

STATEMENT OF CORPORATE INTENT

2021

snowyhydro

red
energy



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CONNECT**
MAKES MOVING EASY



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INTRODUCTION

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The Statement of Corporate Intent FY2021 for Snowy Hydro Limited (**Snowy Hydro** or the **Company**) sets out who we are, what we do and how we do it over the 10 year reporting period from 2021-2030 (**Plan Period**). It encompasses Snowy Hydro Limited and its wholly owned operating subsidiaries comprising Red Energy, Lumo Energy and Direct Connect Australia businesses.

Snowy Hydro was incorporated on 28 June 2002, when the Snowy Mountains Hydro-electric Authority was corporatised under the *Snowy Hydro Corporatisation Act 1997*. Since corporatisation in 2002, Snowy Hydro has significantly expanded its footprint beyond the Snowy Mountains Hydro-electric Scheme. Today, Snowy Hydro operates a growing and profitable energy retailing, wholesale energy risk management and power generation business, which includes the Snowy 2.0 Project (**Snowy 2.0**).

Snowy Hydro is governed by its Constitution (the **Constitution**), which sets out the responsibilities of the Board and Snowy Hydro's reporting obligations, subject to the *Corporations Act 2001* (Cth) (**Corporations Act**) and the *Public Governance, Performance and Accountability Act 2013* (Cth) (**PGPA Act**). This Statement of Corporate Intent has been prepared in accordance with the requirements of our *Constitution* and s95(1) of the *PGPA Act*.

Snowy Hydro is 100% owned by the Commonwealth of Australia.

CORPORATE PURPOSE AND OBJECTIVES

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Snowy Hydro is the leading energy storage provider and fourth-largest energy retailer in the National Electricity Market (**NEM**), and the leading peaking generation capacity provider in NSW and Victoria. Red Energy and Lumo Energy are our industry-leading, award-winning retail brands, supported by the iconic Snowy Hydro brand, servicing all of the mainland NEM states.

Snowy Hydro plays the critical role of 'keeping the lights on' in the NEM, using its fast and reliable hydro, gas and diesel fired generators, and in providing water security in the Murray-Darling Basin through the long term water storage capability of the Snowy Scheme.

The NEM is in the midst of a multi-decade transformation, from a system historically based on coal for electricity production to one increasingly based on variable renewable sources of energy, such as wind and solar.

Snowy Hydro's large capacity, flexible and reliable hydro, gas and diesel fired generating assets are ideally suited to cost effectively and safely integrating variable renewable sources of energy into the NEM. For this reason Snowy Hydro plays the leading role in underpinning the NEM's renewable energy transformation. Our Corporate Purpose is to 'deliver Australia's renewable energy future'.

To this end, in recent years Snowy Hydro has begun construction of the 2000 Megawatts (**MW**) Snowy 2.0 pumped hydro energy storage facility, entered into long term low cost offtake agreements with large scale wind and solar developments in New South Wales, Victoria and South Australia totalling more than 1000MW, and begun sales of long term renewable energy products to commercial and industrial business.



As the NEM's transformation progresses over the coming decade and beyond, Snowy Hydro will look to continue to grow the business through complementary investments in further energy storage and flexible generation, combined with additional purchases of the lowest cost sources of renewable energy and sales of renewable energy products to energy consumers. Together with the Company's existing generating assets, these investments would enable the Company to meet the increasing demand of consumers for cleaner, cost-effective and reliable energy and to continue to 'ensure energy and system security' in the NEM.

The Statement of Expectations issued by Snowy Hydro's Shareholder Ministers on 26 February 2019 (**SOE**) states that the Commonwealth Government acquired Snowy Hydro to support the transition of Australia's energy system, and in particular, to support the expansion of pumped hydro in the Snowy Mountains Hydro-electric Scheme, through Snowy 2.0.

The SOE confirms that Snowy Hydro operates at arm's length from the Government, with the Snowy Hydro Board retaining ultimate responsibility for the performance of the Company.



The SOE states that the objectives of the Company are to develop, operate and maintain the Snowy Mountains Hydro-electric Scheme and other electricity generation facilities, as well as participate in wholesale and retail markets for the sale and purchase of electricity and gas and markets for related contracts and services.

Snowy Hydro operates as a commercial entity, on a commercial basis, with flexibility and discretion in its operational and commercial decisions within the bounds of its legislative and governance framework. Snowy Hydro is expected to operate on a competitive basis, and deliver financial returns consistent with its commercial operations.

