

WEL Networks Subordinated bond roadshow presentation

June 2018

Arranger and Joint Lead Manager



Joint Lead Managers



Co-Manager



Important information

This presentation has been prepared by WEL Networks Limited (“**WEL**”) in relation to the offer (the “**Offer**”) of subordinated unsecured fixed rate debt securities to be issued by WEL (“**Bonds**”). The Offer will be made under the Product Disclosure Statement dated 29 June 2018 (“**PDS**”) in accordance with the Financial Markets Conduct Act 2013 (“**FMCA**”).

To obtain a PDS, interested investors should contact their financial adviser or visit www.wel.co.nz/bondoffer

Capitalised terms used in this presentation have the meanings given to them in the PDS. All amounts are expressed in New Zealand dollars unless otherwise stated.

INFORMATION

The information in this presentation is provided for general information purposes only and unless otherwise stated is current as at 29 June 2018. The information in this presentation was prepared by WEL with due care and attention. However, the information is supplied in summary form and is therefore not necessarily complete, and no representation is made as to the accuracy, completeness or reliability of the information.

This presentation contains selected financial information about WEL and its subsidiaries (“**Group**”). The amounts in this presentation are taken from, or calculated by reference to, the Group’s audited financial statements for FY16 and FY18. The amounts for FY17 are the comparatives from the FY18 financial statements.

This presentation is not investment advice and has been prepared without taking into account your investment objectives, financial situation or particular needs (including financial and taxation issues). Investors should carefully read and consider the PDS in full and seek advice from their financial adviser or other professional adviser before deciding to invest in the Bonds. Any decision by a person to apply for the Bonds should be made on the basis of information contained in the PDS, the register entry for the Offer and an independent assessment as to whether to invest, and not in reliance on any information contained in this presentation.

Anyone wishing to acquire Bonds will need to complete and return the application form in the PDS during the Offer period.

There is no public pool for the Bonds. All Bonds will be reserved for subscription by clients of the Joint Lead Managers and other persons invited to participate in the bookbuild.

Disclaimer

Forward-looking statements: This presentation may contain certain 'forward-looking statements' such as indications of, and guidance on, future earnings and financial position and performance. Such forward-looking statements are not guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of WEL, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct.

Investment risk: Investments in the Bonds are an investment in WEL and may be affected by the on-going performance, financial position and solvency of WEL.

Past performance: Past performance is not indicative of future performance and no guarantee of future returns is implied or given.

Not an offer: This presentation is not an offer to issue or sell, or a solicitation of an offer to purchase or subscribe for the Bonds and no part of it shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This presentation is not a product disclosure statement, disclosure document or other offer document under New Zealand law or under any other law. Nothing in this presentation is to be construed as authorising its distribution, or the offer or sale of Bonds in any jurisdiction other than New Zealand and WEL does not accept any liability in that regard. Bonds may not be offered or sold, directly or indirectly, and neither this presentation nor any other offering material may be distributed or published, in any jurisdiction except under circumstances that will result in compliance with any applicable law or regulations.

Disclaimer: To the maximum extent permitted by law and subject to any liabilities that might arise under the FMCA, neither WEL, the Arranger, the Joint Lead Managers, the Co-manager or their respective affiliates, directors, officers, partners, employees, advisers and agents of each of them, make any representation, recommendation or warranty, express or implied, regarding the accuracy, adequacy, reasonableness or completeness of, the information contained herein. Subject to any obligations that may arise under the FMCA, neither WEL, the Arranger, the Joint Lead Managers, the Co-manager accept any responsibility or obligation to inform you of any matter arising or coming to their notice, after the date of this presentation, which may affect any matter referred to in this presentation.

Presenting today



ROB CAMPBELL

CHAIRMAN

Over 30 years experience in investment management and corporate governance

Chair of Tourism Holdings, Summerset and SkyCity



GARTH DIBLEY

CHIEF EXECUTIVE
- WEL NETWORKS

CEO since 2014

Previously held leadership roles at Transpower and Meridian



**WILLIAM
HAMILTON**

CHIEF EXECUTIVE
- ULTRAFast FIBRE

CEO since 2014

Previously held leadership roles at Excel Corporation amongst others



**BELLA
TAKIARI-BRAME**

GENERAL MANAGER
FINANCE - WEL NETWORKS

Joined WEL in 2015 following 9 years working at Shell in the United Kingdom

Chartered Accountant,
Masters in Management
Studies

Order of presentation

WEL Group	6
WEL Networks	14
Ultrafast Fibre	18
Financials	23
Subordinated bonds	28



WEL Group





- ✓ 6th largest electricity distribution business in New Zealand¹
- ✓ Electricity supplier to the Waikato region (with its predecessors) for nearly 100 years
- ✓ Regulated asset base of ~\$529m
- ✓ Well maintained network of over 6,700km, ~52%/48% above and below ground



