacific Hydro Australia's Sustainable Communities Fund more than AUD\$2M has been provided to over 550 sustainable projects, further cementing our relationship and commitment to the communities within which we operates.</p> <p>In Chile during 2014, we conducted a survey in the Cachapoal Valley, guided by the Centre of Sociology at the Universidad Católica, with the aim of understanding the community's expectations of private companies that have operations in the area and its perception of them. Results showed that 53% of people who know of Pacific Hydro say they trust in us. They consider Pacific Hydro an accessible company and value the fact that the company has "faces". Even critics value our capacity to establish and maintain bonds with the community.</p> <p>The community also valued the help we provided in different areas - through the community fund, in response to earthquakes, training and development programs supported - with 56% of respondents considering that Pacific Hydro contributes to the community.</p> <p>Additionally, as part of the continuous improvement of our community fund Creciendo Juntos in Chile, we implemented a methodology that incorporates the community's presentation of their projects face to face with the deciding panel. Improvements have also been made in various methods of communication, such as using local radio and local newspaper.</p> <p>In Brazil, prior to establishing the community investment fund "Fundo Comunidades Sustentáveis Pacific Hydro Brasil", Pacific Hydro conducted a participatory appraisal to assess the perceptions of Barra do Camaratuba community leaders towards Pacific Hydro, and to understand the community's expectations for local development. The assessment (1) identified the community's desires for its future, (2) identified its vision for local development and (3) documented how Pacific Hydro Brazil could better support the community.</p> <p>The results of this participatory appraisal indicated five key areas for investment in accordance with community expectations and needs: Education, Culture & Sports, Sustainability and Environment and Quality of life, focusing on health care and prevention.</p> <p>The PHB Sustainable Community Fund was launched in 2014 and has been financing projects yearly. In 2014, six projects were financed and 11 in 2015. Additionally we continue to establish local partnerships for trainings and courses through the implementation of Community Leaders</p>

What we said we would do	What we did
	Development Programme.
Understand and manage risks and compliance obligations	<p>Under the Compliance pillar of our Enterprise Wide Risk Management Framework, each divisional or functional general manager has processes and tools in place to identify and comply with relevant legislation, industry codes, policies and procedures affecting their areas of responsibility.</p> <p>Any non-compliance is subject to a rectification plan and opportunities for avoidance of similar non-compliance in the future are identified.</p> <p>We undertook a review of the Enterprise Wide Risk Management Framework to refresh both the framework and its pillars, which were then embedded in the business.</p> <p>An automated risk management tool was implemented, and is now being used across all business units.</p>

3. Labour Principles

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

3.1 Assessment, Policy and Goals

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, including those relating to human rights. Specific human rights commitments are covered by the following high-level documents:

- Code of Conduct
- Equal Opportunity Policy
- Health Safety and Environment Policy
- Sustainability Policy
- Community Charter
- Flexible Working Guidelines
- Whistleblower Disclosure and Investigation Procedure
- Enterprise Wide Risk Management Framework

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.

Our Code of Conduct provides direction on the ethical behaviours expected of our employees and Directors. As part of our Human Resources Policies and Procedures induction, all new employees receive training in and are required to sign our Code of Conduct. The Code outlines our approach and responsibilities to stakeholders and guides employees and contractors on issues such as bribery and anticompetitive behaviour.

We are proud of our inclusive and diverse culture and have taken steps to strengthen this through a comprehensive Inclusion and Diversity Strategy. Equal employment opportunity and anti-discrimination are specifically addressed in our Code of Conduct and Equal Opportunity Policy.

3.2 Implementation

Currently, our comprehensive Inclusion and Diversity Strategy focuses on gender, culture and work life balance.

Our workplace is family friendly and we encourage employees to balance family commitments with work responsibilities. Our Parental Leave Policy extends beyond statutory requirements relating to parental leave rights in Chile and Australia.

Our formalised complaints procedures can be utilised by employees and community members for concerns relating to Pacific Hydro. 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 relevant external organisations.

3.3 Measurement of outcomes

Targets are embedded in our Business Plan and are measured periodically throughout the year and also annually.

What we said we would do	What we did
Build and sustain a healthy and safe culture and workplace, with zero harm to employees and others	<p>Our H&S culture was strengthened with a number of safety leadership initiatives. On average, every employee across the business submitted more than 18 safety observations each, and our leadership team conducted more than 4 safety walks each.</p> <p>All three business units made significant improvements in closing out gaps against our Health Safety and Environmental Management System (HSEMS), with all 12 management standards now receiving their highest scores ever.</p> <p>Our Total Recordable Injury Frequency Rate was 1.58 at 30 December 2015, against 5.02 the previous year.</p>
Promote inclusion and diversity	<p>Our Inclusion and Diversity Strategy currently focuses on gender, culture and work life balance.</p> <p>Equal employment opportunity and anti-discrimination are also specifically covered in our Code of Conduct and Equal Opportunity Policy.</p> <p>A total of 7 employees are covered by collective bargaining agreements, which equates to 8% of all employees.</p> <p>Our General Manager team gender breakdown is 3:3.</p>

Table: Employee profile as at 31 December 2015

		Australia	Brazil	Chile
Staff	M	46	10	60
	F	31	14	30
Executive Manager	M	7	2	5
	F	2	0	0
General Manager	M	2	0	1
	F	2	1	0
Director	M	6	0	1
	F	0	0	0

4. Environmental Principles

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies

4.1 Assessment, Policy and Goals

As a global clean energy solutions provider, we develop, build and operate renewable energy projects and sell electricity and carbon abatement products to customers in our chosen markets.

