

SECTION 1 – BACKGROUND & PURPOSE

1.1 Background

Contact Energy Limited (“Contact”) is one of New Zealand’s largest listed companies and supplies electricity, LPG and natural gas to over 560,000 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 has 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.

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.



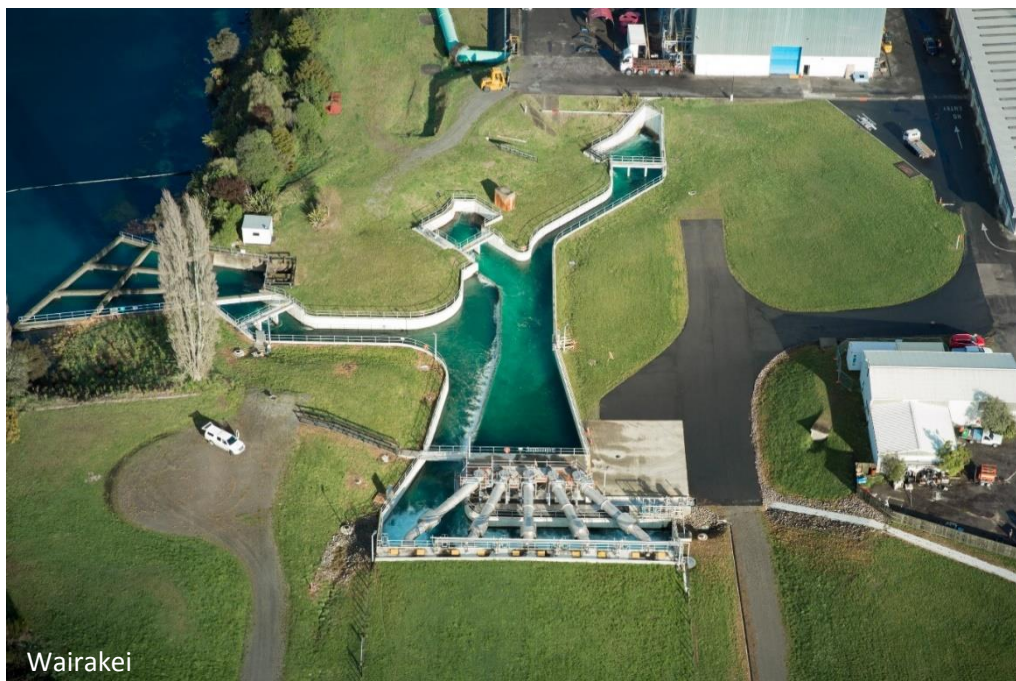
This Framework summarises the manner in which Contact supports and maintains the Programme including:

- 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”) ¹
 - Commercial paper issued under its domestic Commercial Paper Programme
 - Wholesale bonds
 - Listed retail bonds
 - US Private Placement Notes ²
 - 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”).



¹ 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.

² 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.

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 www.contact.co.nz |
| 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 |

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

| GEOTHERMAL ASSETS | | | | | | | | |
|---|------------------|----------------------------|----------|---------------|-----------------------|---|-----------------------|------------------------|
| Asset Name | Commissioned | Type | Location | Capacity (MW) | 2017 Generation (GWh) | 2017 Emissions Intensity (gCO ₂ e/kWh) | 30/6/17 Value (NZD m) | 31/12/17 Value (NZD m) |
| Poihipi | 1996 | Flash Steam | Waikato | 55 | 403 | 37.87 | \$ 168.2 | \$ 165.0 |
| Tauhara | Not Commissioned | Geothermal | Taupo | N/A | N/A | N/A | \$ 94.7 | \$ 95.2 |
| Te Mihi | 2014 | Flash Steam | Taupo | 166 | 1184 | 42.32 | \$ 561.0 | \$ 555.0 |
| Te Huka | 2010 | Binary Cycle | Taupo | 28 | 189 | 37.18 | \$ 115.6 | \$ 112.9 |
| Wairakei | 1958, 2005 | Flash Steam / Binary Cycle | Taupo | 132 | 1121 | 23.94 | \$ 931.1 | \$ 905.2 |
| Tenon | 2006 | Geothermal Heat Exchange | Taupo | 20 of heat | 106 | 12.09 | \$ 4.7 | \$ 4.5 |
| TOTAL ELIGIBLE GEOTHERMAL ASSETS | | | | | | | \$ 1,875.3 | \$ 1,837.8 |

