



Contact Energy Sustainable Finance Framework

November 2022





Contact Energy Limited (**Contact**) is an intergenerational utilities company whose success relies on thriving New Zealand ecosystems, flourishing communities, and on good business decisions that achieve the aspirations of our shareholders.

Our focus on sustainability and commitment to invest in sustainable assets and outcomes is reflected in this Sustainable Finance Framework (**Framework**). The Framework outlines how we intend to issue and manage new and existing loans, bonds and derivatives (**Sustainable Financial Instruments**) to fund sustainable assets and projects and contribute towards achieving our sustainability goals.

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Contact Energy and Sustainability

Our Strategy: Contact26

Our strategy to lead New Zealand's decarbonisation

Themes



Grow demand

We're **growing demand** for New Zealand's renewable electricity in a range of ways.



Grow renewable development

We're **developing new, renewable, flexible electricity generation** as the market evolves



Decarbonise our portfolio

We're **decarbonising our portfolio** of generation assets (and the New Zealand electricity market) via an orderly transition to renewable generation (managing the balance between continued security of supply, minimal emissions and affordability).



Create outstanding customer experiences

We're creating **outstanding customer experiences** as we build New Zealand's leading energy and services brand to meet more of our customers' needs.

This will be underpinned by three key enablers:

Enablers



Environmental, Social, Governance (ESG)

- Create long-term value through our strong performance across a broad set of environmental, social and governance factors.



Transformative ways of working (TWO)

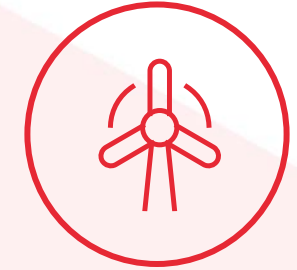
- Use technology to modernise our operating model
- Increase employee engagement to attract and retain talent.



Operational excellence

- Use innovation to continue to improve business efficiency
- Prudent management of stay-in-business CAPEX to deliver value
- Capture economies of scale and further digitise our business.

Grow Renewable Development



We're developing new, flexible renewable electricity generation to help meet the massive anticipated demand for reliable renewable electricity as Aotearoa New Zealand transitions away from fossil fuels.

As a company, we are an integral part of daily life in New Zealand and we're acutely aware that our every action, good and bad, has a marked impact on the wellbeing of our communities — today and in the future.

At Contact, sustainability means making every decision, every action, count for the long run. It means using [Our Tikanga](#) to make the best decisions for today and tomorrow. Decisions our kids would be proud of. It's about making sure we look after their future, New Zealand's future.

There is strong appetite from both the market and Government for new renewables to be built and to displace thermal generation which makes the economics for our developments increasingly compelling.

Renewable, reliable energy, responsibly delivered

We're committed to a sustainable energy future for New Zealand. To us, this means balancing our commitment to renewable energy, while maintaining reliable access to energy for our customers.

We've invested in building our renewable, flexible and reliable generation portfolio which has helped us to reduce our greenhouse gas emissions from generation by 33% since 2018¹. We have developed new geothermal power stations, which, alongside our existing geothermal and hydro power stations mean that our generation is now more than 85% renewable¹.

While we do maintain thermal generation options at this stage for when the market needs extra energy, we've got New Zealand's only gas storage facility which adds flexibility to our portfolio and once we have completed and commissioned Tauhara and subsequently closed our gas fired Taranaki Combined Cycle plant, our total renewable generation will increase to 95%.

We are also working with some of the best people in the world on a pipeline of potential developments in geothermal, wind and solar. We see an important role for wind and solar in meeting long term demand for renewable electricity, alongside geothermal and hydro, and our strategy is to be a leading provider in meeting that demand.

As we work through the options for new renewable energy developments, we will continue to work closely with iwi, hapū and local communities, and we will be sensitive to the impacts of our operations on land, waterways and biodiversity.

Decarbonise our Portfolio

We're decarbonising our portfolio of generation assets (and the New Zealand electricity market) via an orderly transition to renewable generation – managing the balance between continued security of supply, minimal emissions and affordability.



