

Meridian Share Offer

INITIAL PUBLIC OFFERING OF ORDINARY SHARES IN MERIDIAN ENERGY LIMITED
Investment Statement and Prospectus 20 September 2013



meridian

New Zealand Government

Important Information

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

	PAGE
What sort of investment is this?	12
Who is involved in providing it for me?	13
How much do I pay?	14
What are the charges?	16
What returns will I get?	16
What are my risks?	18
Can the investment be altered?	20
How do I cash in my investment?	20
Who do I contact with inquiries about my investment?	22
Is there anyone to whom I can complain if I have problems with the investment?	22
What other information can I obtain about this investment?	22

In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.¹

1. This is the wording required by Schedule 13 to the Securities Regulations, which contemplates a separate investment statement and prospectus. This Offer Document comprises both an investment statement and a prospectus, and accordingly the prospectus available on request is identical to this document.

THE FINANCIAL MARKETS AUTHORITY REGULATES CONDUCT IN FINANCIAL MARKETS

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to <http://www.fma.govt.nz>.

FINANCIAL ADVISERS CAN HELP YOU MAKE INVESTMENT DECISIONS

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check –

- the type of adviser you are dealing with;
- the services the adviser can provide you with;
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at <http://www.fspr.govt.nz>.

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

IMPORTANT NOTICE

This Offer Document relates to the Offer by the Crown of ordinary shares in Meridian Energy Limited. The Shares are to be paid for in two instalments and are to be represented by Instalment Receipts until the Final Instalment is paid. A description of the Offer, the Instalment Receipts and the Shares is set out in 7.1 *Details of the Offer* and 7.2 *Description of Instalment Receipts and Trust Deed*.

This Offer Document is a combined investment statement and prospectus for the purposes of the Securities Act and the Securities Regulations and is prepared as at, and dated, 20 September 2013.

The purpose of this Offer Document is to provide certain key information that is likely to assist you to decide whether or not to participate in the Offer.

This Offer Document is an important document and should be read carefully before deciding whether or not to invest in Meridian.

No-one is authorised by the directors of Meridian or the Crown to give any information or make any representation in connection with this Offer which is not contained in this Offer Document or in other communications from the directors and the Crown. You should not rely upon any information or representation which is not contained within this Offer Document or which has not been specifically authorised by both the directors and the Crown.

If you are in any doubt as to any aspect of the Offer you should consult your financial or legal adviser or a NZX Firm.

You should seek your own taxation advice on the implications of an investment in the securities offered under this Offer Document.

This Offer Document may not be distributed to or relied upon by persons in the United States unless it is part of the International Offering Memorandum used in connection with the Institutional Offer. See 7.4 *Answers to Important Questions* for certain important selling restrictions.

NO GUARANTEE

No person guarantees the securities offered under this Offer Document. No person warrants or guarantees the performance of the securities or any return on any investments made pursuant to this Offer Document.

REGISTRATION

A copy of this Offer Document, duly signed by or on behalf of the directors of Meridian and the Crown, and having endorsed thereon or attached thereto copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act to be endorsed on or attached to the copy of this Offer Document delivered to the Registrar of Financial Service Providers are:

- the report of the Auditor in respect of certain financial information included in this Offer Document, as set out in this Offer Document;
- the signed consent of the Auditor to the audit report appearing in this Offer Document;
- the signed consent of Deloitte to the investigating accountant's report appearing in this Offer Document;
- the signed consent of Beca Carter Hollings & Ferner Limited to the independent engineer's report appearing in this Offer Document;
- copies of the material contracts referred to under the heading "Material Contracts" in 7.3 *Statutory Information*; and
- letters of authority authorising this Offer Document to be signed by an agent of any director of Meridian or the Crown (if and where required).

CONSIDERATION PERIOD

Pursuant to section 43C of the Securities Act, the Financial Markets Authority will be notified once this Offer Document is registered with the Registrar of Financial Service Providers. The Financial Markets Authority will have the opportunity to consider whether the Offer Document: (a) complies with the Securities Act and the Securities Regulations; (b) contains any material misdescription or error or any material matter that is not clearly legible; or (c) is false or misleading as to a material particular or omits any material particular. Nothing in this section or in any other provision of the Securities Act limits the Financial Markets Authority's power to consider or reconsider these matters at any time. The nature and extent of the consideration (if any) that the Financial Markets Authority gives to this Offer Document is at the Financial Markets Authority's discretion.

Pursuant to section 43D of the Securities Act, no allotment of securities may be made and no Applications or subscriptions for securities may be accepted during the Financial Markets Authority's consideration period. The consideration period commences on the date this Offer Document is registered and ends at the close of five working days after the date of registration. The Financial Markets Authority may shorten the consideration period, or extend it by no more than five additional working days.

Additional Australian Information

Important Notice

This document contains additional information for eligible Australian Institutional Investors (as defined below) and accompanies the Offer Document for the Offer by the Crown of up to 49% of the Meridian shares on issue. The Shares are to be paid for in two instalments. Successful Applicants will be issued with Instalment Receipts (each evidencing a beneficial interest in one Share) until the Final Instalment is paid.

You should read all of the Offer Document and this Additional Australian Information before deciding whether or not to invest in Meridian.

1. Australian Institutional Offer

The Offer is being made in Australia only to selected investors who are sophisticated or professional investors as respectively referred to in sections 708(8) and 708(11) of the Australian Corporations Act (Australian Institutional Investors).

No general public offer is being made in Australia. Australian residents who are not Australian Institutional Investors will not be eligible to apply for Shares.

The Institutional Offer in Australia consists of an invitation to Australian Institutional Investors to bid for Shares. For further details, refer to *section 7.1 Details of the Offer* of the Offer Document.

2. Offer Document

The Institutional Offer in Australia is being made under the Offer Document and by relying on trans-Tasman mutual recognition under Chapter 8 of the Australian Corporations Act and the Australian Corporations Regulations.

This Additional Australian Information contains disclosure relevant to Australian Institutional Investors and to comply with requirements for a recognised offer under Chapter 8 of the Australian Corporations Act and the Australian Corporations Regulations.

The Offer Document has been prepared to comply with New Zealand regulatory requirements, which differ in some respects from Australian regulatory requirements for an offer of shares and instalment receipts. The Offer Document and this Additional Australian Information are not, and do not purport to

be, a prospectus or document containing disclosure to investors for the purposes of, and do not contain all information that would be required for a prospectus or disclosure document, under Part 6D.2 or Part 7.9 of the Australian Corporations Act.

If you are in Australia, you may obtain a copy of the Offer Document (accompanied by this Additional Australian Information) by contacting one of the Joint Lead Managers.

3. Important Information For Australian Investors

The following statements are required to be included in this document by Chapter 8 of the Australian Corporations Act and the Australian Corporations Regulations.

This Offer to Australian investors is a recognised offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act 2001 (Cth) and the Corporations Regulations 2001 (Cth). In New Zealand, this is Part 5 of the Securities Act 1978 (New Zealand) and the Securities (Mutual Recognition of Securities Offerings – Australia) Regulations 2008 (New Zealand).

This Offer and the content of the Offer Document are principally governed by New Zealand, rather than Australian, law. In the main, the New Zealand Securities Act 1978 and the Securities Regulations 2009 (New Zealand) set out how the Offer must be made.

There are differences in how securities and financial products are regulated under New Zealand, as opposed to Australian, law. For example, the disclosure of fees for managed investment schemes is different under New Zealand law.

The rights, remedies and compensation arrangements available to Australian investors in New Zealand securities and financial products may differ from the rights, remedies and compensation arrangements for Australian securities and financial products.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this Offer. If you need to make a complaint about this Offer, please contact the Australian Securities and Investments Commission. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of New Zealand securities and financial products is not the same as that for Australian securities and products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial advisor.

The Offer may involve a currency exchange risk. The currency for the security or financial product is in dollars that are not Australian dollars. The value of the security or financial product will go up and down according to changes in the exchange rate between those dollars and Australian dollars. These changes may be significant.

If you receive any payments in relation to the security or financial product that are not in Australian dollars, you may incur significant fees in having the funds credited to a bank account in Australia in Australian dollars.

If the security or financial product is able to be traded on a financial market and you wish to trade the security or financial product through that market, you will have to make arrangements for a participant in that market to sell the security or financial product on your behalf. If the financial market is a foreign market that is not licensed in Australia (such as a securities market operated by NZX Limited (NZX)) the way in which the market operates, the regulation of participants in that market and the information available to you about the security or financial product and trading may differ from Australian licensed markets.

4. Australian Securities And Investments Commission

A copy of the Offer Document (accompanied by this Additional Australian Information) was lodged with ASIC on 20 September 2013. ASIC accepts no responsibility for the contents of the Offer Document and this Additional Australian Information or the merits of the investment to which the Offer Document and this Additional Australian Information relate.

5. Stock Exchange Listings

An application has been made to NZX for permission to list Meridian and to initially quote the Instalment Receipts and then subsequently the Shares on the NZX Main Board. NZX accepts no responsibility for any statement in the Offer Document or this Additional Australian Information or for the merits of the investment to which the Offer Document and this Additional Australian Information relate. Meridian's NZX stockcode in respect of the Instalment Receipts is "MELCA" and in respect of the Shares is "MEL".

An application will also be made to ASX after the Offer Document accompanied by this Additional Australian Information has been lodged with ASIC for Meridian to be admitted to the official list of ASX and for the Instalment Receipts to be granted quotation on the equity securities market operated by ASX. An application will also be made to ASX for quotation of the Shares prior to the

expected initial quotation of the Shares on ASX on 30 April 2015. Meridian's ASX stockcode in respect of the Instalment Receipts is "MEZCA" and in respect of the Shares is "MEZ". If and when Meridian is admitted to the official list of ASX, the ASX Listing Rules will apply to Meridian (subject to any waivers or rulings given from time to time by ASX). The ASX Listing Rule waivers and confirmations that have been sought from ASX are described in *section 7.3 Statutory Information* of the Offer Document.

ASX takes no responsibility for the contents of the Offer Document and the Additional Australian Information or for the merits of the investment to which the Offer Document and the Additional Australian Information relate. Admission to the official list of ASX and quotation of the Instalment Receipts and the Shares on ASX are not guaranteed and are not to be taken as an indication of the merits, or as an endorsement by ASX, of Meridian, the Instalment Receipts or the Shares. Failure to achieve admission to list on ASX will not, of itself, prevent the sale of the securities under the Offer from proceeding.

6. Continuous Disclosure

Meridian will need to comply with the continuous disclosure rules of both the NZX Main Board Listing Rules and the ASX Listing Rules (including as modified by waivers, rulings or exemptions applicable to Meridian, the Instalment Receipts or the Shares).

All information provided to NZX and ASX in accordance with the NZX Main Board Listing Rules and the ASX Listing Rules will be available on the NZX and ASX websites.

For more information in relation to Meridian's continuous disclosure process, refer to *section 4.3 Board, Management and Corporate Governance* of the Offer Document.

7. Risks

You should refer to the information set out under "What are my risks?" in the section entitled Answers to Important Questions and in *section 5 What are the Risks?* of the Offer Document.

There are risks that are common to all investments in shares, there are risks that are specific to an investment in Instalment Receipts or, following payment of the Final Instalment, Shares, and there are risks that are specific to Meridian and its operations. The risks described below do not purport to be a comprehensive statement of the risks associated with an investment in Meridian. You should refer to the information set out under the heading "What are my risks?" in the section entitled Answers To Important Questions and in *section 5 What are the Risks?* of the Offer Document for a more extensive list of risks applicable to all investors who choose to invest in Meridian.

