



VIRIDIS
CLEAN ENERGY GROUP

FACSIMILE

| | | | |
|-----------|---|-----------|-------------------|
| TO | Australian Stock Exchange | DATE | 18 September 2009 |
| ATTENTION | Ms Kate Kidson | FACSIMILE | +61 3 9614 0303 |
| FROM | Duncan Jewell | | |
| SUBJECT | Viridis Clean Energy Group 2009 Annual Report | | |

Dear Ms Kidson,

Please find attached the 2009 Annual Report for the Viridis Clean Energy Group (VIR).

Yours sincerely,

Duncan Jewell
Company Secretary
Viridis Investment Management Limited

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Viridis Clean Energy Group Annual Report 2009



Viridis Clean Energy Group

Notice

Viridis Clean Energy Group ("VCEG" or "the Fund") comprises Viridis Clean Energy Trust I (ARSN 115 340 442) ("VCET I") and Viridis Clean Energy Trust II (ARSN 115 340 639) ("VCET II"). Viridis Investment Management Limited (ABN 51 099 788 431) ("VIML") is the responsible entity of both VCET I and VCET II. Viridis Energy Capital Pty Limited (ABN 94 098 467 988) ("VEC") has been engaged as investment manager for VCEG's clean energy assets. From 20 August 2009 VIML and VEC became wholly owned subsidiaries of VCET II.

Stapling

In accordance with its requirements for stapled securities, the Australian Stock Exchange ("ASX") reserves the right to remove either or both of VCET I and/or VCET II from the official list of ASX if, while the stapling arrangements apply, the securities in one of the entities cease to be stapled to the securities in the other entity or one of the entities issues equity securities that are not then stapled to corresponding securities in the other entity.

Performance disclaimer

Investments in VCEG are subject to investment risk, including possible delays in payment and loss of income and capital invested. None of VIML, VEC or any other member of the Viridis group of entities guarantees any particular rate of return on stapled securities or the performance of the Fund, nor do they guarantee the repayment of capital from the Fund.

Not investment advice

This annual report is not an offer or invitation for subscription or purchase of or a recommendation of stapled securities in VCEG. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in VCEG, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

About this report

This report has been prepared to enable VIML as responsible entity to comply with the requirements of the *Corporations Act 2001* and relevant Australian Accounting Standards for stapled securities and to ensure compliance with the ASX Listing Rules. The responsibility for the preparation and issue of this report rests with the directors of VIML.

This report provides information about VCEG's activities and performance during the period 1 July 2008 to 30 June 2009. It has been VIML's aim to make this report informative and easy for investors and other interested parties to read. Any suggestions on how we might improve future reports can be emailed to us at companysecretary@viridisenergy.com.

Pricing Policy

VIML has prepared policies documenting how it, as responsible entity, will determine any variable components of the price of units for any issue of stapled

securities in VCEG. Copies of the policies are available on request from VIML free of charge.

Complaints handling

VCEG has implemented a formal complaints handling procedure. VIML is a member of the Financial Industry Complaints Scheme. In the first instance, complaints should be directed to VIML. If you have any queries or complaints, please contact:

Company Secretary
Viridis Investment Management Limited
Level One 167 Flinders Lane
Melbourne Victoria 3000
Telephone 613 9677 8000
Facsimile 613 9677 8080
enquiries@viridisenergy.com

Privacy

VCEG has implemented a privacy policy to assist in protecting and maintaining the confidentiality of any personal information you may provide to us. A copy of the privacy policy is available on VCEG's website at www.viridisenergy.com.

Production of this document

This report was produced using Australian made paper and is printed by one of Australia's leading environmentally conscious printers. The paper used in the text pages is FSC Recycled Certified (100% recycled) and the cover paper is FSC Mixed Source Certified (70% recycled and 30% fibre from well managed forests). Both papers are manufactured under Environmental Management System ISO 14001. This annual report is designed and produced by Unifers Graphic Design.



| Page | Contents |
|-------------|---|
| 2. | Our assets |
| 3. | Financial summary |
| 4. | Chairman's and managing director's report |
| 6. | UK wind |
| 7. | UK landfill gas |
| 8. | Germany wind |
| 9. | USA landfill gas |
| 10. | About Viridis |
| 11. | Board |
| 13. | Corporate governance report |
| 19. | Annual financial report |
| IBC | Corporate directory |

Our assets

Summary details

| | Capacity (MW) ¹ | Energy sales (MWh) ¹ | Contribution to group asset EBITDA ² \$'000 | % |
|---------------------|-------------------------------|------------------------------------|---|------------|
| Technology | | | | |
| Wind | | | | |
| UK | 15 | 43,196 | 4,357 | 11 |
| Germany | 82 | 120,721 | 12,841 | 32 |
| | 97 | 163,917 | 17,198 | 43 |
| Landfill Gas | | | | |
| UK | 64 | 370,210 | 19,999 | 49 |
| USA | 42 | 169,937 | 3,285 | 8 |
| | 106 | 540,147 | 23,284 | 57 |
| Total | 203 | 704,064 | 40,482 | 100 |
| Location | | | | |
| UK | | | | |
| Wind | 15 | 43,196 | 4,357 | 11 |
| Landfill gas | 64 | 370,210 | 19,999 | 49 |
| | 79 | 413,406 | 24,356 | 60 |
| Germany | | | | |
| Wind | 82 | 120,721 | 12,841 | 32 |
| | 82 | 120,721 | 12,841 | 32 |
| USA | | | | |
| Landfill gas | 42 | 169,937 | 3,285 | 8 |
| | 42 | 169,937 | 3,285 | 8 |
| Total | 203 | 704,064 | 40,482 | 100 |

1. VCEG share.

2. Group asset EBITDA is earnings before interest income on cash balances, net unrealised derivatives and foreign currency gains/losses, transaction costs written-off and other extraordinary/abnormal items, plus share of net profit from associates.

3. Investment in Ardrossan wind farm is equity accounted. Contribution includes share of net profit and interest income on the subordinated loan, which was repaid in March 2009.



Financial summary

| | Actual financial year ended 30 June 2009 (\$'000) | Actual financial year ended 30 June 2008 (\$'000) |
|--|--|--|
| Total revenue | 90,664 | 91,915 |
| Reported EBITDA (including share of net profit from associates) | 46,852 | 30,583 |
| Adjusted EBITDA ¹ (including share of net profit from associates) | 36,951 | 42,554 |
| Depreciation & amortisation | (34,011) | (32,845) |
| Impairment of non-current assets | (8,301) | – |
| Interest and financing expense | (23,506) | (22,947) |
| Net loss before income tax | (18,966) | (25,209) |
| Net loss after income tax | (13,517) | (20,153) |
| Distributions per stapled security ² | 3.23 cents | 10.16 cents |
| % Distributions tax deferred | 20% | 91% |
| Cash balance at year end | 21,036 | 33,230 |

1. Before interest income on cash balances of \$0.8 million, net unrealised derivatives and foreign currency gains of \$8.5 million, transaction costs written-off of \$1.6 million and other extraordinary/abnormal items (gain of \$2.2 million).

2. Cash or cash equivalent distribution on stapled securities.

1. UK wind

| | |
|-----------------|-----|
| MW | 30 |
| Projects | 1 |
| Equity interest | 49% |

2. UK landfill gas

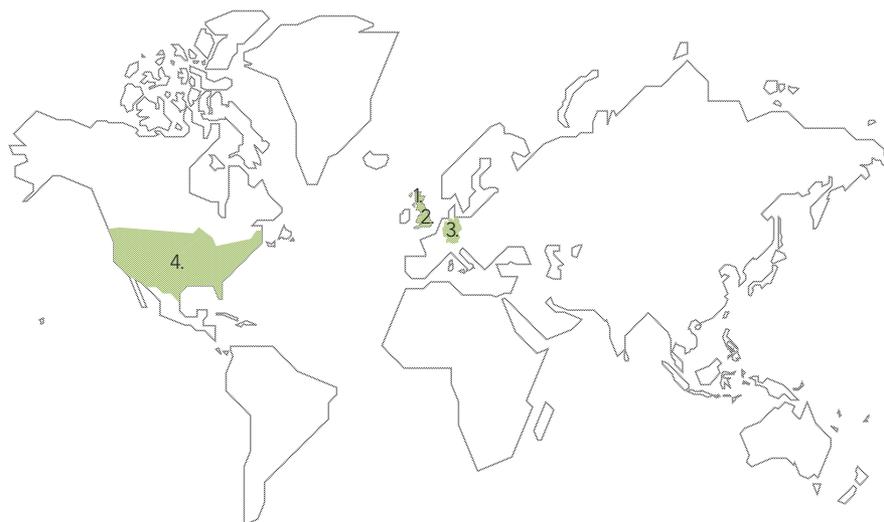
| | |
|-----------------|------|
| MW | 64 |
| Projects | 35 |
| Equity interest | 100% |

3. Germany wind

| | |
|-----------------|------|
| MW | 82 |
| Projects | 8 |
| Equity interest | 100% |

4. USA landfill gas

| | |
|-----------------|------|
| MW | 42 |
| Projects | 8 |
| Equity interest | 100% |



Chairman's and managing director's report

4

The 2009 financial year included a number of key events:

- **Completion of project expansion**—The 6 MW expansion to the Ardrossan wind farm was completed at a total cost of £9.8 million. The project expansion was commissioned in December 2008, slightly ahead of the expected completion timing of first quarter of 2009.
- **Successful project debt refinancing**—Supported by the project expansion and general increase in UK renewable energy prices since completion of the original project, the Ardrossan wind farm senior debt facility was refinanced with Barclays Bank plc. The refinancing facilitated a payment to VCEG of \$23.7 million which was used to pay down corporate debt.
- **Refinancing of corporate debt**—VCEG completed the refinancing of its corporate debt facility with lenders Investec Bank and RBS. Following completion of the refinancing the board determined that VCEG's primary short-term focus would be the retirement of the corporate debt in advance of its maturity date of 31 July 2010. Consistent with this strategy VCEG commenced a process to evaluate the potential sale of the Fund's German wind farm portfolio and suspended distribution payments.

• **Internalisation of management arrangements**—Following securityholder approval the VCEG management internalisation transaction was completed on 20 August 2009. The internalised structure ensures that there are no longer any external investment management fees payable by VCEG and strengthens the alignment of interests between management and securityholders.

Operating performance

Total production across the asset portfolio was 704 GWh (VCEG share).

Germany Wind

Net production from the German wind farm portfolio was 78% of the net P50 production forecast. Production was impacted by below-average wind speeds during the peak winter period and various unscheduled wind turbine generator maintenance events which we believe have now been addressed. The portfolio contributed 32% of group asset earnings before interest expense, tax, depreciation and amortisation ("EBITDA").

UK Wind

Net production from the Ardrossan wind farm in the United Kingdom was in line with the net P50 production forecast (adjusted for the capacity expansion). Ardrossan contributed \$4.4 million (11%) of group asset EBITDA through a combination of interest income on the subordinated loan investment in the project (now repaid) and 49% share of net profit.

The 6 MW expansion of the wind farm was completed during the year on budget and slightly ahead of schedule. The project expansion facilitated drawdown of the project refinancing proceeds, which delivered a payment to VCEG of \$23.7 million. The payment was structured as a repayment of VCEG's subordinated loan investment and a refund of the group's equity contribution to the capacity expansion.

UK Landfill Gas

In the United Kingdom, net production from VCEG's landfill gas portfolio was 370 GWh. Production levels were lower than expected as a result of gas supply interruptions from landfilling, capping and restoration activities at a number of sites; performance related issues involving the operations and maintenance contractor and incomplete effective coverage provided by the existing gas collection system at a number of key sites. We have initiated a program to address these issues and expect to realise the benefits of this program over time.

The lower production levels offset the benefit of higher power pricing, such that the in-country operating result was in line with the previous corresponding period.

The portfolio contributed 49% of group asset EBITDA.



USA Landfill Gas

In the United States, total production from VCEG's landfill gas portfolio was 170 GWh. Portfolio operating performance was materially impacted by a number of specific events including production interruptions resulting from Hurricane Ike in Texas; reduced gas supply at the Penrose project in California due to the gas supplier's refusal to deliver; downtime associated with a major maintenance program implemented in advance of a changeover in maintenance contractor; and a significant decline in Texas power prices in the second half of the year.

The portfolio contributed 8% of group asset EBITDA.

While an improvement in production levels in Texas is expected in the 2010 financial year, the revenue benefits from this remain subject to an improvement in Texas power prices which are at historically low levels.

We are also pursuing satisfactory resolution to the gas supply dispute in California. The timing and outcome of this is presently unclear.

Financial results summary

VCEG achieved EBITDA for the full year of \$43.91 million. Adjusted EBITDA (including share of net profit from associates) was \$36.95 million, before transaction costs written-off of \$1.6 million. The transaction costs were incurred in respect of the management internalisation transaction approved by VCEG securityholders on 19 August 2009. Further costs associated with the transaction will be expensed in the 2010 financial year.

The net result was a loss after income tax benefit of \$8.04 million, pre-impairment charge, and \$13.52 million including impairment. The net result included depreciation and amortisation charges of \$34.01 million.

As a result of our annual impairment testing we took an \$8.3 million impairment charge against the Fund's California LFG assets, reflecting revenue uncertainty at the 8 MW Penrose project due to the gas supplier's refusal to deliver gas, ongoing weakness in wholesale power prices and an increase in market-based discount rates to be applied in valuing assets of this kind. This was a non-cash charge and represented 2% of VCEG's total asset value (after write-down).

As at 30 June 2009 VCEG had net debt of \$242.1 million, including debt of \$61.6 million under its corporate debt facility.

Total distributions paid in respect of the 2009 financial year were 3.23 cents per stapled security, 19.5% tax deferred.

Looking ahead

During the course of the year we commenced a process to evaluate the potential sale of VCEG's German wind farm portfolio. Based on the process we received a range of indicative, non-binding confidential proposals for the purchase of the portfolio. Final binding proposals are expected in October 2009.

Following discussions with a number of institutional securityholders during the management internalisation transaction process, the directors of the responsible entity considered the most appropriate

strategy for VCEG at the current time for maximising value for all VCEG securityholders and determined that the immediate priorities are:

- corporate debt retirement, including by way of wind asset sales; and
- maximising asset values by exploiting opportunities for increasing EBITDA/ operating cash flow from the Fund's Texas and UK LFG assets, which are considered to have unrealised upside potential.

The operational focus is therefore presently on maximising the value of the Fund's LFG assets. We believe that there is potential for material value enhancement of these assets over the next 1-2 years. During this time the directors will continue to evaluate any serious and credible proposals presented to the board which the directors believe will deliver value to securityholders, including asset sales and return of capital to securityholders or offers for the Fund.



Andrew J. Berry
Chairman
Viridis Investment Management Limited



Edward Northam
Managing Director
Viridis Investment Management Limited

UK wind

9

VCEG holds 49% of the equity interests in the Ardrossan wind farm. The Ardrossan wind farm is located approximately 40 kilometres south-west of Glasgow, Scotland. Wind turbine generators for the project were supplied by the Vestas group of Denmark, which also provides maintenance services for the turbines. The electricity produced by the project and the associated renewable obligation certificates are sold to E.ON (UK) under a long-term power purchase agreement.

A 6 MW expansion to the wind farm was commissioned in December 2008, bringing the total installed capacity of the wind farm to 30 MW.

| Project | Capacity (MW) | Number of turbines | Types of turbines |
|---------------------|---------------|--------------------|-------------------|
| Ardrossan wind farm | 30 | 15 | Vestas V80 2 MW |

Wind asset location

1. Ardrossan



UK landfill gas

VCEG owns a landfill gas fuelled power generation project portfolio in the United Kingdom, that comprises 35 individual generation sites with a current installed capacity totalling 64 MW.

Long-term site agreements with a series of landfill operators provide secure access to fuel supply. The portfolio's capacity is sold under a combination of NFFO contracts (UK government-backed, long-term, fixed-price power purchase agreements) and shorter term market-based sales arrangements, which include the sale of energy and UK Renewable Obligation Certificates.

The projects use a combination of Caterpillar, Perkins and MAN gas engines, which may be relocated between sites to match the gas production profile.

ENER-G, the original project developer, provides operations and maintenance services for the projects under a performance-based contract.

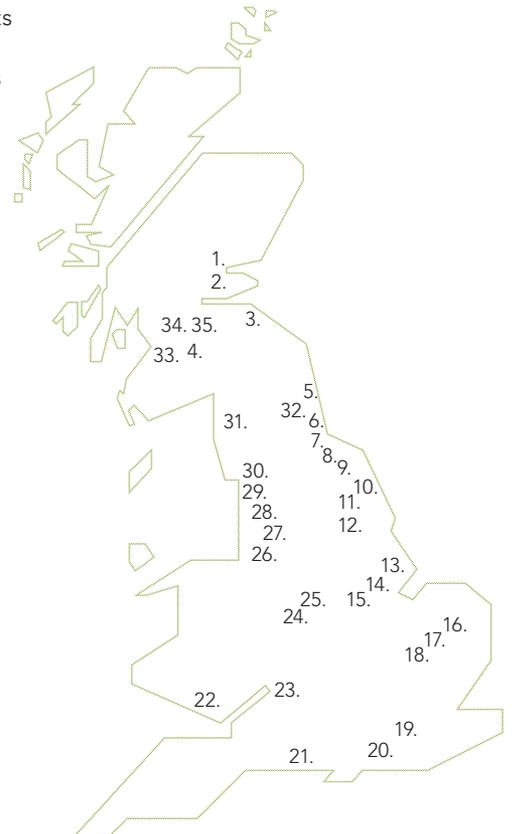
| Location | Capacity (MW) | Number of engines |
|--------------|---------------|-------------------|
| England | 52 | 55 |
| Scotland | 11 | 14 |
| Wales | 1 | 1 |
| Total | 64 | 70 |

Type of engines

Caterpillar, Perkins and MAN

Landfill gas asset location

- | | |
|-------------------|--------------------|
| 1. Lochhead | 19. Redhill |
| 2. Binn | 20. Seale Lodge |
| 3. Melville | 21. Beacon Hill |
| 4. Auchinlea | 22. Neath |
| 5. Burnhills | 23. Harnhill |
| 6. St Bedes | 24. Betton Abbots |
| 7. Chapmans Well | 25. Granville |
| 8. Marks Quarry | 26. Lord St Helens |
| 9. Scorton | 27. Elland |
| 10. Seamer Carr | 28. Horncliffe |
| 11. Harewood Whin | 29. Clifton Marsh |
| 12. Peckfield | 30. Salt Ayre |
| 13. Lincoln | 31. Hespian Wood |
| 14. Lount | 32. Brenkley |
| 15. Himley | 33. Shewalton |
| 16. Warboys | 34. Craignaught |
| 17. Godmanchester | 35. Dalmacoulter |
| 18. Buckden | |



Germany wind

8

VCEG owns a portfolio of eight wind farms located in Lower Saxony and Saxony-Anhalt in Germany with a total installed capacity of 82 MW.

The Kugelberg, Blender II, Geeste, Rieda and Sehnde-Lehrte wind farms were developed by Gamesa Energia Deutschland GmbH. Wind turbine generators for the projects were supplied by the Spanish-based Gamesa group, which also provides ongoing maintenance services for the turbines.

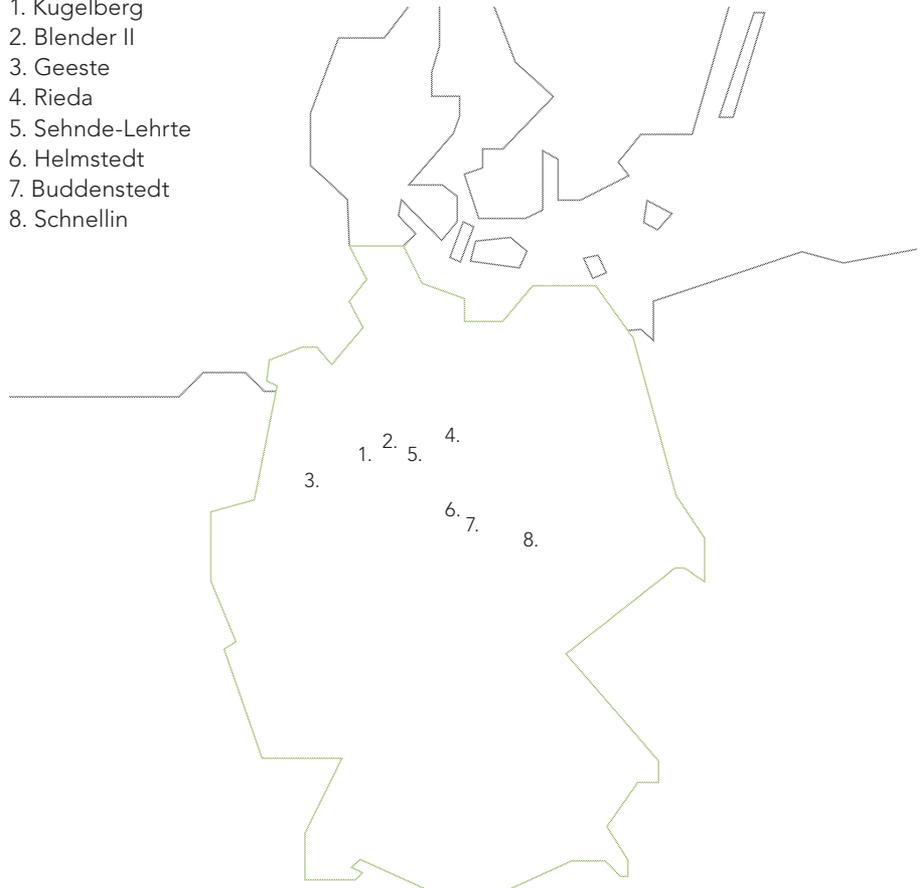
The Helmstedt, Buddenstedt and Schnellin wind farms were developed by E.ON Energy Projects GmbH ("EEP"). EEP provides ongoing turbine operations and maintenance services under a long-term management agreement which includes technical performance guarantees.

Electricity produced by each of the projects is sold to the local grid operators under the terms of the German Renewable Energy Sources Act, which provides for guaranteed electricity off-take under long-term fixed tariffs.

| Projects | Capacity (MW) | Number of turbines | Types of turbines |
|---------------|---------------|--------------------|-------------------|
| Kugelberg | 6 | 3 | Gamesa G80 2 MW |
| Blender II | 14 | 7 | Gamesa G80 2 MW |
| Geeste | 10 | 5 | Gamesa G80 2 MW |
| Rieda | 4 | 2 | Gamesa G80 2 MW |
| Sehnde-Lehrte | 10 | 5 | Gamesa G80 2 MW |
| Helmstedt | 10 | 5 | Vestas V80 2 MW |
| Buddenstedt | 8 | 4 | Vestas V80 2 MW |
| Schnellin | 20 | 10 | Vestas V80 2 MW |
| Total | 82 | 41 | |

Wind asset location

1. Kugelberg
2. Blender II
3. Geeste
4. Rieda
5. Sehnde-Lehrte
6. Helmstedt
7. Buddenstedt
8. Schnellin



USA landfill gas

VCEG owns a 42 MW portfolio of eight landfill gas fuelled power generation projects located in Texas and California, USA.

Gas engines for the Texas projects were supplied by GE Jenbacher, an industry leading manufacturer of equipment for landfill gas application. Run Energy has been engaged to provide operations and maintenance services for the projects.

In Texas landfill gas is supplied to the projects under fuel supply agreements with Waste Management Inc., which owns and operates the landfill sites and associated gas collection systems. Reliant Energy Electric Solutions Inc. purchases the Texas Renewable Energy Credits from all six projects and the electricity from four of the projects. The remaining two projects sell their electricity output as "qualifying facilities" under the Public Utilities Regulatory Policy Act.

