

# Product Disclosure Statement

For an offer of unsecured subordinated fixed rate bonds by WEL Networks Limited.

Date: 29 June 2018

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on <https://disclose-register.companiesoffice.govt.nz/>.

WEL Networks Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.



Arranger and Joint Lead Manager



Joint Lead Managers



Co-Manager



# 1 Key information summary

## What is this?

This is an offer of unsecured subordinated fixed rate bonds (**Bonds**). The Bonds are debt securities issued by WEL Networks Limited (**WEL**). You give WEL money, and in return WEL promises to pay you interest and repay the money at the end of the term. If WEL runs into financial trouble, you might lose some or all of the money you invested.

## About the Group

WEL and its subsidiaries (**Group**) build, own and operate electricity distribution assets and fibre infrastructure. Measured by connections, WEL is the sixth largest electricity lines company in New Zealand, with approximately 91,000 connections predominantly throughout the Waikato. WEL owns 85% of Ultrafast Fibre Limited (**Ultrafast Fibre**), which operates a 3,000km long telecommunications fibre network with the ability to provide high speed broadband access to over 200,000 consumers, including households, schools, businesses and healthcare facilities in the Waikato and towns in other North Island regions, including Bay of Plenty and Taranaki.

WEL's sole shareholder is the community-owned WEL Energy Trust.

## Purpose of this Offer

The proceeds of the Offer will be used to repay a portion of WEL's existing bank debt.

## Key terms of the Offer

**Description of the debt securities:** Unsecured subordinated fixed rate bonds

**Term:** 5 years maturing on the Maturity Date (2 August 2023)

**Interest rate:** The interest rate will be determined on the Rate Set Date (9 July 2018) after the Bookbuild and announced via NZX on or before the Opening Date

The interest rate will be equal to the greater of:

- the sum of the Margin (which will be determined following the Bookbuild) and the Swap Rate (a benchmark interest rate for a term of approximately 5 years); and
- the Minimum Interest Rate

The Minimum Interest Rate and an indicative Margin range will be announced via NZX on or about 3 July 2018 – see Section 6.2 of this PDS (Interest)

The interest rate will be fixed for the term of the Bonds

**Opening Date:** 10 July 2018

**Closing Date:** 27 July 2018

**Interest Payment Dates:** Interest is scheduled to be paid on each 2 February, 2 May, 2 August and 2 November during the term of the Bonds up to and including the Maturity Date

**Deferral of interest:** The payment of interest on the Bonds on an Interest Payment Date (other than a date on which the Bonds are to be repaid) is subject to no Interest Deferral Condition existing on that date - see Section 6.3 of this PDS (Deferral of interest)

**Offer amount:** Up to \$125 million plus up to \$25 million of oversubscriptions (at WEL's discretion)

**Fees and charges:** You are not required to pay any fees or charges to WEL when you apply for Bonds. However, you may have to pay brokerage to the broker or financial adviser from whom you receive an allocation of Bonds. You should ask your broker or financial adviser about this before subscribing for Bonds

## No guarantee

The Bonds are not guaranteed by any other member of the Group or any other person. WEL is solely responsible for the repayment of the Bonds.

## How you can get your money out early

You have no right to require WEL to repay your Bonds prior to the Maturity Date.

WEL may elect to redeem your Bonds early if WEL determines that a Tax Event has occurred (for instance interest on the Bonds is not fully deductible because of a change in law) – see Section 6.4 of this PDS (Repayment of the Face Value).

WEL intends to quote these Bonds on the NZX Debt Market. This means you may be able to sell them on the NZX Debt Market before the end of their term if there are interested buyers. If you sell your Bonds, the price you get will vary depending on factors such as the financial condition of the Group and movements in the market interest rates. You may receive less than the full amount that you paid for them.

## How Bonds rank for repayment

In a liquidation of WEL, your claim for payment of the Face Value of your Bonds and accrued interest will rank:

- ahead of claims of holders of ordinary shares in WEL and holders of securities and other financial products and indebtedness that rank after the Bonds;
- equally with other Holders and with the rights and claims of holders of securities and other financial products and indebtedness that rank equally with the Bonds (if any – there are currently none); and
- behind all other claims on WEL (such as money WEL owes to banks).

More information on how the Bonds rank for repayment can be found in Section 6.8 of this PDS (Ranking).

## No security

The Bonds are not secured against any asset of WEL.

## Where you can find the Group's financial information

The financial position and performance of the Group are essential to an assessment of WEL's ability to meet its obligations under the Bonds. You should also read Section 7 of this PDS (The Group's financial information).

## Key risks affecting this investment

Investments in debt securities have risks. A key risk is that WEL does not meet its commitments to repay you or pay you interest (credit risk). Section 8 of the PDS (risks of investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you.

The interest rate for these Bonds should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair. WEL considers that the most significant risk factors are:

- **Network failure risk:** The Group's distribution networks and Transpower's electricity transmission network are made up of assets which can be easily damaged, difficult to repair, and are not easily replaced or substituted. A prolonged and significant failure of a network (for instance following a major weather event in the Waikato) would adversely affect the ability of the Group to deliver electricity and fibre broadband to its customers which could adversely affect the Group's creditworthiness.
- **Reduced demand and substitution risk:** The Group is reliant on the continued demand from consumers for the delivery of electricity and broadband over its distribution networks. A material and sudden fall in demand for the delivery of electricity by WEL or fibre broadband by Ultrafast Fibre over the Group's networks caused by increased energy efficiency, technological change or unexpected competition from similar or substitute networks could adversely affect the Group's creditworthiness.
- **Crown Infrastructure Partners UFB contract risk:** A material breach by Ultrafast Fibre under its contract with Crown Infrastructure Partners to build the UFB network could result in Ultrafast Fibre paying penalties or losing its rights under the contract which could adversely affect the Group's creditworthiness.

This summary does not cover all of the risks of investing in the Bonds. You should also read Section 6 (Key features of Bonds) and Section 8 (Risks of investing) of this PDS.

## No credit rating

WEL's creditworthiness has not been assessed by an approved rating agency. This means that WEL has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

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## Letter from the Chairman of WEL's Board



Dear Investor

On behalf of WEL's Board I offer you the opportunity to invest in unsecured subordinated fixed rate bonds to be issued by WEL Networks Limited. This PDS describes the Bonds and the Offer, and provides an overview of WEL's business, operations and investments.

The WEL Group builds, owns and operates electricity distribution assets and fibre infrastructure. Measured by connections, WEL is the sixth largest electricity lines company in New Zealand, with approximately 91,000 connections predominantly throughout the Waikato. WEL owns 85% of Ultrafast Fibre, which operates a 3,000km long telecommunications fibre network with the ability to provide high speed broadband access to over 200,000 consumers, including households, schools, businesses and healthcare facilities in the Waikato and towns in other North Island regions, including Bay of Plenty and Taranaki. Ultrafast Fibre has successfully connected approximately 100,000 of these consumers as at the date of this PDS.

WEL benefits from being located in the 'Golden Triangle' of New Zealand, an area that is experiencing strong population and housing growth. WEL's infrastructure assets provide the wider Waikato population with critical access to energy and internet connectivity, underpinning the future prosperity of the region.

Following a sustained period of investment in constructing Ultrafast Fibre's fibre network, the WEL Board believes that now is an appropriate time to strengthen and diversify WEL's balance sheet by issuing a subordinated bond.

Accordingly WEL is seeking to raise \$125 million of Bonds under the Offer with the ability to accept an additional \$25 million of oversubscriptions. The proceeds of the Offer are expected to be used to repay a portion of WEL's existing bank debt.

There are risks associated with the Offer that may affect your returns and repayment of your investment in the Bonds. An overview of these risks is set out in this PDS. You should read this before deciding whether to invest in the Bonds.

I encourage you to seek financial, investment or other advice from a qualified professional adviser as you take time to consider the Offer.

On behalf of the WEL Board, I welcome your involvement in the Offer and your support of WEL. For more information on the Offer, please visit WEL's website [www.wel.co.nz/bondoffer](http://www.wel.co.nz/bondoffer).

A handwritten signature in black ink, appearing to read 'Rob Campbell', with a horizontal line extending to the right.

**Rob Campbell**  
Chairman

## 2 Key dates and offer process

<b>Rate Set Date</b>	9 July 2018
<b>Opening Date</b>	10 July 2018
<b>Closing Date</b>	27 July 2018
<b>Issue Date/Allotment Date</b>	2 August 2018
<b>Expected date of initial quotation and trading of the Bonds on the NZX Debt Market</b>	3 August 2018
<b>First Interest Payment Date</b>	2 November 2018
<b>Interest Payment Dates</b>	each 2 February, 2 May, 2 August and 2 November during the term of the Bonds up to and including the Maturity Date
<b>Maturity Date</b>	2 August 2023

The Rate Set Date, the Opening Date and the Closing Date are indicative only and are subject to change. WEL has the right in its absolute discretion to open or close the Offer early, to accept late applications, and to extend the Closing Date. If WEL changes any of the Rate Set Date, the Opening Date and/or the Closing Date, the changes will be announced via NZX as soon as reasonably practicable. If the Closing Date is extended, the Issue Date, the expected date of initial quotation and trading of the Bonds on the NZX Debt Market, the Interest Payment Dates and the Maturity Date may be extended accordingly. Any such changes will not affect the validity of any applications received.

WEL reserves the right to cancel the Offer and the issue of the Bonds. If this occurs all application money received under the Offer will be refunded (without interest) as soon as practicable.

See Section 15 of this PDS (How to apply).



## 3 Terms of the offer

### 3.1 Description of the Bonds

The Bonds	
<b>Issuer</b>	WEL Networks Limited
<b>Description</b>	Unsecured subordinated fixed rate bonds
<b>Term</b>	5 years maturing on the Maturity Date (2 August 2023)
<b>Face Value</b>	\$1.00 per Bond
<b>Interest rate</b>	The interest rate will be determined on the Rate Set Date (9 July 2018) and announced via NZX on or before the Opening Date. The interest rate will be fixed for the term of the Bonds
<b>Interest payments</b>	Interest is scheduled to be paid quarterly in arrear in equal amounts on each Interest Payment Date, commencing on 2 November 2018
<b>Deferral of interest</b>	<p>The payment of interest on an Interest Payment Date (other than a date on which the Bonds are to be repaid) is subject to no Interest Deferral Condition existing on the Interest Payment Date. In broad terms, the Interest Deferral Conditions prevent interest from being paid if:</p> <ul style="list-style-type: none"> <li>• WEL is not solvent or would not be solvent after making the payment; or</li> <li>• 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</li> </ul> <p>The payment of interest on a date on which the Bonds are to be repaid is not subject to any conditions, and all accrued interest (including previously deferred interest) must be paid on any such repayment date regardless of whether an Interest Deferral Condition exists</p> <p>See Section 6.3 of this PDS (Deferral of interest)</p>
<b>Unpaid interest accumulates</b>	Any interest that is not paid because an Interest Deferral Condition exists remains outstanding and will itself earn interest at the interest rate for the Bonds
<b>Dividend stopper</b>	<p>The payment of certain amounts by WEL to shareholders and other subordinated creditors (eg dividends) is restricted if interest is not paid on the Bonds when scheduled</p> <p>See Section 6.3 of this PDS (Deferral of interest)</p>
<b>Early redemption by WEL</b>	<p>WEL may elect to repay all (but not some only) of the Bonds early if a Tax Event occurs</p> <p>See Section 6.4 of this PDS (Repayment of the Face Value)</p> <p>You have no right to require WEL to repay your Bonds prior to the Maturity Date</p>
<b>Ranking of Bonds</b>	<p>The Bonds are unsecured subordinated obligations of WEL</p> <p>See Section 6.8 of this PDS (Ranking)</p>
<b>Supervisor</b>	<p>The Supervisor is appointed by WEL under the Trust Deed to act on behalf of Holders including in relation to WEL, matters connected with the Trust Deed and the terms of the Bonds</p> <p>The Supervisor is The New Zealand Guardian Trust Company Limited or such other supervisor as may hold office as supervisor under the Trust Deed from time to time</p>

### 3.2 Description of the Offer

The Offer	
<b>Offer amount</b>	Up to \$125 million plus up to \$25 million of oversubscriptions (at WEL's discretion)
<b>Opening, Closing and Issue Dates</b>	See Section 2 of this PDS (Key dates and offer process)