The SOE also makes clear that Snowy Hydro is expected to display high standards of integrity in all of its dealings. Furthermore, Snowy Hydro must be transparent in its communication with the public and the Parliament to the fullest extent possible without prejudicing The Company's commercial position.

The Company will continue to operate as a NEM market leader in a fiercely competitive market, demonstrating integrity and promoting competition through the behaviour of its retail brands, and transparently engage with its stakeholders in the development of Snowy 2.0.

ETHICS AND VALUES

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Snowy Hydro expects all Directors, employees and contractors to comply with both the letter and the spirit of the law. We promote and expect high standards of integrity, transparency and professionalism in all of Snowy Hydro's dealings.

Above all, we strive to be a safe, ethical and environmentally responsible company. To foster this, Snowy Hydro and its subsidiaries uphold the six corporate values (shown below on the adjacent image).

SAFETY



Safety is always our number one priority

TEAMWORK



We help each other succeed through support and trust

OWNERSHIP



We take pride in our work and own our choices

AGILITY



We are adaptable and embrace change

DECENCY



We treat others the way we'd like to be treated

COURAGE



We speak up and act for what's important



Snowy Hydro's people are our greatest asset and we are proud of our successful track record in maintaining and fostering a highly skilled, diverse, professional and technical workforce. We conduct regular strategic workforce planning to ensure we have the capacity and capability to achieve the long-term success of the Company in a highly complex and rapidly changing environment. Snowy Hydro also routinely augments our internal skill set through strategic supplier and service partnerships, specialist consultants and contractors.

Snowy Hydro's capability strategy is overseen by a robust corporate governance framework. In particular, the Board People and Culture subcommittee provides advice to the Board on strategic priorities and risks in respect of all areas of human resources to ensure the Company has the requisite capability to achieve its strategic goals and long-term success.

Snowy Hydro attracts highly agile, intellectually curious and intelligent problem-solvers. We pride ourselves on the agility and diversity of thought demonstrated by our workforce, and their ability to think 'outside the box' in identifying and delivering solutions that achieve the best outcomes for the Company. This is increasingly important in the face of a rapidly evolving industry and corporate environment, where innovation, dynamic capabilities and non-traditional approaches are critical to organisational success.

Snowy 2.0 has reinforced the potential and performance of our pipeline of talent, as has the ability and agility of the Company's Retail executives to grow their capability over a 10-year period in alignment with the Retail growth strategy.

The Company has demonstrated an excellent track record in relation to its management of Snowy 2.0 to date. A robust governance and oversight framework has been established for the project. This ensures, among other things, that delivery capability risk is being appropriately managed including via an organisational structure that is fully aligned with the evolving needs of the project, fit for purpose governance processes, and specialist external advisors with global megaprojects experience to support the project team. Project management is overseen by a highly skilled and diverse project team that brings together Snowy Hydro staff and world leading technical experts. The appointment of the principal contractor (a joint venture that combines the expertise of major global players) provides additional experience and capability to deliver Snowy 2.0 and manage associated project risks.