The Penrose and Toyon projects in California source landfill gas from the Penrose, Bradley and Toyon Canyon landfill sites. The projects are operated and maintained by SCS Engineers and electricity produced by the projects is sold under power purchase agreements with Southern California Edison and the City of Los Angeles. Electricity produced from the Penrose project is also eligible to receive s45 production tax credits which can be applied to reduce VCEG's US federal income tax liability.

| Projects | Location | Capacity (MW) | Number of engines | Types of engines |
|----------------|------------|---------------|-------------------|------------------------|
| Atascocita | Texas | 10 | 6 | Jenbacher JGS 616 |
| Baytown | Texas | 4 | 4 | Jenbacher JGS 320 |
| Blue Bonnet | Texas | 4 | 4 | Jenbacher JGS 320 |
| Coastal Plains | Texas | 7 | 4 | Jenbacher JGS 616 |
| Conroe | Texas | 3 | 3 | Jenbacher JGS 320 |
| Security | Texas | 3 | 2 | Jenbacher JGS 616 |
| Penrose | California | 7 | 4 | Cooper Superior 165GTA |
| Toyon | California | 4 | 2 | Cooper Superior 165GTA |
| Total | | 42 | 29 | |

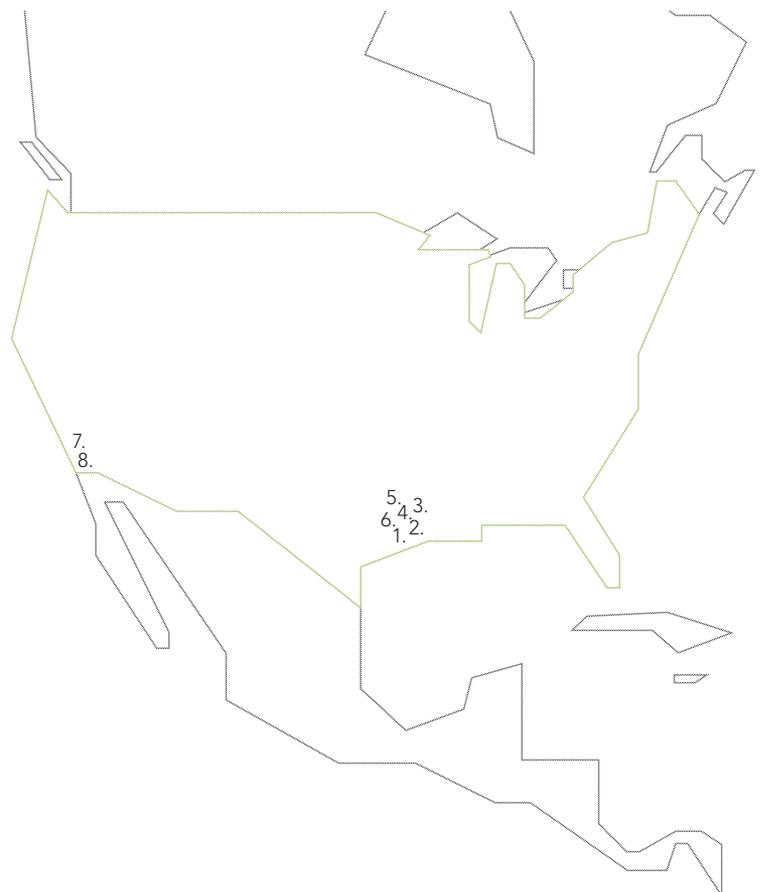
Landfill gas asset location

Texas

1. Atascocita
2. Baytown
3. Blue Bonnet
4. Coastal Plains
5. Conroe
6. Security

California

7. Penrose
8. Toyon



About Viridis

Viridis Clean Energy Group consists of two stapled registered managed investment schemes:

- Viridis Clean Energy Trust I (“VCET I”), and
- Viridis Clean Energy Trust II (“VCET II”).

VCET I and VCET II were established on 15 July 2005 and 19 July 2004 respectively and were subsequently registered as managed investment schemes on 1 August 2005.

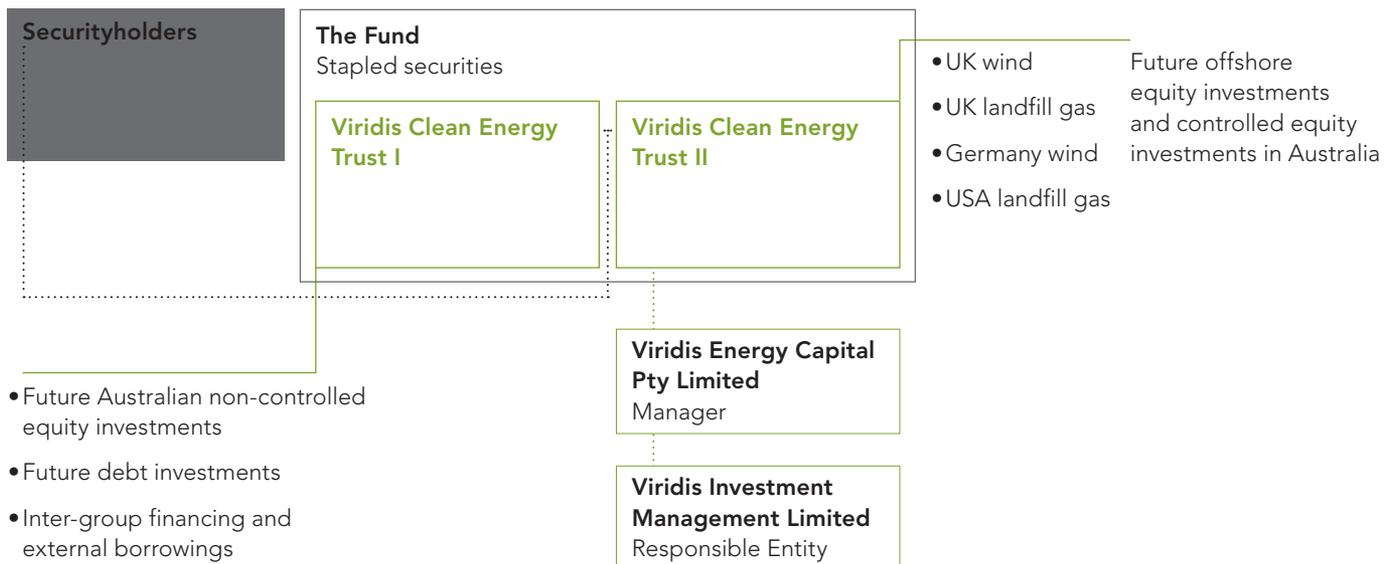
Each stapled security issued by VCEG consists of one unit in VCET I and one unit in VCET II. Units in VCET I and VCET II are stapled together so that one may not be transferred or otherwise dealt with, without the other. Essentially, the units are treated as one security.

The responsible entity for each of VCET I and VCET II is Viridis Investment Management Limited (“responsible entity”). The responsible entity has overall responsibility for the management and operation of VCEG. The responsible entity has entered into an Investment Management Agreement with Viridis Energy Capital Pty Limited (“the manager”) under which the manager provides investment management services to the responsible entity in respect of VCEG’s clean energy assets. The responsible entity is entitled to seek reimbursement from VCEG for expenses incurred in relation to the proper performance of its duties in respect of VCEG. The responsible entity is not entitled to receive any fees out of VCEG. The manager is entitled to receive a fee equal to its costs incurred in providing

investment management services in relation to VCEG’s clean energy assets. The fee arrangements were amended as part of the management internalisation transaction described below. Prior to this amendment the manager was entitled to receive a fee that included a base fee and a performance fee component. Details of the fees paid to the manager for the period 1 July 2008 to 30 June 2009 are detailed in Note 22. to the financial statements.

On 19 August 2009 the VCEG securityholders approved the internalisation of the VCEG management arrangements through the acquisition by VCET II of VEC and its subsidiary entity, VIML.

These arrangements became effective on 20 August 2009 such that, from that date, no external investment management fees are payable by VCEG.



Board

The board has considerable industry, finance and listed company experience. Following completion of the management internalisation transaction described on page 10 the board of the manager was reconstituted to replicate the board of the responsible entity. The directors of the responsible entity and manager are as follows:

Andrew J Berry
Chairman of the responsible entity
Chairman of the manager
(Effective 28 August 2009)

Andrew has over 30 years' investment banking experience, primarily in the energy and resources sector.

Andrew worked for Chase Manhattan Bank for 22 years. During this time he was based in North America, Singapore, the Middle East, Hong Kong and Australia. He was managing director, Chase Manhattan Investment Banking Group, Australia 1980 to 1985 and managing director, Chase AMP Capital Markets Ltd, 1986 to 1990, and is a former director of Kalahari Mining NL, Pacific Energy Limited and Highlands Pacific Limited. He is presently a director of CorporActive Fund Limited which is a Hong Kong based company with a focus on investment opportunities in the Peoples Republic of China.

Robert Webster
Director of the responsible entity
Director of the manager
(Effective 28 August 2009)

Robert is a senior client partner, Global Financial Markets, Australasia, and is based in the Sydney office of Korn/Ferry International.

Previously Robert spent five years as executive director of the International Banks and Securities Association of Australia.

Prior to his financial sector experience, Robert spent over a decade in politics. He was elected MP for Goulburn in 1984 and became a minister in the Greiner Government in January 1989. In May 1991, he was elected to the Legislative Council of New South Wales. His ministerial portfolios included Planning; Housing and Property Services; Family and Community Services; Energy; State Development; Tourism; Administrative Services and Transport.

Some of Robert's ministerial achievements included the redevelopment of Homebush Bay for the Sydney 2000 Olympics, the commercialisation of electricity authorities in New South Wales and corporatisation of the Sydney Water board into the Sydney Water Corporation.

Robert holds various directorships. He is a director of Allianz Australia and Brickworks Ltd. He is also a Justice of the Peace.

Stephen Chipkin
Director of the responsible entity
(Resigned 28 August 2009)
Director of the manager
(Resigned 28 August 2009)

Stephen is an executive of Investec Bank (Australia) Limited and heads its Funds Management business in Australia.

Stephen has 30 years of commercial experience first in law and then in investment banking. He was a partner of the legal firm Freehills for 13 years until 1994. He then joined JPMorgan (formerly Ord Minnett) in Australia where he was a managing director of the Investment Bank.

Stephen joined Investec in early 2006.

Stephen has also served as a member of the Freehills Board and as a director of Ord Minnett Group Limited and various MLC Group companies. He was also a member of the Executive Committee of both Ord Minnett and JPMorgan.

Stephen is currently chairman of Global Ethanol Holdings Limited.

Board continued

12

Walter Pahor

**Director of the responsible entity
Director of the manager**

Walter is the principal of a private investment group which owns and manages a diversified investment portfolio. He was the founding chairman of the manager and, before VCEG purchased the manager held a substantial interest in the manager.

Walter has more than 20 years' experience in the energy industry, including international project development, investment and operations.

Walter was previously the managing director of ASX-listed Energy Developments Limited, which he co-founded. The company was a pioneer of private-sector investment in power generation in Australia.

Walter's prior experience includes various commercial, engineering and operations roles in the petroleum, mining and chemical industries.

Edward Northam

**Managing director of the
responsible entity
(Effective 28 August 2009)**

Managing director of the manager

Edward was appointed as managing director of the responsible entity on 28 August 2009.

Edward was the founding CEO and has been a director of the manager since its inception. During this time the company has identified, evaluated and implemented the investments comprising VCEG's asset portfolio and put in place the infrastructure and personnel required to launch the Fund and manage its performance and growth.

Edward has more than 10 years' experience in the energy industry, both as an adviser and as a management executive. He previously held various management positions with Energy Developments Limited in Australia and in the United States of America, following a career as a lawyer with a leading Australian law firm practising in the areas of corporate law and energy.

Duncan Jewell

**Company secretary and chief
financial officer of the responsible
entity and the manager
Director of the manager
(Resigned 28 August 2009)**

Duncan was appointed as chief financial officer of the responsible entity on 28 August 2009.

Duncan joined the manager as CFO and a director on its inception. Duncan has led the company's investment valuation and financing activities and has been responsible for the financial management and performance of its business.

Duncan has more than 10 years' experience in the energy industry. He was previously head of corporate finance with Energy Developments Limited, before which he held a range of positions in National Australia Bank Limited, involved predominantly in project and structured finance and including appointments in wholesale banking and credit.



Corporate governance report

Background

Viridis Clean Energy Group (“VCEG”) is comprised of Viridis Clean Energy Trust I (ARSN 115 340 442) (“VCET I”) and Viridis Clean Energy Trust II (ARSN 115 340 639) (“VCET II”). The responsible entity for VCEG is Viridis Investment Management Limited (the “responsible entity”). The board of the responsible entity (“Board”) is committed to high standards of corporate governance.

The Corporations Act, the ASX Listing Rules, the constitutions of VCET I and VCET II, the Investment Management Agreement and the general law regulate the governance and management of VCEG and the activities and responsibilities of the responsible entity and Viridis Energy Capital Pty Limited (“manager”) (as manager of the clean energy assets of VCEG) and the directors and other officers of each of them.

In December 2007, the ASX Corporate Governance Council published its revised “Corporate Governance Principles and Recommendations” (“ASX Principles”) articulating 8 core principles of good corporate governance and providing implementation guidance. Across the 8 core ASX Principles, a number of recommendations (“ASX Recommendations”) are made in relation to specific corporate governance practices.

Compliance with the ASX Principles and the ASX Recommendations in their entirety is not mandatory; they provide a framework which may not apply to all entities in all situations.

Listed entities (including VCEG) are required by ASX Listing Rule 4.10.3 to include in their annual report a statement disclosing the extent to which they have followed the ASX Recommendations during the relevant reporting period. If all of the ASX Recommendations have not been followed, the entity must identify those which have not been followed and give reasons for not following them. If an ASX Recommendation has been followed for only part of the period, the entity must state the period during which it has been followed.

So that investors can form a clear understanding of the extent to which VCEG’s corporate governance practices satisfied the ASX’s requirements during the reporting period, this corporate governance report specifically discloses against each of the ASX Principles and ASX Recommendations. Investors should note that, as a result of the management internalisation transaction described on page 10, VCEG’s corporate governance practices have changed since the end of the reporting period. Accordingly, this corporate governance report does not accurately reflect VCEG’s corporate governance practices for the period from 20 August 2009 through to date of the annual report.

ASX Principle 1—Lay solid foundations for management and oversight

ASX Recommendation 1.1—Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions

Responsibility for corporate governance and the operations of VCEG lies with the responsible entity. In turn, the responsible entity is directed and guided by the Board as its ultimate decision-making body. During the reporting period, the responsible entity did not have any senior executives, however under the terms of the Investment Management Agreement the Manager had been appointed to provide investment management services to the responsible entity in respect of VCEG’s clean energy assets.

In outline, then, the allocation of key responsibilities in respect of VCEG were as follows:

Board responsibilities—

- oversight of VCEG, including its control, accountability and resources;
- setting the overall strategic direction for VCEG;
- overseeing VCEG’s business activities and performance;
- instituting and maintaining business processes to ensure proper controls, transparency and accountability;
- ensuring that VCEG complies with the compliance plans, constitutions and applicable laws;
- monitoring VCEG’s financial position and setting financial performance objectives;

Corporate governance report continued

14

- monitoring and evaluating the performance of the manager and other service providers to whom the responsible entity has delegated key functions;
- monitoring compliance with legal, regulatory, ethical and market requirements and standards;
- approving and monitoring financial and other reporting; and
- ensuring effective communication with securityholders and other stakeholders;

Manager responsibilities—

- providing asset management services, including managing and reporting on asset performance;
- providing risk management services;
- providing capital and investment advice, including identifying investment opportunities that meet specified investment guidelines; and
- implementing investments and divestments approved by the board of the responsible entity.

Full meetings of the board are held regularly and at least bi-monthly, and non-scheduled meetings are called as required.

Each member of the board has received a letter of appointment which details the key terms of his appointment considered necessary by the board, including the matters recommended in the ASX Principles.

ASX Recommendation 1.2— Companies should disclose the process for evaluating the performance of senior executives

The board has been undertaking an evaluation of the performance of the manager at least annually, and more frequently where there has been a reason to do so.

ASX Recommendation 1.3— Companies should provide the information indicated in the Guide to reporting on Principle 1

Refer above.

The board considers that VCEG complied in all material respects with ASX Principle 1 throughout the reporting period.

ASX Principle 2—Structure the board to add value ASX Recommendation 2.1— A majority of the board should be independent directors 1. Board members

During the reporting period, the board consisted of the following four directors:

Andrew J. Berry

(Independent chairman)

In his role as independent chairman Mr. Berry is responsible for:

- leadership of the board;
- organisation and conduct of the board's activities; and
- setting the board agenda.

The independent chairman carries a casting vote in the event of voting deadlocks.

Mr. Berry was appointed on 25 July 2005 and remained in office throughout the reporting period.

Robert Webster

Mr. Webster was appointed in 25 July 2005 and remained in office throughout the reporting period.

Stephen Chipkin

Mr. Chipkin was appointed on 1 September 2007 and remained in office throughout the reporting period. Mr. Chipkin resigned as a director on 28 August 2009.

Walter Pahor

Mr. Pahor was appointed in 4 May 2002 and remained in office throughout the reporting period.

Investors should also note that Mr. Edward Northam was appointed as managing director on 28 August 2009.

Further details on each of the current directors can be found on pages 11 and 12 of this annual report.

2. Independence of board members

The board considers that of the four directors that held office during the reporting period, two (Mr. Berry and Mr. Webster) were independent directors. In reaching that conclusion, the board has had regard to the criteria for assessing the independence of directors set out in the ASX Principles, and has determined the level of materiality in relation to each director on the basis it believes is appropriate on a case-by-case basis. In particular neither of Mr. Berry and Mr. Webster were engaged in management of VCEG, the responsible entity or the manager or any of their activities.



The board considers that Mr. Berry and Mr. Webster were “external directors” as defined in section 601JA of the Corporations Act.

The board considers that of the four directors that held office during the reporting period, two were not independent directors, having been nominated by the manager and by Investec Bank (Australia) Limited respectively.

Each board member is entitled to obtain independent professional advice at the cost of the responsible entity subject to the estimated costs being first approved by the chairman as reasonable.

ASX Principle 2.1 requires that a “majority” of the board of a listed entity should be independent directors. Although the independent directors on the board fell short of an absolute majority, the board considers that this did not compromise the good governance of VCEG in its particular circumstances because the independent chair carried a casting vote.

ASX Recommendation 2.2—The chair should be an independent director

Mr. Berry was an independent director according to the applicable standards under the ASX Principles.

ASX Recommendation 2.3—The roles of chair and chief executive officer should not be exercised by the same individual

Mr. Edward Northam (who was employed by the manager during the reporting period) carried out the functions of chief executive officer in relation to VCEG.

ASX Recommendation 2.4—The board should establish a nomination committee

The board has not established any committees other than the audit and compliance committee. It is the directors’ view that, given the size of the board, additional committees, and in particular a nomination committee, were not appropriate.

ASX Recommendation 2.5—Companies should disclose the process for evaluating the performance of the board, its committees and individual directors

The board and the audit and compliance committee self assess their performance on an annual basis. An annual self assessment is currently being conducted.

ASX Recommendation 2.6—Provide the information indicated in the Guide to reporting on Principle 2
Refer above.

Except as disclosed above, the board considers that VCEG complied in all material respects with ASX Principle 2 throughout the reporting period.

ASX Principle 3—Promote ethical and responsible decision-making

ASX Recommendation 3.1—Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the company’s integrity;
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and

- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The board requires that the highest standards of ethics and integrity be observed in the conduct of VCEG’s business. The board recognises that it has obligations and responsibilities to a broad group of stakeholders which extends beyond VCEG’s securityholders. These “stakeholders” are employees, customers, counterparties, suppliers, regulatory agencies, governments and the broader community, all of whom have legitimate interests which are considered by the responsible entity in undertaking VCEG’s business activities.

The board has adopted a code of conduct which addresses some, but not all, of the ASX’s suggested content for a code of conduct. In the particular circumstances of VCEG, including its size and activities, the board considers that the code of conduct is appropriate and sufficient. The board will, however, continue to monitor the position and will amend the code of conduct when appropriate. A copy of the code of conduct may be found on VCEG’s website at www.viridisenergy.com.

Corporate governance report continued

ASX Recommendation 3.2— Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of that policy

The board has adopted specific policies relating to the management of conflicts of interest and securities trading. The securities trading policy applies to trading in stapled securities of VCEG by board members and employees of the responsible entity and the manager. A copy of the securities trading policy may be found on VCEG's website at www.viridisenergy.com.

ASX Recommendation 3.3— Companies should provide the information indicated in the Guide to reporting on Principle 3

Refer above.

Except as disclosed above, the board considers that VCEG complied in all material respects with ASX Principle 3 throughout the reporting period.

ASX Principle 4—Safeguard integrity in financial reporting

The board has implemented processes to ensure that the presentation of VCEG's financial position and financial performance is accurate, complete and in accordance with accounting standards.

ASX Recommendation 4.1—The board should establish an audit committee

The board has established an audit and compliance committee, which during the reporting period consisted of the following Board members:

- Mr. Webster (who chairs the audit and compliance committee);
- Mr. Berry; and
- Mr. Chipkin (who has since been replaced by Mr. Pahor).

Each are qualified by virtue of their experiences and responsibility to sit on the audit and compliance committee.

ASX Recommendation 4.2— The audit committee should be structured so that it:

- consists only of non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair, who is not chair of the board;
- at least 3 members.

All Committee members are non-executive directors. The majority of the committee members are independent within the meaning of independence set out in the ASX Principles. The chairman of the committee is independent and the chairman of the board is not eligible to chair the audit and compliance committee. The committee meet on a quarterly basis.

ASX Recommendation 4.3— The audit committee should have a formal charter

The audit and compliance committee is governed by a charter, which sets out the duties and responsibilities of the committee. These functions include the review of financial and risk management matters for VCEG as well as monitoring VCEG's compliance arrangements. The committee reports quarterly to

the board on these matters. A copy of the charter is available on VCEG's website at www.viridisenergy.com.

ASX Recommendation 4.4— Companies should provide the information indicated in the Guide to reporting on Principle 4

Refer above.

The board considers that VCEG complied in all material respects with ASX Principle 4 throughout the reporting period.

ASX Principle 5—Make timely and balanced disclosure

ASX Recommendation 5.1— Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

In accordance with the ASX Listing Rule disclosure requirements, the board seeks to keep the market fully informed at all times regarding any information, positive or negative, which may have a material impact on the price of VCEG's securities.

Written policies and procedures have been established to ensure compliance with this requirement.

During the reporting period the chief executive officer of the manager had primary responsibility for bringing to the attention of the board any matters that may require disclosure to the market.



However, any director or any senior executive of the manager may raise a disclosure matter with the board. The directors consider each such matter promptly, decide whether disclosure is necessary (and, where necessary, seek advice from VCEG's legal advisers) and instruct the content of any disclosure.

All disclosures to the market, written presentations and information, whether provided in a public forum or in private briefings, are published on VCEG's web site www.viridisenergy.com.

ASX Recommendation 5.2—Companies should provide the information indicated in the Guide to reporting on Principle 5.

Refer above.

The board considers that VCEG complied in all material respects with ASX Principle 5 throughout the reporting period.

ASX Principle 6—Respect the rights of securityholders

ASX Recommendation 6.1—Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The board seeks to empower securityholders and ensure they are fully informed by:

- i. communicating effectively with them;
- ii. making information regarding VCEG readily accessible; and
- iii. facilitating participation by securityholders in any meetings of investors.

VCEG is not required under the Corporations Act to hold an annual general meeting in respect of the trusts, so meetings will usually only be convened when there is formal business to be considered or otherwise as required under the Corporations Act.

General meetings and investor briefings, if held, will as far as possible be held in an accessible location and all reasonable efforts are made to ensure that attendance is convenient for securityholders.

Effective communication is achieved through market disclosure (as discussed above in relation to ASX Principle 5), direct reporting to securityholders (half year report and the annual report) and prompt response to direct queries by securityholders.