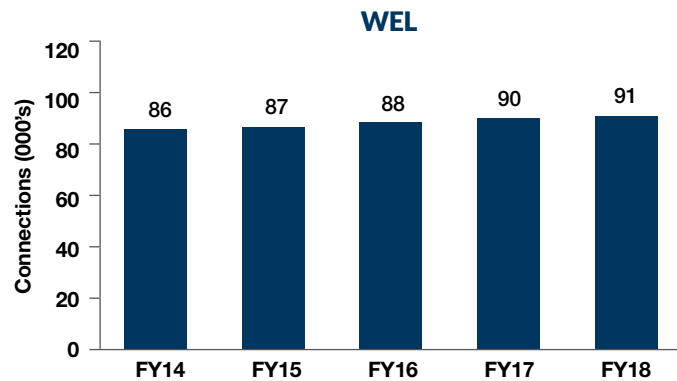
- ✓ 2nd largest fibre network business in New Zealand²
- ✓ At completion will account for ~13.7% of the Government's Ultra-fast Broadband initiative
- ✓ Growing asset base, currently >\$450m
- ✓ Network over 3,000km with ability to service >200,000 consumers including households, schools, businesses and healthcare facilities

Notes: (1) Measured by connections
(2) Based on connected customers

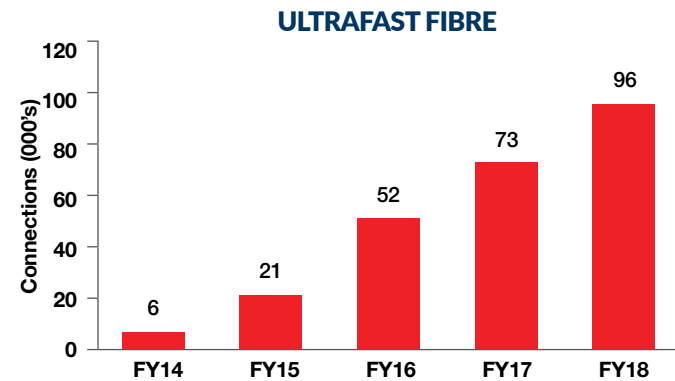


Complementary business units

WEL presents a unique combination of a stable electricity lines business and a high growth fibre business



- Electricity distribution network in the Waikato region
- Stable revenue and earnings profile with expected population growth in its coverage area¹
- Annual investment of approximately \$38 million in capital projects
- Not subject to price quality controls, information disclosure only



- At completion, Ultrafast Fibre's network will represent approximately 13.7% of the total UFB programme
- Currently in high investment / high growth phase: 78% of expected investment in the UFB build is complete with the further cost of provisioning coming with associated revenue
- Evolving regulation, but expected to have similar information disclosure requirements to WEL's electricity distribution business from 2022