These risks mean that on the sale of an Instalment Receipt or a Share at any time or on a winding up of Meridian, an investor may receive less than the amount paid in respect of that Instalment Receipt or Share.

LIQUIDITY AND REALISATION RISK

As disclosed in the information set out under the heading “General Investment Risks” in *section 5 What are the Risks?* of the Offer Document, there can be no assurance that an active trading market in Instalment Receipts or, after payment of the Final Instalment, Shares, will develop or that the price of Instalment Receipts or Shares will increase.

The risk may be exacerbated for you if you wish to trade your Instalment Receipts or, after payment of the Final Instalment, Shares, on ASX. It is expected that Instalment Receipts or Shares will predominantly be traded on the NZX Main Board. Accordingly, the volume of Instalment Receipts or Shares traded, and therefore liquidity, on ASX might be particularly low.

FOREIGN EXCHANGE RISK

Meridian proposes to pay dividends in New Zealand dollars. You may be exposed to exchange rate risk for the conversion of dividends to Australian dollars and may incur significant fees in having the funds credited to a bank account in Australia in Australian dollars.

CONSEQUENCES OF FAILING TO PAY THE FINAL INSTALMENT

Payment for the Shares is to be made in two instalments. Holders of Instalment Receipts on the Final Instalment Record Date (4 May 2015) will be bound to pay the Final Instalment by the Final Instalment Payment Date (15 May 2015). If a holder of Instalment Receipts fails to pay the Final Instalment then the Shares held by the Trustee in respect of those Instalment Receipts may be sold, in whole or in part, under the Crown’s security interest. The proceeds of sale will be applied first towards the Trustee’s enforcement fees (including any reasonable administration charge imposed by the Trustee) and costs, default interest and certain other expenses, and then towards payment of the Final Instalment. Any surplus sale proceeds remaining after these payments have been made will be paid to the holder. Holders of Instalment Receipts remain liable for any shortfall if the proceeds of sale are insufficient to meet costs and the full Final Instalment amount plus any interest. The Final Price of the Shares will be determined by the Crown after the conclusion of the bookbuild process. On the Final Instalment Payment Date, the market price of the Shares may be less than the Final Price of the Shares under this Offer or the amount of the Final Instalment. Holders of Instalment Receipts on the Final Instalment Record Date will be liable to pay the Final Instalment regardless of whether the market price of the Shares is more or less than the Final Price or the amount of the Final Instalment.

CONSEQUENCES OF INSOLVENCY

If Meridian or the Crown becomes insolvent, you will not become liable to pay any money to any person. However, insolvency of either will not relieve holders of Instalment Receipts from their obligations to the Crown to pay the Final Instalment. If Meridian is liquidated then all claims by its creditors will rank ahead of any entitlement of Shareholders to any distribution. Each Share

confers an equal right to participate in any such distribution. Instalment Receipts are not securities of Meridian that would participate directly in the liquidation of Meridian. However, any distribution in respect of Shares represented by Instalment Receipts as part of a liquidation of Meridian would be paid to the Trustee. The Trustee would apply the proceeds of the distribution in accordance with the terms of the Trust Deed. Under the Trust Deed, the Trustee would take Reasonable Steps to pay holders of Instalment Receipts any such proceeds distributed to the Trustee on the Shares represented by their Instalment Receipts unless the Crown’s security interest applied following a failure by the holder to pay the Final Instalment. Any distribution, either on Shares or under the Trust Deed, made on liquidation of Meridian may be less than the amount of your investment.

8. Selling Restrictions

The Offer Document and this Additional Australian Information does not constitute an offer of Instalment Receipts or Shares or invitation in any place in which, or to any person to whom, it would be unlawful to make such an offer or invitation. Refer to the section titled “Selling Restrictions” in the *section 1.4 Answers to Important Questions* of the Offer Document.

Each successful bidder under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

9. Position Of Trustees

The trustee in respect of Instalment Receipts held by Australian residents is The Trust Company (Australia) Limited. The trustee in respect of all other Instalment Receipts, and the issuer of the Instalment Receipts, is The New Zealand Guardian Trust Company Limited.

In holding the Shares on trust and, in the case of the New Zealand Trustee only, issuing the Instalment Receipts, neither Trustee is an issuer, offeror or a promoter of either the Shares or the Instalment Receipts for the purposes of the Securities Act, the Offer Document or this Additional Australian Information and neither Trustee nor their directors, officers and agents guarantee the Shares, the Instalment Receipts or Meridian. Neither Trustee nor their directors, officers and agents have any responsibility for the content of the Offer Document, this Additional Australian Information or the Offer. Neither Trustee has caused the Offer to be made or has caused the issue of the Offer Document or this Additional Australian Information.

10. This Is Not Investment Advice. You Should Seek Your Own Financial Advice

The information provided in the Offer Document and this Additional Australian Information is not financial product advice and has been prepared without taking into account the investment objectives, financial circumstances or particular needs of any investor.

Investors should read the whole of the Offer Document and this Additional Australian Information and consider all of the risk factors that could affect the performance of Meridian and other information concerning the Instalment Receipts or Shares in light of their own particular investment objectives, financial circumstances and particular needs (including financial and taxation issues) before deciding whether to invest in Meridian.

11. Trading On ASX

It is expected that the Final Price will be announced on 23 October 2013 and the basis of Share allocation on 25 October 2013.

Notifications to successful Applicants of their allotments under the Offer are expected to be issued on the Allotment Date.

Following the allotment of the Instalment Receipts and, following payment of the Final Instalment, the Shares, holders of Instalment Receipts or Shareholders (as applicable) will be sent an initial statement of holding that sets out the number of Instalment Receipts or Shares that have been allocated and provides details of the holder's or Shareholder's Holder Identification Number (HIN) for CHESS holders or Shareholder Reference Number for Company sponsored holders. Holders of Instalment Receipts or Shareholders will subsequently receive statements showing any changes to their holding in Meridian.

Initial quotation of the Instalment Receipts on the NZX Main Board and ASX is expected to occur on or about 29 October 2013. The NZX Main Board quotation will be initially on a conditional settlement basis. The ASX quotation is expected to be initially on a conditional and deferred settlement basis.

Initial quotation of the Shares on the NZX Main Board and ASX is expected to occur on or about 30 April 2015. The NZX Main Board quotation will initially be on a deferred settlement basis. The ASX quotation is expected to be initially on a deferred settlement basis.

The bids in the Institutional Offer will be conditional on NZX agreeing to quote Instalment Receipts and Shares on the NZX Main Board and on the transfer of Shares that relate to the Instalment Receipts to the Trustee and on settlement of the Institutional Offer. These conditions are expected to be satisfied on 30 October 2013. If these conditions are not satisfied, the contracts formed on acceptance of Applications in the bids in the Institutional Offer will automatically be cancelled.

Trades of Instalment Receipts occurring on ASX are expected to be on a conditional and deferred settlement basis until the Crown has advised ASX that the Shares have been transferred to the Trustee and settlement of the Institutional Offer has occurred, which is expected to be on 30 October 2013. This means that any Applicant who sells their Instalment Receipts on ASX on or before that date will not receive the proceeds of such a sale until after 6 November 2013, being the expected date of settlement of all deferred trades.

Trading of Instalment Receipts on a normal settlement basis on ASX is expected to commence on 31 October 2013.

Trades of Shares occurring on ASX are expected to be initially on a deferred settlement basis until the Shares are available on the register following their transfer by the Trustee to holders of Instalment Receipts who paid the Final Instalment in cleared funds on the due date. This means that any holder who sells their Shares on the ASX on or before the Shares are available on the register (which is expected to occur on 21 May 2015) will not receive the proceeds of such a sale until after 27 May 2015, being the expected date of settlement of all deferred trades.

Trading of Shares on a normal settlement basis on ASX is expected to commence on 22 May 2015.

Bidders under the Institutional Offer should not attempt to sell their Instalment Receipts until they know whether, and how many, Instalment Receipts have been allocated to them. None of the Crown, Meridian, any Trustee, the Joint Lead Managers, the Registrar, nor any of their respective directors, officers or employees accepts any liability or responsibility should any person attempt to sell or otherwise deal with Instalment Receipts before the statements confirming allotments of Instalment Receipts are received by the successful bidders under the Institutional Offer.

12. Selling Instalment Receipts Or Shares On ASX And CHESS

Meridian will apply to participate in ASX's Clearing House Electronic Sub-register System (CHESS) in accordance with the ASX Settlement Operating Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on ASX under which transfers are effected in a paperless form.

When the Instalment Receipts and, following payment of the Final Instalment, the Shares become CHESS Approved Securities, holdings will be registered in one of two sub registers, an electronic CHESS subregister or an Company sponsored subregister. The Instalment Receipts of a holder of Instalment Receipts or the Shares of a Shareholder (as applicable) who is a participant in CHESS or a person sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Instalment Receipts or Shares (as applicable) will be registered on the Company sponsored subregister.

Following the allotment of the Instalment Receipts and, following payment of the Final Instalment, the Shares, any holder of Instalment Receipts or Shareholder (as applicable) who has elected to have their Instalment Receipts or Shares registered in CHESS will be sent an initial statement of holding that sets out the number of Instalment Receipts or Shares that have been allocated. This statement will also provide details of the holder's or Shareholder's Holder Identification Number (HIN) or, where applicable, the Shareholder Reference Number (SRN) for issuer sponsored holders. Holders of Instalment Receipts or Shareholders will subsequently receive statements showing any changes to their shareholding in Meridian.

13. Differences Between Australian GAAP And NZ GAAP

The financial information provided in respect of Meridian and each of its subsidiaries in *section 6 Financial Information* of the Offer Document has been prepared applying generally accepted accounting practice in New Zealand (NZ GAAP).

All ongoing financial information prepared by Meridian and provided directly to holders of Instalment Receipts and Shareholders or to NZX or ASX will be prepared in accordance with the requirements of NZ GAAP applicable at that time.

Meridian has adopted certain accounting policies in connection with the preparation of prospective financial information in the Offer Document. Those policies are expected to be used in future reporting periods and are described in *section 6.5 Prospective Financial Information* of the Offer Document. To the extent that Australian generally accepted accounting principles (Australian GAAP) would require different accounting policies, those differences would not be material to Meridian or its financial results.

There may be some presentation, disclosure and classification differences between financial information prepared in accordance with NZ GAAP and financial information prepared in accordance with Australian GAAP. For example, financial information prepared in accordance with Australian GAAP might contain details of director remuneration which would not be required under NZ GAAP. None of these differences in presentation, disclosure or classification would be expected to change the material financial results reported under NZ GAAP.

14. Applicable Law

MERIDIAN AS A NEW ZEALAND COMPANY

Meridian is a company incorporated in New Zealand and is principally governed by New Zealand law, rather than Australian law. In Australia, it is registered with ASIC as a foreign company. Its general corporate activities (apart from any offering of securities in Australia) are not regulated by the Australian Corporations Act or by ASIC but instead are regulated by the New Zealand Companies Act, the New Zealand Financial Markets Authority, the Registrar of Financial Service Providers and the Registrar of Companies.

Set out below is a table summarising key features of the laws that apply to Meridian as a New Zealand company (under New Zealand law, including as modified by exemptions or waivers) compared with the laws that apply to Australian publicly listed companies generally. It is important to note that this summary does not purport to be a complete review of all matters of New Zealand law applicable to Meridian or all matters of Australian law applicable to Australian publicly listed companies or to highlight all provisions that may differ from the equivalent provisions in Australia.

