Mercury NZ Limited

Green Financing Framework 2020

1 Introduction

1.1 Overview

Mercury NZ Limited (Mercury) is an electricity retailer and generator that providing 16% of New Zealand's total electricity generation.

Our Mission is "Energy Freedom", reflecting a strong desire to help New Zealand to be stronger economically and more sustainable through better use of homegrown, renewable energy.

It is no coincidence that our electricity generation is 100% renewable, averaging around 6,600GWh per annum.

Nine hydro stations along the Waikato River normally generate around 4,000GWh of electricity each year. We also operate and own (either in whole or part) five geothermal stations in the central North Island, two of which are in partnership with Maori land trusts.

We are seeking to grow New Zealand's renewable generation capacity by maintaining and enhancing these assets, while building New Zealand's largest new wind farm at Turitea, in the Manawatu, which will generate 840GWh annually.

Also operating as a retailer of electricity (and gas), we service around 350,000 residential, commercial and industrial customers, guided by our purpose of inspiring New Zealanders to enjoy energy in more wonderful ways.

1.2 Commitment to sustainability

Our approach to sustainability is forged by our long history as a New Zealand renewable energy business and is built on five pillars - customer, people, commercial, partnerships and kaitiakitanga (guardianship). We understand that a sustainable approach is vital for our performance in the long term, must be integrated into decision-making and is a primary driver for capital investment planning.

We have a long-standing commitment to move New Zealand towards a more sustainable future and help enable the country's transition to a low emissions economy. We also have a dedicated sustainability and risk team that supports our business in integrated thinking, business planning and Environmental, Social and Governance ("ESG") reporting.

We have a goal of being recognised as a leader in the ultra-long-term management of both physical and natural assets and climate change is an explicit focus area in our long-term business plan.

In 2015, we strategically divested from carbon intensive electricity generation, shutting down our Southdown thermal, gas fired, power station and subsequently decreasing carbon output by over 200,000 tonnes. Our total emissions (scope one, two and three) have reduced by 40% from 2015 to 2020. Fugitive emissions from geothermal generation assets remain our largest contribution to GHG emissions.

Our brand campaigns have focused on promoting the transition of New Zealand's car fleet to electric, as we see this as one of the biggest opportunities for transitioning to a low carbon future. We offer customers discounts on e-transportation such as e-scooters and e-bikes, provide discounted electricity rates to EV owners for overnight charging and have developed Mercury Drive a pilot EV leasing scheme.

Long-term partnerships with Waikato River Iwi are fundamental to the way we access natural resources and operate in the catchment. We have had a fifteen-year partnership with the Waikato Catchment Ecological Enhancement Trust ("WCEET") helping to protect and enhance the ecology and biodiversity of Lake Taupo and the Waikato River. Funding of $7m has assisted over 245 projects and over the past five years this has enhanced 1,325ha of wetland, enabled 560ha of riparian planting and enhanced 6,968ha of native vegetation habitat.

As a socially responsible business we are heavily involved in the communities where we operate and where our customers are based. We have long-term partnerships with various charity and community organisations including The Starship Foundation, Ironman New Zealand, Waikato River Trails, Mighty River Domain and Coastguard Lake Taupo. We also support a number of schools and marae in Auckland and the Waikato regions with the installation of solar panels.

1.3 Development of a Green Financing Framework

We have developed this Green Financing Framework to demonstrate our commitment to a more sustainable future and drive prioritisation toward more sustainable renewable energy investments.

The decision to develop this Green Financing Framework ("Framework") demonstrates Mercury's long-term commitment to sustainable outcomes and Mercury's commitment to a low carbon future for New Zealand. It supports investment in renewable electricity energy generation assets and activities and encourages the growth of green financial instruments and associated investments.

The Framework has been created to demonstrate how Mercury may enter into Green Bonds or Loans with proceeds earmarked to finance, or refinance, our projects and expenditures that deliver, or are expected to deliver, positive environmental outcomes and support Mercury's long-term strategy and objectives.

Financing will contribute towards sustainable development by earmarking the proceeds to projects/expenditures that fall within the Eligible Categories as defined in this Framework.