<b>The Offer</b>	
<b>Offer process</b>	<p>There is no public pool for the Bonds</p> <p>All Bonds are reserved for subscription by clients of the Joint Lead Managers, Primary Market Participants and other persons invited to participate in the Bookbuild</p>
<b>How to apply</b>	<p>Application instructions are set out in Section 15 of this PDS (How to apply)</p> <p>WEL reserves the right to refuse all or any part of your application for Bonds under the Offer without giving a reason</p>
<b>Early bird interest</b>	<p>Early bird interest is payable on application money that is received in respect of accepted applications prior to the Issue Date</p> <p>Early bird interest will be calculated on a daily basis at the interest rate for the Bonds from (and including) the date the application money is received into the bank account for the Offer until (but excluding) the Issue Date. Early bird interest will be paid (less any withholding tax required to be deducted) within 5 Business Days of the Issue Date</p> <p>No early bird interest is payable on application money that is not accepted</p>
<b>Refunds</b>	<p>If WEL does not accept your application (whether because of late receipt or otherwise) or accepts an application under the Offer in part only, all or the relevant balance of your application money received in respect of your application will be repaid to you (without interest) as soon as practicable</p>
<b>Issue price</b>	<p>\$1.00 per Bond, being the Face Value of each Bond</p>
<b>Minimum application amount</b>	<p>\$5,000 and in multiples of \$1,000 thereafter</p>
<b>No underwriting</b>	<p>The Offer is not underwritten</p>
<b>Brokerage</b>	<p>You are not required to pay brokerage or any charges to WEL in relation to applications under the Offer. However, you may have to pay brokerage to your broker or financial adviser from whom you receive an allocation of Bonds. You should ask your broker or financial adviser about this before subscribing for Bonds</p>
<b>Quotation</b>	<p>WEL intends to quote the Bonds on the NZX Debt Market. NZX ticker code WEL010 has been reserved for the Bonds</p> <p>NZX takes no responsibility for the content of this PDS. NZX is a licensed market operator and the NZX Debt Market is a licensed market under the FMC Act</p>
<b>Transfer restrictions/NZX approval</b>	<p>NZX has granted WEL approval under Listing Rule 11.1.5 to enable WEL to decline to register a transfer of Bonds if the transfer would result in the transferor or transferee holding or continuing to hold Bonds with a principal amount of less than \$5,000, or if the transfer is not in multiples of \$1,000</p>
<b>Selling restrictions</b>	<p>The Offer is subject to the selling restrictions contained in Section 11 of this PDS (Selling restrictions)</p> <p>By subscribing for Bonds, each investor agrees to indemnify WEL, the Supervisor, the Securities Registrar, the Arranger, the Joint Lead Managers, the Co-Manager and their respective directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred as a result of the investor breaching the selling restrictions contained in Section 11 of this PDS (Selling restrictions)</p>
<b>Governing law</b>	<p>New Zealand law</p>

### 3.3 Trust Deed

The terms and conditions of the Bonds are set out in the Trust Deed, including the Conditions. Holders are bound by, and are deemed to have notice of, the Trust Deed. If you require further information in relation to any Conditions or the Trust Deed, you may obtain a copy of the Trust Deed from the online Disclose register.



## 4 The Group and what it does

### 4.1 Overview of the Group

The Group comprises WEL and its subsidiaries (including Ultrafast Fibre). The Group 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 in towns in other North Island regions, including Bay of Plenty and Taranaki. The Group has two main businesses:

- an electricity network business operated by WEL, with WEL Services Limited (**WEL Services**) also providing maintenance services; and
- a fibre network business operated by Ultrafast Fibre.

Each of the companies in the Group is incorporated in New Zealand. WEL Services is wholly-owned by WEL. Ultrafast Fibre is wholly owned by Waikato Networks Limited (**Waikato Networks**), which in turn is owned 85% by WEL and 15% by Waipa Networks Limited (**Waipa**). The Government also holds 1 Government Share in Ultrafast Fibre.

The Government Share in Ultrafast Fibre does not give the Government the right to vote or receive a dividend, to participate in the distribution of surplus assets or to acquire any new shares in Ultrafast Fibre. The Government Share does however enable the Government to retain some control over Ultrafast Fibre's business. For instance, the Government's consent is required before there can be a change in Ultrafast Fibre's objectives and activities and before certain persons hold shares or a relevant interest in shares in Ultrafast Fibre. A copy of Ultrafast Fibre's constitution can be obtained from the online Disclose register.

Waipa operates the electricity distribution network in a region adjacent to the region in which WEL operates its network. Waipa and WEL have agreed a put and call arrangement under which if Waipa reduces its shareholding in Waikato Networks to less than 10%, or there is a change in control of Waipa, then WEL has the option to acquire Waipa's shareholding in Waikato Networks at fair value. Waipa also has the option to sell its shares in Waikato Networks to WEL at fair value from March 2020.

WEL is 100% owned by the WEL Energy Trust, a community-owned Trust that acts in the interests of the community in the Waikato region. The WEL Energy Trust is responsible for appointing WEL's board of directors.

Trustees are elected to the WEL Energy Trust every three years. The Trustees are required to ensure that WEL operates in accordance with the WEL Energy Trust Deed. Income that the WEL Energy Trust receives from WEL must be applied in accordance with the WEL Energy Trust Deed, including by:

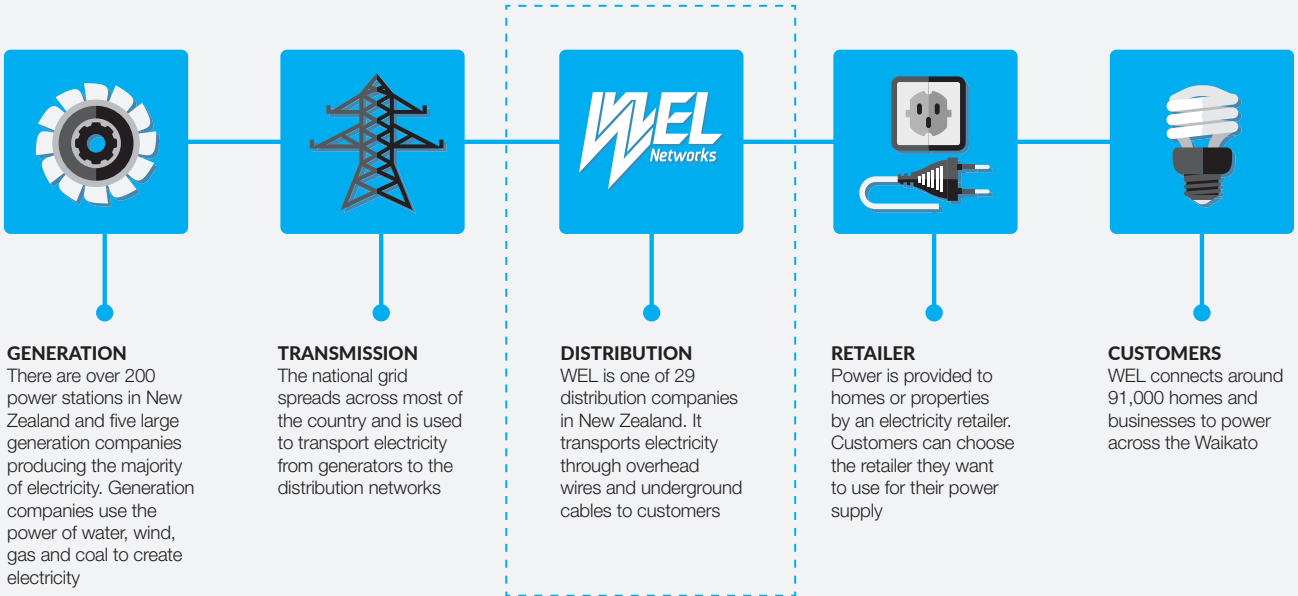
- investing in WEL as a means of assisting its growth and prosperity; and
- investing in community projects and providing appropriate energy efficiency grants.

A copy of the WEL Energy Trust Deed can be obtained from the online Disclose register.

### 4.2 About WEL and the electricity network business

WEL and its predecessors have been distributing electricity to Waikato communities for nearly 100 years.

WEL is one of the 29 electricity distribution businesses in New Zealand. Electricity distribution businesses own and operate the electricity lines and electrical infrastructure that transports electricity from the national transmission grid to homes and businesses. Electricity distribution businesses are one of four key businesses involved in the supply of electricity to customers, along with electricity generators, transmission and retailers. The below diagram illustrates WEL's role in the supply of electricity.



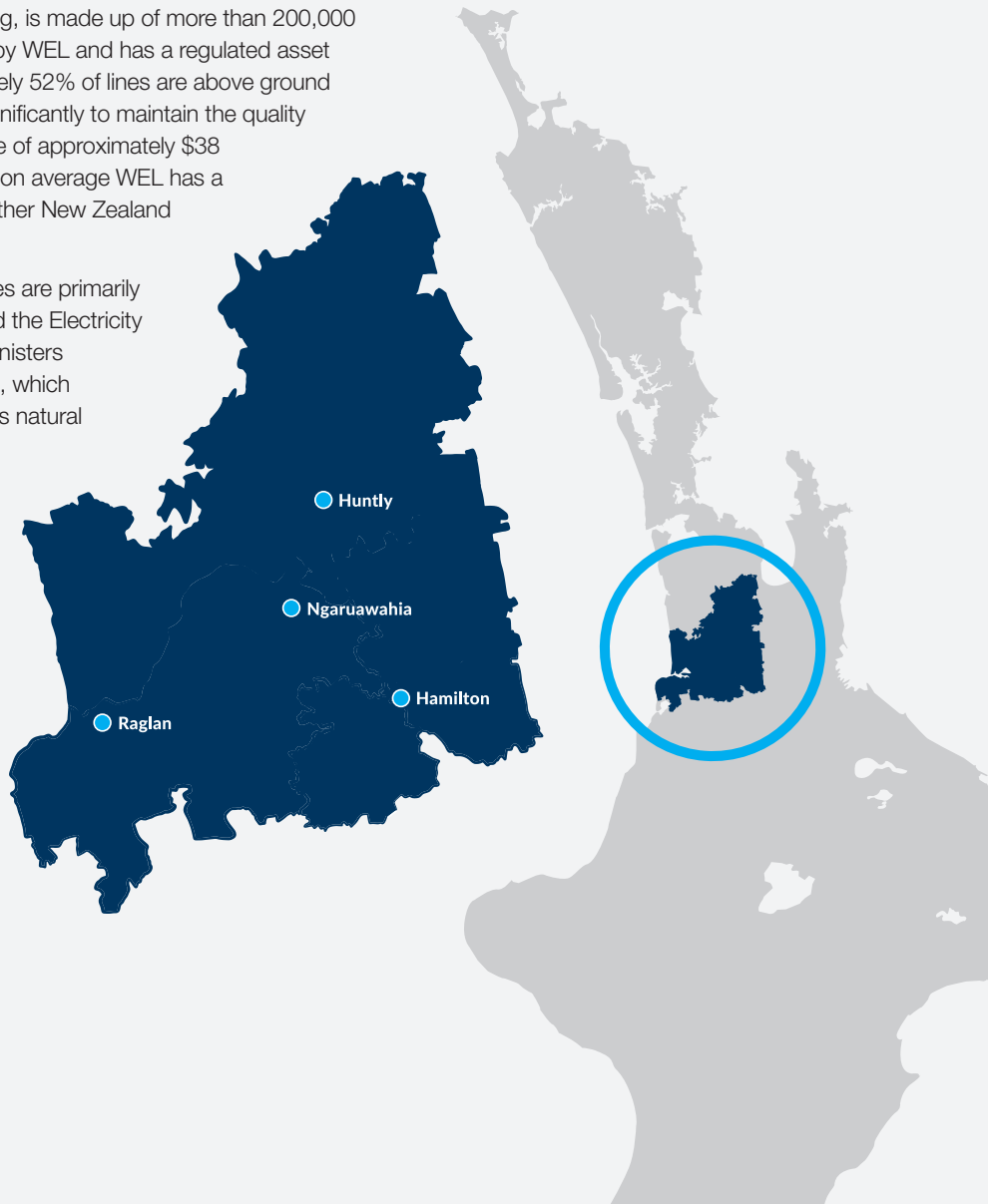
WEL’s core focus is to distribute electricity from the national grid, connecting over 160,000 people to electricity services through approximately 91,000 installation connection points.