Comparison of laws governing Meridian as a New Zealand company with laws governing Australian publicly listed companies generally

Unless otherwise stated, the Australian Corporations Act provisions do not apply to Meridian as a foreign company.

	New Zealand	Australia
Transactions that require shareholder approval	<p>Under the Companies Act, the principal transactions or actions requiring shareholder approval include:</p> <ul style="list-style-type: none"> • adopting or altering the constitution of the company; • appointing or removing a director or auditor; • in certain circumstances, the provision of financial assistance for the purpose of, or in connection with, the acquisition of shares; • major transactions (being transactions involving the acquisition or disposition of assets, the acquisition of rights or interests or the incurring of obligations or liabilities, the value of which is more than half the value of the company's total assets); • amalgamations (other than between the company and its wholly-owned subsidiaries); • putting the company into liquidation; and • changes to the rights attached to shares. <p>In addition to the Companies Act requirements listed above, shareholder approval is required under the NZX Main Board Listing Rules for:</p> <ul style="list-style-type: none"> • director remuneration; • certain transactions with related parties; • certain issues of shares; • in certain circumstances, the acquisition or redemption of shares; and • certain acquisitions or disposals of assets. 	<p>Under the Australian Corporations Act, the principal transactions or actions requiring shareholder approval are comparable to those under the Companies Act. Shareholder approval is also required for certain transactions affecting share capital (e.g., share buybacks and share capital reductions). Although there is no shareholder approval requirement for major transactions, certain related party transactions require shareholder approval.</p> <p>Shareholder approval is required under the ASX Listing Rules for:</p> <ul style="list-style-type: none"> • increases in the total amount of directors' fees; • directors' termination benefits in certain circumstances; • certain transactions with related parties; • certain issues of shares; and • if a company proposes to make a significant change to the nature or scale of its activities or proposes to dispose of its main undertaking. <p>The ASX Listing Rules will apply to Meridian when it is admitted to the official list of ASX.</p>
Shareholders' right to request or requisition a general meeting	<p>A special meeting of shareholders must be called by the board on the written request of shareholders holding shares carrying together not less than 5% of the voting rights entitled to be exercised on the issue.</p>	<p>The Australian Corporations Act contains a comparable right. Directors must also call a general meeting on the request of at least 100 shareholders who are entitled to vote at a general meeting.</p> <p>Shareholders with at least 5% of the votes that may be cast at the general meeting may also call and arrange to hold a general meeting at their own expense.</p>

	New Zealand	Australia
Shareholders' right to appoint proxies to attend and vote at meetings on their behalf	<p>A shareholder may exercise the right to vote at a meeting either by being present in person or by proxy. A proxy is entitled to attend and be heard, and to vote, at a meeting of shareholders as if the proxy were the shareholder.</p> <p>A proxy must be appointed by notice in writing signed by or, in the case of an electronic notice, sent by the shareholder to the company. The notice of appointment must state whether the appointment is for a particular meeting or a specified term.</p>	<p>The position is comparable under the Australian Corporations Act.</p>
Changes in the rights attaching to shares	<p>A company must not take action that affects the rights attached to shares unless that action has been approved by a special resolution of each affected interest group. (An "interest group" in relation to an action or proposal affecting the rights attached to shares means a group of shareholders whose affected rights are identical and whose rights are affected by the action or proposal in the same way and who comprise the holders of one or more classes of shares in the company).</p>	<p>The Australian Corporations Act allows a company to set out in its constitution the procedure for varying or cancelling rights attached to shares in a class of shares.</p> <p>If the company does not have a constitution, or has a constitution that does not set out a procedure, the rights may only be varied or cancelled by:</p> <ul style="list-style-type: none"> • a special resolution passed at a meeting for a company with a share capital of the class of members holding shares in the class; or • a written consent of members with at least 75% of the votes in the class.
Shareholder protections against oppressive conduct	<p>A shareholder or former shareholder of a company (or any other entitled person) who considers that the affairs of a company have been (or are being, or are likely to be) conducted in a manner that is (or any act or acts of the company have been, or are, or are likely to be) oppressive, unfairly discriminatory, or unfairly prejudicial to him or her in any capacity may apply to the court for relief.</p> <p>The court may, if it thinks it is just and equitable to do so, make such orders as it thinks fit.</p>	<p>Under the Australian Corporations Act, shareholders have statutory remedies for oppressive or unfair conduct of the company's affairs.</p> <p>The court can make any order as it sees appropriate.</p>

	New Zealand	Australia
Shareholders' rights to bring or intervene in legal proceedings on behalf of Meridian	<p>A court may, on the application of a shareholder or director of a company, grant leave to that shareholder or director to bring proceedings in the name and on behalf of the company or any related company, or intervene in proceedings to which the company or any related company is a party, for the purpose of continuing, defending or discontinuing the proceedings on behalf of the company or related company.</p> <p>Leave may only be granted if the court is satisfied that either the company or related company does not intend to bring, diligently continue or defend, or discontinue the proceedings, or it is in the interests of the company or related company that the conduct of the proceedings should not be left to the directors or to the determination of the shareholders as a whole.</p> <p>No proceedings brought by a shareholder or a director or in which a shareholder or a director intervenes with leave of the court (as described above) may be settled or compromised or discontinued without the approval of the court.</p>	<p>The Australian Corporations Act permits a shareholder to apply to the court for leave to bring proceedings on behalf of the company, or to intervene in proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for those proceedings, or for a particular step in those proceedings.</p> <p>The court must grant the application if it is satisfied that:</p> <ul style="list-style-type: none"> • it is probable that the company will not itself bring the proceedings, or properly take responsibility for them, or for the steps in them; • the applicant is acting in good faith; • it is in the best interests of the company that the applicant be granted leave; • if the applicant is applying for leave to bring proceedings, there is a serious question to be tried; and • either at least 14 days before making the application, the applicant gave written notice to the company of the intention to apply for leave and of the reasons for applying, or the court considers it appropriate to grant leave. <p>Proceedings brought or intervened in with leave must not be discontinued, compromised or settled without the leave of the court.</p>
"2 strikes" rule in relation to remuneration reports	<p>There is no equivalent of a "2 strikes" rule in relation to remuneration reports in New Zealand. New Zealand companies are not required to publish remuneration reports so shareholders necessarily cannot vote on them.</p> <p>There is, however, an obligation to state in the company's annual report, in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the relevant accounting period and, in respect of employees or former employees of the company who received remuneration and any other benefits in their capacity as employees during the relevant accounting period, the value of which was or exceeded NZ\$100,000 per annum, the number of such employees, stated in brackets of NZ\$10,000.</p>	<p>The Australian Corporations Act requires that a company's annual report must include a report by the directors on the company's remuneration framework (called a remuneration report).</p> <p>A resolution must be put to shareholders at each annual general meeting of the company's shareholders (AGM) seeking approval for the remuneration report. That approval is advisory only, however, if more than 25% of shareholders vote against the remuneration report at 2 consecutive AGMs (i.e., 2 strikes) an ordinary (50%) resolution must be put to shareholders at the second AGM proposing that a further meeting be held within 90 days at which all of the directors who approved the second remuneration report must resign and stand for re-election.</p>

	New Zealand	Australia
Related party transactions and interests	<p>Meridian must comply with NZX Listing Rule requirements in respect of related party transactions, except to the extent this obligation is modified by waivers or rulings granted by NZX Regulation in respect of Meridian.</p> <p>In particular, shareholder approval is required for material transactions between a listed company and a “related party”. The definition of related party catches a number of persons, for example, a director of a listed company, or the holder of a relevant interest in 10% or more of a class of securities of a listed company. A related party who is a party to or a beneficiary of a material transaction (and its associates) are prohibited from voting in favour of a resolution to approve that transaction.</p> <p>The Securities Markets Act 1988 requires a director or officer of a public issuer who has a “relevant interest” in a public issuer to give notice of this fact to NZX and to disclose any such relevant interest in the interests register of the public issuer. The Companies Act requires companies to keep an interests register, and this register is often used for the purposes of any disclosures by directors or officers of any such “relevant interests”. The companies’ annual report must state particulars of entries in the interests register made during the accounting period.</p>	<p>Under the Australian Corporations Act, public companies must obtain shareholder approval before giving a financial benefit to a “related party” of the public company unless an exemption applies. The exemptions include:</p> <ul style="list-style-type: none"> • the arrangement is on arm’s length terms; • the benefit is reasonable remuneration paid to an officer or employee of the company; • the benefit is a reasonable indemnity or insurance premium given to an officer or employee of the company; • the value or amount of the financial benefit given to a related entity is less or equal to an amount prescribed by the Australian Corporations Regulations; • the benefit is given to a closely held subsidiary; • the benefit is given to all shareholders and does not discriminate other shareholders unfairly. <p>In addition, Meridian will be required to comply with ASX Listing Rule requirements in respect of related party transactions. Unless an exception applies, shareholder approval is required for:</p> <ul style="list-style-type: none"> • the acquisition of a substantial asset from, or disposal of a substantial asset to, among other persons, a related party or a person who, together with their associates, holds a relevant interest in at least 10% of the total votes attached to the voting securities; • issuing or agreeing to issue securities to related parties; • increasing the total of directors’ payments; • certain directors’ termination benefits; and • directors acquiring securities under an employee incentive scheme. <p>The definition of related party includes, among others, entities that control the public company and directors of the public company and of the entity that controls the public company.</p> <p>Under the ASX Listing Rules, Meridian will also be required to disclose the notifiable interests of its directors at prescribed times and any changes to those notifiable interests.</p>

	New Zealand	Australia
Disclosure of substantial holdings	<p>The Securities Markets Act 1988 requires every person who is a “substantial security holder” in a public issuer to give notice to that public issuer and NZX that they are a substantial security holder.</p> <p>“Substantial security holder” means, in relation to a public issuer, a person who has a relevant interest in 5% or more of a class of listed voting securities of that public issuer.</p> <p>The substantial security holder has ongoing disclosure requirements to notify the public issuer and NZX of certain changes in the number of voting securities in which the substantial security holder has a relevant interest or if there is any change in the nature of any relevant interest in the relevant holding or where that person ceases to be a substantial security holder.</p>	<p>The Australian Corporations Act requires every person who is a substantial holder to notify the listed company and ASX that they are a substantial holder and to give prescribed information in relation to their holding if:</p> <ul style="list-style-type: none"> • the person begins to have, or ceases to have, a substantial holding in the company or scheme; • the person has a substantial holding in the company or scheme and there is a movement of at least 1% in their holding; or • the person makes a takeover bid for securities of the company. <p>A person has a substantial holding if the total votes attached to voting shares in the company in which they or their associates have relevant interests is 5% or more of the total number of votes attached to voting shares in the company, or the person has made a takeover bid for voting shares in the company and the bid period has started and not yet ended.</p> <p>These provisions do not apply to Meridian as an entity established outside Australia.</p> <p>However, Meridian will be required to release to ASX any substantial holder notices that are released to NZX.</p>