Under the Framework, Mercury may issue:

- Green Bonds in line with the International Capital Market Association ("ICMA") Green Bond Principles[1] ("GBP"),
- Green Loans in line with the Loan Market Association ("LMA") Green Loan Principles[2] ("GLP")

In addition to alignment with the GBP or GLP, Mercury has chosen to seek certification in compliance with the requirements of the Climate Bonds Standard[3] ("CBS") where the availability of applicable sector specific technical criteria allows[4].

The Framework may be subsequently updated as the sustainable finance market evolves.

Section 2 of The Framework covers four core components as set out below:

1. Use of proceeds

2. Project evaluation and selection

3. Management of proceeds

4. Reporting and assurance

2 Mercury NZ Limited Green Financing Framework

2.1 Use of proceeds

The net proceeds of each Green Bond or Green Loan will be used to finance or refinance, in whole or in part, new or existing projects/expenditures that fall under the following Eligible Categories. These projects/expenditures will be known as "Eligible Projects".

Where Green Bonds are CBS certified, net proceeds will be used to finance or refinance only those Eligible Projects that fall under an Eligible Category for which specific technical criteria has been finalised.

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[1] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/
[2] https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf
[3] https://www.climatebonds.net/standard
[4] The Climate Bond Initiative (CBI) is a not-for-profit organisation that aims to promote large scale investments that help deliver a low carbon economy. The CBS provides a sound framework and scientific criteria to ensure that Green Bond proceeds are used in ways that are consistent with delivering low carbon outcomes.

The list of Eligible Categories may be amended from time to time in accordance with relevant applicable principles and standards.

Eligible categories	Eligibility criteria
Renewable energy	Financing or refinancing for the production, transmission, connection, appliances and/or products of renewable energy. • Wind energy • Hydroelectricity • Geothermal energy • Solar energy
Energy efficiency and electrification	Financing or refinancing of projects that contribute to a reduction of energy consumption, including: • Energy storage (batteries) • Electrical infrastructure associated with renewable generation
Clean transportation	Electric and hybrid transportation and infrastructure for clean energy vehicles and reduction of harmful emissions. • Low carbon transport assets. e.g. electric vehicles and charging infrastructure • Systems and infrastructure • ICT that improves monitoring, measurement and management of assets to maximise utilisation

Quantifying Eligible Projects

Eligible Projects will be quantified by their accounting (book) values.

2.2 Project evaluation and selection

The project evaluation and selection process is designed to ensure that the funds raised from Green Bonds and Green Loans ("Green Finance") are earmarked to finance or refinance projects and assets that meet the eligibility criteria set out in the Framework. Mercury will manage the eligible assets selection process and will consider each proposed project against the following factors:

- Conformance with the GBP or GLP (as applicable);
- The availability of criteria under the CBS (where relevant);
- Mercury's own professional judgement, discretion and sustainability knowledge; and where Mercury chooses conformance with any other principles, standards or tools that are or become both commonplace and respected in the market;

- Conformance with the Eligible Categories described in section 2.1; and
- Alignment with Mercury's sustainability objectives.

Mercury's Green Financing Committee will manage the processes described in this Framework, and will consist of representatives from Financial Reporting, Treasury, Risk Assurance and Sustainability.

2.3 Management of proceeds

2.3.1 Tracking of proceeds

Mercury will track an amount equal to the net proceeds of each Green Bond or Green Loan within Mercury's systems. The proceeds of Mercury's Green Finance will be:

1. Earmarked to finance or refinance Eligible Projects as set out in the Framework;

2. Managed by Mercury's Green Finance Committee. Pending the allocation of any Green Finance proceeds, Mercury will temporarily invest the balance of unallocated proceeds with an amount equal to the balance of the proceeds in:

   a. Cash, or cash equivalents, within a Treasury function;

   b. Other investment instruments that do not include greenhouse gas intensive projects or assets which are inconsistent with the delivery of a low carbon and climate resilient economy;

   or

   c. Apply the unallocated balance to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursement to a proposed eligible project.

Net proceeds will not be greater than Mercury's debt obligation to the pool of Eligible Projects. The total value of Eligible Projects will be at least equal to the original principal amount of total Green Finance (subject to temporary investment of unallocated proceeds).