WEL’s network stretches from Hamilton to Raglan and up to Maramarua plus smaller embedded networks in Cambridge and Auckland.

WEL’s electricity network is over 6,700km long, is made up of more than 200,000 individual asset components owned directly by WEL and has a regulated asset value of more than \$529 million. Approximately 52% of lines are above ground and 48% are below ground. WEL invests significantly to maintain the quality and safety of its network. Capital expenditure of approximately \$38 million is made in the network each year and on average WEL has a low number of outages when compared to other New Zealand electricity distribution businesses.

New Zealand electricity distribution businesses are primarily regulated by the Commerce Commission and the Electricity Authority. The Commerce Commission administers regulation under Part 4 of the Commerce Act, which applies to electricity distribution businesses as natural monopolies. The Part 4 regime aims to mimic the effects seen in competitive markets so that consumers benefit in the long term. Specifically it aims to incentivise investment and innovation, quality of service, and limit the ability of these businesses to earn excessive profits.

WEL is subject to the information disclosure requirements of Part 4 only. This requires WEL to disclose information about its profitability, quality of service and other aspects of its performance. WEL is exempt from price control regulation that applies to other electricity distribution businesses because WEL is owned by a community-owned trust. The Commerce Commission



monitors and reports on the information disclosed by electricity distribution businesses, which provides transparency around how they are performing. This encourages WEL to perform consistently with the benchmarks established by the Commerce Commission - including returns - even though its prices are not subject to regulatory control.

The Electricity Authority is responsible for overseeing, managing and regulating the operational and transactional aspects of the New Zealand electricity market. The Electricity Industry Act 2010 sets out industry participant responsibilities and standards, including rules regarding the separation of generation and retail from distribution businesses, and provides for the Electricity Industry Participation Code (**Code**). The Electricity Authority develops market rules via the Code that govern nearly every aspect of New Zealand's electricity industry, including distribution. The Electricity Authority is responsible for ensuring compliance with the Code and other provisions in the Electricity Industry Act 2010 and regulations, and taking enforcement action.

WEL primarily generates revenue through both fixed and volume-based lines charges to retailers who in turn supply retail electricity services to customers on WEL's electricity distribution network. The retailers are contractually obliged to pay WEL lines charges to transport electricity to their customers.

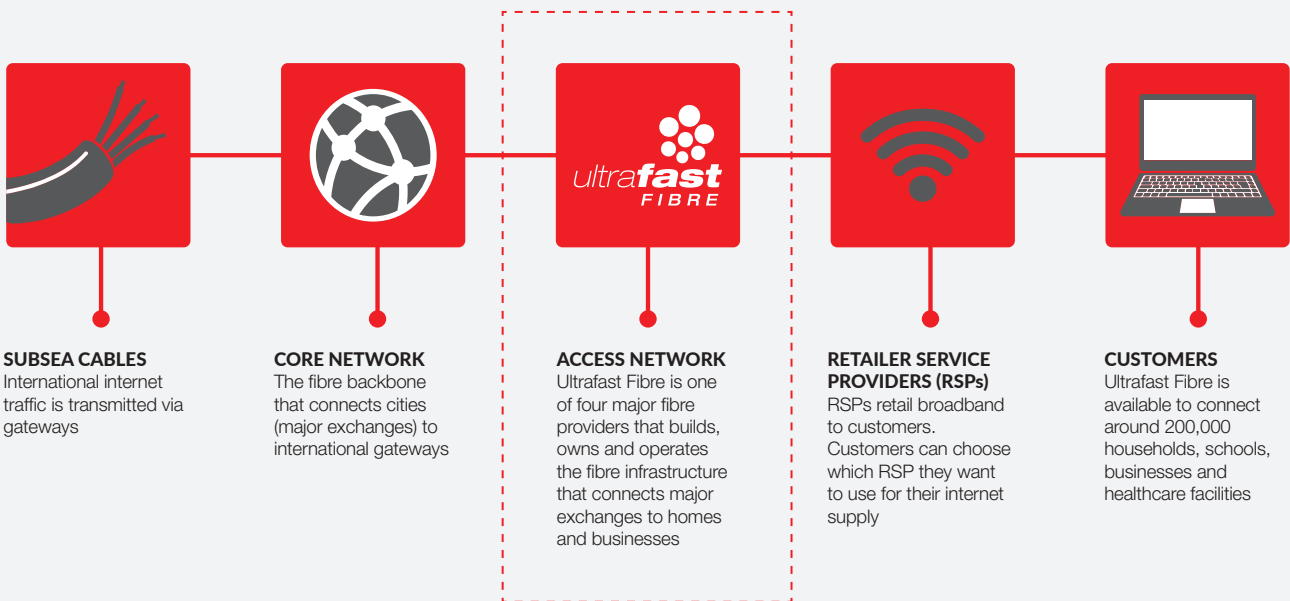
Across the Waikato, WEL's smart network project has installed 58,000 smart meters allowing integration of information received from the smart meters into WEL's asset management decision-making processes. This enables more efficient electricity distribution services and greater network utilisation. The installation of fast electric vehicle chargers by WEL across the Waikato region highlights WEL's commitment to new technologies and support for the adoption of electric vehicles across the country.

WEL employs approximately 240 employees with a range of expertise. WEL prioritises the safety of its employees as well as contractors and members of the public. WEL strives to ensure its equipment and practices are industry leading and that people in its communities know how to stay safe around electricity lines.

### 4.3 About Ultrafast Fibre and the fibre network business

Ultrafast Fibre was established in 2010 as one of three local fibre companies in New Zealand which, alongside Chorus Limited, successfully tendered for the right to construct part of the national fibre networks under the Government's Ultra-Fast Broadband (**UFB**) programme. Nationally, the UFB programme aims to provide fibre to 87% of New Zealanders by 2020.

As a fibre infrastructure owner and operator, Ultrafast Fibre is one of the key players involved in the broadband supply chain, along with backhaul providers and retail service providers. The below diagram illustrates Ultrafast Fibre's role in the supply of broadband.



Ultrafast Fibre builds, owns and operates UFB networks in urban areas across the North Island, including Waikato, Bay of Plenty and Taranaki. The construction of the UFB network requires Ultrafast Fibre to first install communal fibre infrastructure (**Build**), which runs past end user premises, then connect individual premises to that communal infrastructure (**Provisioning**). Ultrafast Fibre has completed the Build component of the first phase of the UFB programme (**UFB1**) and is underway with the second phase (**UFB2**) Build, with live connections in three regions. At completion, Ultrafast Fibre’s network will represent approximately 13.7% of the total UFB programme.

Ultrafast Fibre’s 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. Ultrafast Fibre has now invested approximately 78% of its total expected Build cost, with the remaining Build capital expenditure to be incurred over the next two years. Ultrafast Fibre’s total network is expected to be available to up to 250,000 consumers by 2025.

Ultrafast Fibre generates revenue from monthly connection fees charged to retail service providers who connect their customers to Ultrafast Fibre’s fibre network. Currently, Ultrafast Fibre has approximately 100,000 connections to its network, representing almost 50% uptake. Ultrafast Fibre has a target of 57.5% uptake by 2020.

The Government has a certain degree of influence over Ultrafast Fibre’s business in several ways. First, through the rights conferred on the Government Share that the

Government holds in Ultrafast Fibre, as described in Section 4.1 of this PDS (Overview of the Group). Second, the connection fees Ultrafast Fibre charges are subject to oversight by Crown Infrastructure Partners through the imposition of UFB price caps and undertakings given in its contract to build the UFB network.

Ultrafast Fibre is also subject to information disclosure requirements administered by the Commerce Commission, and has entered into enforceable undertakings with the Crown to provide open access to its network on a non-discriminatory basis.

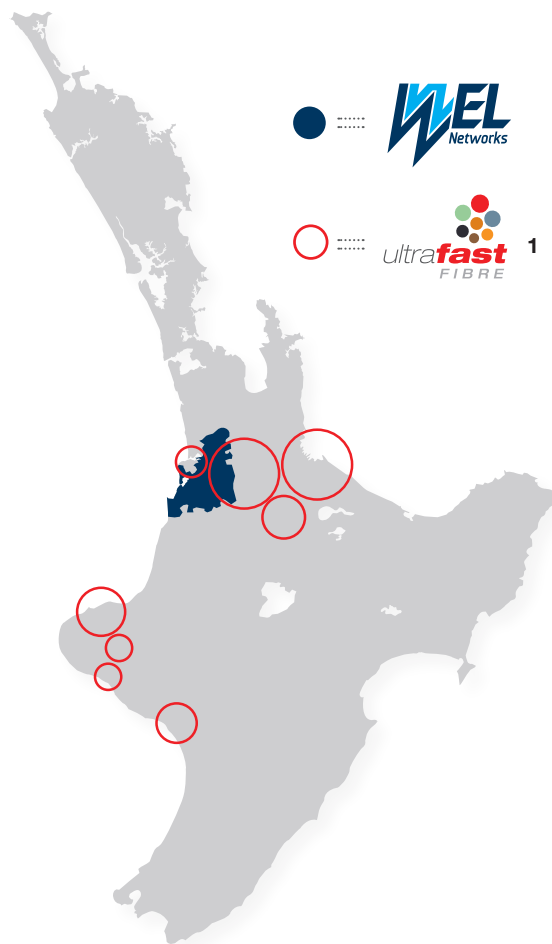
The New Zealand regulatory framework governing the telecommunications industry is currently under review. This process is being implemented under the Telecommunications (New Regulatory Framework) Amendment Bill and is expected to be in place in 2022. As currently proposed, Ultrafast Fibre will be subject to an information disclosure regime (but not a price and quality control regime) administered by the Commerce Commission that is very similar to the information disclosure regime that currently applies to WEL’s electricity distribution business. See Section 4.2 of this PDS (About WEL and the electricity network business).

#### 4.4 About WEL Services

WEL Services was established by WEL in April 2016. WEL Services operates as a contracting business to assist in maintaining WEL’s network and other nearby electricity distribution networks. WEL Services also provides other services including vegetation management.

#### 4.5 Material acquisitions and disposals

On 31 August 2016 WEL’s subsidiary, Waikato Networks, acquired the remaining 65% of shares in Ultrafast Fibre that it did not already own. The purchase price was \$118 million. The ownership of Ultrafast Fibre is described in Section 4.1 of this PDS (Overview of the Group).



1 Approximate regions

## 4.6 WEL's board of directors



### **Rob Campbell**

#### **Chairman and independent non-executive director**

Rob has over 30 years' experience in investment management and corporate governance. He is currently the chair of Tourism Holdings Limited, Summerset Group Holdings Limited and SkyCity Entertainment Group. He is also a director of Precinct Properties Limited. In addition, Rob is a director of, or advisor to, a number of hedge and private equity funds in several countries. He trained as an economist and has worked in a variety of capital market advisory and governance roles over a long period. Rob was appointed to the Board in June 2017.



### **Barry Harris**

#### **Independent non-executive director**

Barry has extensive governance and executive experience. He is currently the chair of New Zealand Food Innovation (Waikato) Limited and McFall Fuels Limited. Barry is also a Director of DairyNZ, Dexcel Limited, TB Free New Zealand Limited, National Animal Identification and Tracing (NAIT) Limited, Te Awa River Trust Trustee and OSPRI (formerly Animal Health Board). Throughout his career, Barry has held a number of chief executive roles, including for Environment Waikato, Greater Wellington Regional Council and Hamilton City Council. He was also a senior executive with Fonterra for five years. Some of Barry's previous directorships include CentrePort, RD1, International Nutritionals, Hamilton Riverside Hotels and Local Authority Shared Services. Barry was appointed to the Board in October 2014.



### **Tony Steele**

#### **Independent non-executive director**

Tony has had an extensive career in professional practice as a Chartered Accountant specialising in Business Advisory Services. Since retiring from KPMG Tony has accepted appointments as an independent director of several local private companies including Maisey Group Limited. Tony has been an independent director and chair of Maisey Group Limited since 2002. He also sits on the Boards of several subsidiaries of Maisey Group Limited in both New Zealand and Australia. Tony is a Fellow of both the Institute of Directors and Chartered Accountants Australia and New Zealand. Tony was appointed to the Board in October 2010.