Notes: (1) Statistics New Zealand

Board and senior management



Rob Campbell
CHAIRMAN



Tony Steele



Barry Harris



Carolyn Steele



Tony Barnes



Geoff Lawrie



Carolyn Luey



Garth Dibley



Bella Takiari-Brame



SENIOR
MANAGEMENT



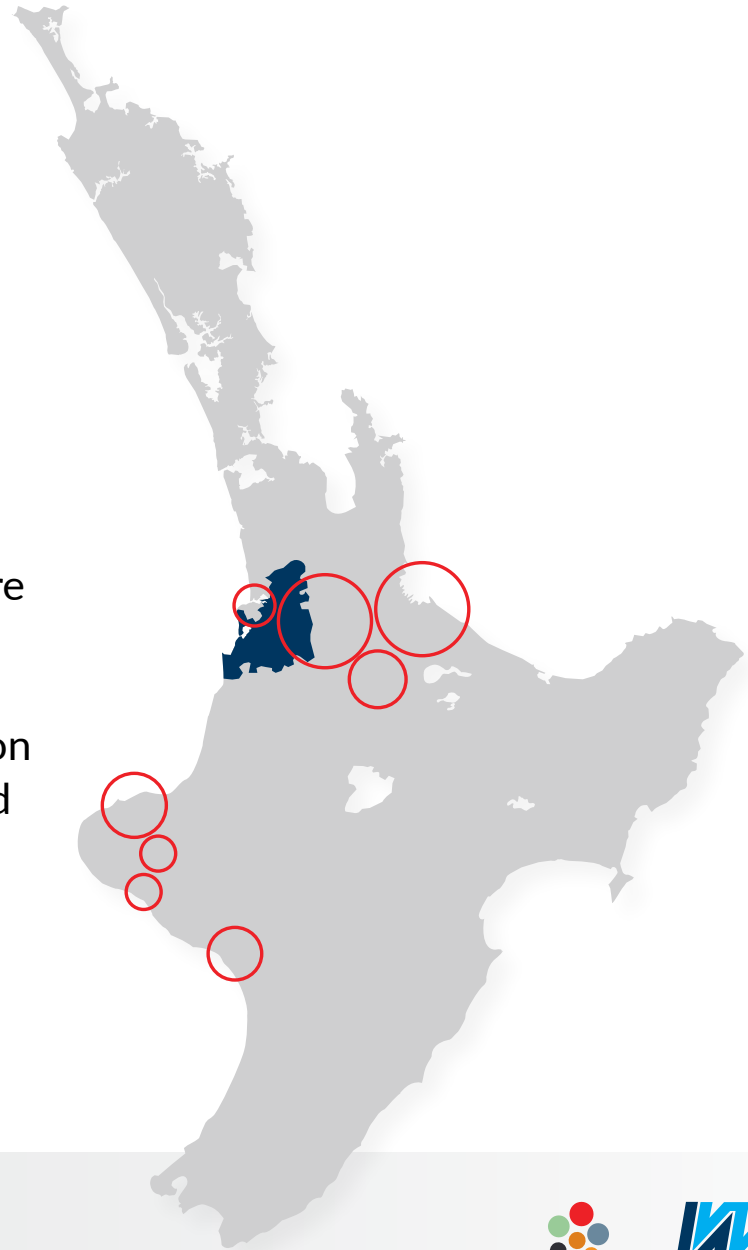
William Hamilton



Paul Mens

Exposure to central North Island regions

The Group (which comprises WEL and its subsidiaries) is a multi-network infrastructure group of companies that owns and operates electricity distribution assets predominantly in the Waikato region and telecommunication assets in the Waikato and other North Island regions.



1 Approximate regions

WEL Trust

WEL is 100% owned by the WEL Energy Trust (Trust), a community-owned Trust that acts in the interests of the community in the Waikato region

Income beneficiaries of the Trust are those electricity customers connected to WEL's network in the Trust's traditional area. Capital beneficiaries are Hamilton City Council (63%), Waikato District Council (35%) and Waipa District Council (2%)

The purpose of the Trust includes running WEL as a "Successful Business" (being a business which is as profitable and efficient as comparable businesses that are not owned by the Crown)

The Trust supports WEL's diversification of its investments including WEL's investment in a world-class fibre network that reinforces its position as an innovative and future-focused investor in infrastructure

Community-owned status means WEL is exempt from the default price and quality control regime of New Zealand electricity distribution companies. WEL is required to comply with information disclosure requirements only

Offer highlights

The Offer provides the opportunity to invest in a stable, growing platform delivering essential electricity distribution and fibre telecommunications services to the wider Waikato region

Issuer	WEL Networks Limited
Description	Unsecured subordinated fixed rate bonds
Issue size	Offer of up to \$125m with the ability to accept up to an additional \$25m of oversubscriptions (at WEL's discretion)
Term	5 years maturing 2 August 2023
Interest	Fixed rate of interest that will be set following the bookbuild on 9 July 2018. Payments of interest are subject to WEL being able to satisfy the solvency test immediately after making the payment and no event of default or breach under an agreement with a senior creditor having occurred or would occur following payment
Dividend stopper	In the event interest is deferred, WEL cannot make distributions to its shareholders or payments to subordinated creditors
Joint Lead Managers	Forsyth Barr, ANZ, First NZ Capital, Deutsche Craigs
Co-manager	Commonwealth Bank of Australia (acting through its New Zealand branch)

Purpose of the offer

WEL Group has and continues to invest significantly in the rollout of the Ultrafast Fibre network

WEL Group has funded this investment entirely from internal cash generation and bank funding

Earnings from Ultrafast Fibre are beginning to be realised

The WEL Board believes that now is an appropriate time to issue a subordinated bond that will strengthen and diversify its balance sheet



WEL
NETWORKS

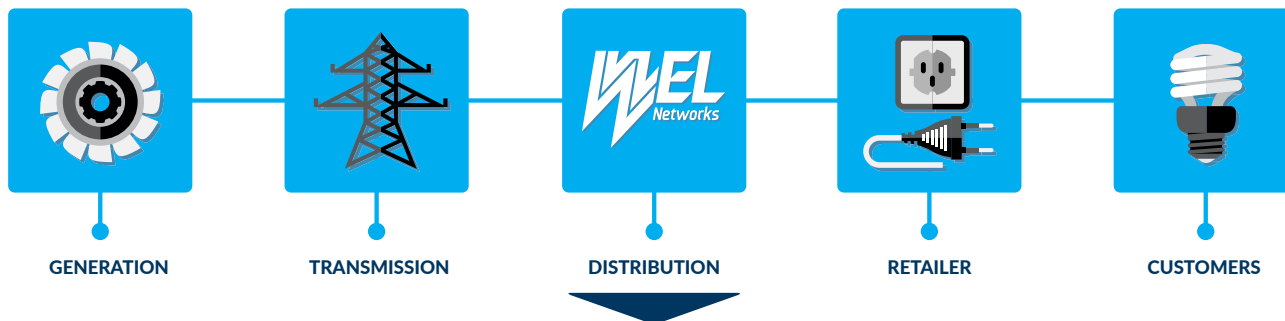
Best in Service, Best in Safety



WEL Networks

WEL Networks (WEL) overview

One of 29 electricity distribution businesses in New Zealand that own and operate power lines and electricity infrastructure transporting electricity from the national grid to homes and businesses



- Distributes electricity to approximately 91,000 installation connection points in the Waikato region
- Regulated asset base of ~\$529m generating stable revenues
- Approximately 52% of lines are above ground and 48% are below ground
- 100% owned by the WEL Energy Trust, a community-owned Trust
- Subject to information disclosure only and is exempt from the default price and quality control regime enforced by the Commerce Commission due to being owned by a community-owned trust

WEL's assets

- ~\$529m in regulated assets
- Over 6,700km long network
- >200,000 individual asset components
- Annual capital projects investment of approximately \$38m
- Strong sustainable system with ongoing network development