Mercury will track/monitor exposure to Eligible Projects through internal financial systems to ensure sufficient coverage by Eligible Projects.

Mercury intends to disburse funds to Eligible Projects within a maximum of 24 months of the issuance date of each Green Bond or Green Loan.

2.3.2 Unallocated proceeds

Mercury intends to fully allocate proceeds upon execution, however to the extent that any proceeds have not been, following execution or, during the life of the Green Bond or Green Loan, applied directly to finance or refinance Eligible Projects, those proceeds may be managed as per section 2.3.1.

2.4 Reporting and Assurance

2.4.1 Reporting summary

Mercury recognises that transparency and disclosure for debt investors is vital.

Mercury's intention is to make information available on its website as follows:

Item	Frequency of disclosure
Framework	Once off: prior to first issuing the Green Finance under this Framework, or subsequently if the Framework is amended

Pre-Issuance External Review	Once off: sought prior to first issuance under this Framework (may be sought again if the Framework changes or an issuance requires it, including any CBS certified Green Bond)
Post-Issuance External Review	Annually for all outstanding Green Finance items
Mercury Green Finance Programme Report	Annually for all outstanding Green Finance items

2.4.2 Impact Reporting Metrics

Mercury will provide qualitative and/or quantitative reporting of the environmental impacts (where possible and relevant) resulting from Eligible Projects which may already be disclosed in business-as-usual (BAU) climate reporting such as: annual emissions inventory report; annual CDP return; annual report or other specific climate change reporting disclosures.

Subject to the nature of Eligible Projects and availability of information, Mercury will look to utilise the impact reporting guidelines as detailed within the GLPs or GBPs.

2.4.3 Assurance

Mercury will undertake pre-issuance assurance from an independent third party (CBI approved where the Green Finance is CBI certified) prior to the initial issuance.

Mercury will also engage post-issuance assurance on an annual basis to provide a regular review and assurance that outstanding Green Bonds and Green Loans remain in compliance with the Framework, no later than 12 months following initial issuance.

2.5 Continual Improvement

To ensure the ongoing improvement of Mercury's Framework, this document will be updated from time to time to include feedback and input from external parties, which is encouraged.

Such responses from stakeholders enable Mercury to achieve its longer-term aspirations to create greater impact and improves Mercury's broader environmental sustainability commitments.

SCHEDULE 1 — CBI disclaimer

The certification of the Green Bonds as Climate Bonds by the Climate Bonds Initiative is based solely on the Climate Bond Standard and does not, and is not intended to, make any representation or give any assurance with respect to any other matter relating to the Green Bonds or any Eligible Project, including but not limited to the Terms Sheet, the transaction documents, Mercury or the management of Mercury.

The certification of the Green Bonds as Climate Bonds by the Climate Bonds Initiative was addressed solely to the board of directors of Mercury and is not a recommendation to any person to purchase, hold or sell the Green Bonds and such certification does not address the market price or suitability of the Green Bonds for a particular investor. The certification also does not address the merits of the decision by Mercury or any third party to participate in any Eligible Project and does not express and should not be deemed to be an expression of an opinion as to Mercury or any aspect of any Eligible Project (including but not limited to the financial viability of any Eligible Project) other than with respect to conformance with the Climate Bond Standard.

In issuing or monitoring, as applicable, the certification, the Climate Bonds Initiative has assumed and relied upon and will assume and rely upon the accuracy and completeness in all material respects of the information supplied or otherwise made available to the Climate Bonds Initiative. The Climate Bonds Initiative does not assume or accept any responsibility to any person for independently verifying (and it has not verified) such information or to undertake (and it has not undertaken) any independent evaluation of any Eligible Project or Mercury. In addition, the Climate Bonds Initiative does not assume any obligation to conduct (and it has not conducted) any physical inspection of any Eligible Project. The certification may only be used with the Green Bonds and may not be used for any other purpose without the Climate Bonds Initiative's prior written consent.

The certification does not and is not in any way intended to address the likelihood of timely payment of interest when due on the Green Bonds and/or the payment of principal at maturity or any other date.

The certification may be withdrawn at any time in the Climate Bonds Initiative's sole and absolute discretion and there can be no assurance that such certification will not be withdrawn.