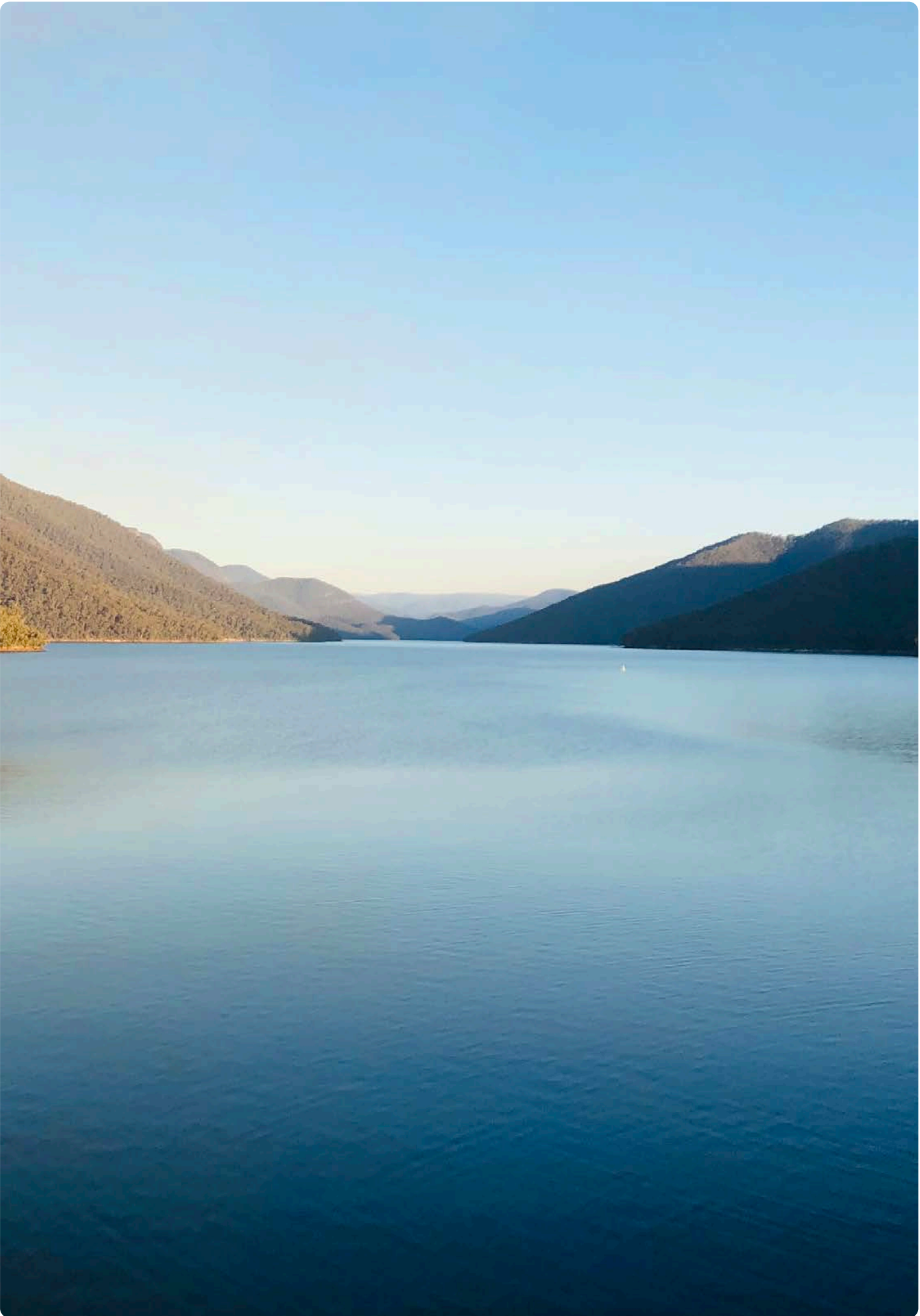
The continuing acquisition, retention and development of 'home-grown' talent will be critical given the demand for skills on Snowy 2.0 and future major generation investments coincident with a boom period for Australia's infrastructure, volatile and uncertain energy policy settings and the emergence of automation, robotics and mobile technologies.

Snowy Hydro proactively invests in our future capability through targeted apprenticeships, traineeships, cadetships and graduate programs with approximately 10% of our generation workforce in these programs. We engage with local students to encourage an interest in STEM oriented careers and build a local talent pipeline.

Snowy Hydro also provides ongoing career development opportunities to our workforce through promotions, transfers, secondments or involvement

in projects and cross-functional teams to ensure we proactively develop the right skills for the future.

Snowy Hydro will continue to ensure that its employee value proposition, a cornerstone of which is a wellbeing program and purposeful, satisfying work, remains one step ahead of the competition to withstand the choices that highly desirable employees will have.





OPERATING ENVIRONMENT

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ENERGY AND RETAIL OPERATIONS

Snowy Hydro combines the power of the mighty Snowy Scheme, with gas and diesel fired peaking generators and contracted energy from wind and solar developments to deliver a flexible and reliable mix of energy to our customers.

Snowy Hydro's fast-start and reliable generation capability plays a pivotal role in the stability and security of the NEM. We are able to 'keep the lights on' especially at times of high electricity demand or when the electricity transmission system or other generators experience unplanned outages.

This role will be even more critical as Australia transitions to a low emissions economy. Snowy Hydro, through its existing operations and the Snowy 2.0 deep energy storage project currently under construction, will continue to support the cost effective and secure integration of increasing amounts of variable renewable energy sources in the NEM.