Climate change position

- We know that climate change is a real global challenge that will have significant impacts on our communities, our economy and our environment so we're committed to taking real steps to address it.
- We believe that human activity is accelerating climate change so we are putting our energy where it matters by focusing on reducing our own emissions while supporting our customers and other sectors to reduce theirs.
- We recognise that energy resilience is what matters most to our customers so in leading New Zealand to a decarbonised energy system we will maintain affordable, sustainable and reliable access to energy for our customers.
- We appreciate that the transition to a low carbon economy is a challenge for everyone and will take considerable effort and time, so we're in it for the long haul.
- We believe that how we do things is just as important, if not more, than what we do so we are committed to open, honest and productive partnerships to provide solutions to climate change.
- We know that the transition to a low carbon future will have long term benefits for everyone, including us.

Our Science Based Targets

- We have validated emission reduction targets with the Science Based Targets initiative (**SBTi**) to ensure that our targets regarding climate change are ambitious and in line with the current science required to minimise global warming to 1.5 degrees. Our current verified targets (**SBT**) include:
 - to reduce our Scope 1 and 2 greenhouse gas emissions by 45% by FY26 (FY18 baseline),
 - to reduce our Scope 1 and 3 greenhouse gas emissions from all sold electricity by 45% by FY26 (FY18 baseline), and
 - to reduce our Scope 3 emissions from use of sold products by 34% by FY26 (FY18 baseline).
- All emissions reported are for Contact, Simply Energy and Western Energy found in Contact's annual report. Emissions from Drylandcarbon and Forest Partners are not reported, as are considered minimal. Scope 1 emissions relate to fuel used for thermal and geothermal generation and vehicles, Scope 2 emissions relate to electricity consumption and Scope 3 emissions relate to various activities such as purchased goods and services, waste, business travel, distribution and employee commuting.
- These validated Science Based Targets show us how much and how quickly we need to reduce our greenhouse gas emissions in order to be consistent with keeping warming below the most dangerous levels to prevent the worst impacts of climate change related warming.

ESG Metrics

Contact has a comprehensive set of ESG metrics to track our performance.

Environment.

- We will reduce our Scope 1 and 2 greenhouse gas emissions by 45% by FY26 (FY18 baseline).
- We will reduce our Scope 1 and 3 greenhouse gas emissions from all sold electricity by 45% by FY26 (FY18 baseline).
- We will reduce our Scope 3 emissions from use of sold products by 34% by FY26 (FY18 baseline).
- We will move our geothermal generation operations off the Waikato River, reducing our impact on the river system, by FY26.
- We will plant an additional 100,000 native trees by FY24 (FY21 baseline).
- We want to be a world leader in renewable energy development. Our goal is to be 95% renewable by FY25.

Social

- We will support a minimum of 100 community initiatives and organisations each year. In FY22 we supported 111 through sponsorship, donations, grants, and volunteer time.
- We aim to reconnect 50% of customers disconnected for late payment to reduce energy hardship.
- We have products that suit a range of customers and do not discriminate on the basis of credit history. Our target is to on-board 96% of customers who come to us for energy services with 98% signed up as at FY22.
- We have also outlined our commitment to having a supply chain free of modern slavery in our code of conduct and policies, with our current suppliers being reviewed.
- We are ensuring Contact employees and contractors are paid a fair and equitable wage.

Governance

- We are ensuring a minimum 40:60 (F:M) gender split throughout the company – Board, leadership team, senior managers and across all of our people. We are also focusing on STEM and technical trades to ensure a 40:60 gender balance in our apprenticeship and training programmes.
- We will actively work to remove bias from our recruiting processes and systems.
- We will maintain our Rainbow Tick accreditation as an inclusive workplace for LGBTQIA+ people.
- As at September 2022, we have converted all of our bilateral lending facilities to sustainability-linked loans and certified all debt as green.



Sustainability Governance

Governance Matters

Good corporate governance protects the interests of all stakeholders and enhances short-term and long-term value.

Our People

Contact's board of directors (**Board**) has ultimate oversight and governance of the sustainability strategy, which is developed, owned and executed by the executive team. The executive team is responsible for overseeing the implementation of the sustainability strategy, reviewing performance and reporting back to the Board on key matters.