Asset performance

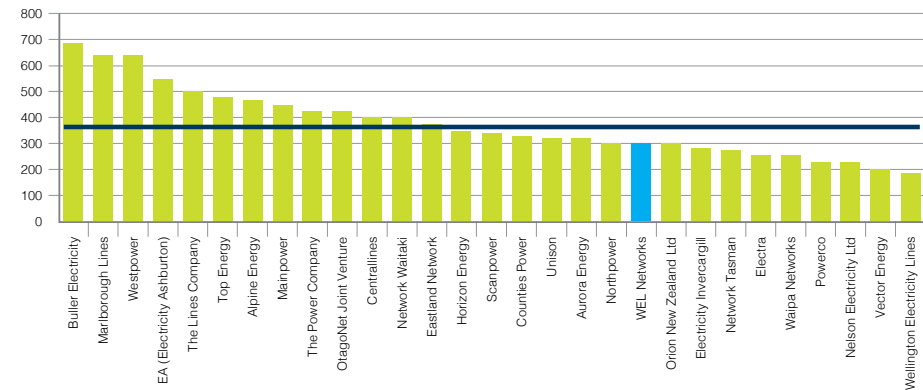
The performance of WEL's electricity network exceeds the industry average on key reliability metrics

KEY

General WEL Average

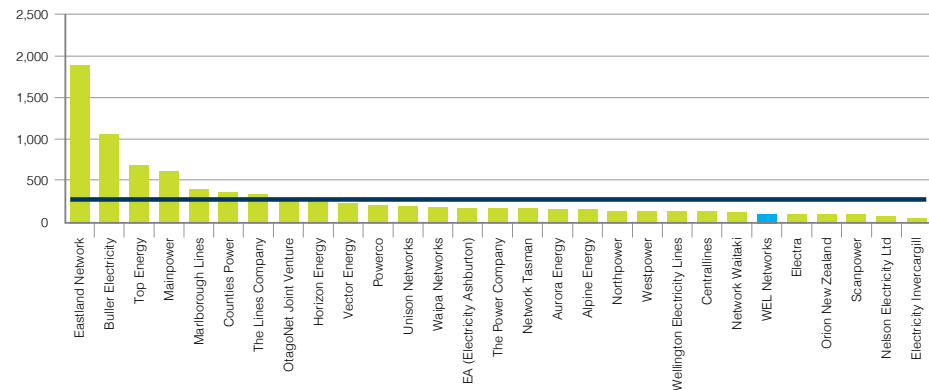
*Source data from PwC Electricity Line Business 2017 Information Disclosure Compendium

COST PER CUSTOMER (\$/CUSTOMER) YEAR ENDED 31 MARCH 2017



RELIABILITY OF SUPPLY (TOTAL SAIDI) YEAR ENDED 31 MARCH 2017

(Average number of minutes that customers were without electricity)



Notes:

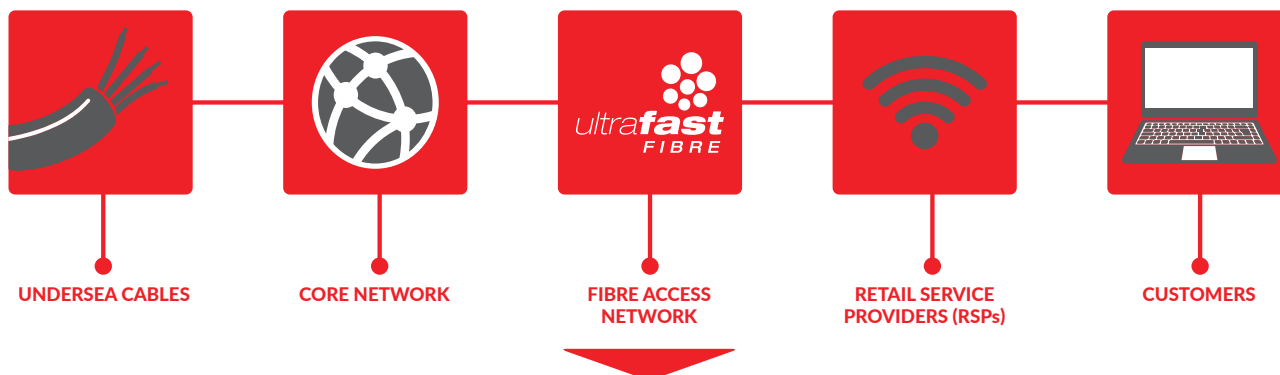
SAIDI = System Average Interruption Duration Index, which is the average outage duration for each customer served



Ultrafast Fibre

Ultrafast Fibre (UFF) overview

One of four players involved in the broadband supply chain, along with international access providers, core network providers and retail service providers



- Builds, owns and operates ultrafast broadband (“UFB”) networks in areas across the North Island, including Waikato, Bay of Plenty and Taranaki
- Current network is 3,000km long and available to deliver UFB services to more than 200,000 consumers including households, schools, businesses and healthcare facilities
- Represent ~13.7% of the total UFB programme
- Regulatory framework governing Ultrafast Fibre (and the wider telecommunications industry) is under review with a new framework expected to be introduced in 2022
- As currently proposed, Ultrafast Fibre will be subject to an information disclosure regime (but not a price and quality control regime) that is very similar to WEL’s information disclosure regime

