

# SECTION 1 – BACKGROUND & PURPOSE

## 1.1 Background

Contact Energy Limited (“Contact”) is one of New Zealand’s largest listed companies and supplies electricity, natural gas, LPG and broadband services to over 500,000 customers across the country. Contact is committed to a sustainable energy future for New Zealand and has a strong focus on renewable energy with over 80% of electricity generation coming from geothermal and hydropower plants.

In line with New Zealand’s commitment to the Paris Agreement, Contact recognises and supports the transition to a low carbon economy to reduce climate change impact on, and create benefit to, the communities it serves in the long term.

In seeking to achieve those ambitions, Contact invested in expanding its renewable energy generation with the construction of a new geothermal plant, Te Mihi. Consequently, this has enabled Contact to systematically undertake the closure of 400MW of thermal generation. These actions have resulted in a reduction of over 50% in Contact’s greenhouse gas emissions since 2012, and the building out of a more sustainable yet still reliable supply of energy to meet market needs.

As a key next step in its commitment to a low carbon future, Contact has created a green borrowing programme (the “Programme”). This is a progressive approach to green finance and will better support Contact’s past and future renewable energy generation initiatives whilst also providing investors and lenders with an opportunity to access a broad range of accredited green debt instruments. This Programme is the first of its kind in New Zealand and one of the first by a corporate globally.

In April 2019, Contact became the first energy company in New Zealand to have its emission reduction targets approved by the Science Based Target Initiative (SBTi). We are in the process of updating these targets to align with limiting global warming temperature increases to 1.5°C.

## 1.2 Purpose

The purpose of this paper is to set out the framework for the Programme which covers both current and future committed bank debt facilities and capital markets issuances and is underpinned by Contact’s existing and future renewable generation assets (the “Framework”).

Contact has based the Framework on the Green Bond Principles (“GBP”) and the current Climate Bonds Standard V2.1 (the “Climate Bonds Standard”). These have become universally acceptable as the basis for capital markets issuance of green bonds. In the absence of any such guidance for assessing the green nature of other debt instruments, Contact views these criteria as suitable to apply to all other forms of borrowing under the Programme.

This Framework summarises the manner in which Contact supports and maintains the Programme including:

a) the instruments issued under it, which will include but not be limited to the face value of:

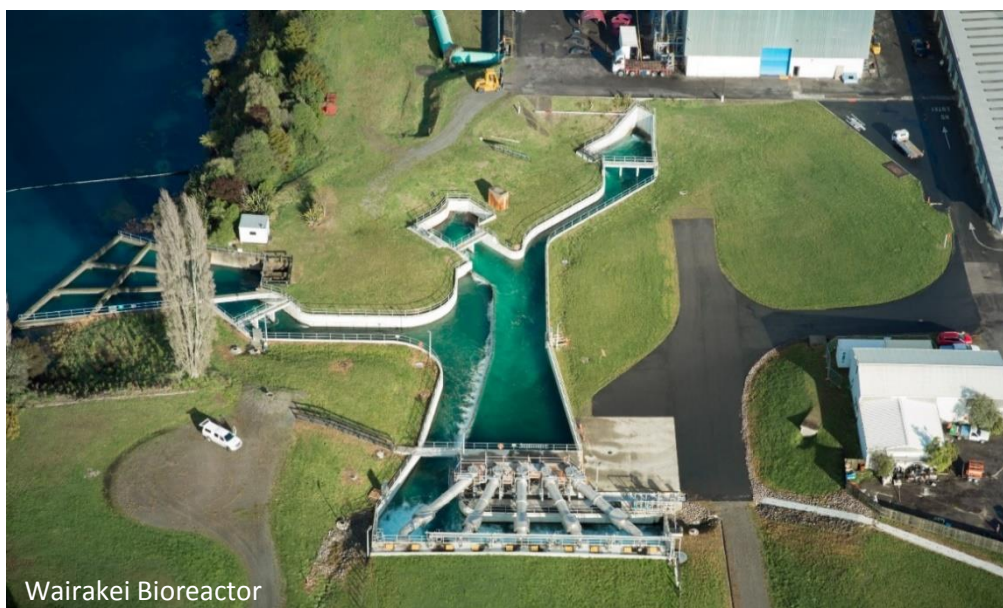
- Committed bank facilities, including specialised funding such as its export credit agency facility (“NEXI facility”) <sup>1</sup>
- Commercial paper issued under its domestic Commercial Paper Programme
- Wholesale bonds
- Listed retail bonds
- US Private Placement Notes <sup>2</sup>
- Bonds issued in other offshore jurisdictions



(the “Green Debt Instruments”; see Appendix 2 for the latest position ). Updates will be provided in the “Borrowings” section in the notes accompanying Contact’s half yearly and full year financial statements.

b) the renewable generation and other eligible assets (“Green Assets”) as set out in section 2.1 below, to which proceeds from the Green Debt Instruments will be applied.