VCEG's website is also used to make relevant information readily and promptly accessible to securityholders. The web site is under continuous development to improve its content and clarity of presentation.

ASX Recommendation 6.2—Companies should provide the information indicated in the Guide to reporting on Principle 6

Refer above.

Except as disclosed above, the board considers that VCEG complied in all material respects with ASX Principle 6 throughout the reporting period.

ASX Principle 7—Recognise and manage risk

ASX Recommendation 7.1—Companies should establish policies for oversight and management of material business risks and disclose a summary of those policies

The board has adopted a formal risk management plan. Under the risk management plan, the responsible entity and its risk service providers identify, assess, monitor and manage material risks relevant to the responsible entity and VCEG. A copy of the risk management plan is available on VCEG's website at www.viridisenergy.com.

The audit and compliance committee reviews the risk management plan at least annually.

ASX Recommendation 7.2—The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The manager is required to comply with the formal risk management plan adopted by the board.

The manager confirmed to the board that it considers the formal risk management plan to be effective and adequate.

Corporate governance report continued

ASX Recommendation 7.3—The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks

The managing director and the chief financial officer of the manager are required to provide their assurance to the board (by way of a written statement) that the statement given in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and the system is operating efficiently and effectively in all material respects in relation to financial reporting risks.

This assurance is provided on each occasion that VCEG's financial results are released by the responsible entity.

The managing director of the manager is also required to provide his assurance to the board (by way of a written statement) that:

- i. investment recommendations made by the manager are based on a sound system of due diligence and risk assessment; and
- ii. the due diligence and risk assessment system is operating effectively in all material respects.

This assurance is provided on each occasion that an investment recommendation is made to the board.

ASX Recommendation 7.4—Companies should provide the information indicated in the Guide to reporting on Principle 7 Refer above.

The board considers that VCEG complied in all material respects with ASX Principle 7 throughout the reporting period.

ASX Principle 8—Remunerate fairly and responsibly

ASX Recommendation 8.1—The board should establish a remuneration committee

The board has not considered it necessary or appropriate for it to establish a separate remuneration committee in relation to VCEG. In particular, the board considered that a remuneration committee was unnecessary on the basis that the responsible entity did not have any executive directors or senior executives and the manager was remunerated in accordance with the investment management agreement. However, investors should note that following the internalisation of management, which received securityholder approval on 19 August 2009, the board intends to establish a remuneration committee for the 2010 financial year.

ASX Recommendation 8.2—Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

Non-executive directors are remunerated by way of fees (in the form of cash, non-cash benefits or superannuation

contributions). Non-executive directors are not provided with retirement benefits other than superannuation. During the reporting period, the responsible entity did not have any executive directors or senior executives of its own because it obtained adequate resources through its outsourcing arrangements with external service providers such as the manager. Therefore, the responsible entity did not directly bear the costs of employee remuneration and has not established a formal remuneration policy. Details of the remuneration and indemnity arrangements for the responsible entity and its officers are set out in the directors' report, financial statements and notes thereto.

The manager was remunerated in accordance with the terms and conditions of the investment management agreement. The manager was responsible for the remuneration of its employees engaged in providing services to VCEG.

ASX Recommendation 8.3—Companies should provide the information indicated in the Guide to reporting on Principle 8 Refer above.

Except as disclosed above, the board considers that VCEG complied in all material respects with ASX Principle 8 throughout the reporting period.



| Page | Contents |
|------|---|
| 20. | Directors' report |
| 23. | Auditor's independence declaration |
| 24. | Income statements for the year ended 30 June 2009 |
| 25. | Balance sheets as at 30 June 2009 |
| 26. | Statement of changes in equity for the year ended 30 June 2009 |
| 28. | Cash flow statements for the year ended 30 June 2009 |
| 29. | Notes to the financial statements for the year ended 30 June 2009 |
| 29. | 1. Summary of significant accounting policies |
| 35. | 2. Critical accounting estimates and judgements |
| 36. | 3. Financial risk management |
| 45. | 4. Segment information |
| 47. | 5. Income and expenses |
| 48. | 6. Changes in accounting estimates |
| 49. | 7. Income tax |
| 51. | 8. Distributions paid and payable |
| 52. | 9. Cash and cash equivalents |
| 53. | 10. Trade and other receivables |
| 54. | 11. Derivative financial instruments |
| 55. | 12. Other assets |
| 55. | 13. Investments in associates |
| 57. | 14. Other financial assets |
| 58. | 15. Property, plant and equipment |
| 59. | 16. Intangible assets |
| 60. | 17. Trade and other payables |
| 61. | 18. Interest-bearing liabilities |
| 63. | 19. Provisions |
| 64. | 20. Contributed equity |
| 65. | 21. Reserves |
| 66. | 22. Related party disclosures |
| 69. | 23. Key management personnel |
| 71. | 24. Auditors' remuneration |
| 71. | 25. Contingencies |
| 71. | 26. Commitments for expenditure |
| 72. | 27. Earnings per unit |
| 72. | 28. Subsequent events |
| 73. | Statement by directors |
| 74. | Independent auditor's report |
| 76. | Securityholder information |

Directors' report

The directors of Viridis Investment Management Limited, the responsible entity of the stapled trusts Viridis Clean Energy Trust I (ARSN 115 340 442) ("VCET I") and Viridis Clean Energy Trust II (ARSN 115 340 639) ("VCET II"), submit their report, together with the attached financial report, for the financial year ended 30 June 2009.

The consolidated financial statements incorporate the assets and liabilities of VCET I and VCET II and their controlled entities. These entities are referred to in this report and the financial report as the Viridis Clean Energy Group ("VCEG"), or the Group.

Principal activities

The principal activity of VCEG is to invest in and manage a global portfolio of clean energy assets. VCEG's investment focus is on assets that generate electricity or other consumable energy from renewable, waste or inherently low-emission energy sources, including wind, hydro, biomass, geothermal, solar, waste fuel, coal seam methane and natural gas. There were no significant changes in the nature of VCEG's activities during the year.

Results and review of operations

Results

The net loss after income tax benefit for VCEG for the financial year ended 30 June 2009 was \$13.517 million (2008: \$20.153 million).

Operations

A summary of the revenues and adjusted EBITDA contributions by segment is given below.

| | Total revenue | | Adjusted EBITDA* | |
|----------------------------------|---------------|--------------|------------------|--------------|
| | Year ended | | Year ended | |
| | 30 June 2009 | 30 June 2008 | 30 June 2009 | 30 June 2008 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| UK Wind | 1,410 | 1,945 | 4,357 | 4,910 |
| UK Landfill Gas | 54,561 | 52,974 | 19,999 | 20,194 |
| Germany Wind | 20,894 | 20,452 | 12,841 | 14,301 |
| USA Landfill Gas | 12,968 | 15,054 | 3,285 | 6,072 |
| Realised gains on FX derivatives | - | - | 6,335 | 2,560 |
| Other | 831 | 1,490 | (9,866) | (5,483) |
| | 90,664 | 91,915 | 36,951 | 42,554 |

* Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is calculated as follows:

| | \$'000 | \$'000 |
|---|----------|---------|
| Reported EBITDA | 43,905 | 27,618 |
| Exclude items included in reported EBITDA: | | |
| - Interest income—other | (779) | (1,434) |
| - Unrealised losses/(gains) on derivatives | 3,595 | (3,470) |
| - Unrealised FX (gains)/losses | (12,070) | 14,233 |
| - Transaction costs written-off | 1,570 | 2,642 |
| - Write-back of Texas maintenance costs accrual | (2,217) | - |
| Include share of net profit of associates | 2,947 | 2,965 |
| | 36,951 | 42,554 |



UK Wind

The Ardrossan wind farm was in operation for the entire reporting period in each year and the results include VCEG's share of the net profit of Ardrossan, accounted for using the equity method and interest income on the subordinated debt advanced by VCEG to the project. The 6 MW expansion was commissioned during the last quarter of calendar year 2008, which increased the capacity of the project to 30 MW. The subordinated debt was repaid in full on 27 March 2009, after the successful refinancing of the project. VCEG's share of net profit of Ardrossan was \$2.947 million—0.6% lower than in 2008, when it was \$2.965 million. An increase in net profit in GBP due to increased production was offset by the impact of a strengthening Australian dollar against the GBP, which reduced reported results by approximately 3% on a comparative basis.

UK Landfill Gas

The portfolio was in operation for the whole of the reporting and comparative periods; therefore the consolidated results include a full-period contribution from the portfolio.

Total production from the portfolio in 2009 was 370,210 MWh (389,949 MWh in 2008) due to lower gas production. An increase in power prices delivered reported revenue of \$54.561 million (2008: \$52.974 million) and an adjusted EBITDA contribution from the portfolio of \$19.999 million (2008: \$20.194 million).

Germany Wind

The portfolio was in operation for the whole of the reporting and comparative periods; therefore the consolidated results include a full-period contribution from the wind farms.

Total production from the portfolio was 120,721 MWh (2008: 133,947 MWh), the decrease of 9.9% being largely due to below-average wind speeds during the peak winter months. Revenue from the portfolio was \$20.894 million (2008: \$20.452 million), with lower production levels being offset by the impact of the strengthening Euro against the Australian dollar, which increased reported results by approximately 14% on a comparative basis. The adjusted EBITDA contribution from the portfolio was \$12.841 million (2008: \$14.301 million), a 10.2% decrease on the previous corresponding period. The decrease was caused by lower production combined with higher maintenance expenditure due to the majority of wind-farms coming out of their initial warranty periods and period-on-period movements in foreign currency exchange rates.

USA Landfill Gas

The portfolio was in operation for the whole of the reporting and comparative periods; therefore the consolidated results include a full-period contribution from the portfolio.

Total production from the portfolio was 169,937 MWh (206,907 MWh in 2008). The decrease in production levels resulted from interruptions caused by Hurricane Ike, reduced gas supply to the Penrose facility due to a gas supplier's refusal to deliver gas and downtime associated with a major maintenance program implemented in advance of a changeover in maintenance contractor. These factors, combined with a material fall in Texas power prices in the second half of the year, saw the portfolio achieve revenues of \$12.968 million (2008: \$15.054 million) and delivered an adjusted EBITDA contribution of \$3.285 million (2008: \$6.072 million).

In April 2009 a changeover in the Texas operations and maintenance contractor was implemented. As part of these arrangements the outgoing contractor agreed to cancel invoices previously issued for specific maintenance items. The reported results therefore include a \$2.217 million write-back of costs previously accrued (note that the write-back amount is not included in the adjusted EBITDA contribution stated above).

Following completion of the year-end asset impairment testing the directors decided to write-down the carrying value of the California landfill gas portfolio to zero. This reflects revenue uncertainty at the 8 MW Penrose project due to the gas supplier's refusal to deliver gas, ongoing weakness in wholesale power prices and an increase in market-based discount rates to be applied in valuing assets of this kind. The consolidated results include a non-cash impairment charge of \$8.3 million (pre-tax).

Investment and finance

During the reporting period VCEG negotiated a new corporate debt facility with its existing bankers Investec Bank and ABN AMRO Bank, which matures in July 2010. In April 2009 the proceeds from repayment of the Ardrossan subordinated loan were applied to repay A\$23.7 million of the corporate debt facility. The outstanding balance on the facility is \$61.6 million as at 30 June 2009. Further details of the facility are included in Note 18. to the financial statements.

The consolidated results include \$1.570 million of expenses (2008: \$2.642 million) relating to transaction costs. The 2009 expenses were related to the management internalisation transaction.

Distributions

An interim distribution of 3.23 cents per stapled security (including a 0.14 cents foreign tax credit component) on issue at the record date (31 December 2008) was made on 16 February 2009. There was no final distribution. The total distribution amount for the reporting period was \$6.037 million (2008: 18.865 million) and was paid from VCET I.

Directors

Directors of the responsible entity of VCET I and VCET II in office during the reporting period and until the date of this report are:

Andrew J. Berry (Chairman)
Stephen Chipkin
Robert Webster
Walter Pahor

Directors' report **continued**

It is intended that Stephen Chipkin will resign as a director of the responsible entity and Edward Northam will be appointed as managing director after this financial report is released.

Further details on each of the directors can be found in the Structure, board and management section of this annual report.

Interests in stapled securities of VCEG

The interests in stapled securities issued by VCEG held by the responsible entity, directors of the responsible entity and their director-related entities at 30 June 2009 are detailed in Notes 22. and 23. to the financial statements.

Company secretary

The company secretary of the responsible entity in office during the reporting period and until the date of this report is Duncan Jewell.

VCEG information

VCET I and VCET II are Australian-registered managed investment schemes. The registered office of the responsible entity is located at Level One, 167 Flinders Lane, Melbourne, Victoria, 3000.

Stapled securities on issue

At 30 June 2009, there were 187,020,586 stapled securities of VCEG on issue.

No stapled securities were issued during the reporting period.

Group assets

At 30 June 2009 VCEG held assets to a total value of \$413.4 million (2008: \$478.1 million). The basis for valuation of the assets is disclosed in Note 1. to the financial statements.

Fees to the responsible entity and associates

For the year ended 30 June 2009, Viridis Energy Capital Pty Limited was entitled to \$1,526,882 (2008: \$2,356,670) in fees as the manager of VCEG's clean energy assets and \$907,472 (2008: \$504,217) in relation to asset operations management fees. Under the terms of the investment

management agreement, the manager is also entitled to seek reimbursement of certain costs. Costs incurred by the manager on VCEG's behalf, and reimbursed to the manager, totalled \$233,851 during the year (2008: \$359,718).

There are no fees payable to Viridis Investment Management Limited as responsible entity. The responsible entity is however entitled to seek reimbursement of certain costs. Costs relating to directors' fees that were reimbursed to the responsible entity totalled \$114,507 during the year (2008: \$97,922). Refer to Note 22. Related party disclosures.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of VCEG.

Events occurring after balance date

On 19 August 2009 the securityholders of VCEG approved the acquisition of all of the shares of the manager Viridis Energy Capital Pty Limited ("VEC"). The consideration payable to the owners of VEC was \$2.76 million, which was used to subscribe for 12 million stapled securities at an issue price of \$0.23 per stapled security. No other matters or circumstances, other than those referred to in this report, the financial statements or the notes thereto, have arisen since the end of the reporting period that have significantly affected, or may significantly affect, the operations of VCEG, the results of those operations or the state of affairs of VCEG in future financial years.

Likely developments and expected results

In the opinion of the directors of the responsible entity, the inclusion of information relating to likely developments in the operations of VCEG is likely to prejudice the interests of VCEG and therefore no such information has been included in this report.

Indemnification and insurance of directors and officers

No insurance premiums for cover provided to the responsible entity or the manager were paid for out of the assets of VCEG during the reporting period. So long as the directors and officers of the responsible entity act in accordance with the constitutions of VCET I and VCET II and the law, the directors and officers remain indemnified out of the assets of VCEG against any losses incurred while acting on behalf of VCEG.

Environmental regulation

The operations of VCEG are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Application of Class Order

The financial reports for VCEG, VCET I and VCET II are jointly presented in the one report, as permitted by ASIC Class Order 05/642.

Auditor's independence declaration

The auditor's independence declaration is included on page 23 of this report.

Rounding of amounts

VCEG is an entity to which ASIC Class Order 98/0100 of 10 July 1996 applies. In accordance with the option available under this class order, the amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars where rounding is applicable.

Signed in accordance with a resolution of the directors of Viridis Investment Management Limited as responsible entity of VCET I and VCET II.



Andrew J. Berry
Chairman
Viridis Investment Management Limited
(responsible entity)
Melbourne

Dated this 28th day of August 2009



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Auditor's Independence Declaration

As lead auditor for the audit of Viridis Clean Energy Trust I, Viridis Clean Energy Trust II and the entities they control ("the Viridis Clean Energy Group") for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of the Viridis Clean Energy Group during the period.



Chris Dodd
Partner
PricewaterhouseCoopers

Melbourne
28 August 2009

Income statements for the year ended 30 June 2009

| | | VCEG 1 July 2008 –30 June 2009 \$'000 | VCET I 1 July 2008 –30 June 2009 \$'000 | VCET II 1 July 2008 –30 June 2009 \$'000 | VCEG 1 July 2007 –30 June 2008 \$'000 | VCET I 1 July 2007 –30 June 2008 \$'000 | VCET II 1 July 2007 –30 June 2008 \$'000 |
|---|-------|--|--|---|--|--|---|
| | Notes | | | | | | |
| Revenue from continuing operations | | | | | | | |
| Operating income | 5 | 88,475 | – | – | 88,536 | – | – |
| Interest income—project investments | 5 | 1,410 | – | – | 1,945 | – | – |
| Interest income—other | 5 | 779 | 13,743 | 33 | 1,434 | 15,056 | 131 |
| Total revenue | | 90,664 | 13,743 | 33 | 91,915 | 15,056 | 131 |
| Expenses | | | | | | | |
| Operating expenses | 5 | (50,657) | – | (983) | (48,246) | – | (504) |
| Fund expenses | | (1,987) | (1,578) | (409) | (1,950) | (1,555) | (395) |
| Management fees | | (1,527) | (1,290) | (237) | (2,357) | (1,951) | (406) |
| Net gain/(loss) on derivative financial instruments | 5 | 2,740 | 4,835 | (2,095) | 6,030 | 4,142 | 1,888 |
| Net foreign currency exchange gain/(loss) | 5 | 6,242 | 12 | (26) | (15,132) | (1) | (13) |
| Transaction costs written off | | (1,570) | – | (1,570) | (2,642) | – | (2,642) |
| Earnings before interest expense, tax, depreciation & amortisation | | 43,905 | 15,722 | (5,287) | 27,618 | 15,691 | (1,941) |
| Depreciation of property, plant and equipment | | (15,320) | – | (44) | (13,713) | – | (53) |
| Amortisation of intangibles | | (18,691) | – | – | (19,132) | – | – |
| Impairment of non-current assets | | (8,301) | – | – | – | – | – |
| Earnings before interest expense and tax | | 1,593 | 15,722 | (5,331) | (5,227) | 15,691 | (1,994) |
| Share of net profit of associates accounted for using the equity method | 13 | 2,947 | – | – | 2,965 | – | – |
| Finance costs | 5 | (23,506) | (9,890) | (228) | (22,947) | (8,970) | (127) |
| Net profit/(loss) before income tax | | (18,966) | 5,832 | (5,559) | (25,209) | 6,721 | (2,121) |
| Income tax benefit/(expense) | 7 | 5,449 | – | – | 5,056 | – | – |
| Net profit/(loss) after income tax | | (13,517) | 5,832 | (5,559) | (20,153) | 6,721 | (2,121) |
| Less: Profit attributable to minority interest holders | | (5,832) | – | – | (6,721) | – | – |
| Net profit/(loss) after income tax attributable to VCET II securityholders | | (19,349) | 5,832 | (5,559) | (26,874) | 6,721 | (2,121) |
| Earnings per security for profit attributable to the VCET II securityholders | | | | | Cents per security | Cents per security | |
| Basic earnings/(loss) | 27 | | | | (10.35) | (14.53) | |
| Diluted earnings/(loss) | 27 | | | | (10.35) | (14.53) | |

The accompanying notes form part of the financial statements.



Balance sheets as at 30 June 2009

| | Notes | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Assets | | | | | | | |
| Current assets | | | | | | | |
| Cash and cash equivalents | 9 | 21,036 | 1,443 | 108 | 33,230 | 7,140 | 1,788 |
| Trade and other receivables | 10 | 14,544 | 3,972 | 107 | 14,706 | 5,376 | 3,531 |
| Income tax receivable | 7 | 554 | – | – | 92 | – | – |
| Derivative financial instruments | 11 | 2,030 | 1,424 | 606 | 9,530 | 5,370 | 3,786 |
| Other current assets | 12 | 7,611 | 407 | 38 | 4,295 | 179 | 17 |
| Total current assets | | 45,775 | 7,246 | 859 | 61,853 | 18,065 | 9,122 |
| Non-current assets | | | | | | | |
| Trade and other receivables | 10 | 531 | 159,101 | 38,159 | 19,433 | 187,085 | 34,101 |
| Investments accounted for using the equity method | 13 | 3,126 | – | – | 5,544 | – | – |
| Other financial assets | 14 | – | – | 13,439 | – | – | 13,439 |
| Property, plant and equipment | 15 | 191,749 | – | 1 | 194,655 | – | 45 |
| Deferred tax assets | 7 | – | – | – | – | – | – |
| Derivative financial instruments | 11 | 3,340 | 2,953 | 387 | 6,329 | – | – |
| Intangible assets | 16 | 168,426 | – | – | 188,976 | – | – |
| Other non-current assets | 12 | 440 | – | – | 1,380 | – | – |
| Total non-current assets | | 367,612 | 162,054 | 51,986 | 416,317 | 187,085 | 47,585 |
| Total assets | | 413,387 | 169,300 | 52,845 | 478,170 | 205,150 | 56,707 |
| Liabilities | | | | | | | |
| Current liabilities | | | | | | | |
| Trade and other payables | 17 | 22,786 | 520 | 2,310 | 28,942 | 13,231 | 613 |
| Interest-bearing liabilities | 18 | 23,874 | – | – | 103,146 | 83,059 | – |
| Derivative financial instruments | 11 | 449 | 3 | – | – | – | – |
| Other current liabilities | | – | – | – | 168 | – | – |
| Total current liabilities | | 47,109 | 523 | 2,310 | 132,256 | 96,290 | 613 |
| Non-current liabilities | | | | | | | |
| Interest-bearing liabilities | 18 | 239,261 | 60,316 | – | 189,103 | – | – |
| Derivative financial instruments | 11 | 6,675 | 106 | – | – | – | – |
| Deferred tax liabilities | 7 | 48,290 | – | – | 57,031 | – | – |
| Provisions | 19 | 5,498 | – | – | 4,864 | – | – |
| Other non-current liabilities—Group entities | | – | – | 34,151 | – | – | 34,151 |
| Total non-current liabilities | | 299,724 | 60,422 | 34,151 | 250,998 | – | 34,151 |
| Total liabilities | | 346,833 | 60,945 | 36,461 | 383,254 | 96,290 | 34,764 |
| Net assets | | 66,554 | 108,355 | 16,384 | 94,916 | 108,860 | 21,943 |
| Equity | | | | | | | |
| Contributed equity | 20 | 171,250 | 137,167 | 34,083 | 171,250 | 137,167 | 34,083 |
| Reserves | 21 | (8,411) | – | – | 397 | 300 | – |
| Retained earnings/(loss) | | (96,285) | (28,812) | (17,699) | (76,731) | (28,607) | (12,140) |
| Total equity | | 66,554 | 108,355 | 16,384 | 94,916 | 108,860 | 21,943 |
| Attributable to: | | | | | | | |
| Unitholders of VCET II | | (41,801) | – | – | (13,944) | – | – |
| Minority interests | | 108,355 | – | – | 108,860 | – | – |
| Total | | 66,554 | – | – | 94,916 | – | – |

The accompanying notes form part of the financial statements.