The Sustainable Finance Committee (**SFC**) is made up of senior Treasury, Financial Accounting, Sustainability and Investor Relations team members and will support the Board with oversight of Sustainable Finance.

Governance for Sustainable Finance

The SFC is responsible for reviewing and providing a recommendation to the Board prior to issuance of Sustainable Finance. The SFC will meet at least two times per year, and as otherwise necessary, and will be responsible for compliance with the reporting and assurance requirements of this Framework and the applicable market standards (**Market Standards**)², as they evolve over time.

Green Debt Instruments

For Green Debt Instruments, the SFC will have oversight of Contact's reporting obligations and the allocation of the net proceeds to Green Assets under this Framework.

Sustainability-Linked Instruments

The SFC will have oversight of Contact's performance against the sustainability performance targets (**Targets**) which are derived from Key Performance Indicators (**KPIs**) that define how Contact will achieve its sustainability strategy and represent a material improvement in the KPI, beyond "business as usual".

² The market standards are the voluntary sustainable finance principles and guidelines issued by the International Capital Market Association (**ICMA**), the Asia-Pacific Loan Market Association (**APLMA**), the Loan Market Association (**LMA**), the International Swaps and Derivatives Association (**ISDA**) and the Loan Syndications and Trading Association (**LSTA**) as they may evolve over time (together, the **Market Standards**).

Sustainable Finance Framework



Sustainable Finance Framework

In August 2017, Contact established its Green Borrowing Programme – the first such certification completed by a New Zealand issuer and the first green certification of an entire debt programme globally. Contact has expanded on this Green Borrowing Programme under this Framework where Contact may issue or manage Sustainable Financial Instruments (such as bonds, loans and/or derivatives) in accordance with the applicable Market Standards:

SUSTAINABLE FINANCIAL INSTRUMENT	USE OF PROCEEDS	ASSETS/ ACTIVITIES	APPLICABLE MARKET STANDARD
Green Debt Instruments			
<ul style="list-style-type: none"> Green Loans Green Bonds 	Proceeds-based: Net proceeds must be allocated by Contact exclusively for Green Assets.	Environmental	Green Bond Principles ³ Green Loan Principles ⁴ Climate Bonds Standard ⁵
Sustainability-Linked Instruments			
<ul style="list-style-type: none"> Sustainability-Linked Loans Sustainability-Linked Bonds Sustainability-Linked Derivatives 	Performance-based: Proceeds can be used for general corporate purposes. The cost of the Sustainability-Linked instrument is linked to Contact's achievement of material Target(s).	N/A	Sustainability-Linked Loan Principles ⁶ Sustainability-Linked Bond Principles ⁷ Sustainability-Linked Derivatives: KPI Guidelines ⁸
Sustainability-Linked Green Debt Instruments			
<ul style="list-style-type: none"> Sustainability-Linked Green Loan Sustainability-Linked Green Bond 	Proceeds and performance-based: Combines both a Sustainability-Linked and Green Debt Instrument structure. The cost of borrowing the funds is linked to Contacts achievement of material Target(s) and net proceeds are allocated exclusively to Green Assets.	Environmental	Green Loan Principles Sustainability-Linked Loan Principles Green Bond Principles Sustainability-Linked Bond Principles

Continuous Improvement

As the Market Standards and global sustainable finance markets continue to develop, so too will Contact's approach to sustainable finance. Contact may subsequently update this Framework, to ensure it remains in line with market best practice and the Market Standards, as they evolve from time to time.

For the ongoing enhancement of Contact's Framework, we welcome feedback and input from stakeholders. Contact information is outlined on slide 18.

Contact may choose to align its Sustainable Debt with the ICMA Climate Transition Finance Handbook⁹ to support its emission reduction goals and climate transition strategy.

³ [ICMA Green Bond Principles 2021 \(GBP\)](#)

⁴ [APLMA Green Loan Principles 2021 \(GLP\)](#)

⁵ Climate Bonds Standard (CBS), including the Climate Bonds Initiative (CBI) sector specific criteria. Contact will align to the CBS that is applicable at the time of issuance (currently Version 3.0).