### **Carolyn Steele**

#### **Independent non-executive director**

Carolyn has substantial experience in capital markets, mergers and acquisitions and investment management. She is currently a director of Metlifecare Limited, Green Cross Health Limited and Halberg Disability Sport Foundation. Carolyn is also a Trustee of the New Zealand Football Foundation and previous director of Datacom Group Limited. Until 2016, Carolyn was a Portfolio Manager at Guardians of New Zealand Superannuation, the Crown entity that manages the New Zealand Superannuation Fund. Prior to joining the Guardians in 2010, Carolyn spent ten years in investment banking at Forsyth Barr and Credit Suisse/First NZ Capital. Carolyn was appointed to the Board in June 2017.



**Geoff Lawrie**  
Independent non-executive director

Geoff has 36 years' experience in the technology industry in New Zealand and overseas. He is currently the chair of Auror Limited and a director of Howard & Company and Te Tira Toi Whakangao. He is also a Beachheads Advisor to New Zealand Trade & Enterprise, and a Board Trustee of the Valens Group Charitable Trust. Geoff has previously held directorships with Ngai Tahu Farming and Pivot Software Limited, and was the first elected chairman of the industry body NZ Tech. Geoff was appointed to the Board in June 2018.



**Tony Barnes**  
Independent non-executive director

Tony has 30 years' broad business experience in the utilities, media, HR services, technology and cyber security sectors in New Zealand, Australia and the UK. Tony is currently CEO of IT security specialist Cyber Research Group Ltd. He has previously served as CEO of LSE-listed smart metering pioneer BGlobal PLC, utility market software company Utilisoft, electricity retail outsourcer MBCGlobal, and as COO of ASX-listed HR services provider Chandler Macleod Group. Tony is a Certified Information Systems Security Professional (CISSP) and is a member of the Australian Institute of Company Directors. Tony was appointed to the Board in June 2018.



**Carolyn Luey**  
Independent non-executive director

Carolyn has extensive executive and commercial experience across a range of industries including telecommunications, media and technology. She is currently the General Manager of Enterprise Solutions and New Zealand at MYOB Group Ltd. Carolyn is also on the advisory board for NZ Asian Leaders. Throughout her career, Carolyn has grown her governance experience through a range of directorships, including for the Chinese NZ Herald, an independent director of Ziera Shoes NZ Limited and as a future director at Mercury NZ Limited (formerly Mighty River Power Limited). She is a chartered member of the Institute of Directors and was a key member of the leadership team that transformed three businesses into NZME. Carolyn was appointed to the Board in June 2018.

## 5 Purpose of the offer

The proceeds of the Offer will be used to repay a portion of WEL's existing bank debt. The use of the money raised under the Offer will not change depending on the total amount that is raised. The Offer is not underwritten.

## 6 Key features of Bonds

### 6.1 General

A number of the key features of the Bonds are described in Section 3 of this PDS (Terms of the offer). Some of these features are described in further detail below along with other key features of the Bonds. A copy of the Trust Deed is included on the online Disclose register. The information in this Section 6 is a summary of certain terms of the Trust Deed.

### 6.2 Interest

This Section 6.2 contains a summary of how the interest rate applicable to the Bonds is determined and how interest payments are calculated.

Interest	
<b>Interest rate</b>	The interest rate will be a fixed rate for the term of the Bonds. The interest rate will be determined on the Rate Set Date (9 July 2018) after the Bookbuild and announced via NZX on or before the Opening Date
<b>Bookbuild</b>	The Bookbuild is the process conducted prior to the opening of the Offer whereby certain investors, brokers and other financial intermediaries lodge bids for Bonds and, on the basis of those bids, WEL (in consultation with the Joint Lead Managers) determines the interest rate and allocations of Bonds
<b>How the interest rate is set</b>	<p>The interest rate will be equal to the sum of the Margin and the Swap Rate (a benchmark interest rate for a term of approximately 5 years) or, if it is greater, the Minimum Interest Rate</p> <p>The Minimum Interest Rate and an indicative Margin range will be determined by WEL in conjunction with the Joint Lead Managers and announced via NZX on or about 3 July 2018</p> <p>The actual Margin will be determined following the Bookbuild and may be greater or less than the indicative Margin range</p>
<b>Interest payments</b>	<p>Interest is scheduled to be paid on the Bonds quarterly in arrear in equal amounts on each scheduled Interest Payment Date, commencing on 2 November 2018</p> <p>Interest on an Interest Payment Date is paid to the person registered as Holder on the immediately preceding Record Date – see Section 6.5 of this PDS (Payments generally)</p> <p>If your Bonds are repaid on a date that is not a scheduled Interest Payment Date (because a Tax Event has occurred), then interest that has accrued and is unpaid on the date of repayment will be also be paid to you</p>

### 6.3 Deferral of interest

This Section 6.3 explains the circumstances in which WEL will defer the payment of interest on the Bonds and what happens to any interest payments that are deferred.

#### Deferral of interest

**Interest Deferral Condition**

The payment of interest on the Bonds on an Interest Payment Date (other than a date on which the Bonds are to be repaid) is subject to no Interest Deferral Condition existing on the Interest Payment Date. An Interest Deferral Condition will exist on an Interest Payment Date if:

- WEL would not satisfy the solvency test immediately after making the payment; or
- in an agreement made with or for the benefit of a Senior Creditor:
  - WEL has breached a covenant or undertaking and the breach has not been remedied to the satisfaction of the Senior Creditor;
  - an event of default has occurred; or
  - a breach of a covenant or undertaking or event of default would occur if WEL makes the interest payment

The payment of interest on a date on which the Bonds are to be repaid is not subject to any conditions, and all accrued interest (including previously deferred interest) must be paid on any such repayment date regardless of whether an Interest Deferral Condition exists

WEL will satisfy the solvency test if WEL can make the payment and remain solvent immediately after the payment is made. For these purposes, solvent means satisfying the solvency test in section 4 of the Companies Act. Section 4 of the Companies Act provides that a company satisfies the solvency test if (1) the company is able to pay its debts as they become due in the normal course of business and (2) the value of the company's assets is greater than the value of its liabilities, including contingent liabilities

A Senior Creditor means a creditor of WEL whose claims rank above the Bonds. An example of a covenant or undertaking given by WEL to a Senior Creditor are the interest cover and gearing ratios described in Section 6.8 of this PDS (Ranking) under the heading "Restrictions on WEL creating further liabilities"

**Unpaid amounts accumulate**

Interest that is not paid on the Bonds because an Interest Deferral Condition exists:

- remains outstanding and is payable by WEL on the earlier of:
  - the first scheduled Interest Payment Date on which no Interest Deferral Condition exists;
  - the date on which the Bonds are declared to be immediately due and payable following an Event of Default; and
  - the date on which the Bonds are to be repaid; and
- itself earns interest at the interest rate for the Bonds until the unpaid interest is paid

**Dividend stopper**

If interest on the Bonds is not paid because an Interest Deferral Condition exists on an Interest Payment Date then WEL must not, without the approval of a Special Resolution of Holders:

- resolve to pay any dividend to its shareholders or make any payment in respect of any securities issued by WEL that rank below the Bonds; or
- make any payment in respect of any securities issued by WEL that rank equally with the Bonds (unless a pro rata payment is also made in respect of the Bonds at the same time)

These restrictions apply for so long as deferred interest remains unpaid

**No Event of Default**

No Event of Default arises if interest on the Bonds is not paid because an Interest Deferral Condition exists on an Interest Payment Date (other than a date on which the Bonds are to be repaid). See Section 6.6 of this PDS (Events of Default) for a description of the Events of Default



## 6.4 Repayment of the Face Value

This Section 6.4 contains a summary of when, and what happens if, your Bonds are repaid.

### Repayment of the Face Value

<b>Term and Maturity Date</b>	The Bonds will be repaid by WEL on the Maturity Date (2 August 2023)
<b>Early redemption by WEL</b>	<p>WEL may elect to repay all (but not some only) of the Bonds early if a Tax Event occurs</p> <p>WEL is not entitled to make this election if an event of default has occurred under an agreement made with or for the benefit of a senior creditor or would occur if the repayment was made.</p> <p>Tax Event is defined in the Conditions. Broadly, a Tax Event means a determination by WEL that, because of a change in law or interpretation of law:</p> <ul style="list-style-type: none"> <li>(a) interest on the Bonds is not fully deductible; or</li> <li>(b) WEL would be or is likely to be exposed to any other adverse tax consequence in relation to the Bonds</li> </ul> <p>You have no right to require WEL to repay your Bonds prior to the Maturity Date</p>
<b>Amount you receive on repayment</b>	When your Bonds are repaid, WEL will pay you the Face Value (\$1.00) for each of those Bonds and you will have no further rights in respect of them. All accrued interest (including previously deferred interest) is also payable on the repayment date - see Sections 6.2 and 6.3 of this PDS (Interest and Deferral of interest)

## 6.5 Payments generally

This Section 6.5 contains information on payments on the Bonds generally.

### Payments generally

<b>Business Day convention</b>	If a payment on the Bonds is due on a day that is not a Business Day, WEL will make payment on the next Business Day, but no adjustment will be made to the amount of the payment as a result of the delay
<b>Record Date</b>	<p>Payments of interest on the Bonds will be made to the persons who are the Holders as at 5pm (New Zealand time) on the 10<sup>th</sup> calendar day before the relevant Interest Payment Date. If the Record Date would fall on a day that is not a Business Day, the Record Date will be the immediately preceding Business Day</p> <p>Payments of any other amount will be made to the persons who are the Holders as at 5pm (New Zealand time) on the date as is determined by WEL and notified to NZX</p>

## 6.6 Events of Default

The Events of Default, and the consequences if an Event of Default occurs, are summarised below.

### Events of Default

An Event of Default will occur in each of the following three situations:

#### 1. Payment default

If (1) WEL does not repay the Face Value on the Maturity Date or on any other date on which the Bonds are required to be repaid, or (2) WEL does not pay interest that is due on the Bonds, in each case, within 10 days of its due date

If an Interest Deferral Condition exists on an Interest Payment Date which is not also a date on which the Bonds are to be repaid then interest is not due and payable on that date and a payment default cannot occur

#### 2. Insolvency event

On the commencement of liquidation of WEL or if a receiver, statutory manager, administrator or similar official is appointed in respect of WEL or the whole or any part of its assets or undertakings

#### 3. Breach of restrictions if interest has been deferred

If WEL fails to comply with the payment restrictions (described above in Section 6.3 as “Dividend Stopper”) that apply to it if interest is not paid on an Interest Payment Date because an Interest Deferral Condition exists

### Consequences of an Event of Default

If an Event of Default occurs, the Supervisor may (or, if instructed by Holders, must) by notice to WEL declare that the Face Value and accrued but unpaid interest on the Bonds is due and payable

In this circumstance, your claim as a Holder will be subordinated as described in Section 6.7 of this PDS (Effect of subordination), and it is unlikely that you will receive payment of the full amount owing on your Bonds


## 6.7 Effect of subordination

The Bonds constitute unsecured subordinated obligations of WEL. Accordingly, on a liquidation of WEL, there is a risk that you may lose some or all of the money you invested in the Bonds. This is because, if there are insufficient assets to satisfy creditors of WEL whose claims rank ahead of the Bonds, you will not be repaid any of the Face Value of your Bonds and you will not receive any interest payments due and unpaid at that time in respect of your Bonds.

If there are sufficient assets to satisfy creditors of WEL whose claims rank ahead of the Bonds, there is still a risk that you may not be repaid all of the full Face Value of your Bonds as there may be insufficient assets to satisfy WEL’s obligation to repay the Face Value of the Bonds along with any accrued but unpaid interest and other equal ranking obligations.

## 6.8 Ranking

The following diagram shows how WEL's liabilities, including the Bonds, rank in a liquidation of WEL. The diagram does not describe every type of liability or security that WEL may have over the term of the Bonds. The diagram includes the liabilities and equity of WEL only. This is because you have no claim against any other member of the Group if WEL fails to make payments on your Bonds when due and goes into liquidation.

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

\*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.

### Basis of preparation of table

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. The table does not include the liability of \$71 million, being the shareholder loan from Waipa to WEL's 85% owned subsidiary Waikato Networks. While this is a liability of the Group, and included in the Group's total debt amount shown in Section 7.1, it is not a liability of WEL.

The liabilities mandatorily preferred by law include employee entitlements to unpaid salaries and wages, holiday pay and amounts owing to Inland Revenue for GST and PAYE.