	New Zealand	Australia
How takeovers are regulated	<p>The New Zealand position under the Takeovers Code and Securities Markets Act 1988 is comparable to the Australian position in relation to the regulation of takeovers.</p> <p>Substantial security holder notice requirements apply to relevant interests in 5% or more of a company's listed voting securities (as discussed above under the heading "Disclosure of substantial holdings").</p> <p>A 20% threshold applies (under which a person is prevented from increasing the percentage of voting rights held or controlled by them in excess of that threshold or from becoming the holder or controller of an increased percentage of voting rights if they already hold or control more than 20% of the voting rights), subject to certain "compliance options" (including full and partial offers, 5% creep over 12 months in the 50% to 90% range, and acquisitions with shareholder approval).</p> <p>Compulsory acquisitions are permitted by persons who hold or control 90% or more of voting rights in a company.</p> <p>Under Part 5A of the Public Finance Act 1989 (New Zealand), no person, other than the Crown, may have a relevant interest in more than 10% of any class of shares in, or any class of voting securities of, Meridian.</p>	<p>The Australian Corporations Act prohibits a person from acquiring a relevant interest in issued voting shares in a listed company if any person's voting power in the company will increase from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%.</p> <p>Exceptions to the prohibition apply (e.g., acquisitions with shareholder approval, 3% creep over 6 months, rights issues that satisfy prescribed conditions).</p> <p>Substantial holder notice requirements apply (as discussed above under the heading "Disclosure of substantial holdings").</p> <p>Compulsory acquisitions are permitted by persons who hold 90% or more of securities or voting rights in a company.</p> <p>The Australian takeovers regime will not apply to Meridian as a foreign company.</p>
Filing of documents	<p>Meridian must prepare and file the following documents with the Companies Office every year:</p> <ul style="list-style-type: none"> • annual financial statements as an issuer under the Financial Reporting Act 1993 including the statement of financial position, statement of financial performance, statement of cashflows, statement of movements in equity, statement of accounting policies, notes to the accounts and an audit report; and • an annual return required under the Companies Act. <p>The Companies Office must also be notified of certain changes (e.g., the appointment or resignation of directors or changes to Meridian's constitution).</p>	<p>As a foreign registered company, Meridian has limited filing obligations. It is required to file annual accounts with ASIC (including the balance sheet, cash flow statement and profit and loss statement for the last financial year, as well as any other documents required to be prepared under New Zealand law). ASIC must also be notified of certain changes (e.g., the appointment or resignation of directors or changes to Meridian's constitution).</p> <p>Filing obligations applicable to Australian registered companies will not apply to Meridian as a foreign company.</p>

Where it is noted that New Zealand law contains comparable provisions to those existing under Australian law, and vice versa, it is emphasised that the summary table only attempts to provide general guidance, and that the detailed provisions may contain differences and may also be subject to differing interpretation by Australian and New Zealand courts.

Investors should note that as a holder of Instalment Receipts their rights under the laws of Australia or New Zealand referred to above may not necessarily be the same until after the payment of the Final Instalment and the allotment of Shares.

15. Australian Taxation

You should seek your own taxation advice on the implications of an investment in the securities offered under the Offer Document.

Some of the issues to be considered by you and your advisors would include:

- (a) To the extent that you are subject to New Zealand tax in respect of your investment in Instalment Receipts or Shares (refer to the section titled “New Zealand Tax Implications for Non-Residents” in *section 7.4* of the Offer Document), you should satisfy yourself that you will be entitled to foreign tax credits for that New Zealand tax against any Australian tax for which you are liable on the same amount.
- (b) Although it is stated in *section 7.4* of the Offer Document that a ruling has been obtained from the New Zealand Inland Revenue Department confirming that the transfer of Shares to you upon payment of the Final Instalment is not a taxable event, that ruling applies only for New Zealand tax purposes. The position may be different in Australia:
 - (i) Although the Australian Taxation Office has previously issued public rulings confirming that the transfer of shares upon the payment of the final instalment on instalment receipts (for example, in relation specifically to Telstra Corporation Limited (ACN 051 775 556) and Commonwealth Bank of Australia (ACN 123 123 124) instalment receipts) and the completion of instalment receipts is not a taxable event, in 2010, the Australian Taxation Office indicated that it did not believe that the approach which it had been taking was supported by the law as it currently stood and that it could no longer issue rulings of the kind that it had previously issued.
 - (ii) At the same time, the Australian Government announced that it would amend the tax law to overcome the difficulty identified by the Australian Taxation Office and enshrine the “look through” treatment for instalment warrants in the tax legislation. A subsequent announcement in 2011 by the then assistant treasurer confirmed the Australian Government’s intention to amend the law and this subsequent announcement specifically referred to instalment receipts. Although the Australian Government indicated its intention to release

draft legislation for consultation, there do not appear to have been any further developments towards enacting the proposed amendments since January 2011.

- (iii) In 2011, the Australian Taxation Office issued a press release referring to the proposed amendments to the tax law and confirmed that taxpayers could lodge tax returns on the basis of the law as it would be once the amendments had been passed and that the Australian Taxation Office would take no compliance action to enforce the law in its current form.
 - (iv) If legislation consistent with that originally announced is ultimately enacted by the new Australian Government, then there should be no taxable event at the time the holder of an Instalment Receipt pays the Final Instalment and the Shares are transferred by the Australian Trustee to you.
- (c) In the event that no amending legislation is enacted, there would be a risk that the Australian Taxation Office might seek to treat the payment of the Final Instalment as a taxable event. Although the gain would be realised by the Australian Trustee, you would be liable for any tax liability on the increase in value of the underlying Shares up to the time of the transfer of the Shares from the Australian Trustee to you.

A holder of Instalment Receipts has no obligation to provide their tax file number (TFN) to the Australian Trustee. However, in certain cases (for example, if you are an individual or a trustee of another trust), if you do not provide your TFN to the Australian Trustee, the Australian Trustee may be required, by law, to withhold an amount of tax from distributions to you.

16. Privacy

If you apply for Shares, you will be asked to provide personal information to the Crown, Meridian, the Registrar, the New Zealand Trustee, the Australian Trustee and their respective agents who will collect and hold the personal information provided by you in connection with your Application at their respective addresses shown in the Directory of the Offer Document.

Personal information provided by you will be collected and used for:

- (a) the purposes of considering, processing and corresponding with you about your Application;
- (b) managing and administering your holding of Instalment Receipts or Shares, including sending you information concerning Meridian, your Instalment Receipts or Shares and other matters Meridian considers may be of interest to you by virtue of your holding of Instalment Receipts or Shares;
- (c) conducting an audit or review of the activities contemplated above; and
- (d) sending you information about special offers for Instalment Receipt holders or Shareholders in relation to Meridian’s products and services.

Australian law requires some of the information to be collected in connection with your Application.

Failure to provide the required personal information may mean that your Application is not able to be processed efficiently, if at all.

To do these things, the Crown, Meridian, the New Zealand Trustee, the Australian Trustee or the Registrar may disclose your personal information to each other and their related companies, respective agents, contractors or third party service providers to whom they outsource services such as mailing and registry functions. For the avoidance of doubt, this includes disclosures of your personal information to recipients located in New Zealand and may include the Joint Lead Managers, Solution Dynamics Limited and Reach Investor Solutions Pty Ltd. The Crown, Meridian, the New Zealand Trustee, the Australian Trustee or the Registrar may also disclose your personal information to ASX, NZX, other regulatory authorities, any entities or persons acting on your behalf (such as your broker) or as otherwise required by law.

If you become a Shareholder, your information may be used or disclosed from time to time to facilitate dividend payments and corporate communications and for compliance by Meridian with legal and regulatory requirements or for investigating compliance with the Public Finance Act 1989 in New Zealand.

The Australian Trustee's Privacy Policy explains how the Australian Trustee collects, uses and discloses personal information and how individuals may access and correct that personal information. It also states how individuals may contact the Australian Trustee to complain about a breach of the Privacy Act 1988 (Cth). You may request access to your personal information held by (or on behalf of) Meridian, the Crown, the Joint Lead Managers, the New Zealand Trustee, the Australian Trustee and the Registrar. You can request access to your personal information by telephoning or writing to Meridian, the Crown, the Joint Lead Managers, the New Zealand Trustee, the Australian Trustee or the Registrar using the details shown in the Directory of the Offer Document.

17. Enquiries

If you have any questions about the Institutional Offer in Australia, you should contact one of the Joint Lead Managers.

If you have enquiries about the Instalment Receipts, you should contact:

**The Australian Trustee
The Trust Company (Australia) Limited**

Level 15, 20 Bond Street
Sydney, New South Wales, 2000
Australia

Telephone: +61 (2) 8295 8100
Facsimile: +61 (2) 8295 8659
Email: trust_compliance_team@thetrustcompany.com.au

If you do not understand any part of the Offer Document or this Additional Australian Information, or are in any doubt as to whether to invest in securities offered under the Offer Document or not, it is recommended that you seek professional guidance from your solicitor, accountant or other independent and qualified professional adviser.

18. Is there anyone to whom I can complain if I have problems with the investment?

If you are an Australian resident and you have any issues with Instalment Receipts, please let the Australian Trustee know.

By phone:

Please call 1300 667 699 during normal business hours to talk with someone at The Trust Company.

In writing:

The Trust Company
Client Feedback Officer
GPO Box 4270
Sydney, New South Wales, 2001

The Australian Trustee will contact you to let you know when your feedback has been received. If it is a complaint, the Australian Trustee will endeavour to deal with it promptly. If further information is required, the response could take longer, but you will be kept up to date with progress. The Australian Trustee will always aim to resolve any issues quickly and fairly.

If you are not happy with the response to your complaint, you should contact the Financial Ombudsman Service, the Australian Trustee's external disputes resolution provider.

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Table of Contents


	PAGE		PAGE
Section 1 Welcome and Answers to Important Questions	5	6.2 Overview of Operational and Financial Information	112
1.1 Letter from the Crown	6	6.3 Analysis of Historical Financial and Operational Performance	120
1.2 Letter from the Chair	7	6.4 Further Financial and Accounting Information	126
1.3 Offer at a Glance	8	6.5 Prospective Financial Information	133
1.4 Answers to Important Questions	12	6.6 Summary Historical Financial Information	148
Section 2 Investment Highlights	25	6.7 Accounting Policies	154
Section 3 Industry Overview	37	6.8 Statutory Auditor's Report	161
3.1 New Zealand	38	6.9 Investigating Accountant's Report	164
3.2 Australia	44	Section 7 Offer Details	169
Section 4 About Meridian	49	7.1 Details of the Offer	170
4.1 Meridian at a Glance	50	7.2 Description of Instalment Receipts and Trust Deed	181
4.2 Business Description	51	7.3 Statutory Information	188
4.3 Board, Management and Corporate Governance	66	7.4 New Zealand Taxation Implications	203
4.4 Relationship between Meridian and the Crown	76	Section 8 Application Instructions	209
4.5 Independent Engineer's Report	83	Glossary	218
Section 5 What are the Risks?	91	Retail Offer Application Form	
Section 6 Financial Information	105	Directory	
6.1 Introduction to Meridian's Financial Information	106		

DEFINITIONS

Terms used in this Offer Document have the specific meaning given to them in the Glossary (including certain industry specific terms with which you may not be familiar).

Unless otherwise indicated, any references to dates and times are to dates and times in New Zealand and any references to dollars (\$) are to New Zealand dollars.

This Offer Document refers to various legislation in force in New Zealand as at the date of this Offer Document. You can view free of charge copies of any such legislation online at www.legislation.govt.nz.

 If you do not understand the technical terms used in this Offer Document, please refer to the Glossary at the back of this document or consult a financial adviser.

Offer Document Overview

This overview is intended to guide you through the structure of this document



DISCOVERING



UNDERSTANDING

01

Welcome and Answers to Important Questions

IN THIS SECTION:

- Letter from the Crown
- Letter from the Chair
- Offer at a Glance
- Answers to Important Questions (including a list of principal risks)

WHY SHOULD YOU READ THIS SECTION?

It includes a message to you from the Minister of Finance and the Minister for State-Owned Enterprises on behalf of the Crown and from the Chair of Meridian. It also provides answers to the questions which are prescribed by the Securities Regulations and are designed to help you make your investment decision.