⁶ [APLMA Sustainability-Linked Loan Principles 2022 \(SLLP\)](#)

⁷ [ICMA Sustainability-Linked Bond Principles 2020 \(SLBP\)](#)

⁸ [ISDA Sustainability-Linked Derivatives: KPI Guidelines \(SLDG\)](#)

⁹ [ICMA Climate Transition Finance Handbook 2020 \(Handbook\)](#)

Green Debt Instruments





Green Assets

Contact will use the net proceeds from the Green Debt Instruments to finance or refinance environmental assets and/ or activities that are Green Assets (as defined below).

Green Assets may include projects and/or assets owned by Contact, Contact's subsidiaries or partners and include the funding of capex, opex or other related expenditure for the Green Assets. Where projects are jointly funded between Contact and another party, funding from the Green Debt Instruments will only be applied to Contact's share of the Green Asset.

Green Assets will meet the eligibility criteria set out to the right and will comply with one or more of the Green Bond Principles, Green Loan Principles, or the Climate Bonds Standard and contribute towards meeting the United Nations Sustainable Development Goals (SDGs).

The Climate Bonds Initiative has released its final hydropower criteria, which Contact is currently exploring applicability to obtain green certification.

ELIGIBLE CATEGORIES (GBP/ GLP)	ELIGIBILITY CRITERIA	SDG ALIGNMENT
<p>Renewable Energy</p>	<p>Investments in assets and activities related to the construction, transmission, maintenance, operation and/or expansion of renewable energy generation projects. This includes but is not limited to:</p> <ul style="list-style-type: none"> • Geothermal energy including: <ul style="list-style-type: none"> • Geothermal electricity generation facilities with direct emissions of less than 100g CO₂/kWh. • Hydropower energy including: <ul style="list-style-type: none"> • Run of river; • Small-scale hydropower schemes (<15MW capacity); • Natural lake system hydropower projects that do not significantly alter an ecosystem; or • Schemes with power density of greater than 5W/m²¹⁰. • Solar energy including: <ul style="list-style-type: none"> • Onshore solar electricity generation; • Onshore solar thermal facilities; or • Transmission infrastructure wholly dedicated to supporting solar generation/ thermal activity. • Wind energy including: <ul style="list-style-type: none"> • Onshore wind generation facilities; • Transmission infrastructure wholly dedicated to supporting wind generation facilities; or • Manufacturing facilities dedicated for wind energy equipment. 	<p>7 AFFORDABLE AND CLEAN ENERGY</p>  <p>13 CLIMATE ACTION</p> 
<p>Energy Efficiency</p>	<p>Investments in assets and activities that contribute to a reduction in energy consumption. This includes but is not limited to:</p> <ul style="list-style-type: none"> • Energy storage (including batteries); or • Energy efficiency processes, appliances, products and technology. 	<p>7 AFFORDABLE AND CLEAN ENERGY</p> 
<p>Clean Transportation</p>	<p>Investments in low carbon transportation assets, systems and/ or infrastructure. This includes but is not limited to:</p> <ul style="list-style-type: none"> • Electric vehicles and supporting infrastructure and systems; or • Hybrid vehicles that meet an emissions intensity threshold of 50g CO₂ per passenger-km travelled. 	<p>11 SUSTAINABLE CITIES AND COMMUNITIES</p> 

¹⁰ Power density is measured as the installed capacity of a scheme divided by the maximum surface area of the lake.

Process for Evaluation and Selection

The SFC will manage the Green Asset selection in line with this Framework and Contact's established governance arrangements.

The SFC will assess each proposed asset or project against the following factors:

- alignment to Contact's sustainability goals;
- compliance with the Market Standards (as applicable);
- conformance with the eligibility criteria as described in the Green Debt Instruments section;
- contribution towards meeting the SDGs, as well as potential environmental outcomes arising from the Green Assets;
- assessment of any social and environmental risks from the Green Assets;
- Contact's own professional judgement and discretion and sustainability knowledge; and
- conformance with any other applicable principles, standards and tools (such as the EU Taxonomy).