### Restrictions on WEL creating further liabilities

WEL, Waikato Networks and Ultrafast Fibre are parties to a common terms deed poll dated 27 March 2015 (**Deed Poll**) under which they make certain undertakings to specified Senior Creditors (such as banks that provide funding to the Group). WEL, Waikato Networks, Ultrafast Fibre and any other members of the Group that join the Deed Poll are referred to as “Obligors” under the Deed Poll.

WEL has provided the following undertakings to the specified Senior Creditors under the Deed Poll.

- Interest cover ratio: the ratio of the Group’s net income for the preceding 12 month period (adjusted to exclude income tax, net finance costs, depreciation and amortisation but including any dividends received) to WEL’s net interest expense (excluding interest expense on the Bonds) will be greater than or equal to 2.75 times.
- Gearing ratio: the percentage of WEL’s net debt (excluding the Bonds) divided by WEL’s net debt (excluding the Bonds) plus WEL’s equity will be less than or equal to 60%.
- Priority indebtedness: the priority indebtedness of the Group will not exceed 10% of the total assets of the Group. In broad terms priority indebtedness means financial indebtedness of the Group that is secured or is incurred by a member of the Group other than an Obligor, but excluding indebtedness owed to another member of the Group.

The undertakings of WEL and the other Obligors under the Deed Poll are not given to Holders.

Subject to the undertakings described above, WEL could, at any time after the Issue Date, create further liabilities that rank equally with or in priority to the Bonds on a liquidation of WEL.

## 6.9 Amendments to the Trust Deed

WEL and the Supervisor are able to amend the Trust Deed without the approval of Holders if WEL and the Supervisor are satisfied that the amendment does not have a material adverse effect on the Holders. The Trust Deed may also be amended if the amendment is approved by a Special Resolution of Holders. A Special Resolution requires the approval of Holders who collectively hold Bonds with a Face Value of no less than 75% of the aggregate Face Value of the Bonds held by persons who are entitled to vote and who vote on the resolution. Amendments made in accordance with the Trust Deed are binding on you even if you did not agree to them.

WEL has agreed for the benefit of the specified Senior Creditors under the Deed Poll that it will not, without the approval of the Senior Creditors, amend the Trust Deed if the amendment would be adverse to the interests of the Senior Creditors.

## 6.10 Other relevant information about the Trust Deed

The Trust Deed also contains a number of standard provisions, including relating to:

- the role of the Supervisor and the powers and duties of the Supervisor;
- the process for replacement of the Supervisor; and
- the right of the Supervisor to be indemnified.

## 7 The Group's financial information

### 7.1 Selected financial information for the Group

This table provides selected financial information about the Group. Full financial statements are available on the offer register at <https://disclose-register.companiesoffice.govt.nz/>. The Group's financial performance and position is critical to WEL's ability to meet its obligations, including those owed to you. If you do not understand this sort of financial information, you can seek professional advice.

The Bonds are not guaranteed by any member of the Group. However, the Group's financial position and performance is relevant to the repayment of the Bonds because WEL's ability to repay the Bonds is dependent on the financial performance of the Group as a whole.

The financial information set out in the table below shows the financial position of the Group.

#### Selected financial information and ratios for the Group

(All amounts are shown in \$ thousands)

	As reported FY18	As reported FY17	As reported FY16
Revenues	175,553	176,872	204,218
EBITDA	81,029	155,751	47,631
Net profit after tax	13,431	105,865	10,879
Net cash flows from operating activities	93,810	45,189	54,575
Purchases of property, plant and equipment	102,368	78,099	42,646
Cash and cash equivalents	901	5,612	4,049
Total assets	1,150,271	1,092,084	785,786
Total debt	478,336	445,043	230,314
Total liabilities	619,048	574,787	373,796
Equity	531,223	517,297	411,990
Debt/EBITDA	5.9	2.9	4.8
<i>Debt/EBITDA is an indicator of the degree to which an entity has borrowed against earnings. The higher the number, the greater the risk that the entity will not be able to pay off its debts.</i>			
Interest expense	18,778	8,985	7,361
EBITDA/interest expense	4.3	17.3	6.5

*EBITDA/interest expense is a measure of the ability of an entity to pay interest on borrowings. The lower the number, the greater the risk that the entity will not be able to pay interest.*

EBITDA means net profit after tax plus interest, tax, depreciation, and amortisation as each of those items is determined in accordance with GAAP.

*The amounts in this table are taken from, or calculated from, the Group's audited financial statements for FY18 and FY16. The amounts for FY17 are the comparatives from the FY18 financial statements.*

#### Notes:

- The Group's financial statements for FY17 were prepared on a provisional basis pending finalisation of the consideration and fair value assets acquired and liabilities assumed on the acquisition of Ultrafast Fibre. The acquisition accounting for FY17 has now been finalised and the revised comparative balances have been reported in the Group's audited financial statements for FY18.
- Up to 31 August 2016, Ultrafast Fibre was a joint venture owned by Crown Infrastructure Partners, and Waikato Networks. Waikato Networks is owned by Waipa as to 15% and WEL as to 85%. Prior to the acquisition of Ultrafast Fibre on 31 August 2016, Waikato Networks was contracted to the joint venture to build the UFB network.

3. 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. Upon acquiring control of Ultrafast Fibre, the Group recognised a \$87,928,000 fair value gain in FY17. Without this one off impact on acquisition, normalised results for FY17 would have been an EBITDA of \$67,823,000 with a Debt/EBITDA ratio of 6.6 and EBITDA/interest expense ratio of 7.5. EBITDA includes the share of loss from investment in an associate which does not form part of the EBITDA result disclosed in the audited financial statements. This share of loss from an investment in an associate was \$629,000 for FY18, \$694,000 for FY17 and \$2,160,000 for FY16.
4. Ultrafast Fibre became a subsidiary of WEL on 31 August 2016. This means it was not consolidated into the Group's FY16 accounts, included for only 7 months in the Group's FY17 accounts, and included for the full year in the Group's FY18 accounts. This has resulted in a lack of comparability for the amounts shown in the above table. For example, revenue in FY16 was higher than FY17 and FY18 as Waikato Networks generated contracting revenue for building the fibre network for Ultrafast Fibre which was outside the Group in FY16. After the acquisition of the remaining shares in Ultrafast Fibre, the previously recognised revenue is offset by the costs held in Ultrafast Fibre. The debt increase from FY16 to FY17 was due to the acquisition of the remaining shares in Ultrafast Fibre for \$117,942,000 and the continued construction of the fibre network build. After adding back losses of \$2,160,000 in associates in FY16, the net profit after tax of \$10,879,000 increases to \$13,039,000 which is comparative to FY18. Purchases of property, plant and equipment increased significantly over FY17 and FY18 relative to FY16 principally driven by the effect of consolidation of Ultrafast Fibre.

## 7.2 Selected financial information for Ultrafast Fibre

The financial information set out in the table below shows the financial position of Ultrafast Fibre for its two previous financial years prior to the financial year in which it became a subsidiary of WEL (indirectly through Waikato Networks). This information is included because Ultrafast Fibre became a subsidiary of WEL part way through WEL's 2017 financial year. The information in this table should be read together with the selected financial information and ratios of the Group in Section 7.1 of this PDS (Selected financial information for the Group) to get a clear understanding of the financial position and performance of the Group.

### Selected financial information for Ultrafast Fibre

(All amounts are shown in \$ thousands)

	As reported FY16	As reported FY15
Revenues	26,637	10,010
EBITDA	3,741	(5,403)
Net profit after tax	(6,949)	(9,981)
Purchases of property, plant and equipment	75,014	77,533
Net cash flows from operating activities	6,485	(3,933)
Cash and cash equivalents	6,086	1,886
Total assets	318,848	227,946
Total debt	-	-
Total liabilities	47,207	22,085
Equity	271,641	205,861
Interest expense	-	-

*The amounts in these tables are taken from, or calculated from, Ultrafast Fibre's audited financial statements for the years ended 30 June 2016 and 2015.*

#### Notes:

1. The balance date for Ultrafast Fibre changed from June to March prior to the preparation of the Group's financial statements for FY17.
2. The FY16 and FY15 numbers in this table have been extracted in good faith from, or calculated from, the full year audited financial statements of Ultrafast Fibre. The directors of WEL were not involved in the preparation of this financial information because Ultrafast Fibre was not controlled by WEL at the time it was prepared.

### 7.3 Selected financial information for WEL

The financial information set out in the table below shows the financial position of WEL. This information is included because no members of the Group guarantee the Bonds and you have a claim against WEL only for amounts owing on the Bonds.

#### Selected financial information for WEL

(All amounts are shown in \$ thousands)

	<b>As reported FY18</b>
Total assets	<b>1,025,597</b>
Total tangible assets	<b>1,015,869</b>
Total liabilities	<b>542,038</b>
Total net tangible assets	<b>473,831</b>

*The amounts in this table are taken from, or calculated from, WEL's accounting records for the year ended 31 March 2018.*

### 7.4 Other limitations, restrictions and prohibitions

A description of undertakings given by WEL that restrict the ability of the Group to borrow is contained in Section 6.8 of this PDS (Ranking). WEL's ability to borrow is also limited by its constitution. The approval of the WEL Energy Trust is required before WEL can enter into a transaction that would result in the ratio of debt/debt plus equity of WEL exceeding 50%.

In addition, WEL and the other Obligors undertake to the specified Senior Creditors under the Deed Poll that they will not create or permit to subsist any security interest over any of their assets other than certain permitted security interests.

Waikato Networks also undertakes to specified Senior Creditors under the Deed Poll that it will not incur any financial indebtedness other than financial indebtedness owed to a specified Senior Creditor that is subject to the provisions of the Deed Poll or that is provided by another member of the Group.

## 8 Risks of investing

### 8.1 Introduction

This Section 8 describes the following potential risks associated with an investment in the Bonds:

- general risks associated with an investment in the Bonds; and
- significant specific risks relating to WEL's creditworthiness.

The selection of risks relating to WEL's creditworthiness has been based on an assessment of a combination of the probability of a risk occurring and the impact of the risk if it did occur. This assessment is based on the knowledge of the directors of WEL as at the date of this PDS. There is no guarantee or assurance that the significance of different risks will not change or that other risks will not arise over time.

Where practicable, the Group seeks to implement risk mitigation strategies to manage the exposure to the risks outlined below, although there can be no assurance that such arrangements will fully protect the Group from such risks.

Investors should carefully consider these risk factors (together with the other information in this PDS) before deciding to invest in the Bonds.

This summary does not cover all of the risks of investing in the Bonds.

The statement of risks in this Section 8 does not take account of the personal circumstances, financial position or investment requirements of any particular investor. It is important, therefore, that before making any investment decision, investors give consideration to the suitability of an investment in the Bonds in light of their individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation issues).

## 8.2 General risks

An investment in the Bonds is subject to the following general risks:

### ***The risk that WEL encounters severe financial difficulty and is unable to meet its obligations under the Bonds***

If WEL encounters severe financial difficulty, this may in turn:

- lead to the payment of interest on your Bonds being deferred; or
- result in WEL being placed into liquidation or a receiver, statutory manager, administrator or similar official being appointed in respect of WEL or the whole or any part of its assets or undertakings. In this circumstance you may lose some or all of the money that you invested in the Bonds.

### ***Market risks associated with the Bonds***

*The market price of the Bonds may fluctuate up or down and the Bonds may trade below their Face Value*

The market price of the Bonds on the NZX Debt Market may fluctuate due to various factors. The Bonds may trade at a market price below their Face Value. This means that you may lose some of the money you invested if you wish to sell your Bonds at a time when the market price of the Bonds is lower than the Face Value.

*The liquidity of the Bonds may be low*

If liquidity of the Bonds is low, there is a risk that if you wish to sell your Bonds prior to the Maturity Date, you may not be able to do so when you want to at an acceptable price, or at all.

*The interest rate may become less attractive compared to returns on other investments*

The interest rate on the Bonds will be fixed for the term of the Bonds. The interest rate may become less attractive compared to returns on other investments during these periods.

## 8.3 Specific risks relating to WEL's creditworthiness

The Group is exposed to a number of risks that may affect the business of the Group and therefore the financial performance and creditworthiness of WEL.

The circumstances that WEL is aware of that exist or could arise that significantly increase the risk that payments may not be made on the Bonds when scheduled are described below. The assessment of these circumstances is based on the business of the Group as conducted as at the date of this PDS. If the nature or scope of this business changes, other circumstances or events could arise that affect the risks to WEL's creditworthiness.