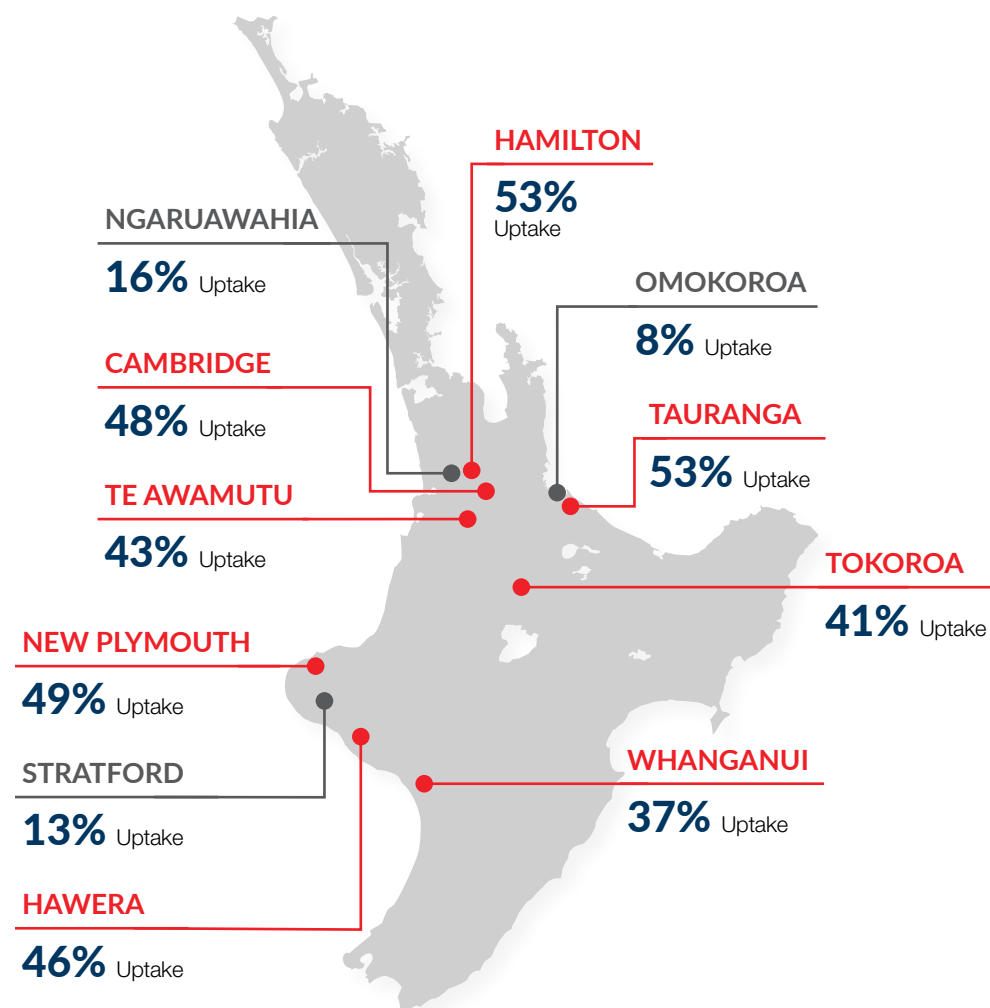
Ultrafast Fibre build and uptake¹

The first phase of the Government's UFB programme (UFB1) is complete and Ultrafast Fibre is underway on the second phase (UFB2), with live connections in three regions

- Uptake across the Ultrafast Fibre network is ~50%, representing approximately 100,000 connections
- Above the national average uptake of ~42%²
- Tauranga and Hamilton have the highest uptake rates in New Zealand
- The Government is targeting 87% of the population to have access to fibre by the end of 2022
- The construction of UFB2 is well underway, with completion expected over the next two years
- UFB2+ adds additional smaller regional centres