Statement of changes in equity for the year ended 30 June 2009

| | Contributed equity \$'000 | Retained profits \$'000 | Cash flow hedge reserve \$'000 | Foreign currency translation reserve \$'000 | Total \$'000 |
|--|---------------------------------|-------------------------------|--------------------------------------|---|-----------------|
| Consolidated a) | | | | | |
| Balance as at 30 June 2007 | 166,936 | (37,713) | 7,945 | (2,951) | 134,217 |
| Fair value of cash flow hedges movement for the period (net of tax) | - | - | (2,554) | - | (2,554) |
| Currency translation differences | - | - | - | (2,043) | (2,043) |
| Net income/(expense) recognised directly in equity | - | - | (2,554) | (2,043) | (4,597) |
| Net profit/(loss) after tax | - | (20,153) | - | - | (20,153) |
| Total recognised income and expense for the period | - | (20,153) | (2,554) | (2,043) | (24,750) |
| Issue of capital | 4,314 | - | - | - | 4,314 |
| Distribution paid and declared | - | (18,865) | - | - | (18,865) |
| Balance as at 30 June 2008 | 171,250 | (76,731) | 5,391 | (4,994) | 94,916 |
| Fair value of cash flow hedges movement for the period (net of tax) | - | - | (11,956) | - | (11,957) |
| Currency translation differences | - | - | - | 3,148 | 3,148 |
| Net income/(expense) recognised directly in equity | - | - | (11,956) | 3,148 | (8,808) |
| Net profit/(loss) after tax | - | (13,517) | - | - | (13,517) |
| Total recognised income and expense for the period | - | (13,517) | (11,956) | 3,148 | (22,325) |
| Distribution paid and declared | - | (6,037) | - | - | (6,037) |
| Balance as at 30 June 2009 | 171,250 | (96,285) | (6,565) | (1,846) | 66,554 |
| VCET I | | | | | |
| Balance as at 30 June 2007 | 133,549 | (16,463) | - | - | 117,086 |
| Fair value of cash flow hedges movement for the period (net of tax) | - | - | 300 | - | 300 |
| Net income/(expense) recognised directly in equity | - | - | 300 | - | 300 |
| Net profit/(loss) after tax | - | 6,721 | - | - | 6,721 |
| Total recognised income and expense for the period | - | 6,721 | 300 | - | 7,021 |
| Issued capital | 3,618 | - | - | - | 3,618 |
| Distribution paid and declared | - | (18,865) | - | - | (18,865) |
| Balance as at 30 June 2008 | 137,167 | (28,607) | 300 | - | 108,860 |
| Fair value of cash flow hedges movement for the period (net of tax) | - | - | (300) | - | (300) |
| Net income/(expense) recognised directly in equity | - | - | (300) | - | (300) |
| Net profit/(loss) after tax | - | 5,832 | - | - | 5,832 |
| Total recognised income and expense for the period | - | 5,832 | (300) | - | 5,532 |
| Distribution paid and declared | - | (6,037) | - | - | (6,037) |
| Balance as at 30 June 2009 | 137,167 | (28,812) | - | - | 108,355 |



Statement of changes in equity **continued**

| | Contributed equity \$'000 | Retained profits \$'000 | Cash flow hedge reserve \$'000 | Foreign currency translation reserve \$'000 | Total \$'000 |
|---|---------------------------------|-------------------------------|--------------------------------------|---|-----------------|
| VCET II | | | | | |
| Balance as at 30 June 2007 | 33,387 | (10,019) | – | – | 23,368 |
| Net profit/(loss) after tax | – | (2,121) | – | – | (2,121) |
| Total recognised income and expense for the period | – | (2,121) | – | – | (2,121) |
| Issued capital | 696 | – | – | – | 696 |
| Balance as at 30 June 2008 | 34,083 | (12,140) | – | – | 21,943 |
| Net profit/(loss) after tax | – | (5,559) | – | – | (5,559) |
| Total recognised income and expense for the period | – | (5,559) | – | – | (5,559) |
| Balance as at 30 June 2009 | 34,083 | (17,699) | – | – | 16,384 |

a) VCET II is identified as the parent entity of the consolidated group. The balances and movements disclosed above for VCET I represent the minority interest.

The accompanying notes form part of the financial statements.

Cash flow statements for the year ended 30 June 2009

| | VCEG 1 July 2008 –30 June 2009 \$'000 | VCET I 1 July 2008 –30 June 2009 \$'000 | VCET II 1 July 2008 –30 June 2009 \$'000 | VCEG 1 July 2007 –30 June 2008 \$'000 | VCET I 1 July 2007 –30 June 2008 \$'000 | VCET II 1 July 2007 –30 June 2008 \$'000 |
|---|--|--|---|--|--|---|
| Cash flows from operating activities | | | | | | |
| Receipts from customers | 94,828 | – | – | 91,803 | – | – |
| Payments to suppliers | (55,754) | 2,565 | (2,568) | (53,187) | (2,039) | (2,541) |
| Interest received | 3,265 | 16,383 | 42 | 3,458 | 17,483 | 122 |
| Interest paid | (21,414) | (8,720) | – | (21,817) | (8,162) | – |
| Dividends received from equity accounted investment | 3,757 | – | – | 2,093 | – | – |
| Finance costs paid | (2,321) | (2,132) | – | (526) | (177) | – |
| Income tax received/(paid) | (271) | – | – | 726 | – | – |
| Net cash flows from operating activities | 22,090 | 8,096 | (2,526) | 22,550 | 7,105 | (2,419) |
| Cash flows from investing activities | | | | | | |
| Purchase of property, plant and equipment | (4,296) | – | – | (4,120) | – | – |
| Loans to related parties | (2,640) | (1,488) | (10,375) | – | – | (5,145) |
| Repayment of loans—related parties | 21,596 | 27,984 | 9,733 | – | 3,681 | 7,704 |
| Purchase of other non-current assets | (15) | – | – | (12) | – | – |
| Net cash flows from investing activities | 14,645 | 26,496 | (642) | (4,132) | 3,681 | 2,559 |
| Cash flows from financing activities | | | | | | |
| Proceeds from borrowings from external parties | 86,920 | 85,307 | – | – | – | – |
| Proceeds from borrowings from related parties | – | 6,309 | 1,488 | – | 5,133 | – |
| Repayment of borrowings from external parties | (121,076) | (107,317) | – | (13,168) | – | – |
| Repayment of borrowings from related parties | – | (9,732) | – | – | (3,636) | (24) |
| Distributions paid by VCET I | (14,856) | (14,856) | – | (13,820) | (13,820) | – |
| Net cash flow from financing activities | (49,012) | (40,289) | 1,488 | (26,988) | (12,323) | (24) |
| Net increase/(decrease) in cash assets held | (12,277) | (5,697) | (1,680) | (8,570) | (1,537) | 116 |
| Cash at the beginning of the period | 33,230 | 7,140 | 1,788 | 44,172 | 8,677 | 1,672 |
| Effects of exchange rate changes on cash and cash equivalents | 83 | – | – | (2,372) | – | – |
| Cash at the end of the period—Note 9. | 21,036 | 1,443 | 108 | 33,230 | 7,140 | 1,788 |

The accompanying notes form part of the financial statements.



1.

Summary of significant accounting policies

The financial report for the Viridis Clean Energy Group ("VCEG") for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors of the responsible entity on 28 August 2009.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

A. Incorporation

VCEG consists of two stapled Australian registered managed investment schemes, Viridis Clean Energy Trust I ("VCET I") and Viridis Clean Energy Trust II ("VCET II"). VCET I and VCET II were established on 15 July 2005 and 19 January 2004 respectively as unit trusts and were subsequently registered as managed investment schemes under the *Corporations Act 2001* on 1 August 2005.

Viridis Investment Management Limited ("VIML") is the responsible entity for both VCET I and VCET II. The responsible entity has an experienced board currently consisting of four directors, two of whom are independent of Viridis Energy Capital Pty Limited ("the manager") and the Investec Group. One of the independent directors is the chairman. The remaining two directors are also directors of the manager. The independent chairman has a casting vote. On 19 August 2009 the securityholders of VCEG approved the acquisition of all of the shares of the manager Viridis Energy Capital Pty Limited ("VEC"), which is the ultimate parent entity of the responsible entity. The consideration payable to the owners of VEC, including the Investec Group, was \$2.76 million, which was used to subscribe for 12 million stapled securities at an issue price of \$0.23 per stapled security.

B. Constitution

VCET I was established under a constitution dated 15 July 2005. VCET II was established under a constitution dated 19 January 2004.

C. Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Equivalents to International Financial Reporting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the Urgent Issues Group (UIG). The financial report has been prepared on a historical cost and accrual basis, except for derivative financial instruments, which have been measured at fair value.

D. Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS). The financial statements and notes of VCET I and VCET II also comply with IFRS.

A summary of the significant accounting policies of VCEG under AIFRS are disclosed within Note 1.

Standards, interpretations and amendments to be published that are not yet effective.

Certain new and amended accounting standards and UIG interpretations have been published that are not mandatory for VCEG for the 30 June 2009 accounting period. VCEG's assessment of the impact of these new standards and interpretations is set out below.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are applicable to annual reporting periods beginning on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a management approach to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. VCEG will adopt AASB 8 in the annual reporting period beginning 1 July 2009. AASB 8 may result in different

segments, segment results and different types of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

- Revised AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123

The revised AASB 123 is applicable to annual reporting periods beginning on or after 1 January 2009. It has removed the option to expense all borrowing costs and—when adopted—will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. This is consistent with the current group accounting policy therefore no impact on the financial statements is expected.

- Revised AASB 101: Presentation of Financial Statements

A revised AASB 101 was issued in September 2007 and is applicable to annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior-period adjustment or a reclassification of items in the financial statements, it will also need to disclose a third balance sheet, this one being as at the beginning of the comparative period.

- Revised AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements and AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127

Revised accounting standards for business combinations and consolidated financial statements were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009 but may be applied earlier. The Group will adopt the revised standards in the annual reporting period beginning 1 July 2009. The new rules generally apply only prospectively to transactions that occur after the application date of the standard.

Summary of significant accounting policies **continued**

Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application.

- AASB 2008–7: Amendments to Australian Accounting Standards—Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements. The new rules will apply to financial reporting periods beginning on or after 1 January 2009. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

Standards, interpretations and amendments that became effective this year

- No standards, interpretations or amendments became effective this year that are material to VCEG.

E. Stapled securities

The units of VCET I and VCET II are combined and issued as stapled units in VCEG. The units in each of the trusts cannot be traded separately and can only be traded as stapled securities. The purpose of stapling the securities was to facilitate the initial public offering of the securities of Viridis Clean Energy Group on the Australian Stock Exchange. VCEG financial statements consist of the consolidated financial statements of VCET II and its wholly owned subsidiaries and VCET I.

The financial statements have been prepared in accordance with Australian Securities and Investment Commission (ASIC) Class Order 05/642 which allows issuers of stapled securities to include their financial statements in columns adjacent to the consolidated financial statements of the stapled group in one financial report. Consequently, this financial report presents the consolidated financial statements of the stapled group (VCEG) and the financial statements of VCET I and VCET II in adjacent columns.

F. AASB Interpretation 1002 “Post-Date-of-Transition Stapling Arrangements”

The stapling arrangement between VCET I and VCET II was effected after the date of transition to AIFRS. Therefore AASB Interpretation 1002 has been applied in the preparation of VCEG financial statements. In accordance with this interpretation, for the purpose of preparing consolidated financial statements that combine the assets and liabilities of the stapled entities, VCET II is identified as the parent entity of the consolidated group comprising VCET I, VCET II and the entities they control. The results of VCET I are included as minority interest in the consolidated financial statements.

G. Comparative information

Where required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

H. Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of the entities controlled by VCEG, being Viridis Clean Energy Group and its wholly owned subsidiaries as at 30 June 2009, and combine the assets and liabilities of VCET I and VCET II. These entities are referred to in the financial report as VCEG. The effects of all transactions between entities in VCEG are eliminated in full. Shares in subsidiaries are accounted for at cost.

Subsidiaries are all those entities over which VCEG has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether VCEG controls another entity.

Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control begins. Where control of an entity ceases during a financial year, its results are included for that part of the period during which control existed.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

The results of VCET I are included as minority interest in the consolidated financial statements.

I. Segment reporting

A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment and are subject to risks and returns that are different from those segments operating in other economic environments. A business segment is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

J. Revenue and expense recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to VCEG and the income can be reliably measured. Amounts disclosed as income are net of returns, trade allowances and duties and taxes paid. The following specific recognition criteria must also be met before income and expenses are recognised.

Operating revenue

Operating revenue is recognised when the electricity is produced. Revenue in respect of sales contracts deemed to be operating leases, in line with UIG 4: Determining Whether an Arrangement Contains a Lease, is recognised when electricity is produced.



Summary of significant accounting policies **continued**

Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Interest expense

Interest expense represents interest payable on borrowings and is recognised as it accrues, using the effective interest method.

Financing costs

Loan arrangement and other fees incurred on the issuance of debt are amortised over the lower of the term of the loans to which they relate and the expected period of benefit, based on the effective interest method. Other finance costs are recognised as an expense when incurred.

Fund management and other expenses

Fund management and other expenses are brought to account on an accrual basis. The responsible entity is entitled under the constitutions to be reimbursed for certain expenses incurred in administering VCEG. The basis on which the expenses are reimbursed is defined in VCEG's constitutions. Refer to Note 22. Related party disclosures.

K. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash includes cash and cash equivalents as defined above.

L. Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the receivables are derecognised or impaired, as well as through the amortisation process.

Trade and other receivables, which generally have 30-day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that VCEG will not be able to collect the debts. Bad debts are written off when identified.

Non-interest bearing loans are treated as part of the investment in the borrowing entity. The loans have been provided as a source of long-term capital and do not have fixed repayment terms.

M. Inventories

Stores are stated at the lower of cost and net realisable value. Costs are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

N. Investments in associates

Associates are all entities over which VCEG has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting after initially being recognised at cost. VCEG's investment in associates includes intangible assets (net of amortisation) identified on acquisition (refer to Note 13. Investments in associates).

Significant influence exists where an investor has the power to participate in the financial and operating policy decisions of the investees but does not have control over those policies.

O. Property, plant and equipment

Plant and equipment are carried at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to VCEG and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their remaining expected useful lives, as follows:

| | |
|---------------------|---------------|
| Landfill gas assets | 5 to 20 years |
| Wind farm assets | 20 years |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to Note 1 Q. Impairment of assets).

P. Business combinations

The purchase method of accounting is used for all business combinations, regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities (including contingent liabilities) assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of VCEG's share of the identifiable net assets (including intangible assets) acquired is recorded as goodwill. Goodwill is not amortised. Instead, goodwill is tested for impairment annually (or more frequently if events or changes in circumstances indicate that it might be impaired) and is carried at cost less accumulated impairment losses.

Summary of significant accounting policies **continued**

Q. Impairment of assets

At each reporting date, VCEG assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, VCEG makes a formal estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value

of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in those expense categories consistent with the type of impaired asset.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or groups of assets (cash generating units).

Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

R. Intangible assets

Identifiable intangible assets acquired separately are capitalised at cost and for business combination purposes are capitalised at fair value as at the date of acquisition, which is the asset cost.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "amortisation of intangibles" line item.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The policies applied to VCEG's intangible assets are summarised as follows:

| | Contracts—Fuel | Contracts—Power Purchase |
|-------------------------------|--|--|
| Useful life | Finite | Finite |
| Amortisation method used | <ul style="list-style-type: none"> • Lesser of term of site agreements or life of fuel resource • Straight line over 6 to 20 years | <ul style="list-style-type: none"> • Remaining term of power purchase agreement • Straight line over up to 20 years |
| Acquired/Internally generated | Acquired | Acquired |
| Impairment test | <ul style="list-style-type: none"> • Amortisation method reviewed at each financial year end • Reviewed annually for impairment indicators | <ul style="list-style-type: none"> • Amortisation method reviewed at each financial year end • Reviewed annually for impairment indicators |



Summary of significant accounting policies **continued**

S. Trade and other payables

Trade and other payables are carried at fair value and represent liabilities for goods and services provided to VCEG before the end of the period that are unpaid and arise when VCEG becomes obliged to make future payments in respect of the purchase of these goods and services.

T. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value being the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

U. Provisions

Provisions are recognised when VCEG has a present obligation (legal or constructive) as a result of a past event when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation.

Decommissioning provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as a finance cost.

Distribution provision

Provisions for distributions are recognised when declared by the responsible entity of VCEG.

V. Deferred income

Deferred income represents prepaid contracts made with customers. Income is brought to account over the period of the contracts.

W. Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of VCEG's subsidiary entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is VCET II's functional and presentation currency. Exchange differences arising from intra-group monetary items are recognised in the income statement.

Transactions

Foreign currency transactions are initially translated at the rate of exchange at the date of the transaction. At balance sheet date amounts payable and receivable in foreign currencies are translated at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year except when hedging specific forecast transactions. Also refer to Note 1 DD.

Translation of financial statements of foreign operations

The results and financial position of all VCEG's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the reporting date.
- Income and expenses are translated at average exchange rates for the month.
- All other exchange differences are recognised in the foreign currency translation reserve.

X. Contributed equity

Stapled units in VCEG are classified as contributed equity.

Costs directly attributable to the issue of new units are shown in equity as a deduction from the proceeds.

Y. Distributions

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the responsible entity, on or before the end of the financial year but not distributed at balance sheet date.

Z. Earnings per unit

i. Basic earnings per unit

Basic earnings per unit are calculated by dividing the profit attributable to unit holders of VCET II by the weighted average number of units outstanding during the financial year.

ii. Diluted earnings per unit

Diluted earnings per unit adjusts the figures used in the determination of the basic earnings per unit to take into account the after income tax effect of interest and other financing costs associated with dilutive potential units and the weighted average number of units assumed to have been issued for no consideration in relation to dilutive potential units.

AA. Income tax

VCET I

Under current legislation, VCET I is not subject to income tax provided the unit holders are presently entitled to the income.

VCEG

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Summary of significant accounting policies **continued**

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses, can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

Income taxes relating to items recognised directly in reserves are recognised in reserves and not in the income statement.

BB. Other taxes

Goods and Services Tax (GST) and Value Added Tax (VAT)

Income, expenses and assets are recognised net of the amount of GST/VAT (where applicable) except:

- where the GST/VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST/VAT included.

The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST/VAT component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the taxation authority.

CC. Financial instruments issued by VCEG

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Any transaction costs arising on the issue of such financial instruments are recognised as a reduction of the proceeds received.

DD. Derivative financial instruments

VCEG uses derivative financial instruments such as interest rate swaps and forward foreign currency contracts to economically hedge its exposure to interest rate risks and foreign exchange risks arising from operational, financing and investment activities. VCEG does not speculatively trade in derivative financial instruments. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The fair value of interest rate swaps and forward foreign currency contracts is determined by reference to the fair value as advised by the counterparty to the contract, which has been verified by management against observable market-based data, based on applying a discounted cash flow analysis.

Derivative financial instruments are initially recognised at their fair value on the date when a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

VCEG documents, at the inception of a hedging transaction, the relationship between the hedging instrument and the hedged item as well as the risk management objective and strategy for undertaking various hedge transactions. VCEG also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within interest expense.



Summary of significant accounting policies **continued**

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The forward foreign currency contracts have not been designated as cash flow hedges and do not qualify for hedge accounting. Changes in the fair value of the forward foreign currency contracts are recognised immediately in the income statement.

The fair value of various derivative financial instruments is disclosed in Note 11. Derivative financial instruments. Movements in the hedging reserve are shown in Note 21. Reserves.

EE. Operating leases

VCEG has various contracts which are categorised as leases under UIG 4: Determining Whether an Arrangement Contains a Lease. However, the amounts under the leases are dependent on future production volumes, and it is therefore not feasible to quantify these amounts for disclosure purposes.

FF. Rounding

VCEG is an entity to which ASIC Class Order 98/0100 applies. In accordance with the option available under this class order, the amounts contained in the financial report have been rounded to the nearest thousand dollars where rounding is applicable.

2.

Critical accounting estimates and judgements

The preparation of the financial report in accordance with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in the preparation of the financial report are reasonable. Actual results in future periods may differ from those reported.

The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation assessments (impairment)

Management has performed asset impairment tests on all VCEG's assets.

Management valued the assets based on the fair value less costs to sell and concluded that it was not appropriate to record an impairment, except in respect of VCEG's Californian operations. In reaching this conclusion management calculated values using a number of critical inputs including discount rate, production levels and power prices based on information available in the market place and reports from external experts. With the exception of the Californian operations all VCEG's assets demonstrated surpluses in excess of carrying value.

The directors of the responsible entity of VCEG have decided to write down the carrying value of the California landfill gas portfolio to zero. This reflects revenue uncertainty at the 8 MW Penrose project due to the gas supplier's refusal to deliver gas, ongoing weakness in wholesale power prices and an increase in the market-based discount rates to be applied in valuing assets of this kind. The total charge of \$8.301 million is included as the separate line item 'Impairment of non-current assets' in the income statement, with the analysis of asset class and segment disclosed in 'other segment information' within Note 4. Segment information.

Decommissioning provisions

Decommissioning provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

ROC recycling

The pricing mechanism for electricity in VCEG's portfolio of landfill gas assets in the United Kingdom revenues is complex and includes a number of components. One of these components, relating to renewables obligation certificates is based on the year to 31 March but is only finalised and settled in the October/November following the end of that year. Whereas this component was included within the total contracted pricing for the contract periods from 1 April 2007 to 31 March 2009, from 1 April 2009 this component has been excluded from the contracts and management has used its experience in the market to estimate the future price and therefore the benefit for the period to 30 June 2009. Refer Note 6. Changes in accounting estimates.

3.

Financial risk management

VCEG's activities expose it to a variety of risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. VCEG's overall risk management program seeks to minimise potential adverse effects on the financial performance of VCEG.

VCEG enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- forward exchange contracts to manage the foreign currency risk associated with acquisitions of businesses that are denominated in foreign currencies.

- forward exchange contracts to manage the foreign currency risk associated with anticipated distributions including intercompany loan principal and interest payments, denominated in foreign currencies from subsidiaries and associates.

- interest rate swaps and fixed rate loans to mitigate the risk of rising interest rates.

VCEG does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Risk management is carried out by the manager under policies approved by the board of directors of the responsible entity. Management identifies, evaluates and economically hedges financial risks in line with its risk management policy.

The board provides written principles for overall risk management, as well as written policies covering specific areas, such as mitigating foreign exchange and interest rate risks and use of derivative financial instruments.

Details of the significant accounting policies and methods adopted—including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised—in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1. Summary of significant accounting policies.

The financial instruments held by VCEG, VCET I and VCET II are as follows.

| | VCEG 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2009 \$'000 | VCEG I 30 June 2008 \$'000 | VCET II 30 June 2009 \$'000 | VCET II 30 June 2008 \$'000 |
|------------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|
| Financial assets | | | | | | |
| Cash and cash equivalents | 11,974 | 24,448 | 1,443 | 7,140 | 108 | 1,788 |
| Trade and other receivables | 14,544 | 14,706 | 3,972 | 5,376 | 107 | 3,531 |
| Restricted deposits | 9,062 | 8,782 | — | — | — | — |
| Other financial assets | — | 18,962 | — | — | — | — |
| Prepaid expenses | 6,148 | 4,429 | 61 | 64 | 38 | 17 |
| Foreign currency forward contracts | 5,370 | 8,856 | 4,377 | 5,070 | 993 | 3,786 |
| Interest rate swaps | — | 7,003 | — | 300 | — | — |
| | 47,098 | 87,186 | 9,853 | 17,950 | 1,246 | 9,122 |
| Financial liabilities | | | | | | |
| Trade and other payables | 22,786 | 28,942 | 520 | 13,231 | 2,310 | 613 |
| Bank loans | 263,135 | 292,249 | 60,316 | 83,059 | — | — |
| Foreign currency forward contracts | 109 | — | 109 | — | — | — |
| Interest rate swaps | 7,015 | — | — | — | — | — |
| | 293,045 | 321,191 | 61,945 | 96,290 | 2,310 | 613 |

The sensitivity of these balances to movements in the underlying risk factors is quantified in the tables in the "Summarised sensitivity analysis" section below.



3. Financial risk management **continued**

A. Market risk

i. Currency risk

VCEG undertakes certain transactions denominated in foreign currencies and is exposed to fluctuations in exchange rates. The Group enters into forward currency exchange contracts and other arrangements to economically hedge the rate at which foreign currency distributions are converted into Australian dollars, for periods up to seven years. These forward foreign currency exchange contracts are economic hedges but are not designated as hedges and do not satisfy the requirements for hedge accounting. The contracts are subject to the same risk management policies as all other derivative contracts; however they must be accounted for as held for trading.

Under certain circumstances, VCEG may also hedge its foreign currency capital commitments; for example when it has entered into a binding commitment to purchase an asset but not completed the acquisition.