### ***Network failure risk***

The Group relies on the effective operation of its distribution networks, and for electricity distribution, Transpower's transmission network, to deliver electricity and broadband to its customers. These networks are made up of assets which can be easily damaged, difficult to repair, and are not easily replaced or substituted. An interruption to the operation of these networks can result in a loss of revenue and increased costs for the Group.

Interruptions to the operation of these networks occur from time to time and generally can be managed by the Group without a material impact on its business. However, if a prolonged and significant failure of a network were to occur (for instance, following a major weather event in the Waikato), this could result in a material reduction in revenues and increase in costs which, in extreme circumstances, could affect the Group's creditworthiness.

### ***Reduced demand and substitution risk***

The Group's business is reliant on the continued demand from consumers for the delivery of electricity and broadband over its distribution networks. The Group is aware that the demand for its services could be eroded by increased energy efficiency, technological change and competition from similar or substitute networks.

Alternative energy supplies (such as residential wind or solar generation, or batteries) are being developed which could result in a reduction in demand for WEL's electricity distribution business. The uptake by consumers of these alternative energy supplies is slow and is not having a significant impact on the demand for WEL's business. However, if these alternative energy supplies were to become significantly more affordable and more widely available then this could result in a material fall in demand for the Group's electricity network.



New telecommunication technologies (such as wireless, mobile or satellite networks) are being developed as possible alternatives to fibre broadband. The development of these new technologies is occurring slowly and is not having a significant impact on the demand for Ultrafast Fibre's business. However, if these new technologies were to become viable alternatives to fibre broadband more quickly than Ultrafast Fibre expects, then this could result in a material fall in demand for the Group's fibre network.

Ultrafast Fibre does not hold the exclusive right to develop the fibre network within the region in which it operates. It faces competition which it monitors, and responds to, in the ordinary course of its business. However, aggressive and prolonged competition from a competitor could result in a material fall in demand for the Group's services.

Ultrafast Fibre is subject to undertakings with the Crown, under which it must provide an unbundled layer 1 fibre service from 2020. The impacts on the Group's financial performance if unbundling is unexpectedly and aggressively pursued by Ultrafast Fibre's customers are uncertain, but it could result in a material fall in demand for the Group's services.

It is not possible to accurately predict the overall impacts of the risks described above. However, a material and sudden fall in demand for the Group's networks in the circumstances described above would result in reduced revenues. In extreme circumstances, this could affect the Group's creditworthiness.

### **Crown Infrastructure Partners UFB contract risk**

The Group could be adversely affected if Ultrafast Fibre committed a material breach of its contract with Crown Infrastructure Partners to build its UFB network and connect premises to that network. Consequences for breaching the UFB contract could include:

- default payments – meaning Ultrafast Fibre could be required to pay significant amounts if it fails to meet performance milestones or service levels;
- damages claims or specific performance for other breaches – meaning Ultrafast Fibre could be required to pay significant amounts or perform certain activities to remedy the breach; and
- for prolonged or significant performance failure:
  - o management step in rights – meaning the Government could take over day to day management and control of Ultrafast Fibre's resources and business activities to remedy the breach; and
  - o termination of the UFB contract.

Ultrafast Fibre expects to complete the build of its network in 2020 after which it will continue to be required to connect premises to the network. See Section 4.3 of this PDS (About Ultrafast Fibre and the fibre network business). As at the date of this PDS, Ultrafast Fibre is not aware that any material breaches under the UFB contract have occurred. However, if a material breach of Ultrafast Fibre's obligations under the UFB contract did occur, it could result in Ultrafast Fibre paying penalties or losing its rights under the contract. Although Ultrafast Fibre does not expect a material breach to occur, if it did and Ultrafast Fibre incurred significant penalties or lost its rights under the contract, this could affect WEL's creditworthiness.

### **Regulatory risk**

The Group's business could be adversely affected by regulation that impacts on how prices are set for services. Both the electricity and telecommunications industries are subject to extensive legislation, regulation and supervision by regulators, including by the Commerce Commission and Electricity Authority. Inquiries and reviews can take place from time to time. In particular:

- The Commerce Commission is the key regulatory body for WEL's electricity distribution business via Part 4 of the Commerce Act. Under this regime, the Group is subject to information disclosure regulation but remains free to set its own prices. It is possible that a reduction in the return benchmarks set by the Commerce Commission could influence WEL to reduce lines charges. It is also possible that regulatory price control could be imposed in the future if WEL's electricity distribution business materially and repeatedly exceeds the return benchmarks set by the Commerce Commission. The Group's exemption from price control regulation also depends on it continuing to be owned by a community-owned trust.
- There is a Bill before Parliament that, when passed, will impose very similar information disclosure regulation on the Group's fixed line fibre business, Ultrafast Fibre. Under current proposals, this information disclosure regulation is expected to be implemented in 2022.
- The Government has also commenced a broad electricity sector review, which could result in new regulation. The Government has stated that it is likely to exercise considerable caution before adopting any changes to Part 4 of the Commerce Act (including the information disclosure regime).

The regulatory environment in which the Group operates could change over the term of the Bonds. Although WEL does not expect regulatory changes to adversely affect the Group's business during this period, there is no certainty that proposed changes will be introduced in their current form or that other regulatory changes will not be introduced. It is not possible to accurately predict the overall impacts of increased regulation on the Group, but it could be negative and, in extreme circumstances, affect its creditworthiness.

### **Reduced generation risk**

WEL operates its electricity distribution business in the expectation that the demand for electricity remains relatively stable and predictable, taking into account seasonal variations. The demand for electricity fluctuates over time and WEL generally manages lower than expected demand in the ordinary course of its business.

However, a sudden and prolonged fall in demand for WEL's electricity network caused by reduced electricity generation could result in a significant reduction in the Group's revenues. For instance, the operator of the national electricity system has the ability to make a supply shortage declaration if national electricity generation is very low, which would reduce the national supply of electricity to consumers. WEL expects that a supply shortage declaration would only be made in exceptional circumstances, such as during a lengthy and extreme dry winter. However, if these circumstances arose, it would result in reduced revenues which could affect the Group's creditworthiness.

### **Impact of risks**

In the normal course of business, the risks described above are not expected to have a material adverse impact on the Group. However, in unusual circumstances, such as a significant natural disaster or a sudden and prolonged loss of demand for the Group's services, the risks can become more difficult to manage and the impact on the Group can be more severe. In certain circumstances, such as when a combination of unusual circumstances exists at the same time, the impact of the circumstances could mean that WEL is not able to make payments on the Bonds when scheduled.

The ownership structure of the Group may mean it is difficult for the Group to respond quickly to these impacts in extreme circumstances. WEL is wholly owned by the WEL Energy Trust. The Trust has a very limited ability to quickly provide new capital to WEL if WEL urgently requires additional funding.

## **9 Tax**

Taxes may affect your returns. The information set out below does not constitute taxation advice to any Holder, is general in nature and limited to consideration of New Zealand taxation impacts only.

### **Resident Withholding Tax**

If you are resident in New Zealand for tax purposes or you otherwise receive payments of interest on the Bonds that are subject to the resident withholding tax (**RWT**) rules, WEL will deduct RWT at the relevant rate from interest paid or credited to you unless you provide to WEL or the Securities Registrar a valid certificate of exemption from RWT, or other evidence that payments to it should not be subject to RWT, on or before the Record Date for the relevant payment.

### **General**

Tax can have significant consequences. There may be other tax consequences from acquiring or disposing of the Bonds, and otherwise from the maturity or cash settlement of the Bonds.

If you have any queries relating to the tax consequences of the Investment, you should obtain professional taxation advice on those consequences.

## 10 Tax consequences for overseas Holders

If you are not a resident of New Zealand for tax purposes and the interest you receive is subject to the non-resident withholding tax (**NRWT**) rules, WEL will deduct approved issuer levy (**AIL**) in lieu of deducting NRWT, unless you elect for NRWT to be deducted or it is not possible under any law to pay AIL in lieu of deducting non-resident withholding tax.

If WEL applies the AIL regime as described above, WEL will apply a zero rate of AIL, if possible. Otherwise, AIL will be deducted at the standard rate of 2% from the interest payment. If the AIL regime or rate changes in the future, WEL reserves the right not to deduct AIL.

## 11 Selling restrictions

This PDS only constitutes an offer of Bonds to the public in New Zealand and to certain New Zealand and overseas institutional investors. WEL has not taken and will not take any action which would permit a public offering of Bonds, or possession or distribution of any offering material in respect of the Bonds, in any country or jurisdiction where action for that purpose is required (other than New Zealand). The Bonds may only be offered for sale, sold or delivered in a jurisdiction other than New Zealand in compliance with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered.

Any information memorandum, disclosure statement, circular, advertisement or other offering material in respect of the Bonds may only be published, delivered or distributed in compliance with all applicable laws and regulations (including those of the country or jurisdiction in which the material is published, delivered or distributed).

These selling restrictions may be modified by WEL and the Joint Lead Managers, including following a change in a relevant law, regulation or directive. Persons into whose hands this PDS comes are, and each Holder is, required by WEL and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Bonds or have in their possession or distribute such offering material, in all cases at their own expense.

## 12 Who is involved?

### 12.1 Who is involved?

Description	Name	Role
<b>Issuer</b>	WEL Networks Limited	Will issue the Bonds
<b>Supervisor</b>	The New Zealand Guardian Trust Company Limited	Holds certain covenants on trust for the benefit of the Holders, including the right to enforce WEL's obligations under the Bonds
<b>Arranger and Organising Participant</b>	Forsyth Barr Limited	Provides assistance to WEL with arranging the Offer and has responsibilities to NZX in relation to the quotation of the Bonds
<b>Joint Lead Managers</b>	ANZ Bank New Zealand Limited, Deutsche Craigs Limited, First NZ Capital Securities Limited and Forsyth Barr Limited	Assist with the Bookbuild and with the marketing and distribution of the Offer
<b>Co-Manager</b>	Commonwealth Bank of Australia (ABN 48 123 123 124) (acting through its New Zealand branch)	Assist with the marketing and distribution of the Offer
<b>Securities Registrar</b>	Link Market Services Limited	Maintains the Register
<b>Solicitors to the Issuer</b>	Russell McVeagh	Provide legal advice to the Group in respect of the Offer
<b>Solicitors to the Supervisor</b>	Kensington Swan	Provide legal advice to the Supervisor in respect of the Offer

## 12.2 No reliance

This PDS does not constitute a recommendation by the Supervisor, the Arranger, the Joint Lead Managers, the Co-Manager, the Securities Registrar, the Solicitors to the Issuer, the Solicitors to the Supervisor (together the **relevant parties**) or any of them or their respective directors, officers, partners, employees, agents or advisers to subscribe for, or purchase, any Bonds.

None of the relevant parties or their respective directors, officers, partners, employees, agents or advisers have independently verified the content of this PDS.

Except as described in Section 12.1 of this PDS (Who is involved?) the relevant parties are not otherwise involved in the Offer.

# 13 How to complain

## Complaints about the Bonds

If you have any problems or concerns about the Bonds, contact WEL Communications Manager at the contact details below outlining your problems or concerns and WEL will endeavour to resolve the issues.

### WEL Networks Limited

114 Maui Street, Te Rapa, Hamilton 3200, New Zealand  
PO Box 925  
Phone: +64 7 840 3100

You may also direct any complaints about the Bonds to the Supervisor at the contact details below:

### The New Zealand Guardian Trust Company Limited

Level 14, 191 Queen Street, Auckland 1010  
Phone: +64 9 909 5100  
Attention: Relationship Manager

The Supervisor is a member of an external, independent dispute resolution scheme operated by Financial Services Complaints Limited (**FSCL**) and approved by the Ministry of Consumer Affairs. If the Supervisor has not been able to resolve your issue, you can refer the matter to FSCL by submitting a complaint form on FSCL's website ([www.fscl.org.nz](http://www.fscl.org.nz)), emailing [complaints@fscl.org.nz](mailto:complaints@fscl.org.nz), calling FSCL on 0800 347 257, or writing to FSCL at PO Box 5967, Wellington 6145. The scheme will not charge a fee to any complainant to investigate or resolve a complaint.