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

Our Health Safety and Environment Policy addresses the prevention and management of environmental risks, while the Code of Conduct requires all employees and Company Directors to respect and comply with our Health Safety and Environmental Management System (HSEMS).

4.2 Implementation

Our HSEMS helps us identify all environmental impacts of our construction and operating projects and allows us to respond promptly and effectively to any known or new significant environmental impact caused under our control. We have a responsibility to protect and improve the environment, and are committed to conducting our business in accordance with the spirit and letter of all applicable environmental laws and regulations.

All Pacific Hydro Directors and employees are obliged to observe the HSEMS as part of our Code of Conduct. At an operational level, responsibility for environmental management is undertaken by relevant line managers, with additional support from dedicated environmental professionals.

We recognise the importance of educating and engaging the broader community around environmental issues and we strongly advocate for wind power, renewable energy, action on climate change, and the environment. In Chile and Brazil, we present to schools and community groups, and publish information and support studies on local flora and fauna, and participate in other activities that promote local environmental sustainability.

All Business Units have developed initiatives related to the reduction and/or measurement of greenhouse gas and energy.

4.3 Measurement of outcomes

Targets are embedded in our Business Plan and are measured periodically throughout the year and also annually.

What we said we would do	What we did
Progress our development portfolio	<p>We further progressed and delivered our development portfolio of renewable energy assets:</p> <p>We delivered the PWEV IV wind farm on time and on budget.</p> <p>Our Punta Sierra wind farm in Chile continued to progress and is in a good position to commence construction in 2016.</p> <p>Similarly, the Environmental Impact Assessment for our Nido hydro power plant in Chile was also submitted.</p> <p>In Brazil, we pursued the development of a cluster strategy with a number of proposed wind farms identified close to our existing assets in the country's north east.</p>
Help our customers to meet their climate change mitigation	We successfully delivered the first stage of our retail business in Australia, providing electricity products to small, medium and large

What we said we would do	What we did
obligations or targets by providing suitable products	<p>electricity users.</p> <p>We also sold Large scale Generation Certificates (LGCs) to a range of large electricity customers in Australia including electricity retailers and large corporate energy users.</p> <p>The projects we have built in Chile are all registered under the UNFCCC and can trade Certified Emission Reductions (CERs) globally.</p>
Advocate for government action to reduce carbon emissions	<p>In Chile, we supported the government by providing information on how to promote sustainable development of hydroelectric projects.</p> <p>In Brazil, we are part of the Programme of Incentives for Alternative Electricity Sources (PROINFA).</p>
Minimise our own carbon footprint	<p>We continued to reduce our environmental impact, implementing various targeted initiatives in each region.</p> <p>Our global Health Safety Environmental Management System (HSEMS) Standards were implemented at all sites.</p> <p>Audits were conducted against the HSEMS Standards as per the audit schedule; ISO14001 was maintained at current sites and accreditation for new sites investigated.</p> <p>In Australia, our greenhouse gas emissions (as reported under the National Greenhouse and Energy Reporting Act) decreased in 2014/15 from previous years, due to completion of the PWEV IV wind farm project mid-way through the reporting year, and the positive input of renewable energy into the grid.</p>
Embed sustainable procurement practices	<p>A global contracting and procurement project was undertaken to improve our processes around contracting and procuring in a socially, environmentally and financially responsible way. This project is ongoing and will continue in 2016.</p>

5. Anti-Corruption Principles

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

5.1 Assessment, Policy and Goals

We are committed to complying with all relevant laws, regulations and standards, with various compliance mechanisms built into our Enterprise Wide Risk Management Framework to ensure we are aware of and meeting all compliance obligations.

Our Code of Conduct provides direction on the ethical behaviours expected of our employees and Directors. As part of our HR Policies and Procedures induction, all new employees receive training in and are required to sign the Code. The Code outlines our approach and responsibilities to stakeholders and guides employees and contractors on issues such as bribery and anticompetitive behaviour.

Our Whistleblower Disclosure and Investigation Procedure covers allegations of improper or corrupt conduct, as well as breaches of Company policy, the Code of Conduct and relevant laws.

5.2 Implementation

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

5.3 Measurement of outcomes

Targets are embedded in our Business Plan and are measured periodically throughout the year and also annually.

What we said we would do	What we did
Ensure a transparent governance structure	The scope of the Board Charter is reviewed periodically to ensure ongoing relevance and avoid duplication.