● UFB1 locations

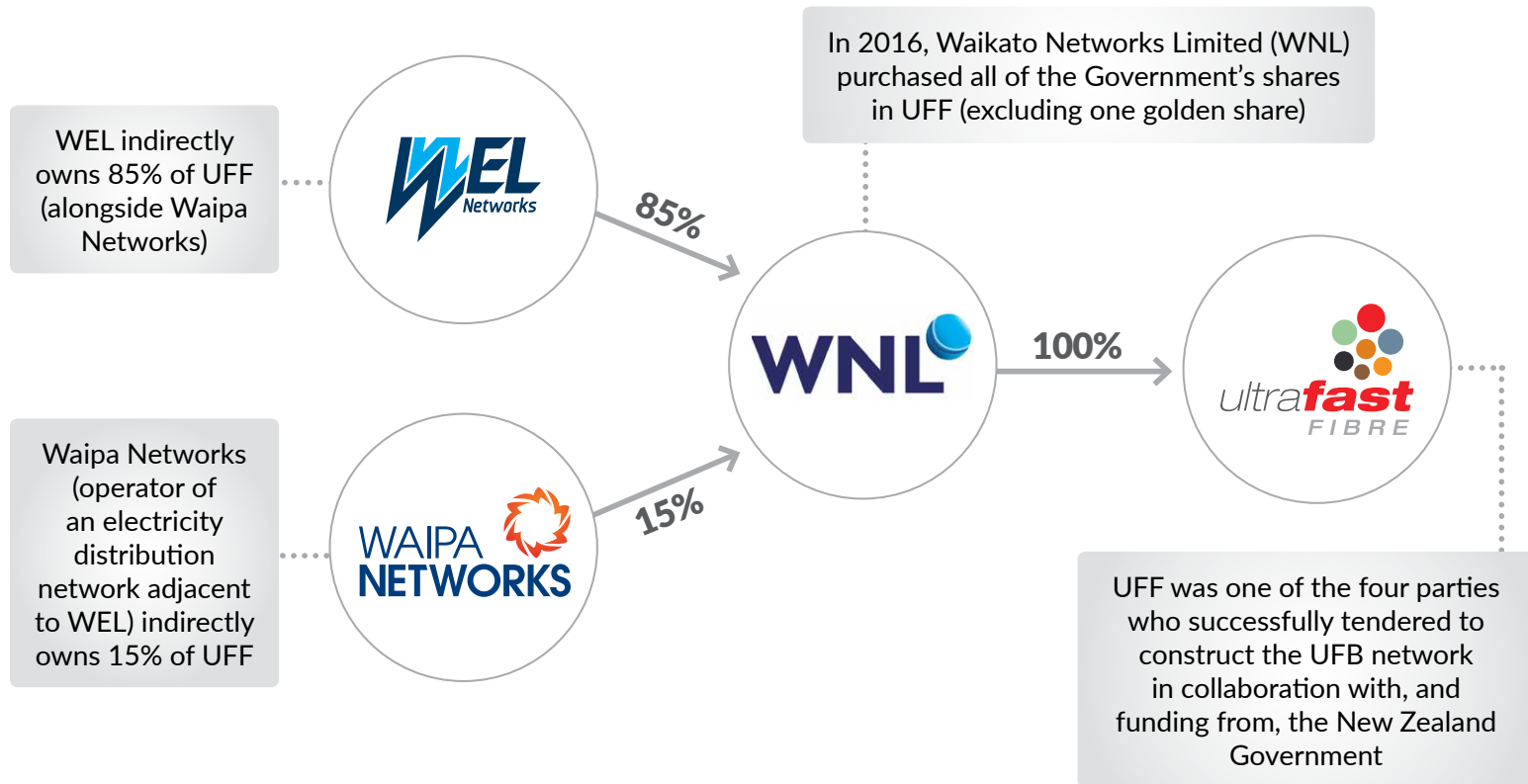
● UFB2 locations (under construction, connections have commenced)



Notes:

- 1) Based on Ultrafast Fibre's figures as at May 2018
- 2) MBIE – March 2018 broadband deployment update

Ultrafast Fibre ownership



Ultrafast Fibre's regulatory framework

Proposed legislation governing the telecommunications industry envisages Ultrafast Fibre being subject to an information disclosure regime. The new legislation is expected to be in place from 2022

CURRENT

- Prices charged by Ultrafast Fibre are specified by contracts entered into as part of the Government's UFB programme
- Ultrafast Fibre is subject to some information disclosure obligations from the Commerce Commission

**Telecommunications
regulatory framework
currently under
review**

2022 ONWARDS

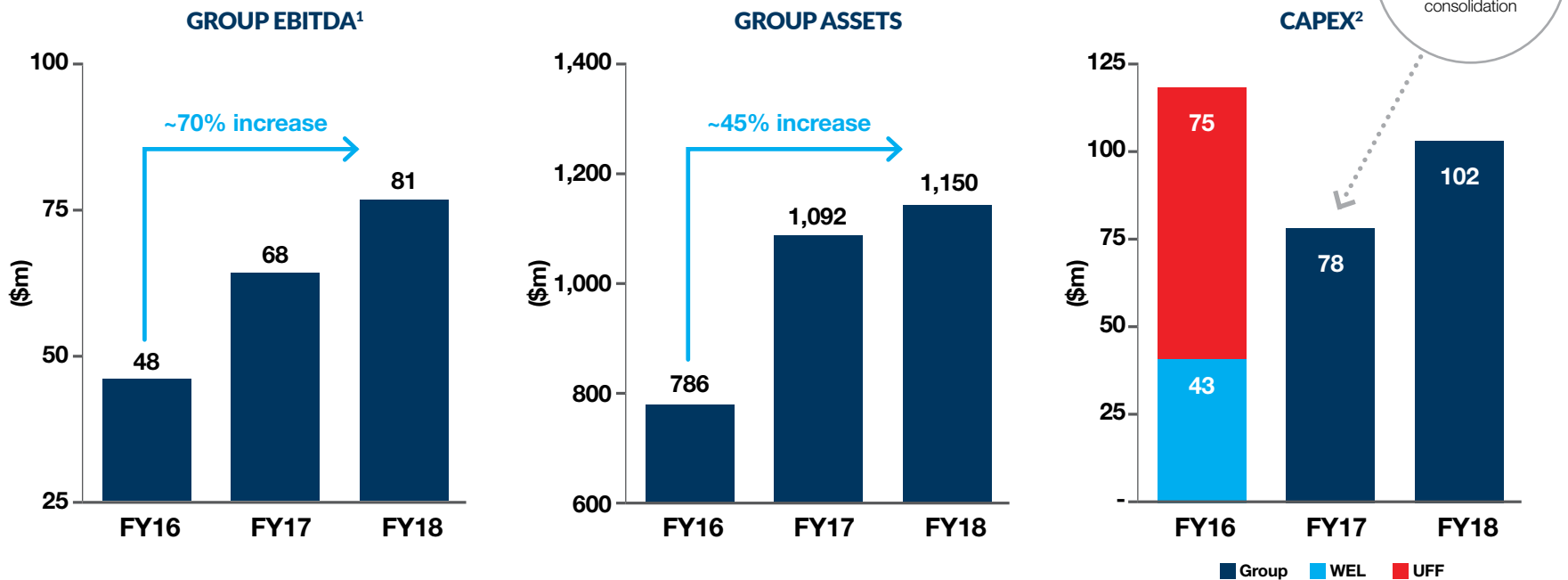
- Telecommunications (New Regulatory Framework) Amendment Bill
- Envisages Ultrafast Fibre being subject to an information disclosure regime but not a price and quality control regime
- Similar to information disclosure regime that applies to WEL