02

Investment Highlights

IN THIS SECTION:

- Key Strengths of Meridian and Highlights of the Offer

WHY SHOULD YOU READ THIS SECTION?

It provides you with an overview of the key strengths of Meridian and highlights of the Offer.

03

Industry Overview

IN THIS SECTION:

- New Zealand
- Australia

WHY SHOULD YOU READ THIS SECTION?

You will get an overview of the New Zealand and Australian electricity industries applicable to Meridian, which will assist you to better understand Meridian's business and financial information as well as the risks associated with an investment in Meridian.

04

About Meridian

IN THIS SECTION:

- Meridian at a Glance
- Business Description
- Board, Management and Corporate Governance
- Relationship between Meridian and the Crown
- Independent Engineer's Report

WHY SHOULD YOU READ THIS SECTION?

You will find out information about Meridian's business, management and assets, including an independent engineer's report on Meridian's generation assets. You will also find out information about Meridian's current and continuing relationship with the Crown.

05

What are the Risks?

IN THIS SECTION:

- Principal Risks for Investors
- Meridian Specific Risks
- Instalment Receipt Specific Risks
- General Investment Risks
- Consequences of Insolvency

WHY SHOULD YOU READ THIS SECTION?

You will better understand the risks of making an investment in Meridian, including the specific risks faced by Meridian’s operations, business and financial performance.

This section is very important and should be read in full.

06

Financial Information

IN THIS SECTION:

- Introduction to Meridian’s Financial Information
- Overview and Analysis of Operational and Financial Information
- Prospective Financial Information
- Summary Historical Financial Information
- Accounting Policies
- Statutory Auditor’s Report and Investigating Accountant’s Report

WHY SHOULD YOU READ THIS SECTION?

You can find out detailed information about Meridian’s historical and prospective financial performance, including the important assumptions that have been used in the preparation of the prospective financial information.

07

Offer Details

IN THIS SECTION:

- Details of the Offer
- Description of Instalment Receipts and Trust Deed
- Statutory Information
- New Zealand Taxation Implications

WHY SHOULD YOU READ THIS SECTION?

You will find detailed information about the Offer, the instalment receipt feature and the New Zealand taxation implications of investing in the Shares, as well as information which is prescribed by the Securities Regulations.

08

Application Instructions



IN THIS SECTION:

- Application Instructions

To apply online, go to:
www.meridianshares.govt.nz.

WHY SHOULD YOU READ THIS SECTION?

You will find out how to make an Application if you decide to invest.

 **FIND OUT MORE** Look out for the Find Out More flag  within this document for directions to further information.



The Benmore power station, Waitaki Valley, is New Zealand's largest earth dam.



01

Welcome and Answers to Important Questions

In this section

- 1.1 Letter from the Crown 6
- 1.2 Letter from the Chair 7
- 1.3 Offer at a Glance..... 8
- 1.4 Answers to Important Questions (including a list of principal risks) 12

Why should you read this section?

It includes a message to you from the Minister of Finance and the Minister for State-Owned Enterprises on behalf of the Crown and from the Chair of Meridian. It also provides answers to the questions which are prescribed by the Securities Regulations and are designed to help you make your investment decision.

HISTORICAL FINANCIAL INFORMATION

Summarised historical financial information about Meridian for the financial years ended 30 June 2011, 2012 and 2013 is set out in *6.1 Introduction to Meridian's Financial Information*.

A copy of Meridian's full financial statements for the financial year ended 30 June 2013 is available free of charge at **www.meridianshares.govt.nz** or by calling **0800 90 30 90** and requesting a copy. Copies will be sent on request to any prospective investor as soon as practicable, but in any event, within 5 working days of Meridian or the Crown receiving the request.

QUESTIONS ABOUT THE OFFER

If you have any queries about the risk or suitability of an investment in the securities offered under this Offer Document you should consult your financial adviser or a NZX Firm. If you have questions about how to apply under the Offer, you can call **0800 90 30 90** (New Zealand only) during the Offer period or visit **www.meridianshares.govt.nz**. For further information on the mixed ownership model programme generally, you should visit the Government's mixed ownership model website **www.governmentshareoffers.govt.nz**.

Letter from the Crown

Dear Investor,

We are pleased to bring you the Meridian Share Offer – and to invite you to become an investor in New Zealand’s largest generator of electricity.

Meridian is a New Zealand company that has its eyes firmly on the future. 100% of the electricity that Meridian generates is from renewable sources. It uses water to produce electricity from its hydro power stations and wind to produce electricity from its wind farms.

The quality of Meridian’s electricity-making assets is also impressive. This Offer Document provides investors with detail on Meridian’s electricity-producing assets, its retail brands and its customers.

The Government is looking to the future as well – and we will continue to hold at least a 51% shareholding in Meridian. The Government shareholding is not a guarantee of your investment and, as with all investments, you should carefully consider both the highlights of the investment and the investment risks.

The Shares offered through this Offer will be prioritised for New Zealanders.

The structure of the Offer has been designed deliberately to assist investors. Payment for your Shares will be made in two instalments - an upfront payment when you apply and a second payment in 18 months. You will still receive any dividend returns in full during this first 18 month period, resulting in you receiving a higher percentage return on your investment during that period because you have only made the upfront payment. After the second payment, your dividend yield will return to underlying levels for Shares at the time.

In addition to the instalment payment structure, there is also a price cap for New Zealand retail investors who continue to hold their investment in Meridian until 4 May 2015. The price of the Shares will be set after the close of the Retail Offer, but will be capped at \$1.60 per Share for such New Zealand retail investors. This means that in addition to the certainty of paying a fixed First Instalment of \$1.00 per Share, such investors will pay no more than \$0.60 per Share on their Final Instalment - even if the Final Instalment paid by Institutional Investors is higher.

Thank you for considering this opportunity to invest in one of our biggest New Zealand companies.

Yours sincerely,



Hon Bill English
MINISTER OF FINANCE



Hon Tony Ryall
MINISTER FOR STATE-OWNED ENTERPRISES

Letter from the Chair

Dear Investor,

On behalf of the Meridian board, I am delighted to invite you to become an investor in our Company. Once listed, Meridian will be among the largest companies by market capitalisation traded on the NZX Main Board. Meridian is not only New Zealand's largest electricity company, but is an organisation that prides itself on generating energy from 100% renewable sources.

By investing in Meridian you will have the opportunity to share in the Company's approach to creating a better energy future for us all. This not only involves powering New Zealand with seven hydro dams and four wind farms, but also our programmes of work to support the communities and environments where we operate.

Meridian has some very impressive infrastructure, including an integrated chain of dams on the Waitaki River and the largest hydro power station in New Zealand, Manapōuri, which is a feat of engineering excellence and innovation.

The Company generates approximately 30% of the country's electricity by harnessing the power of water and wind. We are also a significant electricity retailer, with over 270,000 connections to New Zealand homes, businesses and farms through the Meridian and Powershop brands.

Our experience in constructing plants and generating and selling electricity in New Zealand has seen us invest in operations overseas. We currently own and operate one wind farm in South Australia and have another under construction in Victoria, Australia. We have also built renewable projects offshore in Antarctica, the United States and Tonga. Back home, we are currently constructing the Mill Creek wind farm near Wellington.

The board is proud of the achievements of Meridian since its inception in 1999. With the focus and leadership of our Chief Executive Mark Binns and the depth of experience and capability of our executive team, the Meridian board believes that the Company can deliver strong results for all Shareholders, including the Crown, which will remain the majority Shareholder. Nevertheless, it is imperative that you read through this document carefully before making an investment decision. As Meridian is highly dependent on the weather to fuel its renewable energy portfolio, it is particularly important to understand the risks, which are described in section 5 'What are the Risks?.'

The Meridian board and management team are passionate about Meridian and the important role it plays in powering New Zealand. We are excited by the opportunity for you to be a part of what we believe is one of the best companies in this country and consequently the board and Chief Executive have confirmed that they (or trusts associated with them) will apply in aggregate for no less than 729,200 Shares.

Yours sincerely,



Chris Moller
CHAIR, MERIDIAN ENERGY LIMITED

Offer **at a Glance**

The Crown is seeking to sell up to 1,255,870,000 shares in Meridian. This is up to 49% of the Meridian shares on issue and means the Crown will remain the majority Shareholder following the Offer. By law, the Crown must maintain a shareholding of at least 51% in Meridian, even after completion of the Offer.

The purchase price for the Shares is to be paid in two instalments, with the First Instalment payable on Application and the Final Instalment payable by 15 May 2015. Successful Applicants will be issued with Instalment Receipts pending payment of the Final Instalment.

This is the first opportunity for investors to own shares in Meridian.

Instalment Receipts

PAY FOR SHARES IN TWO INSTALMENTS. GET ANY DIVIDENDS IN FULL

What are the benefits to an investor of paying in two instalments?	<ul style="list-style-type: none"> The instalment payment process reduces the up-front cash payment required to be made by Applicants for the Shares Holder of Instalment Receipts will receive any dividends paid on Shares between instalment payments This provides an enhanced dividend yield in the period prior to payment of the Final Instalment.² After payment of the Final Instalment, your dividend yield will return to underlying levels for Shares at the time
How does the instalment payment process work?	<ul style="list-style-type: none"> Successful Applicants are issued with an Instalment Receipt for each Share that is partially paid for on Application (the payment of the First Instalment) The Shares that relate to those Instalment Receipts are held by the Trustee on trust pending payment of the Final Instalment After the Final Instalment is paid by an Instalment Receipt holder, the Shares held by the Trustee are transferred to the holder and the related Instalment Receipts are cancelled If a holder of Instalment Receipts does not pay the Final Instalment when it is due, the Trustee may sell the Shares that relate to those Instalment Receipts. The proceeds of sale will be applied towards default interest and fees (including any reasonable administration charge imposed by the Trustee), costs and expenses of sale, then towards payment of the Final Instalment. Any surplus sale proceeds would be paid to the holder Holder of Instalment Receipts remain liable for any shortfall if the proceeds of sale by the Trustee are insufficient to meet the default interest, fees, costs and expenses and the Final Instalment owing to the Crown
What rights do Instalment Receipt holders have?	<p>Holder of Instalment Receipts have rights similar to holders of Shares. They will be:</p> <ul style="list-style-type: none"> Entitled to receive any dividends paid by Meridian on the Shares, together with any imputation credits Invited to attend shareholder meetings of Meridian Entitled to instruct the Trustee how to vote on a poll at shareholder meetings of Meridian Entitled to receive Meridian's annual and interim reports, and other Meridian shareholder communications Entitled to sell their Instalment Receipts, which Meridian will apply to have quoted on the NZX Main Board and the ASX
What are the instalment amounts?	<ul style="list-style-type: none"> The First Instalment is \$1.00 per Share, payable on Application The amount of the Final Instalment will be determined by the Crown after the close of the Retail Offer and the Institutional Offer. Based on the Indicative Price Range and subject to the Retail Price Cap described below, the Final Instalment is expected to be in the range of \$0.50 to \$0.80 per Share The holder of an Instalment Receipt on 4 May 2015 must pay the Final Instalment A Retail Price Cap of \$1.60 per Share will apply to the Final Price payable by New Zealand Applicants who are allocated Instalment Receipts and corresponding Shares in the Retail Offer and who continue to hold their Instalment Receipts in the same registered name until 4 May 2015. This means that the Final Instalment payable by such New Zealand Applicants will be no more than \$0.60 per Share. The Retail Price Cap does not apply to any Instalment Receipts purchased on the secondary market Applicants who sell their Instalment Receipts before 4 May 2015 will not be responsible for paying the Final Instalment. It is expected that trading in Instalment Receipts on the NZX Main Board and the ASX will cease on 29 April 2015, being three trading days prior to the Final Instalment Record Date

² See 1.3 Offer at a Glance under the heading "Key Investment Metrics" for information about the implied dividend yields.