To provide investors and lenders with comfort that they are investing in Green Assets, Contact is committed to ensuring that its Programme is always at least 1.0 times covered by the value of its renewable generation assets (the “Green Ratio”).



<sup>1</sup> The Committed Bank facilities will be included at the face value of the facilities, and therefore the facilities themselves, and any drawings under them, will be certified green.

<sup>2</sup> USPP USD Notes and other foreign currency bonds will be included at NZD equivalent under the Cross Currency and Interest Rate Swaps associated with that issuance.

## SECTION 2 - FRAMEWORK

### 2.1 Use of Proceeds

A critical factor in ensuring the integrity of the Framework is identifying the use of proceeds of the Green Debt Instruments issued under the Programme, and ensuring the proceeds are applied to expenditure within Contact's business and operations that promote the transition to a low carbon and climate resilient economy.

Specifically, the proceeds of Contact's Programme will be used to finance Green Assets, namely:

- a) existing renewable power generation assets, specifically hydropower and geothermal generation assets; and
- b) future renewable power generation assets including hydropower, geothermal, wind and solar generation assets, and batteries for renewable energy storage

that meet the Green Bond Principles and the Climate Bonds Standard, including CBI's relevant asset specific criteria, or draft criteria where applicable. See Appendix 1 for the most recent schedule of Green Assets. Contact notes that its Ohaaki geothermal generation plant has been excluded on the basis its emissions intensity is currently higher than the standards set out by the CBI.

Contact's hydropower generation assets qualify as green under the GBP. However as CBI has not yet released final hydropower criteria, it is not possible to obtain green certification for these assets. In order to determine hydropower qualification under the GBP, Contact has utilised the draft CBI criteria where available, and supplemented this with their own internal social and environmental governance policies and procedures.

From time to time, Contact may be in a position where surplus funds arise (total Green Debt Instruments issued under the Programme exceed the total book value of the Green Assets). This may occur, for example, when a prefunding transaction settles ahead of a capital market maturity. When a surplus funds position occurs, Contact will invest the surplus funds in cash deposits, government bills, government bonds, temporarily repay other Green Debt Instruments or otherwise in accordance with the Climate Bonds Standard to ensure the proceeds are not contaminated.

In relation to any new funding or refinancing, Contact will report on its use of proceeds in its half year and full year financial statements.

### 2.2 Independent Opinion

A second critical factor in ensuring the integrity of Contact's Programme is validating it meets the Climate Bonds Standard through provision of an independent opinion.

Specifically, Contact's Programme has been assured against the GBP and the Climate Bonds Standard, including CBI's asset-specific criteria where applicable. This assurance has been

provided by a CBI-approved verifier. Contact will continue to assure the Programme on an annual basis using a CBI-approved verifier.

### **2.3 Governance**

Contact's Programme will be managed in accordance with Contact's established governance arrangements.

In addition, Contact has established a Green Programme Working Group ("GPWG") made up of senior Treasury, Financial Accounting, Sustainability and Investor Relations personnel.

The GPWG will meet at least semi-annually, prior to half yearly and full year reporting, to review relevant elements of the framework including, but not limited to:

- Schedule of Green Assets (for completeness, suitability and valuation)
- Schedule of Green Debt Instruments
- Review inclusion of new Green Assets in the period
- Compliance with the Framework including the Green Bond Principles and the Climate Bonds Standard together with relevant asset specific criteria

### **2.4 Management of Proceeds**

Contact will track the receipt and use of proceeds via its internal information systems by ensuring all Green Debt Instruments and Green Assets under the Programme are appropriately identified.