# 14 Where you can find more information

Further information relating to WEL and the Bonds is available free of charge on the online Disclose register maintained by the Companies Office. The Disclose register can be accessed at <https://disclose-register.companiesoffice.govt.nz/>. A copy of the information on the Disclose register is also available on request to the Registrar of Financial Service Providers at [registrar@fspr.govt.nz](mailto:registrar@fspr.govt.nz). The information contained on the Disclose register includes financial information relating to the Group, a copy of the Trust Deed and other material information.

Notices to the Holders may be given by making an announcement on NZX. Alternatively, notices may be published in a daily newspaper having general circulation in New Zealand (which is expected to be The New Zealand Herald).

WEL will be subject to a disclosure obligation in relation to the Bonds when the Bonds become quoted on the NZX Debt Market. That disclosure obligation will require it to notify certain material information to NZX for the purpose of that information being made available to participants in the market. WEL's page on the NZX website, which will include information made available under the disclosure obligation referred to above, can be found at [www.nzx.com/companies/WEL](http://www.nzx.com/companies/WEL).

## 15 How to apply

### 15.1 Application for Bonds

You can apply for Bonds from the Opening Date to the Closing Date. You must apply using the application form at the back of this PDS.

As there is no public pool for the Bonds, you should contact your financial adviser to arrange for your application to be submitted. Your financial adviser must ensure that your completed application form and payment in full is received by the Securities Registrar no later than 5pm (New Zealand time) on the Closing Date.

In order to apply for the Bonds you must provide personal information that will be held by WEL and the Securities Registrar. This information will be used for the purpose of processing your application and managing your investment. By applying for Bonds you authorise WEL and the Securities Registrar to disclose information in situations where WEL or the Securities Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. If you are an individual under the Privacy Act 1993, you have a right to access and correct any personal information about you held by WEL and the Securities Registrar.

The allocation of Bonds amongst applicants is determined by the Bookbuild participants who receive a firm allocation in the Bookbuild, and not by WEL.

### 15.2 Trading your Bonds on the NZX Debt Market

WEL intends to quote the Bonds on the NZX Debt Market. To be eligible to trade your Bonds on the NZX Debt Market, you must have an account with a Primary Market Participant, a common shareholder number or CSN and an Authorisation Code. If you do not have an account with a Primary Market Participant, you should be aware that opening an account can take a number of days depending on the Primary Market Participant's new client procedures. A list of Primary Market Participants is contained on <https://www.nzx.com/investing/find-a-participant>.

If you do not have a CSN, you will be automatically assigned one. If you do not have an Authorisation Code, it is expected that you will be sent one by the Securities Registrar. If you have an account with a Primary Market Participant and have not received an Authorisation Code by the date you want to trade your Bonds, your Primary Market Participant can arrange to obtain your Authorisation Code from the Securities Registrar. Your Primary Market Participant will be charged a fee for requesting your Authorisation Code from the Securities Registrar and may pass this cost on to you.

## 16 Contact information

Contact details of the issuer of the Bonds:

**WEL Networks Limited**

114 Maui Street  
Te Rapa, Hamilton 3200  
New Zealand  
PO Box 925  
Phone: +64 7 850 3100

Contact details of the Securities Registrar:

**Link Market Services Limited**

Level 11  
Deloitte Centre  
80 Queen Street  
Auckland 1010  
Phone: +64 9 375 5998

## 17 Glossary

<b>\$</b>	New Zealand dollars
<b>Arranger</b>	Forsyth Barr Limited
<b>Bonds</b>	the bonds constituted and issued pursuant to the Trust Deed and offered pursuant to this PDS
<b>Bookbuild</b>	the process conducted prior to the opening of the Offer whereby certain investors, brokers and financial intermediaries lodge bids for Bonds and, on the basis of those bids, WEL and the Joint Lead Managers determine the interest rate and the allocation of Bonds
<b>Business Day</b>	<ul style="list-style-type: none"> <li>for the purposes of giving notices, a day which is a business day within the meaning of the NZX Listing Rules; and</li> <li>for all other purposes, a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general banking business in Auckland and Wellington</li> </ul>
<b>Closing Date</b>	27 July 2018
<b>Co-Manager</b>	Commonwealth Bank of Australia (ABN 48 123 123 124) (acting through its New Zealand branch)
<b>Conditions</b>	the conditions of the Bonds as set out in schedule 1 of the Trust Deed
<b>Crown Infrastructure Partners</b>	Crown Infrastructure Partners Limited, formerly known as Crown Fibre Holdings Limited
<b>Deed Poll</b>	the common terms deed poll that is described in Section 6.8 of this PDS (Ranking)
<b>Disclose register</b>	the online offer register maintained by the Companies Office and the Registrar of Financial Service Providers known as "Disclose", which can be accessed at <a href="https://disclose-register.companiesoffice.govt.nz/">https://disclose-register.companiesoffice.govt.nz/</a>
<b>Event of Default</b>	is defined in the Conditions, and is summarised in Section 6.6 of this PDS (Events of Default)
<b>Face Value</b>	\$1.00 per Bond
<b>FMC Act</b>	Financial Markets Conduct Act 2013
<b>FMC Regulations</b>	Financial Markets Conduct Regulations 2014
<b>FY</b>	financial year
<b>GAAP</b>	generally accepted accounting practice in New Zealand
<b>Group</b>	WEL and all of its subsidiaries
<b>Holder</b>	a person whose name is entered in the Register as a holder of a Bond
<b>Interest Deferral Condition</b>	a condition which, if it exists on an Interest Payment Date (other than a date on which the Bonds are to be repaid), prevents WEL from paying interest on the Bonds on that Interest Payment Date. The Interest Deferral Conditions are set out in the Conditions and are summarised in Section 6.3 of this PDS (Deferral of interest)
<b>Interest Payment Dates</b>	each 2 February, 2 May, 2 August and 2 November during the term of the Bonds up to and including the Maturity Date. Interest is also payable on the date the Bonds are repaid
<b>Issue Date</b>	2 August 2018
<b>Joint Lead Managers</b>	ANZ Bank New Zealand Limited, Deutsche Craigs Limited, First NZ Capital Securities Limited and Forsyth Barr Limited
<b>Margin</b>	the margin determined by WEL in conjunction with the Joint Lead Managers on the Rate Set Date

<b>Maturity Date</b>	2 August 2023
<b>Minimum Interest Rate</b>	the minimum interest rate determined by WEL in conjunction with the Joint Lead Managers and announced via NZX on or about 3 July 2018
<b>NZX</b>	NZX Limited
<b>NZX Debt Market</b>	the debt security market operated by NZX
<b>NZX Listing Rules</b>	the listing rules of NZX, as amended, varied or waived from time to time
<b>Obligors</b>	has the meaning given in Section 6.8 of this PDS (Ranking)
<b>Offer</b>	the offer of Bonds made by WEL pursuant to this PDS
<b>Opening Date</b>	10 July 2018
<b>Organising Participant</b>	Forsyth Barr Limited
<b>PDS</b>	this product disclosure statement for the Offer dated 29 June 2018
<b>Primary Market Participant</b>	has the meaning given in the NZX Listing Rules
<b>Rate Set Date</b>	9 July 2018
<b>Record Date</b>	is described in Section 6.5 of this PDS (Payments generally)
<b>Register</b>	the register in respect of the Bonds maintained by the Securities Registrar
<b>Securities Registrar</b>	Link Market Services Limited
<b>Senior Creditor</b>	is defined in the Conditions. Broadly it means a creditor of WEL whose claim in a liquidation is not subordinated (eg a bank that has provided financing to WEL)
<b>Special Resolution</b>	is described in Section 6.9 of this PDS (Amendments to the Trust Deed)
<b>subsidiary</b>	has the meaning given in section 6 of the FMC Act
<b>Supervisor</b>	The New Zealand Guardian Trust Company Limited or such other supervisor as may hold office as supervisor under the Trust Deed from time to time
<b>Swap Rate</b>	the midmarket 5 year swap rate (adjusted to a quarterly basis as necessary) as determined by WEL in conjunction with the Joint Lead Managers on the Rate Set Date
<b>Tax Event</b>	is defined in the Conditions, and summarised in section 6.4 of this PDS (Repayment of the Face Value)
<b>Transpower</b>	Transpower New Zealand Limited
<b>Trust Deed</b>	the trust deed dated 28 June 2018 between WEL and the Supervisor, as amended from time to time. The Trust Deed includes the Conditions
<b>UFB</b>	Ultra-fast broadband
<b>Ultrafast Fibre</b>	Ultrafast Fibre Limited
<b>Waikato Networks</b>	Waikato Networks Limited
<b>Waipa</b>	Waipa Networks Limited
<b>WEL</b>	WEL Networks Limited
<b>WEL Services</b>	WEL Services Limited

# Application Form Instructions

## General

An application must be completed in full and may be rejected if any details are not entered or it is otherwise incorrectly completed. WEL reserves the right to treat any application as valid or to decline any application, in whole or in part, in its sole discretion and without giving any reasons. WEL's decision as to whether to reject the application, or to treat it as valid (and then how to construe, amend or complete the Application Form) will be final.

An application will constitute an irrevocable offer by the applicant to subscribe for the Bonds specified on the Application Form (or such lesser amount which WEL may determine) on the terms set out in the PDS, the Trust Deed and the Application Form.

## A = Applicant Details

Please complete all relevant sections in the Application Form in CAPITAL LETTERS.

**Full name details:** Insert your full name. Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per application.

Type of Investor:	Correct way to write Name:	Incorrect way to write Name:
Individual person	JOHN SMITH	J SMITH
More than one person	JOHN SMITH, MICHELLE SMITH	J & M SMITH
Company	ABC LIMITED	ABC
Trusts	JOHN SMITH, BRIAN SMITH, LEE WONG (JOHN SMITH FAMILY A/C)	SMITH FAMILY TRUST
Partnerships	JOHN SMITH, MICHAEL SMITH (JOHN SMITH AND SONS A/C)	JOHN SMITH & SONS
Clubs and unincorporated associations	JANE SMITH (SMITH INVESTMENT CLUB A/C)	SMITH INVESTMENT CLUB
Superannuation funds	JOHN SMITH LIMITED (SUPERANNUATION FUND A/C)	JOHN SMITH SUPERANNUATION FUND

**Postal address details:** Insert your postal address for correspondence. All communications to you from WEL will be mailed to the person(s) at the address shown (unless you provide an email address in section C of the Application Form). For joint applicants, only one address is to be provided.

**Telephone numbers:** Insert your telephone number(s) in case the Securities Registrar or WEL needs to contact you in relation to your application.

By supplying **your mobile number** you will enable the Securities Registrar to advise you by TXT Alerts of any changes on your holding balance, or if your bank account details or your address on the register change, or if a new / replacement Authorisation Code has been requested. This feature provides additional security to you as an investor. You may unsubscribe at any time for this Txt Alert service.

## B = Common Shareholder Number

If you have other investments registered under a Common Shareholder Number ("**CSN**") please supply your CSN in the space provided. The name and address details on your Application Form must correspond with the registration details under that CSN.

## C = Electronic Correspondence

By supplying your email address WEL will be able to deliver your investor correspondence to you electronically where possible. This is a much more environmentally friendly, cost effective and timely option than paper based investor mail outs.

## D = Application Payment Details

Please enter the NZ\$ amount for each Bond you wish to apply for. The principal amount of each Bond is \$1.00. An application to subscribe for Bonds must be for a minimum amount of \$5,000 and thereafter in multiples of \$1,000.

Payment must be made by direct debit, cheque (or, if the application is for an aggregate subscription amount of \$500,000 or more, by a bank cheque).

If you choose the **direct debit option, you must tick the box authorising the Securities Registrar** to direct debit once only the bank account nominated on the Application Form on the day the Application Form is received by the Securities Registrar for the amount applied for on the Application Form.



You cannot specify any other direct debit date and you must ensure that:

- the bank account details supplied are correct;
- you have sufficient funds in the bank account for direct debit available on the day the Securities Registrar receives the Application Form;
- you have the authority to operate the account solely/jointly; and
- the bank account you nominate is a transactional account eligible for direct debit transactions.

If you are uncertain, you should contact your bank or financial Institution.

Should your direct debit fail, your application may be rejected. **The Securities Registrar will not be able to process your direct debit if you do not sign and date the Application Form.** If requested, the Securities Registrar will provide you with a direct debit authority form.

**Cheques** must be in New Zealand dollars and drawn on a New Zealand branch of a registered bank. Cheques must be made payable to "WEL Bond Offer", crossed "Transferable" and must not be post-dated.