When is the Final Instalment due? The Final Instalment will be payable by 15 May 2015

Further information Further information about Instalment Receipts is set out in 7.2 *Description of Instalment Receipts and Trust Deed*

If you are the registered holder of Instalment Receipts on 4 May 2015 you will be liable to pay the Final Instalment in respect of those Instalment Receipts. This applies irrespective of the value of Meridian Shares at that time. It is expected that trading in Instalment Receipts on the NZX Main Board and the ASX will cease on 29 April 2015, being three trading days prior to the Final Instalment Record Date.

Key Dates

Retail Offer opens	30 September 2013
Retail Offer closes (5.00pm)	18 October 2013
Institutional Offer and bookbuild process	21 - 23 October 2013
Pricing announced	23 October 2013
Allocations expected to be available	25 October 2013
Expected commencement of trading of the Instalment Receipts on the NZX Main Board (conditional settlement basis) and on the ASX (conditional and deferred settlement basis)³	29 October 2013
Allotment Date, expected despatch of securities transaction statements and last day of conditional trading	30 October 2013
Instalment Receipts expected to begin trading on a normal basis on the NZX Main Board and on the ASX	31 October 2013
Expected commencement of settlement of trades of Instalment Receipts on the NZX Main Board	1 November 2013
Expected despatch of any refund payments if required (no later than 6 November 2013)	4 November 2013
Expected date of settlement of all deferred trades of Instalment Receipts on the ASX	6 November 2013
Expected date of payment of first dividend following the Offer	April 2014
Expected date of payment of second dividend following the Offer	October 2014
Expected date of payment of third dividend following the Offer	April 2015
Expected last day of trading of Instalment Receipts on the NZX Main Board and on the ASX	29 April 2015
Expected commencement of trading of Shares on the NZX Main Board and on the ASX (both on a deferred settlement basis)³	30 April 2015
Record date for determining Instalment Receipt holders liable to pay Final Instalment	4 May 2015
Final date for payment of Final Instalment	15 May 2015
Expected date of transfer of Shares to Instalment Receipt holders	21 May 2015
Shares expected to begin trading on a normal basis on the NZX Main Board and on the ASX	22 May 2015
Expected date of settlement of all deferred trades of Shares	27 May 2015


Other than the record date for determining, and the final date for, payment of the Final Instalment, these dates are indicative only and, subject to the requirements of the Securities Act, the NZX Main Board Listing Rules, the ASX Listing Rules and the Trust Deed, may be amended. The Offer may also be withdrawn at any time before the allotment of Instalment Receipts in the absolute discretion of the Crown.

3. You can find further information regarding conditional and deferred settlement trading under the heading "Listing and Quotation of Instalment Receipts and Shares" in 7.1 *Details of the Offer*.

Incentives for New Zealand Applicants

The Crown is providing incentives to New Zealand Applicants under the Retail Offer as follows:

Guaranteed allocation (General Offer only)	Applications under the General Offer up to 1,000 Shares (for which the First Instalment will be \$1,000) will not be scaled and will receive one Share and corresponding Instalment Receipt for each Share applied for. Applications in excess of 1,000 Shares will not receive less than 1,000 Shares and corresponding Instalment Receipts. ⁴
Pay no more than \$1.60 per Share	A Retail Price Cap of \$1.60 per Share will apply to the Final Price payable by New Zealand Applicants under the Retail Offer who continue to hold their Instalment Receipts in the same registered name until 4 May 2015, which means that the Final Instalment will be no more than \$0.60 per Share. Such Applicants will pay no more than \$1.60 per Share even if the Final Price determined by the Crown for the Institutional Offer is higher.

 You can find further information about the eligibility criteria and incentives for New Zealand Applicants, including how these incentives will apply for those New Zealand Applicants applying through Custodians, in [7.1 Details of the Offer](#).

Key Offer Statistics⁵

Indicative Price Range⁶	\$1.50 to \$1.80 per Share being the sum of the First Instalment plus the Final Instalment
Retail Price Cap for New Zealand Applicants⁷	\$1.60 per Share
First Instalment	\$1.00 per Share
Indicative Final Instalment⁸	\$0.50 to \$0.80 per Share
Maximum Final Instalment for New Zealand Applicants in the Retail Offer⁷	\$0.60 per Share
Number of Shares being offered	Up to 1,255,870,000 (being up to 49% of the total number of Shares on issue following the Offer)
Crown shareholding following the Offer	At least 1,307,130,000 (being at least 51% of the total number of Shares on issue following the Offer)
Indicative market capitalisation⁹	\$3,844.5 million to \$4,613.4 million (\$4,100.8 million at the Retail Price Cap)
Prospective net debt¹⁰	\$1,120.7 million
Indicative enterprise value (EV)¹¹	\$4,965.2 million to \$5,734.1 million (\$5,221.5 million at the Retail Price Cap)

IMPORTANT INFORMATION REGARDING FINANCIAL INFORMATION AND KEY INVESTMENT METRICS

You should read the selected financial information and key investment metrics presented on the opposite page in conjunction with [6 Financial Information](#) (particularly the assumptions and basis of preparation set out in [6.5 Prospective Financial Information](#)) and also the risk factors set out in [5 What are the Risks?](#). There is no guarantee that the prospective financial information will be achieved.

In particular, investors should understand that in preparing its financial forecasts Meridian has to make assumptions as to the amount of water that will be available in any period to power its assets. Predicting such flows is a statistical exercise. In this

Offer Document, Meridian uses figures that assume that profits from its New Zealand electricity business will match the average of the profits that would result from each of the last 82 years' inflows reoccurring (if all other assumptions and conditions stayed the same). Being an average, this means that profits resulting from actual inflows are likely to be different from this. If all other conditions and assumptions stayed the same, around half the time a higher outcome would be expected and around half the time a lower outcome would be expected.

Investors are advised to refer to the sensitivities in [6.5 Prospective Financial Information](#) that illustrate how movement in these inflows can impact on profitability as this is a key variable for Meridian and the Company cannot make an assumption other than by referring to its historical records.

4. The minimum Application size is also 1,000 Shares (for which the First Instalment will be \$1,000).

5. Indicative market capitalisation, indicative EV, prospective price/earnings ratio, prospective EV/EBITDAF multiple and prospective implied dividend yields are shown based on the high and low points of the Indicative Price Range.

6. The Final Price payable under the Institutional Offer may be within, above or below the Indicative Price Range. The Final Price payable by New Zealand Applicants participating in the Retail Offer is subject to the Retail Price Cap if they hold their Instalment Receipts continuously in the same registered name until 4 May 2015.

7. Applicable to New Zealand Applicants participating in the Retail Offer if they hold their Instalment Receipts continuously in the same registered name until 4 May 2015.

Selected Financial Information

\$ Million	FY2011	FY2012	FY2013	FY2014F	FY2015F
EBITDAF ¹²	\$659.9	\$476.6	\$584.8	\$548.4	\$590.1
NPAT	\$303.1	\$74.6	\$295.1	\$187.9	\$211.0
Underlying NPAT ¹²	\$219.0	\$106.1	\$162.7	\$161.5	\$179.4
Net cash provided by operating activities	\$368.7	\$322.2	\$416.7	\$338.5	\$428.9

Key Investment Metrics

Earnings Metrics	Based on Indicative Price Range		At Retail Price Cap	
	FY2014F	FY2015F	FY2014F	FY2015F
EV/EBITDAF multiple ¹³	9.1x - 10.5x	8.4x - 9.7x	9.5x	8.8x
Price/earnings ratio ¹⁴	20.5x - 24.6x	18.2x - 21.9x	21.8x	19.4x
Yield Metrics	Based on Indicative Price Range		At Retail Price Cap	
	FY2014F	FY2015F	FY2014F	FY2015F
Dividend yields on Shares				
Implied cash dividend yield ¹⁵	5.8% - 7.0%	6.4% - 7.7%	6.5%	7.2%
Implied gross dividend yield ¹⁶	7.4% - 8.9%	8.2% - 9.8%	8.4%	9.2%
Dividend yields on Instalment Receipts	First 12 months ¹⁷			
Implied cash instalment yield	10.5% ¹⁸			
Implied gross instalment yield	13.4% ¹⁹			

DIVIDEND YIELDS ON INSTALMENT RECEIPTS

The level of dividend yields on Instalment Receipts is higher than the level of dividend yields on Shares. This is due to the fact that the Shares are paid for in two instalments. The dividend yields on Instalment Receipts are calculated based on the First Instalment of \$1.00 per Share. The dividend yields on Shares are calculated based on the Final Price per Share, which is the aggregate of the First Instalment and the Final Instalment. Because the amount of the Final Instalment is determined after the close of the Retail Offer and the Institutional Offer, the above calculations use the high and low points of the Indicative Price Range. After the 18 month Instalment Receipt period, if you continue to hold the Instalment Receipts, you will be required to pay the Final Instalment and as a result your dividend yield will return to the underlying dividend yield on Shares at the time. The level of dividends is not guaranteed.

IMPUTATION CREDITS

In the future, Meridian expects dividends to be partially imputed in the range of 40% to 75% of the corporate tax rate, depending on hydrological conditions. For the implied gross yields shown in the table above, dividends declared with respect to earnings in FY2014F are forecast to be imputed to 72% of the corporate tax rate and dividends declared with respect to earnings in FY2015F are forecast to be imputed to 73% of the corporate tax rate. There is no guarantee that the actual amount of imputation credits attached to dividends will be the same as that forecast.

8. The Final Instalment payable under the Institutional Offer may be within, above or below the range of \$0.50 to \$0.80 per Share. The Final Instalment payable by New Zealand Applicants participating in the Retail Offer is subject to the Retail Price Cap if they hold their Instalment Receipts continuously in the same registered name until 4 May 2015.

9. Calculated as the number of Shares on issue following the Offer multiplied by the high and low points of the Indicative Price Range and by the Retail Price Cap.

10. Calculated as prospective current and non-current borrowings net of foreign exchange hedging less cash and cash equivalents forecast as at 30 June 2014.

11. Calculated as the indicative market capitalisation plus prospective net debt as at 30 June 2014.

12. EBITDAF and Underlying NPAT are non-GAAP financial measures. You can find an explanation of these terms and why Meridian uses them as measures of financial performance as well as a reconciliation of EBITDAF and Underlying NPAT in 6.2 *Overview of Operational and Financial Information*.

13. Calculated as EV divided by EBITDAF for the respective forecast financial year.

14. Calculated as indicative market capitalisation divided by NPAT for the respective forecast financial year.

15. Calculated as forecast dividends per Share declared with respect to earnings in the respective financial year divided by the high and low points of the Indicative Price Range and by the Retail Price Cap.

16. Calculated as forecast dividends per Share declared with respect to earnings in the respective financial year, grossed up for imputation credits forecast to be attached to the dividend, divided by the high and low points of the Indicative Price Range and by the Retail Price Cap.

17. The first 12 months refers to the 12 months from 1 November 2013 to 31 October 2014.

18. Calculated as forecast dividends per Share paid in the first 12 months, divided by the First Instalment.

19. Calculated as forecast dividends per Share paid in the first 12 months, grossed up for imputation credits forecast to be attached to those dividends, divided by the First Instalment.

Answers to Important Questions

What sort of investment is this?