Financials

Continuing evolution into a multi-utility infrastructure provider

WEL has completed the majority of the fibre Build increasing assets significantly, while a ~50% uptake in connections has driven earnings higher



- On 31 August 2016, Waikato Networks acquired the remaining 65% of shares in Ultrafast Fibre that it did not own, obtaining control of Ultrafast Fibre. This acquisition has resulted in the financial information for the Group in FY16 and FY17 not being entirely comparable to FY18. Prior to this acquisition, Ultrafast Fibre was equity accounted in WEL as an associate. Upon acquiring control of Ultrafast Fibre, the Group recognised a \$87.9m fair value gain in FY17. Reported EBITDA of \$155.8m includes this one off impact on acquisition
- FY16 CAPEX is shown on an unconsolidated basis. Following the acquisition (mentioned above) CAPEX is shown on a fully consolidated basis

Income and cash flow

Earnings have been driven higher as fibre earnings increase alongside take-up

NZ\$m	FY16	FY17	FY18
Revenue	204.2	176.9	175.6
EBITDA	47.6	67.8¹	81.0
Interest expense	(7.4)	(9.0)	(18.8)
Net profit after tax²	10.9	105.9³	13.4
Net cash flows from operating activities	54.6	45.2	93.8
Purchases of property, plant and equipment	42.6	78.1	102.4

- Ultrafast Fibre was an associate and equity accounted in FY16
 - FY16 revenue and expenses are inflated when WNL, a subsidiary of WEL, was contracted to Ultrafast Fibre to build the fibre network
- EBITDA growth predominately from Ultrafast Fibre
- Net finance costs increase in FY18 reflecting CAPEX from fibre rollout and full-year impact from funding the acquisition of Crown shareholding in Ultrafast Fibre
- Revaluation gain from Ultrafast Fibre buyout in FY17 impacting NPAT

1. On 31 August 2016, Waikato Networks acquired the remaining 65% of shares in Ultrafast Fibre that it did not own, obtaining control of Ultrafast Fibre. This acquisition has resulted in the financial information for the Group in FY16 and FY17 not being entirely comparable to FY18. Prior to this acquisition, Ultrafast Fibre was equity accounted in WEL as an associate. Upon acquiring control of Ultrafast Fibre, the Group recognised a \$87.9m fair value gain in FY17. Reported EBITDA of \$155.8m includes this one off impact on acquisition
2. Includes net loss attributable to minority interests
3. Includes a fair value gain of \$87.9m (refer note 1)



Balance sheet

Balance sheet expansion as the fibre build continues

NZ\$m	FY16	FY17	FY18
Total assets	785.8	1,092.1	1,150.3
Total debt	230.3	445.0	478.3¹
Total liabilities	373.8	574.8	619.0
Equity²	412.0	517.3	531.2

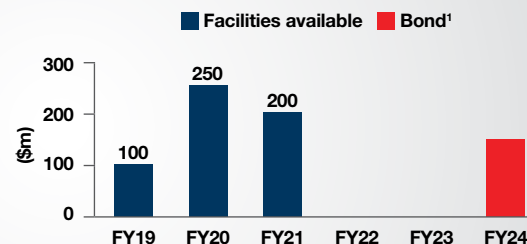
- In FY17 the balance sheet expanded following the acquisition of 65% of the shares in Ultrafast Fibre
- Total assets includes goodwill relating to Ultrafast Fibre and non-regulated assets of WEL
- Total debt includes shareholder loan being funds advanced from Waipa Networks in relation to its investment in Ultrafast Fibre. Put and call options available for Waipa Networks and WEL
- Total liabilities include a deferred tax liability of ~\$80m that reflects mismatch between tax and accounting policies

1. Includes \$70.7m of shareholder loans from Waipa Networks. Waipa Networks has an option to sell its 15% shareholding in Waikato Networks to WEL at fair value from March 2020, which would also require repayment of the shareholder loan
2. Included in equity are \$39m of Convertible Notes issued to the WEL Energy Trust. The Convertible Notes are due to mature on 31 March 2020, unless converted at the option of WEL into non-participating redeemable shares and are classified as equity in the financial statements.