Snowy Hydro operates 15 power stations, generates 4,500 Gigawatt hours (**GWh**) of energy on average per annum and holds 5,483MW of generating capacity across New South Wales, Victoria and South Australia. This makes us the largest peak generator, and the fourth largest generator in the NEM by installed capacity. This has been developed through enhancements to the Snowy Scheme, increasing the original installed generating capacity from 3,765MW to approximately 4,100MW. We have also constructed and acquired gas and diesel fired power stations, including open cycle gas-fired generators in Victoria (in the Latrobe Valley and Laverton North) and New South Wales (at Colongra), together with diesel peaking generators in South Australia.

70 years ago the first sod was turned for the Snowy Scheme. In March 2019, the first sod was turned on Snowy 2.0, which is the next chapter in the Company's history. Snowy 2.0 is a 2000MW expansion of the existing Snowy Scheme to provide on-demand energy and large-scale energy storage for the NEM. The development's six generating units are planned to be progressively commissioned with first power expected from the project in 2025. Snowy 2.0 reached a significant milestone in May 2020 with NSW infrastructure approval for the Main Project Works. This was closely followed by Commonwealth EPBC approval.



To further diversify our energy portfolio, we have recently signed long-term offtake agreements with wind and solar developments totalling more than 1,000MW. Energy procurement of this scale is a game changer for the NEM and sets a new low price benchmark for both the raw cost of energy and ‘firmed’ renewables. We will look to do more of these deals in future to underpin growth in retail energy sales.

Over the decades we’ve also grown into the fourth largest retailer in the NEM. Our success has come through investing in increasing our retail customer base, modernising and expanding our generation infrastructure and developing our workforce of more than 1,600 employees.

Every day we provide fast, reliable and clean electricity and gas to households and businesses across the country. Through our retail companies, Red Energy and Lumo Energy, we pride ourselves on outstanding customer satisfaction in servicing more than one million gas and electricity account holders. In 2019, for the sixth year running, Red Energy was awarded the Canstar Blue award for Most Satisfied Customers for Electricity in New South Wales. Red Energy was also awarded the national 2019 Canstar Blue Award for Most Satisfied Solar Customers. We also own Direct Connect Australia, a leading utilities connection provider, which provides moving-related services to tenants and homeowners across Australia, including connecting electricity and gas.



WATER OPERATIONS

The operation of the Snowy Scheme is prescribed under the *Snowy Water Licence* (the **Licence**) administered by the New South Wales Government. The Licence regulates how water is used in the Snowy Scheme and imposes a number of obligations on Snowy Hydro. It also sets out water accounting and reporting procedures for Snowy Hydro.

Snowy Hydro does not own any water within the Snowy Scheme. The Licence allows Snowy Hydro to collect, divert, store and release water in the Snowy Catchment Area.

It also obliges Snowy Hydro to carry out certain minimum water releases each year to the Murray and Murrumbidgee Rivers, and environmental releases to the Snowy and Montane Rivers.



GOVERNANCE

Snowy Hydro is fully owned by the Commonwealth of Australia.

Our *Constitution* places accountability on the Board to manage the business of Snowy Hydro. In doing so, the Board may exercise all powers of Snowy Hydro, subject to our *Constitution*, the *Corporations Act* and the *PGPA Act*. The *Constitution* prescribes certain circumstances where the Board is required to either notify, consult with or seek approval from our Shareholder. The *PGPA Act* includes notification requirements to our Shareholder.

REPORTING

Our *Constitution*, the *Corporations Act* and the *PGPA Act* prescribe Snowy Hydro's reporting obligations. Snowy Hydro is committed to a high standard of Shareholder communication and strives to report all information reasonably required by our Shareholder to make informed decisions in a timely manner.

RISK MANAGEMENT

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RISK MANAGEMENT

Snowy Hydro's Board and management are committed to maintaining a robust and effective risk management framework that proactively identifies and manages risks applicable across the Snowy Hydro Group. Snowy Hydro's Risk Management Policy sets out Snowy Hydro's objectives for maintaining and continuously improving a strategic and consistent enterprise-wide approach to risk management that is integrated into organisational processes and underpinned by a risk-aware culture.

The Board has ultimate accountability for the management of risks affecting Snowy Hydro and ensuring that effective risk management practices are in place across the business. The Board is assisted in fulfilling these duties by the Audit and Compliance Committee, which monitors the effectiveness of Snowy Hydro's risk identification and management framework. All other Board committees (comprising the Safety, Operations and Environmental Risk, Portfolio Risk, People and Culture and Snowy 2.0 Funding committees) support the Board in the management of key risk areas including regulatory compliance, energy trading, retail, safety, environmental, operational and people-related risks. Management is accountable for and has implemented internal controls to identify, evaluate and manage significant risks in relation to Snowy Hydro's business.