THE SHARES

The Crown is offering to sell up to 1,255,870,000 (or 49%) of the shares in Meridian Energy Limited. The purchase price for the Shares is to be paid in two instalments. The First Instalment is payable on Application and the Final Instalment is payable by 15 May 2015.

Each Share confers an equal right to share in dividends and other distributions authorised by the board of Meridian, and to cast a vote at meetings of Shareholders, in accordance with the Constitution. As the holder of at least 51% of the Shares, the Crown generally will be able to control the outcome of matters put to Shareholders that require majority approval. However, there is no Crown guarantee of the Shares or the Company or any obligations of the Company.

INSTALMENT RECEIPTS

Successful Applicants will be issued with Instalment Receipts, with each Instalment Receipt evidencing a beneficial interest in one Share. Following receipt of payment of the Final Instalment, holders of Instalment Receipts will receive the Shares represented by their Instalment Receipts and the Instalment Receipts will be cancelled. However, until payment of the Final Instalment is received:

- the Shares will be held on trust by the Trustee;
- holders of Instalment Receipts will not be registered Shareholders. However, they will be:
 - entitled to receive any dividends paid by Meridian on the Shares corresponding to their Instalment Receipts, together with any attached imputation credits;
 - invited to attend meetings of Meridian shareholders;
 - entitled to instruct the Trustee how to exercise the votes attached to the Shares corresponding to their Instalment Receipts on resolutions to be voted on by way of a poll at Meridian shareholder meetings; and
 - entitled to receive Meridian's interim and annual reports, and other Meridian shareholder communications;
- the Crown will be granted a security interest over the Shares, any rights accruing in relation to them and any proceeds of the Shares, exercisable only if the Final Instalment is not paid when due; and
- holders may not create any security, such as a charge, over the Shares represented by their Instalment Receipts.

TRANSFER

Holders of Instalment Receipts will be able to sell their

Instalment Receipts and, when they receive the Shares represented by their Instalment Receipts following payment of the Final Instalment, Shareholders will be able to sell their Shares, subject to compliance with (as applicable) the Constitution, Trust Deed and applicable laws.

Meridian has applied to initially have the Instalment Receipts, and then subsequently the Shares, quoted on the NZX Main Board and will apply for the same listing and quotations on the ASX on a conditional basis.

THE OFFER

The Offer comprises the Retail Offer, the Institutional Offer and the Participating Iwi Offer. The Retail Offer consists of two components:

- the General Offer, which is only available to New Zealand Applicants and Eligible Employees; and
- the Broker Firm Offer, which is only available to New Zealand Applicants who have received an allocation from a NZX Firm or selected trading bank.


A New Zealand Applicant is an Applicant for Shares for whom the following information has been provided with their Application Form:

- a valid New Zealand IRD number;
- a valid New Zealand bank account number;
- a New Zealand address; and
- a declaration that:
 - in the case of an individual, the individual is a New Zealand citizen or permanent resident; or
 - in the case of a company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or
 - in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or
 - in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents.

The Retail Offer and the Participating Iwi Offer are not open to persons outside New Zealand (for the avoidance of doubt, the Retail Offer and the Participating Iwi Offer are not open to persons in the United States or persons acting for the account or benefit of a person in the United States). Applicants in the Retail Offer and Participating Iwi Offer will confirm as part of their Application Form that they are not acting for the account or benefit of a person in the United States.

The Institutional Offer consists of an invitation to bid for Shares made to Institutional Investors and other investors in New Zealand, Australia and certain other overseas jurisdictions.

The Participating Iwi Offer is the offer made to Participating Iwi.

 You can find out more about the Shares, the Instalment Receipts and the Offer by reading [7.1 Details of the Offer](#) and [7.2 Description of Instalment Receipts and Trust Deed](#).

SELLING RESTRICTIONS

The Retail Offer is being made to New Zealand Applicants and Eligible Employees in New Zealand, the Participating Iwi Offer is being made to Participating Iwi in New Zealand and the Institutional Offer is being made to Institutional Investors in New Zealand, Australia and certain other jurisdictions.

You may not offer, sell (including resell), or deliver or invite any other person to so offer, sell (including resell) or deliver any securities or distribute any documents (including this Offer Document) in relation to the securities to any person outside New Zealand, except in accordance with all of the legal requirements of the relevant jurisdiction.

This Offer Document may not be distributed to, or relied upon by, persons in the United States unless it is part of the International Offering Memorandum as part of the Institutional Offer. In particular, neither the Instalment Receipts nor the Shares have been or will be registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States unless they are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

Unless otherwise agreed with the Crown and Meridian, by applying for Shares under the Offer you will, by virtue of such Application, be deemed to represent that you are not in a jurisdiction that does not permit the making of the Offer or an invitation of the kind contained in this Offer Document and are not acting for the account or benefit of a person within such a jurisdiction. None of the Crown, Meridian, any Trustee, the Joint Lead Managers, the Registrar nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

WITHDRAWAL RIGHTS

In certain limited circumstances, where a significant adverse development occurs prior to commencement of the bookbuild process Applicants may have the right to withdraw their Applications. Further details of this withdrawal right are discussed under the heading “Supplementary Disclosure” in [7.1 Details of the Offer](#).

IMPORTANT INFORMATION FOR AUSTRALIAN INSTITUTIONAL INVESTORS

This Offer is being made in Australia only to Institutional Investors. The Offer will not be made to retail investors in Australia.


Australian Institutional Investors should have regard to the Additional Australian Information accompanying this Offer Document before deciding whether or not to purchase Shares. The Additional Australian Information contains disclosure relevant to Australian Institutional Investors and important notices required for a recognised offer under Chapter 8 of the Australian Corporations Act and the Australian Corporations Regulations.

Who is involved in providing it for me?

THE CROWN

The Crown is selling the Shares being offered, is a promoter of the Offer and is the issuer of the Instalment Receipts for the purposes of the Securities Act. This does not imply any guarantee by the Crown of the Shares, the Instalment Receipts or any returns in respect of any of them or any commitment by the Crown in respect of future capital contributions. New Zealand is a sovereign state whose constitutional history dates back to the signing of the Treaty of Waitangi in 1840.

Following completion of the Offer, the Crown will continue to have a range of ongoing relationships with Meridian, including as majority Shareholder, shareholder of the SOE participants in the New Zealand electricity industry and as regulator (for example, through the Electricity Authority and the Commerce Commission).

 You can find out more about these ongoing relationships by reading [4.4 Relationship between Meridian and the Crown](#).


MERIDIAN

Meridian is the issuer of the Shares which are being offered for sale by the Crown. It is not the issuer of the Instalment Receipts arising from the sale and does not guarantee the Instalment Receipts or any returns in respect of them.


Meridian commenced operations in 1999, when the Crown separated Electricity Corporation of New Zealand Limited (ECNZ) into three SOEs (Meridian, Mighty River Power and Genesis Energy).

Meridian generates electricity, exclusively from renewable sources, using its hydro and wind assets. The Company owns and operates seven hydro power stations and one wind farm in the South Island, and a further three wind farms in the North Island with a fourth under construction. Internationally, the Company owns one completed wind farm in Australia and a second under construction. Meridian sells electricity to the industrial,

business, agricultural and residential markets through multiple channels, including its Meridian Retail brand and Powershop (a wholly owned subsidiary of Meridian).

 You can find out more about Meridian's business by reading [4.2 Business Description](#).

Meridian is governed by its board of directors and managed by an experienced management team led by Mark Binns, who joined the Company as Chief Executive in January 2012. The current directors of Meridian are Chris Moller, Peter Wilson, John Bongard, Mark Cairns, Jan Dawson, Mary Devine, Sally Farrier, Anake Goodall and Stephen Reindler.

 You can find out more about Meridian's directors and management team by reading [4.3 Board, Management and Corporate Governance](#).

TRUSTEE

The trustee in respect of the Instalment Receipts is The New Zealand Guardian Trust Company Limited (New Zealand Trustee) or, for Australian resident holders of Instalment Receipts only, The Trust Company (Australia) Limited (Australian Trustee). The New Zealand Trustee will also issue all the Instalment Receipts in the amounts, and in the names of the persons, as the Crown directs following the transfer of the underlying Shares to the Trustee. Those Instalment Receipts will then be administered by the relevant Trustee under the terms of the relevant Trust Deed. All money payable by holders in respect of Instalment Receipts will be payable to the Crown (and not to the Trustee). In holding the Shares on trust and, in the case of the New Zealand Trustee only, issuing the Instalment Receipts, neither Trustee is an issuer, offeror or a promoter of either the Shares or the Instalment Receipts for the purposes of the Securities Act or this Offer Document and neither Trustee nor their directors, officers and agents guarantee the Shares, the Instalment Receipts or Meridian. Neither Trustee nor their directors, officers and agents have any responsibility for the content of this Offer Document or the Offer. Neither Trustee has caused the Offer to be made nor the issue of this Offer Document.

CONTACT DETAILS

The current addresses of the Crown, Meridian and each Trustee are set out in the Directory at the end of this Offer Document.

The names of the directors, and the addresses in the Directory, may change. You can find the current address of The Treasury at www.treasury.govt.nz. You can find the current address of Meridian and the names of its directors by searching the public register maintained by the Companies Office on its website www.business.govt.nz/companies.

How much do I pay?

INSTALMENT PAYMENTS

Payment for the Shares will be in two instalments:

- the First Instalment of \$1.00 per Share, on Application; and
- the Final Instalment, by 15 May 2015. Based on the Indicative Price Range, the Final Instalment is expected to be in the range of \$0.50 to \$0.80 per Share. The Final Instalment payable by New Zealand Applicants participating in the Retail Offer is subject to the Retail Price Cap if they hold their Instalment Receipts continuously in the same registered name until 4 May 2015. For further information see [7.1 Details of the Offer](#) under the heading "Condition of Entitlement to Retail Price Cap".

SHARE PRICE

The Indicative Price Range is \$1.50 to \$1.80 per Share. The Final Price per Share will comprise the First Instalment and the Final Instalment. Subject to the Retail Price Cap described below, the Final Price may be within, above or below the Indicative Price Range. The Final Price will be determined by the Crown in its sole discretion after the close of the Retail Offer and the Institutional Offer. It is expected that the Final Price will be announced on 23 October 2013, including through the NZX Main Board under Meridian's stockcode 'MEL'.

FIRST INSTALMENT

If you decide to apply for Shares, you will specify the number of Shares you are applying for in your Application and pay the First Instalment for that number of Shares. The minimum number of Shares you can apply for is 1,000 Shares (for which the First Instalment will be \$1,000), and in multiples of 100 Shares thereafter. If you hold Instalment Receipts on the Final Instalment Record Date, you will be required to pay the Final Instalment.

FINAL INSTALMENT

Each person registered as a holder of Instalment Receipts on the Final Instalment Record Date (4 May 2015) must have paid the Final Instalment in respect of the Shares represented by their Instalment Receipts by 5.00pm on the Final Instalment Payment Date (15 May 2015). Reminder notices will be sent to holders prior to the Final Instalment Payment Date although the accidental omission to send or non-receipt of a reminder notice will not affect a holder's obligation to pay the Final Instalment on the Final Instalment Payment Date. Following payment of the Final Instalment each holder of Instalment Receipts will receive a corresponding number of Shares and the Instalment Receipts will be cancelled.

It is expected that trading in Instalment Receipts on the NZX Main Board and the ASX will cease on 29 April 2015, being three trading days prior to the Final Instalment Record Date. If you trade your Instalment Receipts and cease to be a holder on or before the Final Instalment Record Date, you are not required to pay the Final Instalment.