The following table details the forward foreign currency contracts outstanding as at the balance sheet date:

| Outstanding contacts | Average exchange rate | | Foreign currency | | Contract value | | VCEG | | | Fair value | | |
|------------------------|-----------------------|--------|------------------|----------------|----------------|----------------|----------------|--------------------------|---------------------------|----------------|--------------------------|---------------------------|
| | 2009 | 2008 | 2009 FC'000 | 2008 FC'000 | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | VCET I 2009 \$'000 | VCET II 2009 \$'000 | 2008 \$'000 | VCET I 2008 \$'000 | VCET II 2008 \$'000 |
| Sell Euros | | | | | | | | | | | | |
| Less than 12 months | 0.5519 | 0.5638 | 2,079 | 2,000 | 3,767 | 3,547 | 127 | (3) | 130 | 232 | 49 | 183 |
| 1 year to 2 years | 0.5627 | 0.5519 | 1,657 | 2,079 | 2,945 | 3,767 | (24) | (24) | – | 209 | 40 | 168 |
| 2 years to 3 years | 0.5849 | 0.5627 | 1,585 | 1,657 | 2,887 | 2,945 | (29) | (29) | – | 41 | 41 | – |
| 3 years to 4 years | 0.5356 | 0.5489 | 1,477 | 1,585 | 2,758 | 2,887 | (39) | (39) | – | 34 | 34 | – |
| 4 years to 5 years | 0.5174 | 0.5356 | 1,023 | 1,477 | 1,977 | 2,758 | (14) | (14) | – | 30 | 30 | – |
| 5 years + | – | 0.5174 | – | 1,023 | – | 1,977 | – | – | – | 40 | 40 | – |
| Sell GB Pounds | | | | | | | | | | | | |
| Less than 12 months | 0.4000 | 0.4022 | 3,488 | 3,529 | 8,721 | 8,776 | 1,445 | 1,344 | 101 | 1,355 | 922 | 433 |
| 1 year to 2 years | 0.3971 | 0.4000 | 3,388 | 3,868 | 8,533 | 9,671 | 1,303 | 1,303 | – | 1,299 | 1,073 | 227 |
| 2 years to 3 years | 0.3948 | 0.3971 | 3,351 | 3,388 | 8,487 | 8,532 | 1,137 | 1,137 | – | 997 | 997 | – |
| 3 years to 4 years | 0.3931 | 0.3948 | 1,345 | 3,351 | 3,423 | 8,488 | 407 | 407 | – | 862 | 862 | – |
| 4 years to 5 years | – | 0.3931 | – | 1,345 | – | 3,423 | – | – | – | 307 | 307 | – |
| Sell US Dollars | | | | | | | | | | | | |
| Less than 12 months | 0.7358 | 0.7416 | 3,931 | 4,823 | 5,343 | 6,504 | 455 | 80 | 375 | 1,384 | 188 | 1,196 |
| 1 year to 2 years | 0.7296 | 0.7358 | 4,862 | 4,306 | 6,664 | 5,853 | 452 | 65 | 387 | 996 | 186 | 810 |
| 2 years to 3 years | 0.7379 | 0.7296 | 954 | 4,862 | 1,293 | 6,664 | 41 | 41 | – | 934 | 165 | 769 |
| 3 years to 4 years | – | 0.7379 | – | 954 | – | 1,294 | – | – | – | 136 | 136 | – |
| | | | | | | 77,086 | 5,261 | 4,268 | 993 | 8,856 | 5,070 | 3,786 |

The unrealised gains/(losses) in relation to the above contracts have been recognised in the income statement as these contracts do not satisfy the requirements for hedge accounting.

The international operations of VCEG trade in the local currency of their operation, which is their functional currency; therefore they are not exposed to any material exchange risk as a result of their operations. However, some subsidiaries have non-local currency loans with other VCEG companies that give rise to foreign exchange gains and losses in the income statement, both locally and at a VCEG level. Also, on consolidation VCEG accounts for the foreign currency exchange movements on translation of the results and net assets of its operations through the foreign currency reserve. The following table shows the Group's main exposures to foreign currency risk of these types as at the balance sheet date.

| VCEG | 2009 | 2008 |
|---|---------|---------|
| Non-local currency loans | | |
| Australian dollar loans to US dollar functional currency entities—A\$'000 | 25,811 | 31,068 |
| Australian dollar loans to Euro functional currency entities—A\$'000 | 99,139 | 121,865 |
| Pounds sterling loans from Euro functional currency entities—GBP'000 | 31,207 | 40,349 |
| Net assets/(liabilities) of non-Australian dollar functional currency entities | | |
| Pounds sterling—GBP'000 | (5,519) | 4,490 |
| Euro—EUR'000 | (1,598) | 25 |
| US Dollar—USD'000 | 4,422 | 5,768 |

3. Financial risk management **continued**

ii. Interest rate risk

VCEG is exposed to adverse interest rate movements where funds are borrowed at a floating interest rate or the Group has not implemented hedging arrangements (for example, working capital facilities). VCEG's interest rate risk arises from term borrowings at variable interest rates. Borrowings made at variable rates expose the Group to cash flow interest rate risk. VCEG currently uses interest rate swaps and fixed rate loans to manage exposure to adverse interest rate movements. While VCEG intends to hedge interest rate exposures on its term facilities, any interest rate hedging has a limited term and there is no guarantee that future hedging arrangements will achieve the desired outcome.

VCEG is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings and by the use of interest rate swap contracts.

As at the reporting date VCET II had no variable rate borrowings or interest rate swap contracts outstanding. VCEG and VCET I had the following variable rate borrowings and interest rate swap contracts outstanding.

| | 30 June 2009 | | 30 June 2008 | |
|---|-----------------------------------|----------------|-----------------------------------|----------------|
| | Weighted average interest rate* % | Balance \$'000 | Weighted average interest rate* % | Balance \$'000 |
| VCEG | | | | |
| Bank loans | 2.40 | 196,865 | 6.30 | 225,074 |
| Interest rate swaps (notional principal amount) | 4.71 | (125,518) | 4.70 | (216,239) |
| Net exposure to cash flow interest rate risk | | 71,347 | | 8,835 |
| VCET I | | | | |
| Bank loans | 3.18 | 61,591 | 7.89 | 83,600 |
| Interest rate swaps (notional principal amount) | n/a | – | 7.58 | (83,600) |
| Net exposure to cash flow interest rate risk | | 61,591 | | – |

* Excludes margin

An analysis by maturities is provided in C below.

Interest rate swap contracts

Under interest rate swap contracts, VCEG agrees to exchange the differences between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable VCEG to mitigate the risk of changing interest rates on debt held. The fair values of interest rate swaps are based on market values of equivalent instruments at the balance sheet date and are disclosed below. VCEG has adopted hedge accounting for interest rate swaps. Any unrealised gains or losses are recognised in equity.



3. Financial risk management **continued**

The following tables detail the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the balance sheet date of VCEG. The BBSY contracts that expired in May 2009 were the only interest rate swaps contracted by VCET I, and VCET II does not have any contracts.

| VCET I and VCEG Outstanding floating (BBSY) for fixed contracts maturity date | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|--|-----------|---------------------------|----------------|----------------|----------------|
| | 2009 % | 2008 % | 2009 \$'000 | 2008 \$'000 | 2009 \$'000 | 2008 \$'000 |
| Less than 12 months | n/a | 7.58 | – | 83,600 | – | 300 |
| | | | – | 83,600 | – | 300 |

| VCEG Outstanding floating (EURIBOR) for fixed contracts maturity date | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|--|-----------|---------------------------|---------------|---------------|---------------|
| | 2009 % | 2008 % | 2009 €'000 | 2008 €'000 | 2009 €'000 | 2008 €'000 |
| Less than 12 months | 3.70 | 3.70 | 1,242 | 1,215 | (41) | 70 |
| 1 year to 2 years | 3.70 | 3.70 | 1,273 | 1,242 | (42) | 71 |
| 2 years to 3 years | 3.70 | 3.70 | 1,304 | 1,273 | (43) | 73 |
| 3 years to 4 years | 3.70 | 3.70 | 1,338 | 1,304 | (44) | 75 |
| 4 years to 5 years | 3.70 | 3.70 | 1,375 | 1,338 | (45) | 77 |
| 5 years + | 3.70 | 3.70 | 5,677 | 7,052 | (185) | 404 |
| | | | 12,209 | 13,424 | (400) | 770 |

| VCEG Outstanding floating (LIBOR) for fixed contracts maturity date | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---|--|-----------|---------------------------|---------------|----------------|---------------|
| | 2009 % | 2008 % | 2009 £'000 | 2008 £'000 | 2009 £'000 | 2008 £'000 |
| Less than 12 months | 4.90 | 4.90 | 3,008 | 2,540 | (182) | 125 |
| 1 year to 2 years | 4.90 | 4.90 | 2,915 | 3,008 | (177) | 148 |
| 2 years to 3 years | 4.90 | 4.90 | 3,594 | 2,915 | (218) | 143 |
| 3 years to 4 years | 4.90 | 4.90 | 3,331 | 3,594 | (202) | 177 |
| 4 years to 5 years | 4.90 | 4.90 | 3,483 | 3,331 | (211) | 164 |
| 5 years + | 4.90 | 4.90 | 34,449 | 37,932 | (2,088) | 1,865 |
| | | | 50,780 | 53,320 | (3,078) | 2,622 |

The following table details the notional principal amounts and remaining terms of fixed interest rate loans outstanding as at the balance sheet date.

| | Average contracted fixed interest rate | | Notional principal amount | | Fair value | |
|---------------------|--|-----------|---------------------------|---------------|----------------|---------------|
| | 2009 % | 2008 % | 2009 €'000 | 2008 €'000 | 2009 €'000 | 2008 €'000 |
| Less than 12 months | 3.70 | 3.69 | 3,673 | 3,189 | (104) | 160 |
| 1 year to 2 years | 3.71 | 3.70 | 3,752 | 3,673 | (107) | 163 |
| 2 years to 3 years | 3.72 | 3.71 | 3,835 | 3,752 | (110) | 166 |
| 3 years to 4 years | 3.73 | 3.72 | 3,922 | 3,835 | (114) | 169 |
| 4 years to 5 years | 3.74 | 3.73 | 4,014 | 3,922 | (117) | 173 |
| 5 years + | 3.70 | 3.70 | 20,266 | 24,280 | (580) | 987 |
| | | | 39,462 | 42,651 | (1,132) | 1,818 |

iii. Price risk

While VCEG has entered into contracts to sell energy output, these contracts differ in their duration. When these contracts expire, VCEG will be exposed to future market prices and will implement alternative sales arrangements based on market conditions at the time.

3. Financial risk management **continued**

Summarised sensitivity analysis

The following tables summarise the sensitivity to currency risk and interest rate risk of the financial assets and liabilities of VCEG, VCET I and VCET II. Management considers sensitivities of 10% for currency risk and 1% for interest rate risk to be reasonable for the purposes of this analysis; however, fluctuations may be lesser or greater than this in any given year.

| | Carrying amount \$'000 | VCEG -10% Profit \$'000 | +10% Profit \$'000 | Carrying amount \$'000 | VCET I -10% Profit \$'000 | +10% Profit \$'000 | Carrying amount \$'000 | VCET II -10% Profit \$'000 | +10% Profit \$'000 |
|--|------------------------------|----------------------------------|--------------------------|------------------------------|------------------------------------|--------------------------|------------------------------|-------------------------------------|--------------------------|
| Currency risk | | | | | | | | | |
| 30 June 2009 | | | | | | | | | |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 11,974 | 1,157 | (947) | 1,443 | - | - | 108 | - | - |
| Trade and other receivables | 14,544 | 1,615 | (1,322) | 3,972 | - | - | 107 | - | - |
| Restricted deposits | 9,062 | 1,007 | (824) | - | - | - | - | - | - |
| Foreign currency forward contracts | 5,370 | (4,067) | 3,327 | 4,377 | (2,864) | 2,343 | 993 | (1,203) | 984 |
| Financial liabilities | | | | | | | | | |
| Trade and other payables | (22,786) | (2,393) | 1,958 | (520) | - | - | (2,310) | - | - |
| Bank loans | (263,135) | (36,419) | 29,797 | (60,316) | - | - | - | - | - |
| Non-local currency inter-company loans | - | 20,441 | (16,724) | - | - | - | - | - | - |
| Foreign currency forward contracts | (109) | (1,231) | 1,007 | (109) | (1,231) | 1,007 | - | - | - |
| Interest rate swaps | (7,015) | (779) | 638 | - | - | - | - | - | - |
| Total increase/(decrease) | | (20,669) | 16,910 | | (4,095) | 3,350 | | (1,203) | 984 |
| 30 June 2008 | | | | | | | | | |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 24,448 | 1,725 | (1,412) | 7,140 | - | - | 1,788 | - | - |
| Trade and other receivables | 14,706 | 1,628 | (1,332) | 5,376 | - | - | 3,531 | - | - |
| Restricted deposits | 8,782 | 975 | (798) | - | - | - | - | - | - |
| Other financial assets | 18,962 | 1,899 | (1,899) | - | - | - | - | - | - |
| Foreign currency forward contracts | 8,856 | (6,351) | 5,196 | 5,070 | (4,356) | 3,564 | 3,786 | (1,995) | 1,632 |
| Interest rate swaps | 7,003 | 745 | (609) | 300 | - | - | - | - | - |
| Financial liabilities | | | | | | | | | |
| Trade and other payables | (28,942) | (2,120) | 1,735 | (13,231) | - | - | (613) | - | - |
| Bank loans | (292,249) | (23,500) | 19,227 | (83,059) | - | - | - | - | - |
| Non-local currency inter-company loans | - | 24,922 | (22,548) | - | - | - | - | - | - |
| Total increase/(decrease) | | (77) | (2,440) | | (4,356) | 3,564 | | (1,995) | 1,632 |



3. Financial risk management **continued**

| | Carrying amount \$'000 | VCEG | | | | VCET I | | | | |
|------------------------------------|------------------------------|-------------------------|------------------|-------------------------|------------------|------------------------------|------------------|------------------|------------------|------------------|
| | | -1% Profit \$'000 | Equity \$'000 | +1% Profit \$'000 | Equity \$'000 | Carrying amount \$'000 | Profit \$'000 | Equity \$'000 | Profit \$'000 | Equity \$'000 |
| Interest rate risk | | | | | | | | | | |
| 30 June 2009 | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Cash and cash equivalents | 11,974 | (120) | - | 120 | - | 1,443 | (14) | - | 14 | - |
| Trade and other receivables | 14,544 | - | - | - | - | 3,972 | (41) | - | 41 | - |
| Restricted deposits | 9,062 | (91) | - | 91 | - | - | - | - | - | - |
| Foreign currency forward contracts | 5,370 | - | - | - | - | 4,377 | - | - | - | - |
| Financial liabilities | | | | | | | | | | |
| Trade and other payables | (22,786) | - | - | - | - | (520) | - | - | - | - |
| Bank loans | (263,135) | 1,907 | - | (1,907) | - | (60,316) | 603 | - | (603) | - |
| Foreign currency forward contracts | (109) | - | - | - | - | (109) | - | - | - | - |
| Interest rate swaps | (7,015) | (1,215) | (6,531) | 1,215 | 6,531 | - | - | - | - | - |
| Total increase/(decrease) | | 481 | (6,531) | (481) | (6,531) | | 548 | - | (548) | - |
| 30 June 2008 | | | | | | | | | | |
| Financial assets | | | | | | | | | | |
| Cash and cash equivalents | 24,448 | (244) | - | 244 | - | 7,140 | (71) | - | 71 | - |
| Trade and other receivables | 14,706 | - | - | - | - | 5,376 | - | - | - | - |
| Restricted deposits | 8,782 | (88) | - | 88 | - | - | - | - | - | - |
| Other financial assets | 18,962 | - | - | - | - | - | - | - | - | - |
| Foreign currency forward contracts | 8,856 | - | - | - | - | 5,070 | - | - | - | - |
| Interest rate swaps | 7,003 | (2,195) | (7,277) | 2,195 | 6,864 | 300 | (836) | (836) | 836 | 836 |
| Financial liabilities | | | | | | | | | | |
| Trade and other payables | (28,942) | - | - | - | - | (13,231) | - | - | - | - |
| Bank loans | (292,249) | 2,274 | - | (2,274) | - | (83,059) | 836 | - | (836) | - |
| Total increase/(decrease) | | (253) | (7,277) | 253 | 6,864 | | (71) | (836) | 71 | 836 |

VCET II has no material interest rate risk.

B. Credit risk (counterparty and contractual)

The long-term financial performance of VCEG is partially dependent on the creditworthiness of counterparties to energy purchase arrangements, fuel supply and operations and maintenance contracts. Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to VCEG.

Trade and other receivables consist of a number of customers spread across diverse industries and geographical areas. Credit risk is actively managed by VCEG along the following lines

- Ongoing credit evaluation is performed on the financial condition of accounts receivable.
- The terms and conditions under which sales are made are documented.
- VCEG deals with creditworthy counterparties.
- The regions into which VCEG sells electricity are often supported by legislation and regulation.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents VCEG's maximum exposure to credit risk.

VCEG has no significant concentration of credit risk.

3. Financial risk management **continued**

C. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed credit facilities. VCEG manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Management aims at maintaining flexibility in funding by keeping committed credit lines available. During the reporting period VCEG refinanced the corporate debt facility through to July 2010. However VCEG considers that a further refinancing of the full amount at that time is unlikely to be achievable on satisfactory terms and conditions. VCEG therefore plans to retire the facility in advance of the maturity date. A range of options is being considered, including equity capital raisings and the potential sale of some or all of VCEG's European wind assets.

Financing arrangements

At the reporting date VCET I and VCET II did not have any undrawn facilities, while the Group as a whole had access to the following undrawn borrowing facilities.

| VCEG | 2009 \$'000 | 2008 \$'000 |
|---|----------------|----------------|
| Floating rate | | |
| – Expiring within one year (bank loans) | – | 2,575 |
| – Expiring beyond 5 years | 3,152 | 3,622 |
| | 3,152 | 6,197 |

Full details of the terms of these facilities are included in Note 18. Interest-bearing liabilities.

Maturity of financial liabilities

The tables below classify the financial liabilities and the net and gross settled derivative financial instruments of VCEG, VCET I and VCET II according to maturity groupings based on the period remaining from the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates at the reporting date.

| | Less than 6 months \$'000 | Between 6 and 12 months \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Total contractual cash flows \$'000 | Carrying amount (assets)/ liabilities \$'000 |
|--------------------------------------|------------------------------------|---|---------------------------------------|---------------------------------------|---------------------------|---|--|
| VCEG—At 30 June 2009 | | | | | | | |
| Non-derivatives | | | | | | | |
| Non-interest bearing | 22,786 | – | – | – | – | 22,786 | 22,786 |
| Variable rate | 24,395 | 14,594 | 77,548 | 47,314 | 93,886 | 257,737 | 194,486 |
| Fixed rate | 4,849 | 4,806 | 9,481 | 27,395 | 42,203 | 88,734 | 68,649 |
| Total non-derivatives | 52,030 | 19,400 | 87,029 | 74,709 | 136,089 | 369,257 | 285,921 |
| Derivatives | | | | | | | |
| Net settled derivatives | 224 | 226 | 450 | 1,627 | 5,124 | 7,651 | 7,015 |
| Gross settled | | | | | | | |
| – (inflow) | (8,283) | (9,541) | (18,141) | (20,827) | – | (56,792) | (5,261) |
| – outflow | 7,316 | 8,449 | 16,312 | 19,124 | – | 51,201 | – |
| Net gross settled derivatives | (967) | (1,092) | (1,829) | (1,703) | – | (5,591) | (5,261) |
| VCEG—At 30 June 2008 | | | | | | | |
| Non-derivatives | | | | | | | |
| Non-interest bearing | 28,942 | – | – | – | – | 28,942 | 28,942 |
| Variable rate | 20,278 | 95,269 | 16,607 | 48,605 | 110,520 | 291,279 | 222,443 |
| Fixed rate | 3,827 | 4,530 | 8,864 | 25,595 | 45,354 | 88,170 | 69,806 |
| Total non-derivatives | 53,047 | 99,799 | 25,471 | 74,200 | 155,874 | 408,391 | 321,191 |
| Derivatives | | | | | | | |
| Gross settled | | | | | | | |
| – (inflow) | (9,255) | (9,572) | (19,291) | (36,990) | (1,978) | (77,086) | (8,856) |
| – outflow | 7,710 | 8,050 | 16,494 | 32,793 | 1,919 | 66,966 | – |
| Net gross settled derivatives | (1,545) | (1,522) | (2,797) | (4,197) | (59) | (10,120) | (8,856) |



3. Financial risk management C. Liquidity risk **continued**

| | Less than 6 months \$'000 | Between 6 and 12 months \$'000 | Between 1 and 2 years \$'000 | Between 2 and 5 years \$'000 | Over 5 years \$'000 | Total contractual cash flows \$'000 | Carrying amount (assets)/ liabilities \$'000 |
|--------------------------------|------------------------------------|---|---------------------------------------|---------------------------------------|---------------------------|---|--|
| VCET I—At 30 June 2009 | | | | | | | |
| Non-derivatives | | | | | | | |
| Non-interest bearing | 520 | – | – | – | – | 520 | 520 |
| Variable rate | 2,833 | 2,833 | 62,063 | – | – | 67,729 | 60,316 |
| Total non-derivatives | 3,353 | 2,833 | 62,063 | – | – | 68,249 | 60,836 |
| Derivatives | | | | | | | |
| Gross settled | | | | | | | |
| – (inflow) | (4,916) | (6,110) | (12,790) | (20,827) | – | (44,643) | (4,268) |
| – outflow | 4,286 | 5,292 | 11,367 | 19,124 | – | 40,069 | – |
| Total derivatives | (630) | (818) | (1,423) | (1,703) | – | (4,574) | (4,268) |
| VCET I—At 30 June 2008 | | | | | | | |
| Non-derivatives | | | | | | | |
| Non-interest bearing | 13,231 | – | – | – | – | 13,231 | 13,231 |
| Variable rate | 4,397 | 87,264 | – | – | – | 91,661 | 83,059 |
| Total non-derivatives | 17,628 | 87,264 | – | – | – | 104,892 | 96,290 |
| Derivatives | | | | | | | |
| Gross settled | | | | | | | |
| – (inflow) | (4,297) | (4,466) | (11,027) | (31,639) | (1,977) | (53,406) | (5,070) |
| – outflow | 3,698 | 3,857 | 9,562 | 28,364 | 1,918 | 47,399 | – |
| Total derivatives | (599) | (609) | (1,465) | (3,275) | (59) | (6,007) | (5,070) |
| VCET II—At 30 June 2009 | | | | | | | |
| Non-derivatives | | | | | | | |
| Non-interest bearing | 2,310 | – | – | – | – | 2,310 | 2,310 |
| Total non-derivatives | 2,310 | – | – | – | – | 2,310 | 2,310 |
| Derivatives | | | | | | | |
| Gross settled | | | | | | | |
| – (inflow) | (3,367) | (3,431) | (5,351) | – | – | (12,149) | (993) |
| – outflow | 3,030 | 3,157 | 4,945 | – | – | 11,132 | – |
| Total derivatives | (337) | (274) | (406) | – | – | 1,017 | (993) |
| VCET II—At 30 June 2008 | | | | | | | |
| Non-derivatives | | | | | | | |
| Non-interest bearing | 613 | – | – | – | – | 613 | 613 |
| Total non-derivatives | 613 | – | – | – | – | 613 | 613 |
| Derivatives | | | | | | | |
| Gross settled | | | | | | | |
| – (inflow) | (4,958) | (5,106) | (8,265) | (5,352) | – | (23,681) | (3,786) |
| – outflow | 4,013 | 4,193 | 6,933 | 4,429 | – | 19,568 | – |
| Total derivatives | (945) | (913) | (1,332) | (923) | – | (4,113) | (3,786) |

3. Financial risk management **continued**

D. Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by VCEG is the current bid price.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate with the current market rate for a contract with the same remaining period to maturity.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives and investments in unlisted subsidiaries) is determined using valuation techniques. VCEG uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to VCEG for similar financial instruments.