Green Assets may be replenished if underlying Green Assets are sold or disposed of, non-green assets are removed, or additional Green Assets are identified and funded.

Management of Proceeds

Contact will track the receipt of Green Debt proceeds via its internal information systems to ensure that all Green Debt Instruments and Green Assets under the Framework 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:

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

Treasury will include confirmation of compliance of the Green Ratio¹¹ being at least 1.0 times in its monthly reporting to the Board.

From time to time, Contact may be in a position where surplus funds arise (e.g. where total Green Debt Instruments issued under the Framework exceed the total 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 CBS to ensure the proceeds are not contaminated.

Excluded Categories

Contact is committed to not knowingly using the proceeds of its Green Debt to finance or refinance projects and assets included in the following exclusionary criteria:

- thermal generation assets; or
- geothermal generation assets where the emissions intensity is greater than 100gCO₂/kWh (as at the time of the Framework, this includes Ohaaki geothermal generation plant).

¹¹ The Green Ratio is calculated as the total Green Assets divided by the total Green Debt proceeds.

Disclosure and Reporting

Contact recognises the importance investors place on transparency and disclosure relating to Green Debt Instruments and accordingly, intends to make the following information available on our [website](#):

DISCLOSURE ITEM	TIMING
Framework	Upon establishment of the Framework and as amended from time to time.
External Review	Pre-Issuance: Sought prior to the first issuance of a Green Debt Instrument under this Framework (and when the Framework is amended or if an issuance requires it). Post-Issuance: Sought annually following issuance of a Green Debt Instrument (or at a frequency deemed necessary by Contact.
CBI Certification	Upon establishment of the Green Borrowing Programme, and upon completion of any subsequent certification process.
Annual Update Report	Published semi-annually or annually for all outstanding Green Debt Instruments.

Contact intends to disclose Annual Update Reports in line with the Market Standards that include the following information:

- **Allocation Reporting:** A description of the Green Assets financed or refinanced by the Green Debt Instruments and the net proceeds disbursed or invested.
- **Eligibility Reporting:** Confirmation that the Green Assets meet the relevant eligibility criteria, including in this Framework and the Market Standards, and information on the sustainability performance of the Green Assets. This includes compliance with the CBS criteria (<100gCO₂e/kWh) for geothermal assets.

- **Impact Reporting:** Contact will endeavour to follow the impact reporting guidelines detailed in the Market Standards. Subject to confidentiality and availability of information, this may include qualitative and/or quantitative reporting of the environmental impacts of the Green Assets. At a minimum, Contact will report the following per Green Assets - annual generation (GWh), annual emissions (tCO₂-e), emissions intensity (gCO₂e/kWh).

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

Verification

On establishment of the initial Green Borrowing Programme Framework, Contact obtained CBI certification (with independent assurance provided by EY) that the Green Borrowing Programme Framework was developed in alignment with the CBS and the Green Bond Principles.

Post-issuance of its inaugural Green Bond, Contact has obtained limited assurance that the Framework and Green Assets align to the relevant Market Standards. Contact will continue to obtain external review on an annual basis (or as deemed necessary).

If the Framework is materially amended, Contact will obtain an external review from an appropriately qualified verifier that the Framework and Green Assets align to the Market Standards.

Important Notice

For the avoidance of doubt, and unless otherwise specified in relation to specific Green Debt Instruments, if Contact fails to comply with the Framework, fails to satisfy the applicable Market Standards, fails to allocate the proceeds in the manner described in the Framework or undertakes non-eligible projects outside of the Framework, then in relation to its Green Debt Instruments:

- this does not constitute an event of default, event of review, or any other breach in relation to any Green Debt Instruments; and
- there is no requirement for Contact to repay the Green Debt Instruments as a result of this non-compliance and neither investors nor Contact have any right to early repayment as a result of this non-compliance.