Funding

Facilities

- \$550m of facilities from a strong syndicate of major banks (before bond proceeds are utilised to repay debt)
- Additional \$71m of funding from shareholder loans that is considered non-current²

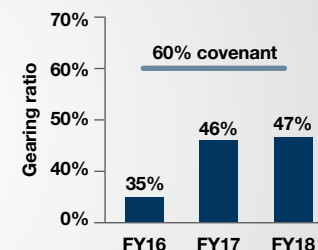
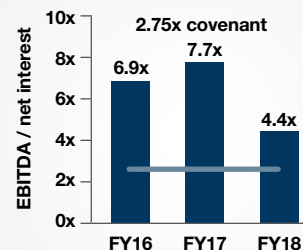


Hedging

- WEL maintains an active hedging policy that is reviewed on an ongoing basis
- WEL currently has \$200m of interest rate swaps at an average rate of 4.40%
- Post the Offer the level of interest rate swaps will be reviewed to ensure compliance with WEL's treasury policies

Bank covenants

- EBITDA / net interest expense > 2.75x
- Net debt / net debt + equity <60%
- Priority indebtedness of the Group <10% of total assets



1. After the issuance of the Bonds, the proceeds are expected to be used to repay some of the bank facilities

2. Waipa Networks has the option to sell its shares in WNL to WEL at fair value from March 2020 which would require repayment of shareholder loans

3. EBITDA / net interest graph excludes revaluation gain from Ultrafast Fibre




Subordinated Bonds

Key terms of the Bonds

Issuer	WEL Networks Limited
Description	Unsecured subordinated fixed rate bonds
Issue size	Offer of up to \$125m with the ability to accept up to an additional \$25m of oversubscriptions (at WEL's discretion)
Term	5 years maturing 2 August 2023
Interest rate	Fixed rate of interest that will be set following the bookbuild on 9 July 2018
Interest payments	Quarterly in arrear in equal amounts
Deferral of interest	Fixed rate of interest that will be set following the bookbuild on 9 July 2018. Payments of interest are subject to WEL being able to satisfy the solvency test immediately after making the payment and no event of default or breach under an agreement with a senior creditor having occurred or would occur following payment
Dividend stopper	In the event interest is deferred, WEL cannot make distributions to its shareholders or payments to subordinated creditors
Tax event	WEL may redeem all Bonds if a Tax Event occurs, provided it is not in default to senior creditors
Listing	NZDX under the ticker WEL010

Ranking

	Ranking in a liquidation of WEL	Type of obligation	Examples of obligations/securities	Indicative amount of liabilities and equity of WEL (\$m)
<div>Higher ranking</div>  <div>Lower ranking</div>	Liabilities that rank in priority to the Bonds	Secured debt and liabilities preferred by law	Liabilities mandatorily preferred by law	2.4
		Unsubordinated unsecured debt	Borrowings from banks Convertible notes ¹	258 39
	Liabilities that rank equally with the Bonds (including the Bonds)	Subordinated unsecured debt	The Bonds Other subordinated unsecured instruments issued or guaranteed by WEL (currently there are none)	150 —
	Equity	Equity	Ordinary shares, reserves and retained earnings	484

1. Convertible notes issued to the WEL Energy Trust are due to mature on 31 March 2020, unless converted at the option of WEL into non-participating redeemable shares and are classified as equity in the financial statements.

• This table has been prepared using amounts taken from WEL's accounting records for the year ended 31 March 2018, adjusted to reflect a reduction in the amount of unsubordinated unsecured debt by an amount equal to the proceeds expected to be received by WEL on issue of the Bonds. For these purposes it is assumed \$150 million Bonds are issued and the proceeds of the Bonds are applied to repay existing bank debt. See section 6.8 of the PDS for more details on ranking

Interest deferral and dividend stopper

Interest deferral

- Interest payments on the Bonds will not be made if:
 - WEL is not solvent or would not be solvent after making the payment; or
 - An event of default or breach has occurred under an agreement made with or for the benefit of a senior creditor or would occur after making the payment
- Deferred interest payments are cumulative

Dividend stopper

- While there is any deferred interest outstanding, WEL cannot make distributions to shareholders or payments to subordinated creditors
- WEL intends to make distributions to its shareholder consistent with normal commercial practice

Offer structure and key dates

OFFER STRUCTURE

- Minimum applications of \$5,000 and \$1,000 thereafter
- Early Bird Interest
- No public pool
- Bookbuild process
 - Offer conducted by a firm bookbuild process open to institutional investors, NZX firms and certain other parties
 - Applications must be made via a Primary Market Participant
- Fees
 - Brokerage of 0.75%
 - Firm fee 0.50% to those participating in the bookbuild

KEY DATES

PDS lodged	29 June 2018
Bookbuild / Interest Rate set	9 July 2018
Opening Date	10 July 2018
Closing Date	27 July 2018
Issue Date / Allotment Date	2 August 2018
Expected date of initial quotation and trading	3 August 2018
Maturity Date	2 August 2023