4.

Segment information

VCEG's primary reporting format is geographic segments and its secondary format is business segments.

A. Primary segment—Geographical

VCEG currently operates in five geographic segments: Australia, Denmark, Germany, the United Kingdom and United States. The following table presents revenue and profit information and certain asset and liability information regarding these geographic segments for the years ended 30 June 2008 and 30 June 2009.

| | Australia \$'000 | Denmark \$'000 | Germany \$'000 | United Kingdom \$'000 | United States \$'000 | Total \$'000 |
|--|---------------------|-------------------|-------------------|-----------------------------|----------------------------|-----------------|
| 2009 | | | | | | |
| Revenue | | | | | | |
| Sales to external customers | – | – | 19,999 | 54,454 | 12,968 | 87,421 |
| Other revenues from external customers | – | 52 | 895 | 107 | – | 1,054 |
| Interest income—project investments | – | – | – | 1,410 | – | 1,410 |
| Total segment revenue | – | 52 | 20,894 | 55,971 | 12,968 | 89,885 |
| Interest income—other | | | | | | 779 |
| Total revenue | | | | | | 90,664 |
| Results | | | | | | |
| Segment result | (3,386) | 175 | 3,771 | 3,481 | (280) | 3,761 |
| Interest income—other, interest expense and financing costs | | | | | | (22,727) |
| Net profit/(loss) before income tax | | | | | | (18,966) |
| Income tax benefit | | | | | | 5,449 |
| Net profit/(loss) after income tax | | | | | | (13,517) |
| Segment assets and liabilities | | | | | | |
| Segment assets | 46,351 | 53,308 | 129,169 | 218,867 | 37,925 | 485,620 |
| Inter-segment eliminations | | | | | | (93,823) |
| Unallocated assets | | | | | | 21,590 |
| Total assets | | | | | | 413,387 |
| Segment liabilities | 1,349 | 2 | 5,207 | 22,944 | 5,906 | 35,408 |
| Inter-segment eliminations | | | | | | – |
| Unallocated liabilities | | | | | | 311,425 |
| Total liabilities | | | | | | 346,833 |
| Other segment information | | | | | | |
| Investments accounted for using the equity method | – | – | – | 3,126 | – | 3,126 |
| Share of net profit of associates | – | – | – | 2,947 | – | 2,947 |
| Depreciation | 44 | – | 7,822 | 4,449 | 3,005 | 15,320 |
| Amortisation | – | – | 1,246 | 16,426 | 1,019 | 18,691 |
| Impairment of non-current assets | | | | | | |
| – Property, plant and equipment | – | – | – | – | 4,810 | 4,810 |
| – Intangible assets | – | – | – | – | 3,491 | 3,491 |
| Total impairment of non-current assets | – | – | – | – | 8,301 | 8,301 |
| Net unrealised gain/(loss) on derivative financial instruments | (3,595) | – | – | – | – | (3,595) |
| Net unrealised foreign currency translation gain/(loss) | 2 | 5,526 | (1) | – | 6,543 | 12,070 |

4. Segment information **continued**

| | Australia \$'000 | Denmark \$'000 | Germany \$'000 | United Kingdom \$'000 | United States \$'000 | Total \$'000 |
|--|---------------------|-------------------|-------------------|-----------------------------|----------------------------|-----------------|
| 2008 | | | | | | |
| Revenue | | | | | | |
| Sales to external customers | – | – | 19,493 | 52,863 | 15,032 | 87,388 |
| Other revenues from external customers | – | 56 | 959 | 111 | 22 | 1,148 |
| Interest income—project investments | – | – | – | 1,945 | – | 1,945 |
| Total segment revenue | – | 56 | 20,452 | 54,919 | 15,054 | 90,481 |
| Interest income—other | | | | | | 1,434 |
| Total revenue | | | | | | 91,915 |
| Results | | | | | | |
| Segment result | (1,494) | (11,226) | 6,285 | 3,492 | (753) | (3,696) |
| Interest income—other, interest expense and financing costs | | | | | | (21,513) |
| Net profit/(loss) before income tax | | | | | | (25,209) |
| Income tax expense | | | | | | 5,056 |
| Net profit/(loss) after income tax | | | | | | (20,153) |
| Segment assets and liabilities | | | | | | |
| Segment assets | 51,503 | 56,372 | 131,864 | 264,058 | 39,481 | 543,278 |
| Inter-segment eliminations | | | | | | (98,430) |
| Unallocated assets | | | | | | 33,322 |
| Total assets | | | | | | 478,170 |
| Segment liabilities | 10,321 | 2 | 3,834 | 15,610 | 4,207 | 33,974 |
| Inter-segment eliminations | | | | | | – |
| Unallocated liabilities | | | | | | 349,280 |
| Total liabilities | | | | | | 383,254 |
| Other segment information | | | | | | |
| Investments accounted for using the equity method | – | – | – | 5,544 | – | 5,544 |
| Share of net profit of associates | – | – | – | 2,965 | – | 2,965 |
| Depreciation | 53 | – | 6,902 | 4,458 | 2,300 | 13,713 |
| Amortisation | – | – | 1,114 | 17,155 | 863 | 19,132 |
| Net unrealised gain/(loss) on derivative financial instruments | 3,470 | – | – | – | – | 3,470 |
| Net unrealised foreign currency translation gain/(loss) | 5 | (10,576) | – | – | (3,662) | (14,233) |

B. Secondary segment—business

Management considers that VCEG operates in one business segment: the investment in clean and renewable energy generation projects. VCEG operates landfill gas to energy projects in the United Kingdom and the United States and wind farms in Germany. The United Kingdom segment includes results relating to an associate that operates a wind farm.



5.

Income and expenses

A. Revenue

Total revenue includes the following significant revenue

| | VCEG 1 July 2008 -30 June 2009 \$'000 | VCET I 1 July 2008 -30 June 2009 \$'000 | VCET II 1 July 2008 -30 June 2009 \$'000 | VCEG 1 July 2007 -30 June 2008 \$'000 | VCET I 1 July 2007 -30 June 2008 \$'000 | VCET II 1 July 2007 -30 June 2008 \$'000 |
|--|--|--|---|--|--|---|
| Operating income from | | | | | | |
| Landfill gas projects | 67,422 | – | – | 67,895 | – | – |
| Wind farm projects | 19,999 | – | – | 19,493 | – | – |
| Other revenue | 1,054 | – | – | 1,148 | – | – |
| | 88,475 | – | – | 88,536 | – | – |
| Interest income—project investments from | | | | | | |
| Wind farm projects | 1,410 | – | – | 1,945 | – | – |
| | 1,410 | – | – | 1,945 | – | – |
| Interest income—other from | | | | | | |
| Other related parties | – | 13,487 | – | – | 14,417 | – |
| Other parties | 779 | 256 | 33 | 1,434 | 639 | 131 |
| | 779 | 13,743 | 33 | 1,434 | 15,056 | 131 |
| Operating revenue represents electricity sales for landfill gas projects and wind farms. Operating revenue includes \$44.661 million (2008: \$47.430 million) from contingent rentals for sales contracts deemed to be operating leases. | | | | | | |
| B. Expenses | | | | | | |
| Profit/(loss) before income tax includes the following significant expenses: | | | | | | |
| | VCEG 1 July 2008 -30 June 2009 \$'000 | VCET I 1 July 2008 -30 June 2009 \$'000 | VCET II 1 July 2008 -30 June 2009 \$'000 | VCEG 1 July 2007 -30 June 2008 \$'000 | VCET I 1 July 2007 -30 June 2008 \$'000 | VCET II 1 July 2007 -30 June 2008 \$'000 |
| Royalty expenses | 22,266 | – | – | 20,759 | – | – |
| Operations and maintenance costs | 16,917 | – | – | 17,358 | – | – |
| Net gain/(loss) on derivative financial instruments | | | | | | |
| Realised | 6,335 | 5,637 | 698 | 2,560 | 1,385 | 1,175 |
| Unrealised | (3,595) | (802) | (2,793) | 3,470 | 2,757 | 713 |
| | 2,740 | 4,835 | (2,095) | 6,030 | 4,142 | 1,888 |
| Net foreign currency exchange gain/(loss) | | | | | | |
| Realised | (5,828) | 12 | (28) | (899) | (1) | (18) |
| Unrealised | 12,070 | – | 2 | (14,233) | – | 5 |
| | 6,242 | 12 | (26) | (15,132) | (1) | (13) |
| Finance cost | | | | | | |
| Interest expense | (19,270) | (7,456) | – | (22,740) | (8,210) | – |
| Financing costs | (1,885) | (1,170) | (228) | (1,473) | (829) | (127) |
| Provision: unwinding of discount | (344) | – | – | (299) | – | – |
| Fair value gains/(losses) on interest swaps— transfer from cash flow hedge reserve | (2,007) | (1,264) | – | 1,565 | 69 | – |
| | (23,506) | (9,890) | (228) | (22,947) | (8,970) | (127) |

6.

Changes in accounting estimates

Revenue

The pricing mechanism for electricity in VCEG's portfolio of landfill gas assets in the United Kingdom revenues is complex and includes a number of components. One of these components, relating to renewables obligation certificates is based on the year to 31 March but is only finalised and settled in the October/November following the end of that year. In the period to 30 June 2007 VCEG had to make estimates of this income for the period to 31 March 2007. Subsequently, VCEG received a higher price than expected, which increased revenues by \$1.132 million for the year ended 30 June 2008, with a corresponding increase in royalty expense of \$0.677 million. For the contract periods from 1 April 2007 to 31 March 2009 VCEG included this component within its total contracted pricing however, from 1 April 2009 this component has been excluded from the contracts and management has used its experience in the market to estimate the future price and hence the benefit for the period to 30 June 2009.



7.

Income tax

| | VCEG 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-----------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|
| Major components of income tax for the period | | | | |
| Current tax expense | | | | |
| Current year | (267) | – | 218 | – |
| Under/(over) provision in prior years | (105) | – | (961) | – |
| Deferred tax expense | | | | |
| Origination and reversal of temporary differences | (4,897) | – | (4,313) | – |
| Under/(over) provision in prior years | (180) | – | – | – |
| Total income tax (credit)/expense in income statement | (5,449) | – | (5,056) | – |
| Reconciliation of prima facie tax to income tax expense for the period | | | | |
| Profit/(loss) before tax | (18,966) | (5,559) | (25,209) | (2,121) |
| Income tax on profit/(loss) using the domestic corporation tax rate of 30% | (5,690) | (1,668) | (7,563) | (636) |
| Increase in income tax expense due to: | | | | |
| Non-deductible expenses | 365 | – | 120 | (115) |
| Temporary differences not brought to account | 1,122 | 1,122 | 4,293 | – |
| Tax losses not brought to account | 1,448 | 546 | 2,058 | 631 |
| Effect on tax rate in foreign jurisdictions | 227 | – | 716 | – |
| Decrease in income tax expense due to: | | | | |
| Tax exempt revenues | (911) | – | (1,747) | – |
| Effect of tax losses recognised | – | – | (238) | – |
| Section 99A—VCET I accounting profit ¹ | (1,606) | – | (768) | – |
| Other | (119) | – | (103) | – |
| | (5,164) | – | (3,232) | (120) |
| Under/(over) provision in prior years | (285) | – | (1,824) | 120 |
| | (5,449) | – | (5,056) | – |
| Current income tax payable | | | | |
| Opening balance | (92) | – | (323) | – |
| Income tax received/(paid) | (271) | – | 726 | – |
| Current year income tax | (267) | – | 218 | – |
| Under/(over) provision in prior years | (105) | – | (961) | – |
| Provision in prior year to deferred tax | – | – | 164 | – |
| Net foreign currency exchange differences | 181 | – | 84 | – |
| | (554) | – | (92) | – |
| Unrecognised capital losses | | | | |
| Carried forward capital losses | 34 | – | 35 | – |

7. Income tax **continued**

| | VCEG 30 June 2009 \$'000 | VCEG 30 June 2009 \$'000 | VCEG 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCEG 30 June 2008 \$'000 | VCEG 30 June 2008 \$'000 |
|--|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Deferred tax assets and liabilities | | | | | | |
| Property, plant and equipment | (3,061) | 16,401 | 13,340 | – | 12,472 | 12,472 |
| Intangibles | – | 41,578 | 41,578 | – | 47,391 | 47,391 |
| Interest-bearing notes and borrowings | (2,104) | – | (2,104) | (2,358) | – | (2,358) |
| Cash flow hedges | (189) | – | (189) | – | 1,866 | 1,866 |
| Other items | (1,108) | 397 | (711) | (504) | 1,841 | 1,337 |
| Tax value of losses carried forward recognised | (3,624) | – | (3,624) | (3,677) | – | (3,677) |
| Tax (assets)/liabilities | (10,086) | 58,376 | 48,290 | (6,539) | 63,570 | 57,031 |
| Set-off of tax | 10,086 | (10,086) | – | 6,539 | (6,539) | – |
| Net tax (assets)/liabilities | | | – 48,290 48,290 | | | – 57,031 57,031 |

| | VCET II 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCET II 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Assets | Liabilities | Net | Assets | Liabilities | Net |
| Deferred tax assets and liabilities | | | | | | |
| Other items | – | – | – | – | 1,191 | 1,191 |
| Tax value of losses carried forward recognised | – | – | – | (1,191) | – | (1,191) |
| Tax (assets)/liabilities | – | – | – | (1,191) | 1,191 | – |
| Set-off of tax | – | – | – | 1,191 | (1,191) | – |
| Net tax (assets)/liabilities | | | – | | | – |

| | VCEG 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-----------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|
| Amount recognised directly in equity | | | | |

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity

| | | | | |
|--------------------------------------|----------------|----------|--------------|----------|
| Current tax | – | – | – | – |
| Deferred tax—Cash flow hedge reserve | (4,049) | – | (725) | – |
| | (4,049) | – | (725) | – |

| | VCEG 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-----------------------------------|--------------------------------------|-----------------------------------|--------------------------------------|
| Unrecognised deferred tax assets | | | | |

Deferred tax assets have not been recognised in respect of the following items:

| | | | | |
|----------------------------------|---------------|--------------|--------------|------------|
| Deductible temporary differences | 3,868 | 272 | 4,523 | – |
| Tax losses | 7,282 | 2,336 | 2,693 | 631 |
| | 11,150 | 2,608 | 7,216 | 631 |

i. VCET I is a unit trust for Australian income tax purposes and will distribute income pre-tax, which results in the Section 99A—VCET I accounting profit adjustment as shown in the reconciliation of prima facie tax to income tax expense.



8.

Distributions paid and payable

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|-----------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Interim distribution paid | | | | | | |
| December 2008 (December 2007) | 6,037 | 6,037 | – | 9,507 | 9,507 | – |
| Final distribution payable | | | | | | |
| June 2009 (June 2008) | – | – | – | 9,358 | 9,358 | – |

During the period ended 30 June 2009, one distribution was declared by VCEG. An interim distribution of 3.23 cents per stapled security (including a 0.14 cents foreign tax credit component) was paid on 16 February 2009 for the six months ended 31 December 2008 (2007: 5.16 cents per stapled security including a 0.16 cents foreign tax credit component). No final distribution was declared for the period ended 30 June 2009 (2008: 5.0 cents including a 0.15 cents foreign tax credit component).

There are no franking credits available.

9.

Cash and cash equivalents

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Current | | | | | | |
| Cash at bank ⁱ | 21,036 | 1,443 | 108 | 33,230 | 7,140 | 1,788 |

Cash at bank earns interest at floating rates based on daily bank deposit rates at a weighted average of 1.65% (2008: 3.85%).

i. \$9.062 million (2008: \$8.782 million) of the total cash at bank is restricted under the terms of senior debt facilities and may be used only for purposes specified in the facility agreements.

Reconciliation of the net profit after tax to the net cash flows from operations

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Profit/(loss) after income tax | (13,517) | 5,832 | (5,559) | (20,153) | 6,721 | (2,121) |
| Non-cash flows included in operating profit | | | | | | |
| Share of profit from associates | (2,947) | – | – | (2,965) | – | – |
| Dividends received from associates | 3,757 | – | – | 2,093 | – | – |
| Foreign exchange loss/(gains) | (8,475) | 802 | 2,791 | 10,763 | (2,757) | (719) |
| Depreciation and amortisation | 34,011 | – | 44 | 32,845 | – | 53 |
| Impairment of non-current assets | 8,301 | – | – | – | – | – |
| Unwinding of discount on provisions | 344 | – | – | 299 | – | – |
| Amortisation of financing costs | 1,265 | 1,168 | – | 897 | 650 | – |
| Prepaid maintenance and warranty | 1,156 | – | – | 1,002 | – | – |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | | | | | |
| (Increase)/decrease in trade and other receivables | 1,095 | 2,654 | 8 | 3,346 | 2,426 | (9) |
| (Increase)/decrease in other assets | (304) | (2,130) | (21) | 974 | 33 | 1,260 |
| Increase/(decrease) in trade payables and accruals | 3,124 | (230) | 211 | (2,221) | 32 | (883) |
| Increase/(decrease) in current and deferred income taxes payable | (5,720) | – | – | (4,330) | – | – |
| Cash inflow/(outflow) from operations | 22,090 | 8,096 | (2,526) | 22,550 | 7,105 | (2,419) |



10.

Trade and other receivables

| | Notes | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|----------------------------|--------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Current | | | | | | | |
| Trade receivables | | 6,318 | – | – | 4,521 | – | – |
| Loans receivable | | | | | | | |
| Group entities | | – | 1,488 | 16 | – | – | 3,432 |
| Other receivables | | 8,219 | – | 91 | 9,217 | – | 90 |
| Interest receivable | | | | | | | |
| Wholly owned subsidiaries | | – | 2,478 | – | – | 5,333 | – |
| Associated entity | | – | – | – | 901 | – | – |
| Other parties | | 7 | 6 | – | 67 | 43 | 9 |
| | | 14,544 | 3,972 | 107 | 14,706 | 5,376 | 3,531 |
| Non-current | | | | | | | |
| Loans receivable | | | | | | | |
| Group entities | | | | | | | |
| – interest bearing | (v)(a) | – | 159,101 | – | – | 152,934 | – |
| – non-interest bearing | | – | – | 38,159 | – | 34,151 | 34,101 |
| Associated entities | (v)(b) | – | – | – | 18,962 | – | – |
| Other receivables | | 531 | – | – | 471 | – | – |
| | | 531 | 159,101 | 38,159 | 19,433 | 187,085 | 34,101 |

Trade and other receivables are non-interest bearing, with maturity dependent on the terms of the contracts to which they relate.

i. Impaired trade receivables

There were no impaired trade receivables for VCEG, VCET I or VCET II in 2009 or 2008.

ii. Past due but not impaired

As of 30 June 2009, trade receivables of \$0.542 million (2008:\$ 0.179 million) were past due but not impaired.

These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows.

| | 2009 \$'000 | VCEG 2008 \$'000 | VCET I and VCET II 2009 2008 \$'000 \$'000 | |
|----------------------|----------------|------------------------|--|---|
| 0 to 3 months | | 397 | 12 | – |
| 3 months to 6 months | | – | 20 | – |
| Over 6 months | | 145 | 147 | – |
| | | 542 | 179 | – |

iii. Other receivables

These amounts generally relate to receivables for electricity generation during the period which, in accordance with the contract terms, have not been invoiced. These relate to a number of independent customers for whom there is no recent history of default.

iv. Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 3. for more information on the risk management policy of VCEG and the credit quality of its trade receivables.

10. Trade and other receivables **continued**

v. Loans receivable

The following loans are included in the loan receivable balance:

a) Interest-bearing loans to wholly-owned subsidiaries

Interest-bearing loans to wholly-owned subsidiaries are at rates between 8.7% and 9.5%.

b) Loan to Ardrossan Wind Farm (Scotland) Limited

A wholly owned subsidiary of VCEG provided a £9,141,491 term loan junior debt facility to Ardrossan Wind Farm (Scotland) Limited (“Ardrossan”). VCEG holds a 49% interest in Ardrossan. The loan commenced in March 2004 and was repaid in full in March 2009.

Foreign exchange and interest rate risk

Information about VCEG’s exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 3.

11.

Derivative financial instruments

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|--|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Assets | | | | | | |
| Current | | | | | | |
| Interest rate swap—cash flow hedges | – | – | – | 674 | 300 | – |
| Foreign exchange—contracts not hedge accounted | 2,030 | 1,424 | 606 | 8,856 | 5,070 | 3,786 |
| Total current derivative assets | 2,030 | 1,424 | 606 | 9,530 | 5,370 | 3,786 |
| Non-current | | | | | | |
| Interest rate swap—cash flow hedges | – | – | – | 6,329 | – | – |
| Foreign exchange—contracts not hedge accounted | 3,340 | 2,953 | 387 | – | – | – |
| Total non-current derivative assets | 3,340 | 2,953 | 387 | 6,329 | – | – |
| Liabilities | | | | | | |
| Current | | | | | | |
| Interest rate swap—cash flow hedges | 446 | – | – | – | – | – |
| Foreign exchange—contracts not hedge accounted | 3 | 3 | – | – | – | – |
| Total current derivative assets | 449 | 3 | – | – | – | – |
| Non-current | | | | | | |
| Interest rate swap—cash flow hedges | 6,569 | – | – | – | – | – |
| Foreign exchange—contracts not hedge accounted | 106 | 106 | – | – | – | – |
| Total non-current derivative assets | 6,675 | 106 | – | – | – | – |

VCEG enters into interest rate swap and forward foreign currency contracts to economically hedge its exposure to interest rate movements and foreign exchange variations arising from operational, financing and investment activities.

Hedge accounting has been adopted for interest rate swaps only. The gain or loss arising from re-measurement has been recognised in equity. Hedge accounting has not been adopted for the foreign exchange contracts. The profit or loss from re-measurement is charged to the income statement. Refer to Note 3. Financial risk management for further details.



12.

Other assets

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Current | | | | | | |
| Prepaid expenses | 5,708 | 61 | 38 | 3,049 | 64 | 17 |
| Capitalised finance costs | 346 | 346 | – | 115 | 115 | – |
| Inventories—spares | 1,557 | – | – | 1,131 | – | – |
| | 7,611 | 407 | 38 | 4,295 | 179 | 17 |
| Non-current | | | | | | |
| Prepaid expenses | 440 | – | – | 1,380 | – | – |
| | 440 | – | – | 1,380 | – | – |

13.

Investments in associates

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Investments in associates | 3,126 | – | – | 5,544 | – | – |

The consolidated entity accounts for investments in associates using the equity method. Neither VCET I nor VCET II has any direct investments in associates. The consolidated entity has the following investment in associates

| Name of associate | Principal activity | Country | Class of shares | Year end | Ownership interest 30 June 2009 % | Ownership interest 30 June 2008 % |
|--|------------------------|----------|-------------------------------|---------------|---|---|
| Ardrossan Wind Farm (Scotland) Limited ("Ardrossan") | Electricity generation | Scotland | Ordinary shares ⁱ | 31 March 2009 | 49 | 49 |
| Stevok OS5 Unlimited ("Stevok") | Dormant | Ireland | Ordinary shares ⁱⁱ | 31 March 2009 | 49 | 49 |

i. The shareholders of Ardrossan are entitled to appoint an equal number of directors to the board of directors of that company; that is, VCEG is entitled to appoint two directors and Airtricity Holdings (UK) Limited (the 51% owner) is entitled to appoint two directors. At a meeting of the directors of Ardrossan each director has one vote, providing VCEG with 50% voting rights at such meetings.

Certain actions and decisions regarding the supervision and management of Ardrossan require the written approval of all of the holders of the share capital of Ardrossan.

Unless otherwise noted above, VCEG has 49% voting rights concerning actions and decisions affecting Ardrossan.