The consequence of non-compliance with the obligation on Contact to allocate the proceeds in the manner described in the Framework or to comply with the Framework or the Market Standards on an ongoing basis is that Green Debt Instruments may cease to be labelled as 'green', in which case investors may consider that the Green Debt Instruments no longer align with their intentions or requirements and may (as applicable) have increased difficulty in finding interested buyers or obtaining an acceptable price for their Green Debt Instruments. Contact will disclose if a Green Debt Instrument ceases to be labelled, including within its Annual Update Report.

Sustainability-Linked Instruments

Sustainability-Linked Instruments link the issuer's cost of financing to its performance against material sustainability KPIs and Targets and if issued or managed by Contact, will be in accordance with the Sustainability-Linked Loan Principles (**SLLPs**), the ISDA Sustainability-Linked Derivatives KPI Guidelines (**SLDG**), or the Sustainability-Linked Bond Principles (**SLBPs**) (as applicable).

When issuing or managing any Sustainability-Linked Instruments, Contact will communicate how the instrument, the KPIs and the Targets are material to Contact and aligned with its sustainability strategy.

Key Performance Indicators

Contact will establish measurable and quantifiable sustainability KPIs, that are relevant, core and material¹² to the business and of high strategic significance to Contact's current and future operations. When issuing or managing any Sustainability-Linked Instruments, Contact is likely to select one of more of the following KPIs:

Environmental

- Reduction in greenhouse gas emissions, as aligned to or exceeds, the SBTi-verified science-based trajectory
- Increase in renewable energy generation
- Improvement in water efficiency
- Preserve or restore biodiversity

Social and Governance

- Improvement in community wellbeing
- Improvement in diversity and inclusion
- Improvement in the health, safety and wellbeing of employees

Environmental & Social

- Improved performance in environmental, social and governance (**ESG**) assessments, as measured by S&P Global Corporate Sustainability Assessment (**CSA**)

¹² Material issues have been identified by Contact through its 2021 stakeholder materiality matrix.

Sustainability Performance Targets

To incentivise performance against the KPIs, Contact will select one or more timebound Targets that are consistent with Contact's sustainability strategy and represent a material improvement in the KPI, beyond a "business as usual" trajectory.

Targets will be set at the inception of each new issuance of a Sustainability-Linked Instrument, and with reference to a minimum of three years of Contact's historical performance, peer performance and scientific data.

Verification

To provide stakeholders with certainty that Contact's Sustainability-Linked Instruments are structured and reported in alignment to the SLLP, SLDG or SLBP (as relevant), Contact will seek external review of the following:

- **Prior to issuance:** Limited assurance (or a second party opinion) that the Sustainability-Linked Instrument aligns to the SLLP/SLDG/SLBP, with such assessment covering the materiality of the selected KPIs, nature of the Targets, credibility of Contact's strategy to achieve the Targets, and verification of baseline performance (as applicable).
- **Post issuance:** Ongoing assurance or verification (at least annually, and at a date relevant for assessing the Target performance) on Contact's performance against the Targets for each KPI. This may cover any material change to the KPI methodology or Target calibration.

These reviews will be made publicly available for Sustainability-Linked Bonds and will be made available to lenders at a minimum for Sustainability-Linked Loans and Derivatives.

Instrument Characteristics

Any Sustainability-Linked Instruments Contact may issue or manage will have a financial or structural characteristic that changes dependent on whether Contact achieves one or more Targets. This may include penalty and/or discount incentives (depending on the transaction), will be commensurate and meaningful relative to Contact's original bond or loan structure, and will reflect market practice. The magnitude of the pricing adjustment as well as the effective trigger event date(s) will be clearly detailed in the relevant documentation for each transaction.

Disclosure and Reporting

Contact is committed to transparency and will disclose and report on its Sustainability-Linked Instruments as follows:

- For Sustainability-Linked Loans and Derivatives, Contact and the arranging banks will agree on the appropriate reporting parameters and the schedule for disclosing information (this will most likely be annual).
- For Sustainability-Linked Bonds, Contact will undertake annual public reporting with regards to the issuance and sustainability performance against the Targets. This reporting will be available on Contact's website. Contact will disclose at issuance the reporting that will be provided, including its location, frequency, scope and assurance commitments.

Further Information

Further information on Contact's approach to sustainability can be found on our [website](#) or in our [annual report](#).

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