In addition, to ensure appropriate earmarking for the purpose of internal monitoring and external reporting of proceeds, Contact will establish a register that contains:

- a) all Green Debt Instruments under the Programme; and
- b) all Green Assets and their book value for existing assets and project cost for assets not yet commissioned.

Treasury will include a report of the Green Ratio in its monthly reporting to the board to ensure that the ratio is at least 1.0 times.



## 2.5 Disclosure & Reporting

Contact recognises investor interest in transparency and disclosure and, accordingly, intends to make information available as follows:

Disclosure Item	Timing	Location
Programme Framework	Upon announcement of the Programme	The sustainability section of Contact's website <a href="http://www.contact.co.nz">www.contact.co.nz</a>
Assurance Statements	Upon completion of each assurance process to extent allowed by assurer	
CBI Certification	Upon announcement of the Programme, and upon completion of any subsequent certification process	
Green Borrowing Programme Report – Use of Proceeds	At least semi-annually in line with half and full year results reporting	
Green Borrowing Programme Report – Impact Analysis	Annually in line with full year results reporting	Annual report available on the Contact website

Contact also discloses its performance in respect of emissions and climate related issues in its Annual Reports using the guidelines recommended by the Task Force on Climate-related Financial Disclosures (TCFD).

## SECTION 3 – ONGOING DEVELOPMENT

Contact recognises that the Programme articulated in this Framework is a progressive approach to green financing and few precedents exist in the global market today. Contact also recognises that defining green assets is subject to interpretation and requires complex assessment of environmental and social impacts.

Contact has attempted to address these challenges, and thereby ensure integrity and transparency of the Framework, by:

- utilising the Green Bond Principles, the Climate Bonds Standard V2.1 and associated asset specific criteria where available;
- where needed, supplementing this architecture with its own in-house environmental impact assessment tools and knowledge;
- seeking assurance initially and on an on-going basis from a reputable CBI-approved verifier; and
- committing to regular disclosure and reporting.

Contact welcomes constructive feedback and input on the Programme or the Framework from its bank lenders and investors to better meet their objectives, support a greater sustainability impact from the use of proceeds of the Green Debt Instruments, and ultimately support Contact's broader environmental sustainability commitment.

## APPENDIX 1 – GREEN ASSETS

HYDROPOWER ASSETS - EXCLUDED FROM CERTIFICATION								
Asset Name	Commissioned	Type	Location	Capacity (MW)	2019 Generation (GWh)	2019 Emissions Intensity (gCO2e/KWh)	30/06/18 Value (NZD m)	30/06/19 Value (NZD m)
Clyde	1992	Conventional	Otago	432	2,339	0.00	\$ 1,000.0	\$ 988.2
Hawea Dam	1958	Storage - No generation capacity	Otago	N/A	N/A	N/A	\$ 3.4	\$ 3.6
Roxburgh	1956-1962	Conventional	Otago	320	1,892	0.00	\$ 809.9	\$ 799.3
<b>TOTAL ELIGIBLE HYDROPOWER ASSETS</b>							<b>\$ -</b>	<b>\$ -</b>

GEOTHERMAL ASSETS								
Asset Name	Commissioned	Type	Location	Capacity (MW)	2019 Generation (GWh)	2019 Emissions Intensity (gCO2e/KWh)	30/06/18 Value (NZD m)	30/06/19 Value (NZD m)
Poihipi	1996	Flash Steam	Waikato	55	388	36.3	\$ 161.8	\$ 155.5
Te Mihi	2014	Flash Steam	Taupo	166	1,382	44.7	\$ 546.2	\$ 526.3
Te Huka	2010	Binary Cycle	Taupo	28	186	55.1	\$ 110.1	\$ 105.6
Wairakei	1958, 2005	Flash Steam / Binary Cycle	Taupo	132	991	21.1	\$ 884.2	\$ 853.8
Tenon	2006	Geothermal Heat Exchange	Taupo	20 of heat	110	10.2	\$ 4.4	\$ 5.7
<b>ELIGIBLE GEOTHERMAL ASSETS (BOOK VALUE)</b>						<b>35.4</b>	<b>\$ 1,706.8</b>	<b>\$ 1,646.9</b>
Tauhara	Not Commissioned	Geothermal	Taupo	N/A	N/A	N/A	\$ 96.6	\$ 98.3
<b>ELIGIBLE GEOTHERMAL ASSETS (PROJECT COST)</b>							<b>\$ 96.6</b>	<b>\$ 98.3</b>
<b>TOTAL ELIGIBLE GEOTHERMAL ASSETS</b>							<b>\$ 1,803.4</b>	<b>\$ 1,745.2</b>