| HYDROPOWER ASSETS - EXCLUDED FROM CERTIFICATION | | | | | | | | |
|---|--------------|----------------------------------|----------|---------------|-----------------------|---|-----------------------|------------------------|
| Asset Name | Commissioned | Type | Location | Capacity (MW) | 2017 Generation (GWh) | 2017 Emissions Intensity (gCO ₂ e/kWh) | 30/6/17 Value (NZD m) | 31/12/17 Value (NZD m) |
| Clyde | 1992 | Conventional | Otago | 432 | 1999 | 0 | \$ 1,012.2 | \$ 1,006.3 |
| Hawea Dam | 1958 | Storage - No generation capacity | Otago | N/A | N/A | N/A | \$ 6.3 | \$ 3.4 |
| Roxburgh | 1956-1962 | Conventional | Otago | 320 | 1563 | 0 | \$ 819.9 | \$ 814.9 |
| TOTAL ELIGIBLE HYDROPOWER ASSETS | | | | | | | \$ - | \$ - |

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 | 30/6/17 Debt Amount NZ\$m | 31/12/17 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 | 70.1 |
| 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 | 152.6 |
| 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 | 135.5 |
| USPP - 2015 tranche 3 (2015 SERIES C) | | Q2107# AQ9 | US | USD | 15.0 | 19/12/2027 | 3.95% | N/A | 21.8 | 21.8 |
| 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 | 66.6 |
| TOTAL USPP | | | US | USD | 340.0 | Various | Various | N/A | 446.6 | 446.6 |
| Wholesale Bond 2 - 7yr | NZCEND0520L2 | | New Zealand | NZD | 50.0 | 24/05/2020 | 5.28% | N/A | 50.0 | 50.0 |
| Retail Bond 1 | NZCEND0020L3 | CEN020 | New Zealand | NZD | 222.0 | 15/05/2019 | 5.80% | N/A | 222.0 | 222.0 |
| Retail Bond 2 - 6yr | NZCEND0030L2 | CEN030 | New Zealand | NZD | 150.0 | 15/11/2021 | 4.40% | N/A | 150.0 | 150.0 |
| Retail Bond 3 - 6yr | NZCEND0040L1 | CEN040 | New Zealand | NZD | 100.0 | 15/11/2021 | 4.63% | N/A | 100.0 | 100.0 |
| TOTAL DOMESTIC BONDS | | | New Zealand | NZD | 522.0 | Various | Various | N/A | 522.0 | 522.0 |
| TOTAL BANK FACILITIES | | | New Zealand | NZD | 525.0 | Various | N/A - Confidential | Various | 525.0 | 525.0 |
| NEXI BANK DEBT FACILITY | | | New Zealand | NZD | 75.5 | 30/11/2027 | N/A - Confidential | ANZ | 75.5 | 71.87 |
| COMMERCIAL PAPER | | | New Zealand | NZD | 250.0 | Various | N/A - Confidential | N/A | 250.0 | 250.0 |
| TOTAL ELIGIBLE DEBT | | | | | | | | | 1,819.1 | 1,815.4 |

Notes:

1. Bonds maturing in 2018 have been excluded from Contact's Programme. These may be refinanced at a later date and Contact will consider including these into the Programme at a later date, when criteria for hydropower assets are available.
2. Overdraft and Finance Lease liabilities have been excluded from the Programme.
3. As at 31 December 2017, Bank Facilities are split across 9 tranches of debt provided by seven banks and with maturity dates ranging from July 2018 to May 2021.
4. The \$250 million shown against Commercial Paper above is the amount of the Programme Limit. The total of Commercial Paper on issue at any time is less than this limit (\$180 million at each of the dates shown above).