Your cheque will be banked upon receipt into a designated bank trust account pending allotment of the Bonds. Staple your cheque to the completed Application Form.

The banking or direct debit of application moneys does not constitute confirmation of allotment of any Bonds or acceptance of an application for the offer to subscribe for Bonds.

If your cheque or direct debit is dishonoured, WEL may cancel your allotment of Bonds and pursue any other remedies available to it at law.

## E = Interest and Maturity Payments

**If you currently receive interest from the Securities Registrar by direct credit, and wish your payments in respect of the Bonds to be direct credited to the same account as your direct debit instructions, then you do not need to complete section E of the Application Form.** Otherwise please tick either box for option 1 as interest and maturity payments will only be made to your bank account by direct credit.

If you wish to be paid by direct credit and the Securities Registrar does not already hold your bank account details or you wish to have payments credited to another bank account, please tick the box for Option 1 and enter the details of the bank account.

If payment to your cash management account with a Primary Market Participant is selected, tick the box for Option 2, insert the name of the Primary Market Participant where your cash management account is held and provide your cash management client account number.

## F = IRD number RWT and other tax details

Please enter your IRD number and tick the resident withholding tax ("**RWT**") rate that applies to you (or, if you are exempt from RWT, tick the exempt box and attach a photocopy of your RWT exemption certificate). If you are not a NZ resident for tax purposes please complete the relevant section.

## G = Signing and Dating

Read the PDS and the Application Form carefully and sign and date the Application Form.

The Application Form must be signed by each of the applicant(s) personally, (in the case of a company) by two directors of the company (or one director if there is only one director, whose signature must be witnessed), or in either case by a duly authorised attorney or agent.

If the Application Form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney at the end of the Application Form.

If the Application Form is signed by an agent, the agent must complete the certificate of non-revocation of agent at the end of the Application Form.

## H = Offer Closing Date and Delivery

The Offer will close at 5.00pm on 27 July 2018. You should remember that the Closing Date may be changed at the sole discretion of WEL. Changes will be advised by NZX announcement. WEL reserves the right to refuse to accept any applications, including those received by the Securities Registrar after the Closing Date of the Offer.

Your completed Application Form must be returned to a Joint Lead Manager, the Co-Manager or your financial adviser in time for them to send your application to the Securities Registrar by 5.00 pm. on the Closing Date. Applications delivered directly to the Securities Registrar without a stamp from one of these parties may be accepted or rejected at WEL's sole discretion.

# OFFER APPLICATION FORM

Broker Stamp	Broker code
	Adviser code

This application form (**Application Form**) is issued with the product disclosure statement dated 29 June 2018 (**PDS**) for an offer of unsecured subordinated fixed rate Bonds (**Bonds**) by WEL Networks Limited (**WEL**) to retail investors in New Zealand and certain institutional investors (**Offer**).

You should read the PDS in full before completing this Application Form. A copy of the PDS and other useful information about the Offer may also be obtained from <https://disclose-register.companiesoffice.govt.nz>. Capitalised terms used in this Application Form have the meanings given to them in the PDS.

The Closing Date for the Offer is expected to be 27 July 2018. WEL may, in its absolute discretion, and without notice, vary the timetable (including by opening or closing the Offer early). WEL may also cancel the Offer at any time before the Bonds are issued.

Please complete this Application Form and arrange with your financial adviser for your Application Form and payment to be received by the Securities Registrar, Link Market Services Limited, by 5.00pm on 27 July 2018.

**PLEASE PRINT IN BLOCK LETTERS**

## A APPLICANT DETAILS

First Name(s)	Last Name	
First Name(s)	Last Name	
First Name(s)	Last Name	
Corporate Name, Trust or <On Account> (if applicable)		
Postal Address		
Phone Number	Mobile	Daytime

## B COMMON SHAREHOLDER NUMBER (CSN)

If you currently have a CSN or Holder Number, please enter it here:

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Your details on this Application Form must match the details on your CSN. Otherwise, if you do not have a CSN, leave the boxes blank and you will be allocated a new CSN and Authorisation code (FIN) if your application is accepted.

## C ELECTRONIC CORRESPONDENCE

To enable WEL to provide you with your investor correspondence in relation to your holding of Bonds electronically, please complete your email address below. If you do not provide an email address, investor correspondence will be mailed to you at the postal address provided on this Application Form.

--

## D APPLICATION PAYMENT - IMPORTANT

Applications must be accompanied by payment in full, in New Zealand currency based on \$1.00 per Bond. Applications must be for a minimum of **\$5,000** and, thereafter, in multiples of **\$1,000**. WEL may accept or reject all or part of this application without giving reason.

Principal amount of unsecured subordinated Bonds applied for (at an issue price of \$1.00 per Bond):

NZ \$

Please make payment by selecting only **ONE of the options** below:

### OPTION 1: Direct Debit

Direct debits allow WEL or its agent to deduct money from your nominated bank account as payment for the amount of unsecured subordinated Bonds applied for (or any lesser amount determined by WEL) on the date the Application Form is received by the Securities Registrar or any day after that day. If you wish to make payment by this method, please complete your account details below. By signing this Application Form, the signatory agrees that WEL, or its agent, is authorised to direct debit the bank account in accordance with the terms specified in the PDS.

Name of Bank	Name of Account
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Bank/Branch

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--	--	--	--	--	--	--	--

Account No

0		
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Suffix

**OPTION 2: Cheque**

Please find attached my/our cheque made payable to "WEL Bond Offer" and crossed "Not Transferable".

**E INTEREST AND MATURITY PAYMENTS**

Select ONE of the options below by ticking the appropriate box (✓):

**OPTION 1: Direct credit to the New Zealand bank account**

Please pay my interest and repayments to the account for direct debit purposes nominated above

**OR**

Please pay my interest and repayments into the account nominated below

Name of Bank	Name of Account
<input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/>	<div style="border: 1px solid black; display: inline-block; padding: 5px; margin-right: 5px; font-size: 1.2em; font-weight: bold;">0</div> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/> <input style="width: 20px; height: 20px; margin-right: 5px;" type="text"/>
Bank/Branch	Account No <span style="float: right;">Suffix</span>

**OPTION 2: Direct credit to my cash management account.**

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**F IRD NUMBER, WITHHOLDING TAX INFORMATION & TAX RESIDENCY**

IRD Number (only one IRD number is required in respect of a joint application):  -  -

Please select a resident withholding tax (RWT) rate by ticking the box (✓) next to your selected option

Deduct resident withholding tax from all my/our interest payments at the following rate (✓ only one):

10.5%\*    17.5%    28%\*\*    30%    33% or    Exempt\*\*\*

\* Only available for an individual that reasonably expects their income for the income year to be \$14,000 or less and trustees of certain testamentary trusts.

\*\* Available for companies only.

\*\*\* If you are exempt from resident withholding tax, you must attach a copy of your RWT exemption certificate for noting.

**If you are non-resident for New Zealand tax purposes, please select the options below by ticking the appropriate box (✓)**

Are the Bonds held for the purposes of a business carried on in New Zealand through a fixed establishment in New Zealand or are you a registered bank engaged in business in New Zealand through a fixed establishment in New Zealand (if so please provide your IRD number and rate of RWT above):  Yes    No

Are the Bonds held jointly with a person that is resident in New Zealand for New Zealand tax purposes (if so please provide the New Zealand resident's IRD number and rate of RWT above):  Yes    No

Please provide your country of tax residency:

**G SIGNATURE(S) OF APPLICANT(S)**

I/We hereby acknowledge that I/we have received and read the PDS, and apply for the New Zealand dollar amount of Bonds set out above and agree to accept such Bonds (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the PDS, the Trust Deed and this Application Form. All applicants on the Application Form must sign.

Applications lodged by individuals must be signed personally or by their attorney or agent. If this Application Form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out in the Application Form. If this Application Form is signed by an agent, the agent must complete the certificate of agency set out in the Application Form.

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Date:

## H SEND APPLICATION FORM AND CHEQUE (IF APPLICABLE) TO YOUR FINANCIAL ADVISER OR MARKET PARTICIPANT FROM WHOM YOU RECEIVED THIS DOCUMENT

To be forwarded to, and received by, Link Market Services no later than 5.00pm on 27 July 2018

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### TERMS AND CONDITIONS

By submitting this Application Form, I/we agree that I/we:

- (a) have received, read and understood the PDS.
- (b) agree to subscribe for Bonds upon and subject to the terms and conditions of the PDS, this Application Form and the Trust Deed, the information in connection with the Offer lodged on the Disclose register and this Application Form and I/we agree to be bound by the provisions thereof.
- (c) declare that all details and statements made by me/us in this Application Form are complete and accurate.
- (d) certify that, where information is provided by me/us in this Application Form about another person, I/we are authorised by such person to disclose the information to WEL and the Registrar and to give authorisation.
- (e) acknowledge that this Application Form was distributed with the PDS.
- (f) acknowledge that an application cannot be withdrawn or revoked by the applicant once it has been submitted.
- (g) acknowledge that WEL reserves the right to decline any application, in whole or in part, without giving any reason and may decide not to accept any application whatsoever.
- (h) warrant that I/we received this offer in New Zealand and I/we are eligible to participate in the offer. I/we agree to indemnify WEL, the Supervisor, the Securities Registrar, the Arranger, the Joint Lead Managers, the Co-Manager and their respective directors, officers, employees and agents in respect of any loss, cost, liability or expense sustained or incurred by any of them as a result of me/us breaching that warranty or the selling restrictions described in the PDS.

This Application Form, the Offer and any contract arising out of its acceptance are each governed by New Zealand law. Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, you may be required to produce evidence of your identity. I/we agree that my/our financial adviser may provide WEL and its agents any information it has received (in connection with this offer or previously) to satisfy any such obligations.

The information in this Application Form is provided to enable WEL and the Securities Registrar to consider and process your application, and to administer your investment, and to help and enable WEL or the Securities Registrar to comply with (or determine what it needs to do to comply with) any applicable laws, rules or regulations in New Zealand or any other country or the requirements of any governmental, judicial or regulatory entity or authority in any jurisdiction. By signing this Application Form, you authorise WEL and the Securities Registrar to disclose information in situations where WEL or the Securities Registrar are required or permitted to do so by any applicable law or by a governmental, judicial or regulatory entity or authority in any jurisdiction. Personal information provided by you will be held by WEL and the Securities Registrar at their respective addresses shown in Section 16 of the PDS (Contact Information) or at such other place as is notified upon request. This information will be used for the purpose of managing your investment. If you are an individual under the Privacy Act 1993, you have the right to access and correct any of your personal information. You can also access your information on the Link website ([www.linkmarketservices.co.nz](http://www.linkmarketservices.co.nz)). You will be required to enter your CSN and Authorisation Code (FIN).

**I. CERTIFICATE OF NON-REVOCATION OF POWER OF ATTORNEY:**

(Complete this section if you are acting on behalf of the Applicant on this Application Form for whom you have power of attorney)

I, \_\_\_\_\_ (full name)

Of \_\_\_\_\_ (place and country of residence),

\_\_\_\_\_ (occupation),

**CERTIFY:**

• THAT by deed dated \_\_\_\_\_ (date of instrument creating the power of attorney),

\_\_\_\_\_ (full name of person/body corporate which granted the power of attorney\*\*),

appointed me \_\_\_\_\_ (his/her/its) attorney;

• THAT I have executed the application for Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

• THAT I have not received notice of any event revoking the power of attorney.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ (month/year)

\_\_\_\_\_ Signature of agent

\*\* If donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

**J. CERTIFICATE OF NON-REVOCATION OF AGENCY:**

(Complete this section if you are acting as Agent on behalf of the Applicant on this Application Form)

I, \_\_\_\_\_ (full name)

Of \_\_\_\_\_ (place and country of residence),

\_\_\_\_\_ (occupation),

**CERTIFY:**

• THAT by deed dated \_\_\_\_\_ (date of instrument creating the agency),

\_\_\_\_\_ (full name of person/body corporate which appointed you as agent\*\*),

appointed me \_\_\_\_\_ (his/her/its) agent;

• THAT I have executed the application for Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

• THAT I have not received notice of any event revoking my appointment as agent.

Signed at \_\_\_\_\_ this \_\_\_\_\_ day of \_\_\_\_\_ (month/year)

\_\_\_\_\_ Signature of agent

\*\*If donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.