## APPENDIX 2 – SUMMARY OF GREEN DEBT INSTRUMENTS

	ISIN	CUSIP/NZX CODE	Country of Issuance	Local Currency	Local Currency Amount \$m	Maturity Date	Coupon/ Yield/ Margin	Underwriter	30/06/18 Debt Amount NZ\$m	30/6/19 Debt Amount NZ\$m
USPP Tranche 1 (2013 SERIES A)		Q2107# AG 1	US	USD	56.0	19/12/2020	3.46%	N/A	70.1	70.13
USPP Tranche 2 (2013 SERIES B, 2013 SERIES D, 2015 SERIES A)		Q2107# AH 9, Q2107# AK 2, Q2107# AN6	US	USD	115.0	19/12/2023	4.09%/4.19%/3.63%	N/A	152.6	152.55
USPP Tranche 3 (2013 SERIES E, 2015 SERIES B)		Q2107# AL 0, Q2107# AP1	US	USD	101.0	19/12/2025	4.33%/3.85%	N/A	135.5	135.50
USPP - 2015 tranche 3 (2015 SERIES C)		Q2107# AQ9	US	USD	15.0	19/12/2027	3.95%	N/A	21.8	21.77
USPP - 2013 Tranche 4 (2013 SERIES C, 2013 SERIES F)		Q2107# AJ5, Q2107# AM 8	US	USD	53.0	19/12/2028	4.44%/4.51%	N/A	66.6	66.61
<b>TOTAL USPP</b>			<b>US</b>	<b>USD</b>	<b>340.0</b>	<b>Various</b>	<b>Various</b>	<b>N/A</b>	<b>446.6</b>	<b>446.56</b>
Wholesale Bond 2 - 7yr	NZCEND0520L2		New Zealand	NZD	50.0	27/05/2020	5.28%	N/A	50.0	50.00
Retail Bond 1	NZCEND0020L3	CEN020	New Zealand	NZD	222.0	15/05/2019	5.80%	N/A	222.0	-
Retail Bond 2 - 6yr	NZCEND0030L2	CEN030	New Zealand	NZD	150.0	15/11/2021	4.40%	N/A	150.0	150.00
Retail Bond 3 - 6yr	NZCEND0040L1	CEN040	New Zealand	NZD	100.0	15/11/2022	4.63%	N/A	100.0	100.00
Retail Bond 4 - 7y	NZCEND0050L0	CEN050	New Zealand	NZD	100.0	15/08/2024	3.55%	N/A	-	100.00
<b>TOTAL DOMESTIC BONDS</b>			<b>New Zealand</b>	<b>NZD</b>	<b>622.0</b>	<b>Various</b>	<b>Various</b>	<b>N/A</b>	<b>522.0</b>	<b>400.00</b>
<b>TOTAL BANK FACILITIES</b>			<b>New Zealand</b>	<b>NZD</b>		<b>Various</b>	<b>N/A - Confidential</b>	<b>Various</b>	<b>495.0</b>	<b>410.00</b>
<b>NEXI BANK DEBT FACILITY</b>			<b>New Zealand</b>	<b>NZD</b>	<b>61.1</b>	<b>30/11/2027</b>	<b>N/A - Confidential</b>	<b>ANZ</b>	<b>68.3</b>	<b>61.09</b>
<b>COMMERCIAL PAPER</b>			<b>New Zealand</b>	<b>NZD</b>	<b>250.0</b>	<b>Various</b>	<b>N/A - Confidential</b>	<b>N/A</b>	<b>140.0</b>	<b>60.00</b>
<b>TOTAL ELIGIBLE DEBT</b>									<b>1,671.8</b>	<b>1,377.6</b>

### Notes:

1. Overdraft and Finance Lease liabilities have been excluded from the Programme.
2. As at 30 June 2019, Bank Facilities are split across seven tranches of debt provided by seven banks and with maturity dates ranging from July 2020 to May 2023.
3. Commercial Paper is included as amount on issue, not the face value of the Programme Amount (\$250 million).