The effectiveness of the risk management framework is regularly assessed through self-reviews as well as via independent and objective assurance provided by Snowy Hydro's Internal Audit function. Internal Audit operates in accordance with an annual internal audit plan that is tailored to address key internal and external risks applicable to the business. This plan is reviewed and approved annually by the Audit and Compliance Committee of the Board, and audit results are incorporated into the continuous improvement of the risk management framework and supporting controls.

Further assurance is provided via the appointment of an external auditor to audit Snowy Hydro's financial statements.

PERFORMANCE

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Snowy Hydro's performance is managed against financial and operational measures incorporating safety, environment, revenue and customer components. While some performance measures such as safety apply across the whole Snowy Hydro Group, others are cascaded across business units and roles as relevant to ensure there is alignment on the achievement of the Company's objectives. This framework is benchmarked against industry best practice and is reviewed annually by the Board for appropriateness.

The Board and management regularly review the key performance measures to ensure the Company is meeting its objectives and identify any emerging issues. In addition, Board Committees review performance measures and targets within the remit of their respective Charters in greater detail based on performance and current developments.

SNOWY 2.0

The single largest project for the Company over the Plan Period is the safe and responsible delivery of the pumped-hydro expansion of the existing Snowy Scheme with Snowy 2.0. The key project delivery milestones are as follows:

- mid-2019 - Snowy 2.0 Exploratory Works commenced;
- mid-2020 - Snowy 2.0 Main Works commenced;
- 2023 - construction of the underground power station complex commences; and
- 2025 - first power out of Snowy 2.0 with progressive commissioning of the six generating units.

FINANCIAL MEASURES

Snowy Hydro aims to deliver premium financial returns to its Shareholder and to pay the highest possible dividends together with a key focus on optimal and sustainable capital management, having regard to our ability to create and protect Shareholder value and maintain a strong investment grade rating. In paying dividends, the Snowy Hydro Board takes into consideration the preference of our Shareholder for predictable dividends.

The Company's financial performance is made public each year in the annual financial statements.





For planning purposes, it is considered that a dividend payout ratio of 70 per cent of Net Profit After Tax (**NPAT**) over the medium term is a suitable dividend payment target. Snowy Hydro's capital management strategy may change from time to time in response to economic, industry and company specific factors, including the variability of forecast and actual inflows into the Snowy Scheme.

In FY2021, Snowy Hydro faces low Scheme storage levels for a fourth consecutive year, along with the impacts of falling gas prices and electricity demand on NEM pool prices, and revenue and cost impacts arising from the January 2020 bushfires and COVID-19.

Snowy Hydro's Shareholder acknowledges that dividends will be calculated as a proportion of NPAT before the adjustment for the fair value of

derivatives, amortisation of customers on acquisition and capitalisation of interest.

The Shareholder receives an interim dividend in April and a final dividend in October in each year.

Maintaining a strong investment grade credit rating is key to Snowy Hydro's commercial success. Providing risk management products to other energy market participants is underpinned by our strong investment grade credit rating, which is a key measure of our creditworthiness and our ability to honour the contracts covering market risks that we take on.