The results for the year ended 30 June 2009 are based on nine months of the audited accounts for the year ended 31 March 2009, together with management accounts for the three months to 30 June 2009. There are no capital commitments or contingent liabilities.

13. Investments in associates **continued**

ii. The shareholders of Stevok are entitled to appoint an equal number of directors to the board of directors of that company; that is, VCEG is entitled to appoint two directors and Airtricity Holdings (UK) Limited, the 51% owner, is entitled to appoint two directors. At a meeting of the directors of Stevok each director has one vote.

Certain actions and decisions regarding the supervision and management of Stevok require the written approval of all of the holders of the share capital of Stevok.

Unless otherwise noted above, VCEG has 49% voting rights concerning actions and decisions affecting Stevok.

Stevok is a dormant company that has not traded since incorporation and there are no financial disclosures necessary for Stevok in the following tables.

Movements in carrying amounts and share of associates' profits or losses

| | 2009 \$'000 | 2009 \$'000 | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | | | 2008 \$'000 | 2008 \$'000 |
| Carrying amount at 1 July | | 5,544 | | 5,238 |
| Profit before income tax, after amortisation | 4,093 | | 4,259 | |
| Income tax expense | (1,146) | | (1,294) | |
| Share of profits after income tax | | 2,947 | | 2,965 |
| Dividends received/receivable | | (3,757) | | (2,093) |
| Share of movement in the fair value of cash flow hedges, net of tax | | (1,762) | | (170) |
| Investment | | 15 | | 12 |
| Net foreign currency exchange differences | | 139 | | (408) |
| Carrying amount at 30 June | | 3,126 | | 5,544 |

Summarised financial information of associates

| | Assets \$'000 | Liabilities \$'000 | Group's share of | |
|-------------|------------------|-----------------------|--------------------|------------------|
| | | | Revenues \$'000 | Profit \$'000 |
| 2009 | | | | |
| Ardrossan | 34,502 | 31,376 | 8,753 | 2,947 |
| 2008 | | | | |
| Ardrossan | 29,568 | 24,024 | 8,127 | 2,965 |



14.

Other financial assets

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Shares in subsidiaries | – | – | 13,439 | – | – | 13,439 |

| Name of entity | Year end | Country of incorporation | Equity holding 30 June 2009 % | Equity holding 30 June 2009 % |
|---|----------|-----------------------------|-------------------------------------|-------------------------------------|
| Viridis (Europe) Pty Limited | 30 June | Australia | 100 | 100 |
| Viridis (Europe II) Pty Limited | 30 June | Australia | 100 | 100 |
| Viridis Energy Pty Limited | 30 June | Australia | 100 | 100 |
| Viridis (Denmark) ApS | 30 June | Denmark | 100 | 100 |
| Viridis Holdings (Germany) ApS | 30 June | Denmark | 100 | 100 |
| Viridis (Germany) GmbH | 30 June | Germany | 100 | 100 |
| Viridis (Lower Saxony) GmbH & Co KG | 30 June | Germany | 100 | 100 |
| Viridis (Blender Windpark) GmbH & Co KG | 30 June | Germany | 100 | 100 |
| Viridis (Sehnde Lehrte Windpark) GmbH & Co KG | 30 June | Germany | 100 | 100 |
| Viridis (Geeste Windpark) GmbH & Co KG | 30 June | Germany | 100 | 100 |
| Viridis (Rieda Windpark) GmbH & Co KG | 30 June | Germany | 100 | 100 |
| Merinda Windpark-Verwaltungsgesellschaft mbH | 30 June | Germany | 100 | 100 |
| Viridis (Merinda Windpark) GmbH & Co KG | 30 June | Germany | 100 | 100 |
| Viridis Holdings (US), Inc | 30 June | United States | 100 | 100 |
| Viridis I, Inc | 30 June | United States | 100 | 100 |
| Viridis Energy, LLC | 30 June | United States | 100 | 100 |
| Viridis Energy (GP), LLC | 30 June | United States | 100 | 100 |
| Viridis Energy (Texas), LP | 30 June | United States | 100 | 100 |
| Viridis II, LLC | 30 June | United States | 100 | 100 |
| Toyon Landfill Gas Conversion, LLC | 30 June | United States | 100 | 100 |
| Penrose Landfill Gas Conversion, LLC | 30 June | United States | 100 | 100 |
| Viridis I Limited | 30 June | United Kingdom | 100 | 100 |
| Viridis Energy (Norgen) Limited | 30 June | United Kingdom | 100 | 100 |

The ultimate parent entity of these wholly owned subsidiaries is Viridis Clean Energy Trust II.

The proportion of ownership interest, all of which is in the ordinary equity of the entities, is equal to the proportion of voting power held.

15.

Property, plant and equipment

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Landfill gas assets—at cost | 131,138 | — | — | 120,617 | — | — |
| Less: Accumulated depreciation | (48,558) | — | — | (35,467) | — | — |
| Net book value | 82,580 | — | — | 85,150 | — | — |
| Wind farm assets—at cost | 135,490 | — | — | 127,285 | — | — |
| Less: Accumulated depreciation | (26,322) | — | — | (17,825) | — | — |
| Net book value | 109,168 | — | — | 109,460 | — | — |
| Other assets | 133 | — | 133 | 133 | — | 133 |
| Less: Accumulated amortisation | (132) | — | (132) | (88) | — | (88) |
| Net book value | 1 | — | 1 | 45 | — | 45 |
| Total property, plant and equipment—at cost | 266,761 | — | 133 | 248,035 | — | 133 |
| Less: Total accumulated depreciation | (75,012) | — | (132) | (53,380) | — | (88) |
| Net book value | 191,749 | — | 1 | 194,655 | — | 45 |

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the year are set out below

| | Consolidated Landfill gas assets \$'000 | Consolidated Wind farm assets \$'000 | Consolidated Other assets \$'000 | Consolidated Total \$'000 | VCET II Total \$'000 |
|---|--|---|---|---------------------------------|----------------------------|
| Year ended 30 June 2008 | | | | | |
| Carrying amount at 30 June 2007 | 100,696 | 112,522 | 98 | 213,316 | 98 |
| Reduction in decommissioning asset | (1,230) | — | — | (1,230) | — |
| Additions | 4,120 | — | — | 4,120 | — |
| Depreciation expense | (6,758) | (6,902) | (53) | (13,713) | (53) |
| Net foreign currency exchange differences | (11,678) | 3,840 | — | (7,838) | — |
| Carrying amount at 30 June 2008 | 85,150 | 109,460 | 45 | 194,655 | 45 |
| Year ended 30 June 2009 | | | | | |
| Carrying amount at 30 June 2008 | 85,150 | 109,460 | 45 | 194,655 | 45 |
| Additions | 4,116 | 180 | — | 4,296 | — |
| Depreciation expense | (7,454) | (7,822) | (44) | (15,320) | (44) |
| Impairment charge | (4,810) | — | — | (4,810) | — |
| Net foreign currency exchange differences | 5,578 | 7,350 | — | 12,928 | — |
| Carrying amount at 30 June 2009 | 82,580 | 109,168 | 1 | 191,749 | 1 |

Non-current assets pledged as security

Refer to Note 18. Interest-bearing liabilities for details of security over assets.

Impairment of property, plant and equipment

There has been no impairment of property, plant and equipment at the reporting date, except with respect to VCEG's Californian operations of \$4.810 million. For details refer to Note 2. Critical accounting estimates and judgements.

Operating leases

As stated in Note 5. Income and expenses, there are sales contracts deemed to be operating leases. The net book value of the relevant assets totals \$70.472 million (2008: \$67.838 million), all of which relates to landfill gas assets.

Decommissioning assets

The assets above include \$2.646 million (2008: \$2.861 million) in relation to decommissioning obligations. Refer to Note 19. Provisions for further details.



16.

Intangible assets

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Contracts—at cost | 226,398 | — | — | 226,121 | — | — |
| Less: Accumulated amortisation | (59,939) | — | — | (38,894) | — | — |
| Net book value | 166,459 | — | — | 187,227 | — | — |
| Emission reduction credits | 2,453 | — | — | 2,053 | — | — |
| Less: Accumulated amortisation | (486) | — | — | (304) | — | — |
| Net book value | 1,967 | — | — | 1,749 | — | — |
| Total intangible assets—at cost | 228,851 | — | — | 228,174 | — | — |
| Less: Total accumulated amortisation | (60,425) | — | — | (39,198) | — | — |
| Net book value | 168,426 | — | — | 188,976 | — | — |

Contracts represent the consideration paid by VCEG for the contractual rights to either sell electricity (under contract) or acquire the fuel (under contract) required to generate electricity. These intangible assets are amortised over the term of the underlying contract or the fuel resource, whichever is the lesser.

Reconciliations

Reconciliations of the carrying amounts of each class of intangible assets at the beginning and end of the year are set out below.

| | Consolidated Contracts \$'000 | Consolidated Emission reduction credits \$'000 | Consolidated Total \$'000 | VCET I Total \$'000 | VCET II Total \$'000 |
|---|-------------------------------------|---|---------------------------------|---------------------------|----------------------------|
| Year ended 30 June 2008 | | | | | |
| Carrying amount at 30 June 2007 | 230,150 | 2,097 | 232,247 | — | — |
| Amortisation expense | (19,022) | (110) | (19,132) | — | — |
| Net foreign currency exchange differences | (23,901) | (238) | (24,139) | — | — |
| Carrying amount at 30 June 2008 | 187,227 | 1,749 | 188,976 | — | — |
| Year ended 30 June 2009 | | | | | |
| Carrying amount at 30 June 2008 | 187,227 | 1,749 | 188,976 | — | — |
| Amortisation expense | (18,557) | (134) | (18,691) | — | — |
| Impairment charge | (3,491) | — | (3,491) | — | — |
| Net foreign currency exchange differences | 1,280 | 352 | 1,632 | — | — |
| Carrying amount at 30 June 2009 | 166,459 | 1,967 | 168,426 | — | — |

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or groups of assets (cash generating units—CGUs). The recoverable amount of a CGU is determined based on the higher of the fair value less costs to sell, and the value-in-use. These calculations use cash flow projections based on financial models approved by management covering the life of each CGU, which are based on external data. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. There has been no impairment of intangible assets at the reporting date, except with respect to VCEG's Californian operations of \$3.491 million. For details refer to Note 2. Critical accounting estimates and judgements.

Non-current assets pledged as security

Refer to Note 18. Interest-bearing liabilities for details of security over assets, including intangible assets.

17.

Trade and other payables

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|---|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Current | | | | | | |
| Trade payables | 9,587 | 45 | 867 | 9,132 | 30 | 561 |
| Interest payable—other parties | 1,580 | — | — | 1,674 | — | — |
| Distribution payable | — | — | — | 9,071 | 9,071 | — |
| Goods and services tax (GST) and Value added tax (VAT) payable | 508 | (32) | (151) | 349 | (46) | (98) |
| Management fee payable | 293 | 252 | 41 | 598 | 502 | 96 |
| Group entities | — | — | 1,488 | — | 3,424 | — |
| Other payables | 2,533 | — | — | 997 | — | 2 |
| Other accruals | 8,285 | 255 | 65 | 7,121 | 250 | 52 |
| | 22,786 | 520 | 2,310 | 28,942 | 13,231 | 613 |

Trade payables are non-interest bearing and are normally settled on 30 day terms.

The net of GST/VAT payable and GST/VAT receivable is remitted to the appropriate tax body on a monthly or quarterly basis, as required.

For terms and conditions relating to interest payable to other parties, refer to Note 18. Interest-bearing liabilities.



18.

Interest-bearing liabilities

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|----------------------------|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Current | | | | | | |
| Secured: | | | | | | |
| Working capital facilities | 9,420 | – | – | 7,882 | – | – |
| Senior debt facilities | 14,454 | – | – | 12,205 | – | – |
| Corporate loan facilities | – | – | – | 83,059 | 83,059 | – |
| | 23,874 | – | – | 103,146 | 83,059 | – |
| Non-current | | | | | | |
| Secured: | | | | | | |
| Senior debt facilities | 178,945 | – | – | 189,103 | – | – |
| Corporate loan facilities | 60,316 | 60,316 | – | – | – | – |
| | 239,261 | 60,316 | – | 189,103 | – | – |

Financing facilities

The financing facilities have the following maturity dates and weighted average interest rates

| | Balance at 30 June 2008 Currency | Undrawn at 30 June 2008 '000 | Expiry date | Weighted average interest rate % (Including margin) ¹ | Australian dollars balance 30 June 2008 \$'000 | Australian dollars undrawn \$'000 |
|---------------------------------------|--|--|----------------|---|---|--|
| 30 June 2008 | | | | | | |
| Senior debt facility a) | EUR 30,881 | – | 2020 | 4.88 | 50,700 | – |
| Working capital facility a) | EUR – | 1,000 | 2009 | – | – | 1,642 |
| Senior debt facility b) | EUR 25,774 | – | 2019 | 5.08 | 42,315 | – |
| Working capital facility b) | EUR – | 400 | 2019 | – | – | 657 |
| Liquidity reserve facility b) | EUR – | 1,806 | 2019 | – | – | 2,965 |
| Senior debt facility c) | GBP 53,320 | – | 2016 | 6.06 | 110,600 | – |
| Working capital facility c) | GBP 3,800 | 450 | 2009 | 6.55 | 7,882 | 933 |
| Corporate loan facility d) | AUD 83,600 | – | 2009 | 10.21 | 83,600 | – |
| Total | | | | | 295,097 | 6,197 |
| Less: Capitalised establishment costs | | | | | (2,848) | |
| | | | | | 292,249 | |

18. Interest-bearing liabilities **continued**

| | Balance at 30 June 2009 Currency | Undrawn at 30 June 2009 '000 | Expiry date | Weighted average interest rate % (Including margin) ⁱ | Australian dollars balance 30 June 2009 \$'000 | Australian dollars undrawn \$'000 | |
|---------------------------------------|--|--|----------------|---|---|--|--------------|
| 30 June 2009 | | | | | | | |
| Senior debt facility a) | EUR | 28,782 | – | 2020 | 4.77 | 50,238 | – |
| Working capital facility a) | EUR | – | – | – | – | – | – |
| Senior debt facility b) | EUR | 23,483 | – | 2019 | 5.08 | 40,990 | – |
| Working capital facility b) | EUR | 400 | – | 2019 | 2.97 | 698 | – |
| Liquidity reserve facility b) | EUR | – | 1,806 | 2019 | – | – | 3,152 |
| Senior debt facility c) | GBP | 50,780 | – | 2016 | 7.18 | 104,207 | – |
| Working capital facility c) | GBP | 4,250 | – | 2010 | 4.21 | 8,722 | – |
| Corporate loan facility d) | AUD | 61,591 | – | 2010 | 9.18 | 61,591 | – |
| Total | | | | | | 266,446 | 3,152 |
| Less: Capitalised establishment costs | | | | | | (3,311) | |
| | | | | | | 263,135 | |

i. includes effect of interest rate swap transactions

Fair value is equal to the carrying value, except the fixed rate loans described in a) and b) below. Refer to Note 3. Financial risk management for fair values.

Bank loans

Renewal of facilities with a maturity date of 12 months or less remains at the discretion of the lenders.

a) Lower Saxony, Germany wind farm debt facilities

Lower Saxony wind farm debt facilities are provided by HSH Nordbank. The facilities are secured by a first ranking pledge over the assets and contracts of the Lower Saxony wind farm portfolio. The facilities are denominated in Euros and split between the following tranches:

- A fully amortising term debt facility to be repaid in full by 2020, with €12.803 million outstanding at 30 June 2009 (30 June 2008: €14.004 million).
- A fully amortising term debt facility funded by KfW under their ERP program (under the sponsorship of HSH Nordbank). The facility is to be repaid in full by 2020, with €15.979 million outstanding at 30 June 2009 (30 June 2008: €16.877 million).
- At 30 June 2009 the €1 million working capital facility had not been renegotiated, however negotiations are ongoing (at 30 June 2008 the entire €1 million facility was unutilised).

b) Merinda, Germany wind farm debt facilities

Merinda wind farm debt facilities are provided by Norddeutsche Landesbank Girozentrale. The facilities are secured by a first ranking pledge over the assets and contracts of the Merinda wind farm portfolio. The facilities are denominated in Euros and split between the following tranches:

- A fully amortising term debt facility to be repaid in full by 2019, with €23.483 million outstanding at 30 June 2009 (30 June 2008: €25.774 million).
- A €0.4 million working capital facility that is fully utilised (30 June 2008: unutilised). The facility is interest only with an expiry of 2019.
- A €1.8 million liquidity reserve facility that is unutilised (30 June 2008: unutilised). The facility is interest only with an expiry of 2019. The facility is available to assist in meeting debt service reserve requirements.

c) Norgen, United Kingdom landfill gas debt facilities

Norgen landfill gas debt facilities are provided by a syndicate of banks comprising Bayerische Hypo- und Vereinsbank AG London Branch, Lloyds TSB Bank plc, Fortis Bank NV and National Australia Bank Limited. The facilities are secured by a first ranking pledge over the assets and contracts of the Norgen landfill gas portfolio.

The facilities are denominated in GBP and split between the following tranches:

- An amortising term debt facility. The facility amortises to £24.874 million at the loan expiry of 2016. £50.780 million was outstanding at 30 June 2009 (30 June 2008: £53.320 million).
- £4.25 million working capital facility which was fully utilised (30 June 2008: £3.8 million). Expiry 5 April 2010.

d) VCEG facility

VCEG has renegotiated its facility provided by Investec Group/ABN AMRO Bank. The facility is secured by a first ranking pledge over the assets of VCET I, VCET II, Viridis (Europe) Pty Limited, Viridis (Europe II) Pty Limited, and limited security provided by other subsidiaries of VCEG. Facility details are as follows:

- At 30 June 2009: \$61.591 million all of which was utilised. The facility is interest only with an expiry date of 31 July 2010. Refer Note 3. Financial risk management for a description of how VCEG manages its liquidity risk.
- At 30 June 2008: \$83.6 million all of which was utilised. The facility was interest only with an expiry date of 28 May 2009.

The facility provided by Investec Group includes letters of credit/bank guarantee of \$5.479 million.



19.

Provisions

| | VCEG 30 June 2009 \$'000 | VCET I 30 June 2009 \$'000 | VCET II 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 | VCET I 30 June 2008 \$'000 | VCET II 30 June 2008 \$'000 |
|--|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|
| Non-current | | | | | | |
| Decommissioning provision | 5,498 | – | – | 4,864 | – | – |
| | 5,498 | – | – | 4,864 | – | – |
| | | | | VCEG \$'000 | VCET I \$'000 | VCET II \$'000 |
| Movement in provisions | | | | | | |
| Balance 1 July 2007 | | | | 6,126 | – | – |
| Reduction in estimate of provision required | | | | | | |
| – adjusted in property, plant and equipment | | | | (1,230) | – | – |
| Charged to the income statement | | | | | | |
| – unwinding of discount | | | | 299 | – | – |
| Net foreign currency exchange differences | | | | (331) | – | – |
| Balance at 30 June 2008 | | | | 4,864 | – | – |
| Balance 1 July 2008 | | | | 4,864 | – | – |
| Charged to the income statement | | | | | | |
| – unwinding of discount | | | | 344 | – | – |
| Net foreign currency exchange differences | | | | 290 | – | – |
| Balance at 30 June 2009 | | | | 5,498 | – | – |

Decommissioning provision

Upon closure of the landfill gas and wind farm projects, VCEG has a requirement to dismantle and clean up the facility sites. This provision represents an estimated cost to perform this function. These costs are expected to be incurred progressively from 2012. The provisions have been revised in the period following a review by independent experts. These have been adjusted in property, plant and equipment and are amortised over the useful life of the assets in line with UIG 1.

20.

Contributed equity

| | Consolidated 1 July 2008 –30 June 2009 \$ | VCET I 1 July 2008 –30 June 2009 \$ | VCET II 1 July 2008 –30 June 2009 \$ | Consolidated 1 July 2007 –30 June 2008 \$ | VCET I 1 July 2007 –30 June 2008 \$ | VCET II 1 July 2007 –30 June 2008 \$ |
|--|--|--|---|--|--|---|
| Fully paid units | | | | | | |
| Issued and fully paid | 171,250,326 | 137,166,984 | 34,083,442 | 171,250,326 | 137,166,984 | 34,083,442 |
| | VCEG Number of units | VCEG \$ | VCET I Number of units | VCET I \$ | VCET II Number of units | VCET II \$ |
| Movement in fully paid units on issue | | | | | | |
| On issue 1 July 2007 | 182,000,144 | 166,936,313 | 182,000,144 | 133,549,070 | 182,000,144 | 33,387,343 |
| DRP issue 5 September 2007 | 2,311,823 | 2,261,863 | 2,311,823 | 1,885,489 | 2,311,823 | 376,374 |
| DRP issue 14 February 2008 | 2,708,619 | 2,052,150 | 2,708,619 | 1,732,425 | 2,708,619 | 319,725 |
| On issue 30 June 2008 | 187,020,586 | 171,250,326 | 187,020,586 | 137,166,984 | 187,020,586 | 34,083,442 |
| On issue 30 June 2009 | 187,020,586 | 171,250,326 | 187,020,586 | 137,166,984 | 187,020,586 | 34,083,442 |

On 19 August 2009 the securityholders of VCEG approved the acquisition of all of the shares of the manager Viridis Energy Capital Pty Limited ("VEC"). The consideration payable to the owners of VEC was \$2.76 million, which was used to subscribe for 12 million stapled securities at an issue price of \$0.23 per stapled security.

The units in VCET I and VCET II are combined and issued as stapled units. These stapled units cannot be traded separately. All units participate in distributions and the proceeds on winding up in proportion to the number of units held. At unit holders' meetings, each unit entitles the holder to one vote when a poll is called; otherwise each unit holder has one vote on a show of hands. The stapling deed ensures that, for so long as the two entities remain jointly quoted, the number of units in each trust shall be equal in number, and the unit holders shall be identical. Subject to the requirements of the *Corporations Act 2001* and, where applicable the ASX Listing Rules, the stapled units may only be unstapled on application of the responsible entity with the approval of unit holders.

The constitutions of VCET I and VCET II do not state the number of authorised units. Units issued have no par value.



21.

Reserves

| | VCEG 1 July 2008 -30 June 2009 \$ | VCET I 1 July 2008 -30 June 2009 \$ | VCET II 1 July 2008 -30 June 2009 \$ | VCEG 1 July 2007 -30 June 2008 \$ | VCET I 1 July 2007 -30 June 2008 \$ | VCET II 1 July 2007 -30 June 2008 \$ |
|--|--|--|---|--|--|---|
| a) Reserves | | | | | | |
| Foreign currency translation reserve | (1,206) | – | – | (4,994) | – | – |
| Cash flow hedge reserve | (6,566) | – | – | 5,391 | 300 | – |
| | (7,772) | – | – | 397 | 300 | – |
| b) Movements | | | | | | |
| Foreign currency translation reserve | | | | | | |
| Balance at 1 July | (4,994) | – | – | (2,951) | – | – |
| Currency translation differences arising during the year | 3,148 | – | – | (2,043) | – | – |
| Balance at 30 June | (1,846) | – | – | (4,994) | – | – |
| Cash flow hedge reserve | | | | | | |
| Balance at 1 July | 5,391 | 300 | – | 7,945 | – | – |
| Revaluation—gross | (16,834) | (1,564) | – | (1,124) | 369 | – |
| Deferred tax | 4,258 | – | – | 295 | – | – |
| Transfer to net profit—gross | 2,007 | 1,264 | – | (1,565) | (69) | – |
| Deferred tax | (209) | – | – | 430 | – | – |
| Investment in associate—movement net of tax | (1,762) | – | – | (170) | – | – |
| Net foreign currency exchange differences | 584 | – | – | (420) | – | – |
| Balance at 30 June | (6,565) | – | – | 5,391 | 300 | – |

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign controlled entities. The reserve is recognised in profit and loss when the net investment is disposed of.

Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1. Summary of significant accounting policies. Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

Related party disclosures

A. General Information

The responsible entity of VCEG is Viridis Investment Management Limited. Viridis Investment Management Limited has been the responsible entity of VCEG since 1 August 2005. Pursuant to the investment management agreement, the responsible entity engaged Viridis Energy Capital Pty Limited ("the manager") to act as investment manager of VCEG's clean energy assets. On 19 August 2009 the securityholders of VCEG approved the acquisition of all of the shares of the manager Viridis Energy Capital Pty Limited ("VEC"), which is the ultimate parent entity of the responsible entity. The consideration payable to the owners of VEC, including the Investec Group, was \$2.76 million, which was used to subscribe for 12 million stapled securities at an issue price of \$0.23 per stapled security.

B. Key management personnel of the responsible entity

Disclosures in relation to key management personnel ("KMP") of the responsible entity during the financial year and until the date of this report are set out in Note 23. Key management personnel.

C. Ultimate parent entity

In accordance with AASB Interpretation 1002 "Post-Date-of-Transition Stapling Arrangements", Viridis Clean Energy Trust II has been nominated as the ultimate parent entity of VCEG. Refer to Note 1 F.

D. Subsidiaries

Names of subsidiaries

Names and interests in subsidiaries are set out in Note 14. Other financial assets.

E. Other related parties—responsible entity

i. Parent entity of the responsible entity

The manager is the ultimate parent entity of Viridis Investment Management Limited, the responsible entity of VCEG.

ii. Responsible entity's equity interest in VCEG

The responsible entity holds no interests in securities of VCEG.

iii. Transactions between the responsible entity and the manager

The responsible entity has entered into an agreement with the manager under which it is entitled to receive a fee from the manager, representing the reasonable reimbursement of the responsible entity's costs, including all overheads and whether incurred directly by the responsible entity or reimbursed by the responsible entity to any of its related bodies corporate, in acting as responsible entity of VCEG for which it is not otherwise reimbursed, of up to 0.4% per annum of VCEG's net investment value.

iv. Transactions with the manager

The manager holds nil units in VCEG (2008: 161 units).

The manager is paid a fee. This is outlined in Note 23. Key management personnel, section D. Compensation policy.

The manager is paid an asset operations management fee in relation to personnel providing services to asset operations within VCEG.

The manager has made payments on behalf of VCEG for which reimbursement has been made in full.

v. Transactions with other related parties

Relationship with the Investec Group

Investec Group provides financing to VCEG on commercial terms and conditions. Refer to Note 18. Interest-bearing liabilities for details of outstanding loans.

A services agreement with Investec Group expired by mutual agreement on 30 June 2009. Under this agreement, a service fee of \$145,000 per annum was payable for certain administrative services provided to the responsible entity in connection with the responsible entity's Australian Financial Services Licences and to enable the responsible entity to fulfil its obligations as the responsible entity of VCEG. Of this fee, \$121,000 was payable out of the assets of VCEG as the services gave rise to reimbursable expenditure under the terms of the constitution and \$24,000 was payable by the responsible entity out of its own funds.

As at 30 June 2009 Investec Group held 43% (35% fully diluted) (2008: 43% (35% fully diluted)) of the ordinary equity in the manager and was effectively entitled to 50% of the voting rights on material shareholder decisions. Investec Group was entitled to appoint two members to the board of directors of the manager as long as its shareholding in the manager was at least 30% on a fully diluted basis.

Other—Run Energy Group

Run Energy Group provides operations and maintenance services (starting April 2009) and certain technical management services to the USA landfill gas asset portfolio, and gas resources management services and other gas field related services to the UK landfill gas portfolio. From time to time Run Energy Group is also engaged to provide technical advice in relation to VCEG's asset portfolio. Walter Pahor, a director of the responsible entity and director of the manager, wholly owns the Run Energy Group.



22. Related party disclosures **continued**

F. Transactions with related parties of the Viridis Clean Energy Group

The following transactions occurred with related parties.

| | VCEG 1 July 2008 –30 June 2009 \$ | VCET I 1 July 2008 –30 June 2009 \$ | VCET II 1 July 2008 –30 June 2009 \$ | VCEG 1 July 2007 –30 June 2008 \$ | VCET I 1 July 2007 –30 June 2008 \$ | VCET II 1 July 2007 –30 June 2008 \$ |
|--|--|--|---|--|--|---|
| Transactions with the manager and VCEG | | | | | | |
| Base fee paid by VCEG to the manager | 1,526,882 | 1,290,387 | 236,495 | 2,356,670 | 1,951,149 | 405,521 |
| Asset operations management fee paid by VCEG to the manager | 907,472 | – | 907,472 | 504,217 | – | 504,217 |
| Reimbursement of costs paid by the manager on behalf of VCEG | 233,851 | 74,080 | 14,836 | 359,718 | 141,476 | 33,123 |
| Payment of directors' fees of the responsible entity | | | | | | |
| Paid for by the manager | 61,658 | – | – | 52,727 | – | – |
| Paid for by VCEG | 114,507 | 96,758 | 17,749 | 97,922 | 80,720 | 17,202 |
| Purchases from other related parties | | | | | | |
| Payments to Run Energy Group* | 2,985,621 | – | – | 2,824,339 | – | – |
| Payments to Investec Group – services agreement** | 121,000 | 102,547 | 18,453 | 162,697 | 127,458 | 35,239 |
| Payments to Investec Group – guarantee fee | 250,722 | – | 250,722 | 113,734 | – | 113,734 |
| Payments to Investec Group – debt raising fee | 1,706,138 | 1,706,138 | – | – | – | – |
| Payments to Investec Group – debt raising legal fees | 167,759 | 167,759 | – | – | – | – |
| Payments to Investec Group – other legal fees | 19,912 | 16,607 | 3,305 | – | – | – |
| Dividend revenue | | | | | | |
| Associated entities | 3,757,057 | – | – | 2,093,281 | – | – |

* Run Energy Group—refer to Note 22 E. (v) above for a description of the relationship with Run Energy Group.

** Investec Group—refer to Note 22 E. (v) above for a description of the relationship with Investec Group.

G. Outstanding balances arising from transactions with related parties of the Viridis Clean Energy Group

| | VCEG 1 July 2008 –30 June 2009 \$ | VCET I 1 July 2008 –30 June 2009 \$ | VCET II 1 July 2008 –30 June 2009 \$ | VCEG 1 July 2007 –30 June 2008 \$ | VCET I 1 July 2007 –30 June 2008 \$ | VCET II 1 July 2007 –30 June 2008 \$ |
|--|--|--|---|--|--|---|
| Receivables between Group* | – | 163,067,392 | 38,175,518 | – | 192,418,174 | 37,532,890 |
| Current payables between Group | – | – | 35,639,661 | – | 3,424,113 | 34,151,311 |
| Current payables owing to related parties | | | | | | |
| Manager | 308,343 | 265,175 | 43,168 | 793,652 | 532,383 | 217,312 |
| Investec Group | 60,500 | 52,030 | 8,470 | – | – | – |
| Run Energy Group | 514,432 | – | – | 942,790 | – | – |

* There are no provisions for doubtful debts.

22. Related party disclosures **continued**

H. Loans to/from related parties of the Viridis Clean Energy Group

| | VCEG 1 July 2008 –30 June 2009 \$ | VCET I 1 July 2008 –30 June 2009 \$ | VCET II 1 July 2008 –30 June 2009 \$ | VCEG 1 July 2007 –30 June 2008 \$ | VCET I 1 July 2007 –30 June 2008 \$ | VCET II 1 July 2007 –30 June 2008 \$ |
|--|--|--|---|--|--|---|
| Loans to subsidiary entities | | | | | | |
| Beginning of year | – | 192,418,174 | 37,532,890 | – | 198,869,428 | 39,396,154 |
| Loan advances—paid | – | 1,488,708 | 10,375,203 | – | – | 5,145,036 |
| Loan advances—issue of securities (Distribution reinvestment plan) | – | – | – | – | – | 696,099 |
| Loan payments received | – | (27,984,198) | (9,732,575) | – | (3,680,975) | (7,704,399) |
| Interest charged | – | 13,486,527 | – | – | 14,416,781 | – |
| Interest received | – | (16,341,819) | – | – | (17,187,060) | – |
| End of year | – | 163,067,392 | 38,175,518 | – | 192,418,174 | 37,532,890 |
| Loan to associates* | | | | | | |
| Beginning of year | 19,862,394 | – | – | 22,605,448 | – | – |
| Interest charged | 1,416,087 | – | – | 1,944,651 | – | – |
| Interest received | (2,442,006) | – | – | (1,987,371) | – | – |
| Loan advances—paid | 2,640,247 | – | – | – | – | – |
| Loan payments received | (21,596,452) | – | – | – | – | – |
| Net foreign currency exchange differences | 119,730 | – | – | (2,700,334) | – | – |
| End of year | – | – | – | 19,862,394 | – | – |
| Loans from Investec Group** | | | | | | |
| Beginning of year | 83,600,739 | 83,600,739 | – | 83,621,621 | 83,621,621 | – |
| Loans received | 85,306,877 | 85,306,877 | – | – | – | – |
| Loan payments paid | (107,316,536) | (107,316,536) | – | – | – | – |
| Interest charged | 7,456,154 | 7,456,154 | – | 8,210,188 | 8,210,188 | – |
| Interest paid | (7,456,154) | (7,456,154) | – | (8,231,070) | (8,231,070) | – |
| End of year | 61,591,080 | 61,591,080 | – | 83,600,739 | 83,600,739 | – |

* Terms and conditions of the loan to Ardrossan Wind Farm can be found at Note 13. Investments in associates

** Refer to Note 22 E. (v) above for a description of the relationship with Investec Group.



23.

Key management personnel

Key management personnel for the year ended 30 June 2009

The key management personnel of VCEG include the four directors of the responsible entity, the manager of VCEG, and the three responsible officers of the responsible entity.

A. Directors of the responsible entity

The following persons were directors of Viridis Investment Management Limited, the responsible entity, during the financial year:

| Name | Position |
|-----------------|----------------------|
| Andrew J. Berry | Independent chairman |
| Robert Webster | Independent director |
| Stephen Chipkin | Director |
| Walter Pahor | Director |

Stephen Chipkin and Walter Pahor are also directors of the manager.

On 19 August 2009 the securityholders of VCEG approved the acquisition of all of the shares of the manager Viridis Energy Capital Pty Limited ("VEC"). The consideration payable to the owners of VEC was \$2.76 million, which was used to subscribe for 12 million stapled securities at an issue price of \$0.23 per stapled security.

It is intended that Stephen Chipkin will resign as a director of the responsible entity and Edward Northam will be appointed as managing director after this financial report is released.

B. Other key management personnel

The following persons and entities also had authority and responsibility for planning, directing and controlling the activities of VCEG, directly or indirectly, during the current and previous financial year:

| Name | Position held | Employer |
|--|---|----------|
| Manager | Manager of VCEG | n/a |
| Edward Northam | Responsible manager of the responsible entity and chief executive officer of the manager | Manager |
| Duncan Jewell | Responsible manager of the responsible entity and chief financial officer of the manager | Manager |
| Andrew Rayne—resigned 12 September 2008 | Responsible manager of the responsible entity and chief investment officer of the manager | Manager |
| Timothy Sayers | Group financial controller of the manager | Manager |

C. Key management personnel compensation

i. Directors' fees

Fees for directors are as follows:

| Name | 1 July 2008 –30 June 2009 | 1 July 2007 –30 June 2008 |
|-----------------|------------------------------|------------------------------|
| | \$ | \$ |
| Andrew J. Berry | 100,000 | 85,000 |
| Robert Webster | 70,000 | 60,000 |
| Stephen Chipkin | – | 30,000 |
| Walter Pahor | – | 40,000 |

Directors' fees, or part thereof, were paid by the responsible entity and the manager throughout the year. The directors' fees for Andrew J. Berry and Robert Webster were paid by the responsible entity and the directors fees for Stephen Chipkin and Walter Pahor were paid by the manager. 65% of the fees for Andrew J. Berry and Robert Webster were reimbursed to the responsible entity out of the assets of VCEG as they relate to the directors' participation on the audit and compliance committee and management of the compliance function.

From 1 March 2008 Stephen Chipkin and Walter Pahor agreed to waive payment of their directors' fees until further notice.

The directors received no other benefits.

23. Key management personnel **continued**

ii. Remuneration—Responsible officers and management personnel

Payments made by VCEG to the manager do not include any amounts attributable to the compensation of key management personnel.

D. Compensation policy

i. Directors' remuneration

The compensation paid to directors of the responsible entity is determined with reference to current market rates of directorships of similar entities. The level of compensation is not related to the performance of the responsible entity.

ii. Managers' remuneration

The remuneration of the manager comprises a base fee and, potentially, a performance fee. The base fee is payable quarterly at the rate of 1% per annum of net investment value of VCEG. Net investment value is equal to the market capitalisation of VCEG plus trust level debt less uninvested capital. The manager may be entitled to a performance fee where total returns from VCEG over a half financial year exceed the returns of the S&P ASX 200 Utilities Accumulation index over that period.

No performance fees were payable for the year ended 30 June 2009 (2008: \$nil).

E. Key management personnel interests in VCEG

The following table outlines the interests that KMPs hold in VCEG.

| 2009 | | | | | | |
|------------------------------------|---|---|---|--|--|----|
| Name | KMP interests in VCEG securities at 1 July 2008 | Securities acquired during the year to 30 June 2009 | Securities disposed of during the year to 30 June 2009 | KMP interests in VCEG securities at 30 June 2009/ date of cessation | Distribution received/receivable to 30 June 2009 | \$ |
| Andrew J. Berry | 186,689 | – | – | 186,689 | 6,030 | |
| Robert Webster | 22,388 | – | – | 22,388 | 723 | |
| Stephen Chipkin | 95,939 | – | – | 95,939 | 3,099 | |
| Walter Pahor | 3,177,777 | – | – | 3,177,777 | 102,642 | |
| Viridis Energy Capital Pty Limited | 161 | – | (161) | – | 5 | |
| Edward Northam | 21,666 | 2,586 | – | 24,252 | 783 | |
| Duncan Jewell | 34,289 | – | – | 34,289 | 1,108 | |
| Andrew Rayne ⁱ | 21,666 | – | – | 21,666 | – | |
| Timothy Sayers | 15,000 | 15,000 | (15,000) | 15,000 | 808 | |
| 2008 | | | | | | |
| Name | KMP interests in VCEG securities at 1 July 2007/date of appointment | Acquire through DRP | Other securities acquired/(disposed of) during the year to 30 June 2008 | KMP interests in VCEG securities at 30 June 2008/ date of cessation | Distribution received/receivable to 30 June 2008 | \$ |
| Andrew J. Berry | 144,444 | 17,245 | 25,000 | 186,689 | 17,161 | |
| Robert Webster | 20,000 | 2,388 | – | 22,388 | 2,203 | |
| Richard Longes ⁱⁱ | 150,000 | – | – | 150,000 | – | |
| Stephen Chipkin ⁱⁱⁱ | 90,000 | 5,939 | – | 95,939 | 9,441 | |
| Walter Pahor | 3,177,777 | – | – | 3,177,777 | 322,862 | |
| Viridis Energy Capital Pty Limited | 144 | 17 | – | 161 | 16 | |
| Edward Northam | 21,666 | – | – | 21,666 | 2,201 | |
| Duncan Jewell | 31,666 | 2,623 | – | 34,289 | 3,374 | |
| Andrew Rayne | 21,666 | – | – | 21,666 | 2,201 | |
| Timothy Sayers | – | – | 15,000 | 15,000 | 750 | |
| Alan Chonowitz ^{iv} | – | – | – | – | – | |

i. Andrew Rayne ceased to be key management personnel on 12 September 2008.

ii. Richard Longes ceased to be key management personnel on 31 August 2007.

iii. Stephen Chipkin became key management personnel on 1 September 2007.

iv. Alan Chonowitz ceased to be key management personnel on 21 December 2007.

Distributions received include the interim distribution paid and the final distribution payable in each year.

F. Outstanding balances between KMPs and VCEG

Fees to the manager and other transactions between the responsible entity and the manager have been disclosed in Note 22. Related party disclosures.

The outstanding balances between the responsible entity and the manager at 30 June 2009 are disclosed in Note 22. Related party disclosures.



24.

Auditors' remuneration

| | VCEG 1 July 2008 -30 June 2009 \$ | VCET I 1 July 2008 -30 June 2009 \$ | VCET II 1 July 2008 -30 June 2009 \$ | VCEG 1 July 2007 -30 June 2008 \$ | VCET I 1 July 2007 -30 June 2008 \$ | VCET II 1 July 2007 -30 June 2008 \$ |
|---|--|--|---|--|--|---|
| Amounts paid or payable to the auditors of VCEG for PricewaterhouseCoopers | | | | | | |
| Audit services | 276,500 | 212,233 | 39,267 | 288,650 | 220,722 | 44,171 |
| Other services | 142,190 | - | 142,190 | - | - | - |
| | 418,690 | 212,233 | 181,457 | 288,650 | 220,722 | 44,171 |

The auditors received no other benefits.

25.

Contingencies

There are no contingent liabilities or assets that require disclosure.

26.

Commitments for expenditure

| | VCEG 30 June 2009 \$'000 | VCEG 30 June 2008 \$'000 |
|--|--------------------------------|--------------------------------|
| Capital commitments | | |
| There are no capital commitments at 30 June 2009 (30 June 2008: \$nil) | | |
| Lease commitments as lessee | | |
| Non-cancellable operating leases within one year | 104 | 62 |
| Non-cancellable operating leases later than one year but not later than five years | 103 | - |
| | 207 | 62 |

27.

Earnings per unit

Basic earnings per unit amounts are calculated by dividing net profit for the year attributable to unit holders of VCET II by the weighted average number of units outstanding during the year. The diluted earnings per unit are the same as the basic earnings per unit as there are no instruments on issue that are considered to be dilutive.

| | Consolidated 30 June 2009 cents | Consolidated 30 June 2008 cents |
|---------------------------|---------------------------------------|---------------------------------------|
| Basic earnings per unit | (10.35) | (14.53) |
| Diluted earnings per unit | (10.35) | (14.53) |

The following represents the income and unit data used in the basic earnings per unit calculation.

| | VCEG 2009 | VCEG 2008 |
|---|--------------|--------------|
| Net profit/(loss) after income tax, \$'000 | (19,349) | (26,874) |
| Weighted average number of units on issue used in the calculation of basic earnings per unit, units | 187,020,586 | 184,916,363 |

28.

Subsequent events

On 19 August 2009 the securityholders of VCEG approved the internalisation of the manager Viridis Energy Capital Pty Limited ("VEC"). The consideration payable to the owners of VEC was \$2.76 million, which was used to subscribe for 12 million stapled securities at an issue price of \$0.23 per stapled security. Since 30 June 2009 no other matter or circumstance not otherwise dealt with in the financial report has significantly affected or may significantly affect VCEG.



Statement by directors

In the opinion of the directors of Viridis Investment Management Limited:

a) the financial statements and notes set out on pages 24 to 72 are in accordance with the *Corporations Act 2001*, including:

i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

ii) giving a true and fair view of the financial position of Viridis Clean Energy Trust I, Viridis Clean Energy Trust II and VCEG as at 30 June 2009 and of their performance for the financial year ended on that date; and

b) there are reasonable grounds to believe that VCEG will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Andrew J. Berry
Chairman

Melbourne
28 August 2009

**Independent auditor's report to the members of Viridis Clean Energy
Trust I and Viridis Clean Energy Trust II**

Report on the financial report

We have audited the accompanying financial report of the Viridis Clean Energy Group (defined below), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Viridis Clean Energy Group. The Viridis Clean Energy Group comprises both Viridis Clean Energy Trust I and Viridis Clean Energy Trust II and the entities they controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of Viridis Investment Management Limited (the Responsible Entity) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

**Independent auditor's report to the members of Viridis Clean Energy Trust I
and Viridis Clean Energy Trust II
(continued)**

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

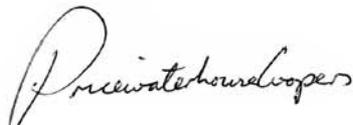
Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of the Viridis Clean Energy Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of Viridis Clean Energy Trust I and Viridis Clean Energy Trust II and the Viridis Clean Energy Group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the Viridis Clean Energy Group financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.



PricewaterhouseCoopers



Chris Dodd
Partner

Melbourne
28 August 2009

Securityholder information

The securityholder information set out below was current as at 31 August 2009.

i. Substantial stapled securityholders as at 31 August 2009

| Holders | Number of stapled securities | % of issued stapled securities |
|--|------------------------------|--------------------------------|
| Investors Mutual Ltd | 22,607,459 | 11.36 |
| Viridis Investment Management Limited in its capacity as responsible entity of Viridis Clean Energy Trust II | 12,000,000 | 6.03 |
| Oaktel Investments Pty Ltd | 11,122,977 | 5.59 |

ii. Distribution of stapled security securities as at 31 August 2009

| Investor ranges | Holders | Total stapled securities | % of issued stapled securities |
|------------------|--------------|--------------------------|--------------------------------|
| 1–1,000 | 236 | 159,915 | 0.08 |
| 1,001–5,000 | 697 | 2,160,366 | 1.09 |
| 5,001–10,000 | 800 | 6,544,579 | 3.29 |
| 10,001–100,000 | 1,747 | 48,007,158 | 24.12 |
| 100,001 and over | 122 | 142,148,568 | 71.42 |
| Total | 3,602 | 199,020,586 | 100.00 |

There were 362 holders of less than a marketable parcel of ordinary shares

iii. Twenty largest holders of stapled securities as at 31 August 2009

| Name | Number held | % of total |
|---|-------------|------------|
| 1. RBC Dexia Investor Services Australia Nominees Pty Limited | 21,839,279 | 10.97 |
| 2. National Nominees Limited | 16,812,727 | 8.45 |
| 3. Oaktel Investments Pty Ltd | 11,122,977 | 5.59 |
| 4. Citicorp Nominees Pty Limited | 11,025,238 | 5.54 |
| 5. Netwealth Investments Limited | 10,205,102 | 5.13 |
| 6. HSBC Custody Nominees (Australia) Limited | 6,662,846 | 3.35 |
| 7. Australian Executor Trustees Limited | 6,585,384 | 3.31 |
| 8. Lighthouse Infrastructure Management Limited | 6,434,294 | 3.23 |
| 9. ANZ Nominees Limited—Cash Income account | 4,195,142 | 2.11 |
| 10. Djerriwarrh Investments Limited | 3,565,467 | 1.79 |
| 11. Mirrabooka Investments Limited | 3,446,771 | 1.73 |
| 12. Sandhurst Trustees Ltd—SISF account | 2,866,160 | 1.44 |
| 13. UBS Wealth Management Australia Nominees Pty Ltd | 2,627,506 | 1.32 |
| 14. Jagen Nominees Pty Ltd | 2,610,337 | 1.31 |
| 15. M F Custodians Ltd | 2,144,444 | 1.08 |
| 16. Investec Bank (Australia) Limited | 2,070,360 | 1.04 |
| 17. PEP Energy Pty Ltd | 1,812,720 | 0.91 |
| 18. Amcil Limited | 1,345,293 | 0.68 |
| 19. Nefco Nominees Pty Ltd | 1,200,000 | 0.60 |
| 20. Montage Capital Pty Limited | 943,574 | 0.47 |

iv. Voting rights

The voting rights are one vote per stapled security.



Corporate directory

Responsible entity

Viridis Investment Management Limited
(ABN 51 099 788 431; AFSL 222 547)

Directors

Andrew J. Berry, Independent chairman
Robert Webster, Independent director
Walter Pahor, Director
Edward Northam, Managing director

Company Secretary

Duncan Jewell

Manager

Viridis Energy Capital Pty Limited
(ABN 94 098 467 988; AFSL 222 548)

Registered Office

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enquiries@viridisenergy.com

Auditors

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Southbank Victoria 3006
Telephone 613 8603 1000

Registry

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