ACCOUNTING POLICIES

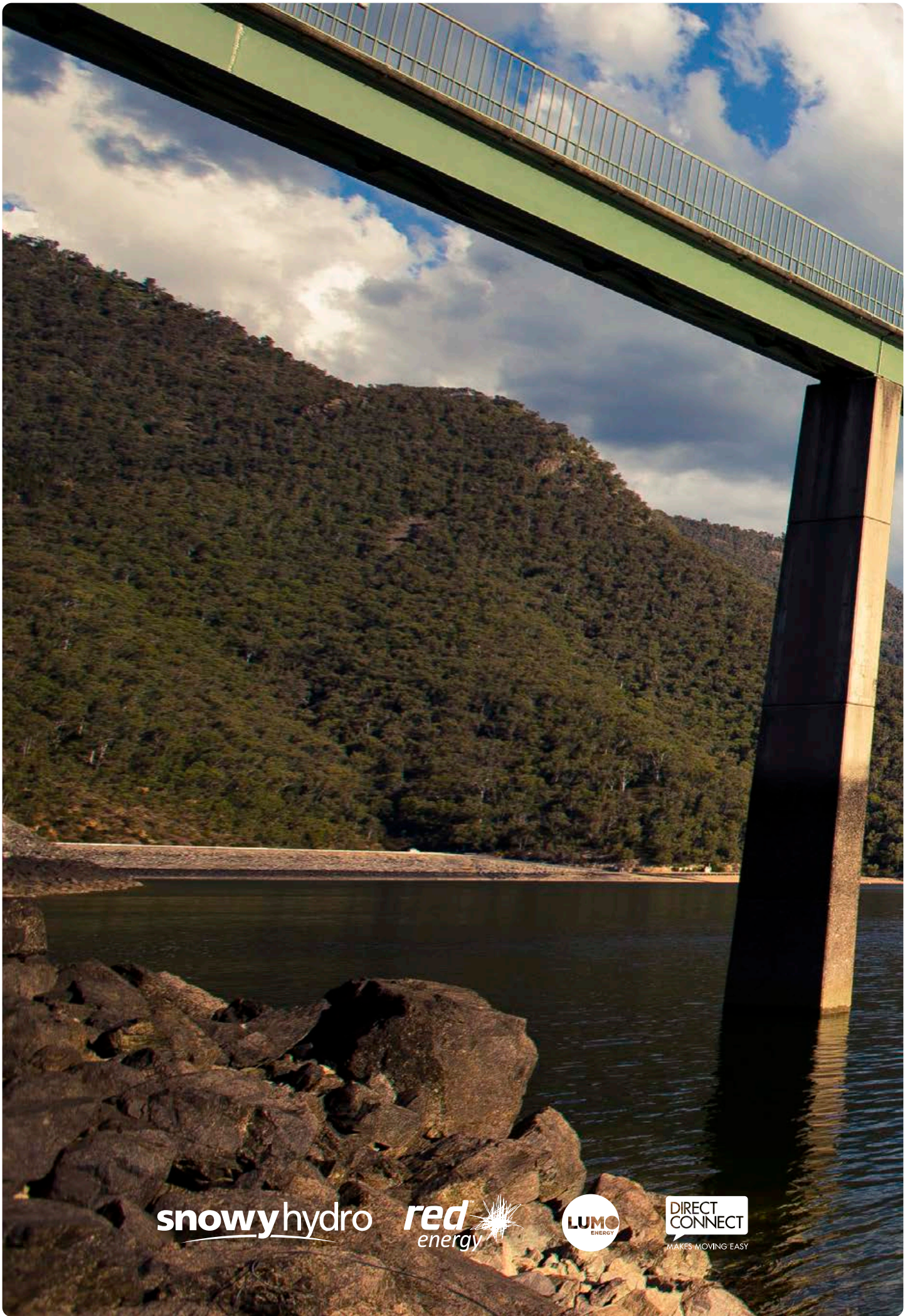
Snowy Hydro's financial statements are prepared in accordance with International Financial Reporting Standards (A-IFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act* and the *PGPA Act*.

NON-FINANCIAL MEASURES

Non-financial operational performance is measured against targets for the Plan Period which are as follows.

Purpose and measure	FY21 Target	FY22 onwards Target
Staff and Safety		
Fatalities (number of employees and supervised contractors)	0	0
Total reportable injury frequency rate (number per million hours worked; employees and supervised contractors)	2.58	Reducing over time
Staff satisfaction (Percentage of staff very/extremely satisfied as determined by survey)	Top quartile of Australian companies	Top quartile of Australian companies
Retail customer experience		
Net Promoter Score (percentage of promoters minus the percentage of detractors)	Industry Leading	Industry Leading
Customer satisfaction (percentage of customers very or quite satisfied)	Industry Leading	Industry Leading
Regulatory compliance		
Ombudsman complaints (number of complaints per mass market customer)	Below industry average	Below industry average
Compliance with Snowy Water Licence requirements (percentage of requirements met)	100%	100%
Publicly reportable environmental licence breaches (number of)	0	0
Generator reliability		
Generator Start Reliability (%)	> 99.5	> 99.5
Generator Forced Outage Factor (%)	< 1.0	< 1.0

Water release obligations for the Snowy Scheme are set out in each Annual Water Operating Plan. The Company reports publicly each year on its performance against these obligations.



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