Holders do not have the right to pay the Final Instalment and receive the underlying Shares early. Unless Instalment Receipt holders are notified otherwise, payment of the Final Instalment must be made to the Crown.

RETAIL PRICE CAP

A Retail Price Cap of \$1.60 per Share will apply to the Final Price payable by New Zealand Applicants who are allocated Instalment Receipts and corresponding Shares in the Retail Offer and who continue to hold their Instalment Receipts in the same registered name until 4 May 2015. This means that the Final Instalment payable by such New Zealand Applicants will be no more than \$0.60 per Share. Such New Zealand Applicants will pay no more than \$1.60 per Share even if the Final Price determined by the Crown (and payable by participants in the Institutional Offer) is higher.

The Retail Price Cap will also apply to the Participating Iwi Offer but not to the Institutional Offer.

The Retail Price Cap only applies to Instalment Receipts and corresponding Shares allotted to New Zealand Applicants in the Retail Offer which continue to be held in the same registered name until the Final Instalment Record Date. Consequently, the Retail Price Cap does not apply to any Instalment Receipts and corresponding Shares purchased on the secondary market.

You can find out more about how the Final Price and the instalment payments will be set by reading [7.1 Details of the Offer](#).

ALLOCATION AND SCALING

As at the date of this Offer Document, no allocation decisions have been made by the Crown. Allocations:

- to NZX Firms and selected trading banks in the Broker Firm Offer; and
- between the Retail Offer and the Institutional Offer,

will be determined by the Crown, in consultation with its advisers and Meridian. In the case of allocations to NZX Firms and selected trading banks in the Broker Firm Offer, this determination is expected to be made prior to the opening of the Retail Offer and in the case of allocations between the Retail Offer and the Institutional Offer, this determination is expected to be made following the close of the bookbuild process.

The allocation to the Broker Firm Offer will be determined by the Crown, having regard to the level of demand in the Broker Firm Offer and any other factors that the Crown considers appropriate, after consultation with its advisers and Meridian. The Crown will retain the ability to scale back allocations to NZX Firms and selected trading banks in the Broker Firm Offer following the close of the bookbuild process on a pro rata basis.

If the General Offer is over-subscribed, Applications in the General Offer may be scaled. This means that the number of Shares and corresponding Instalment Receipts allocated to you may be less than the number of Shares you apply for. Scaling will be determined by the Crown, in consultation with its advisers and Meridian, and may not be pro rata. The Government has stated

that New Zealanders will be at the front of the queue for Shares. If scaling is required in the General Offer, New Zealand Applicants, Eligible Employees and the trustee of the Executive LTI Plan will receive a minimum guaranteed allocation.

Allocations by NZX Firms and selected trading banks under the Broker Firm Offer to their retail clients who are New Zealand Applicants will be determined by those NZX Firms and selected trading banks. It will also be a matter for the NZX Firms and selected trading banks to determine whether Applications by their retail clients are scaled back and the methodology for doing so. If the Crown exercises its right to scale back Broker Firm allocations following completion of the bookbuild process, all retail client Applications under the Broker Firm Offer will be scaled back on a pro rata basis.

Successful Applicants in the General Offer who applied online will be able to confirm their allocation at www.meridianshares.govt.nz using their Unique Reference Number from 25 October 2013. Successful Applicants in the General Offer who did not apply online will be able to confirm their allocation by calling **0800 90 30 90** from 25 October 2013. Applicants in the Broker Firm Offer should contact their broker to find out if their Application was successful. Securities transaction statements are expected to be sent to successful Applicants on 30 October 2013.

If the Institutional Offer is over-subscribed, allocations will be influenced by a number of factors, such as whether the participant is a New Zealand institution managing significant investments on behalf of New Zealanders (including KiwiSaver or superannuation), or a participant representing collective interests in New Zealand such as Māori trusts or iwi, the price and number of Shares bid for, the timeliness of the bid and any other factors that the Crown considers appropriate.

If your Application is scaled and you are not allocated Shares and corresponding Instalment Receipts for the total number of Shares applied for, an amount equal to the First Instalment of those Shares not allocated to you will be refunded to you no later than five Business Days after the Allotment Date without interest. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

Participating Iwi that apply for Shares in the Participating Iwi Offer will not be scaled and will receive a guaranteed allocation of Shares and corresponding Instalment Receipts at the Final Price paid under the Retail Offer.

You can find out more about scaling and allocation priorities by reading [7.1 Details of the Offer](#).

APPLICATION AND PAYMENT UNDER THE RETAIL OFFER

Your Application must be made online at www.meridianshares.govt.nz or on the Application Form set out in the back of this Offer Document or accompanying this Offer Document. If you are applying as an Eligible Employee, your Application should be made on the Eligible Employee Application Form provided to you by the Company. Applications must be


accompanied by payment of the First Instalment for the Shares for which you wish to apply. Payment may be made to the Crown by one-time direct debit or cheque and will be held by the Crown in trust until Shares are transferred to the Trustee to be held on behalf of successful Applicants and Instalment Receipts allotted or until Application monies are refunded.

Your Application, together with payment in full of the First Instalment for the Shares for which you have applied, must be completed online or received by the Registrar by 5.00pm on 18 October 2013. If you do not return your Application and payment by this time, you may not receive any Shares.

The purchase price for the Shares is payable in two instalments. The payment made on Application is for the First Instalment only.

CONSEQUENCES OF FAILING TO PAY THE FINAL INSTALMENT

Holders of Instalment Receipts on 4 May 2015 will be bound to pay the Final Instalment. If cleared payment of the Final Instalment is not made by a holder of Instalment Receipts by 15 May 2015, default interest will be charged and the Trustee may sell the underlying Shares it holds in respect of those Instalment Receipts. The proceeds of sale will be applied first towards the Trustee's enforcement fees (including any reasonable administration charge imposed by the Trustee) and costs, default interest and certain other expenses, and then towards payment of the Final Instalment. Any surplus sale proceeds remaining after these payments will be paid to the holder. Holders of Instalment Receipts remain liable for any shortfall if the proceeds of sale are insufficient to meet costs and the full Final Instalment amount plus any interest. Further information about default interest and fees, costs and expenses is contained in 7.2 *Description of Instalment Receipts and Trust Deed* under the headings "Default Interest" and "Fees, Costs and Expenses".

 Information about how you can apply for Shares, including further details about how to pay for your Shares and where to send your Application, is set out in 8 *Application Instructions* and on the Application Form.

What are the charges?

You are not required to pay any charges to Meridian or the Crown or any associated person in relation to the Offer other than the payment for the Shares in the manner described above under the heading "How much do I pay?" and, in the event that payment is not made, default interest and fees, costs and expenses payable to the Crown. If you hold Instalment Receipts on the Final Instalment Record Date you are required to pay the Final Instalment, and if you fail to do so by the Final Instalment Payment Date you will be required to pay default interest at the 90 day bank bill rate plus 2% per annum and the Trustee's

enforcement fees (including any reasonable administration charge imposed by the Trustee), costs and expenses of sale of Shares. The amount of the fees, costs and expenses payable by a holder of Instalment Receipts who fails to pay the Final Instalment cannot be expressed as a dollar amount but is to be determined in accordance with the Trust Deed. The amount of these charges will be unable to be ascertained until following the relevant payment default and enforcement action. Further information about default interest and fees, costs and expenses is contained in 7.2 *Description of Instalment Receipts and Trust Deed* under the headings "Default Interest" and "Fees, Costs and Expenses".

What returns will I get?

TYPES OF RETURNS

Your returns may be by way of:

- dividends paid and other distributions which may be made to holders of Instalment Receipts or, following payment of the Final Instalment, to Shareholders; and
- any gains you make if you sell or dispose of your Instalment Receipts or, following payment of the Final Instalment, Shares for a net price that is greater than the price you paid for them (although the market price of your Instalment Receipts or Shares may also decline, making them worth less than you paid for them).

Meridian is legally liable to pay the holder of Shares any dividends or other distributions declared on Shares.

If you sell any of your Instalment Receipts or, following payment of the Final Instalment, Shares, the purchaser of those Instalment Receipts or Shares will be legally liable to pay you the sale price of those Instalment Receipts or Shares.

DIVIDENDS

Dividends and other distributions with respect to the Shares are only made at the discretion of the board of Meridian. The payment of dividends is not guaranteed and Meridian's dividend policy may change. The board's decisions in relation to the level of reserves and retentions may affect any dividends or distributions you receive.

The Trustee is required by the Trust Deed to take Reasonable Steps (see the definition from the Trust Deed in the Glossary) to cause dividends paid by Meridian during the period up to and including the Final Instalment Payment Date to be paid to holders of Instalment Receipts. The Trustee will take Reasonable Steps necessary to, and the Crown has arranged under the Co-ordination Agreement for Meridian to:

- ensure that payments of dividends up to and including the Final Instalment Payment Date will be made directly by Meridian to holders of Instalment Receipts (instead of to the Trustee), as if they were the registered holders of Shares at

their record date for that dividend and otherwise in the same manner, and by the same means, as applies to holders of Meridian shares; and

- take all reasonable steps to confer on holders of Instalment Receipts the benefit of imputation credits, or other tax benefits (if any), as the case may be, attached to any dividends paid by Meridian to the extent permitted under the Tax Act.

DIVIDEND POLICY

Meridian's dividend policy, commencing with respect to FY2014, is to make distributions at a dividend payout ratio within an average, over time, of 70 to 80% of Free Cash Flow, subject to the board's due consideration of:

- Meridian's working capital requirements and its medium-term investment programme;
- a sustainable financial structure for Meridian, recognising the Company's targeted long-term credit rating of BBB+ by S&P;²⁰ and
- the risks from short and medium-term economic, market and catchment hydrology conditions and expected financial performance.

Free Cash Flow is calculated as NPAT adjusted for the post tax impact of fair value movements of derivatives and impairments, plus depreciation and amortisation, less the average level capital cost of maintaining Meridian's asset base and systems (Stay in Business Capital Expenditure).


Dividend payments are expected to be split into an interim dividend paid in April, targeting 40% of the total expected dividend for the financial year, and a final dividend paid in October.

It is the intention of the board to attach imputation credits to dividends to the extent they are available.

The first dividend following the Offer is expected to be paid in April 2014.

The forecast dividend in respect of earnings in FY2014F of 10.5 cents per Share is based on forecast Free Cash Flow in FY2014F and represents a forecast dividend pay-out ratio of 80% of Free Cash Flow.

The forecast dividend in respect of earnings in FY2015F of 11.5 cents per Share is based on forecast Free Cash Flow in FY2015F and represents a forecast dividend pay-out ratio of 80% of Free Cash Flow.

 You can find out more regarding the assumptions and basis of preparation of the prospective financial information in 6.2 Overview of Operational and Financial Information and 6.5 Prospective Financial Information.


Distributions are paid in New Zealand dollars and are subject to New Zealand tax. Under the imputation regime, New Zealand

tax paid by Meridian gives rise to imputation credits that can be attached to dividends paid to holders of Instalment Receipts or Shareholders. New Zealand tax resident holders of Instalment Receipts or Shareholders can use these imputation credits to reduce their income tax liability in respect of that dividend. Resident withholding tax will generally be deducted from any dividend paid to a New Zealand tax resident shareholder at a rate of 33% less the amount of imputation credits attached to the dividend. Resident withholding tax will not be deducted from dividends paid to a New Zealand tax resident holder of Instalment Receipts or Shareholder that holds a valid exemption certificate from resident withholding tax or where Meridian is otherwise satisfied that no deduction is required.

In the future, Meridian expects dividends to be partially imputed in the range of 40% to 75% of the corporate tax rate, depending on hydrological conditions. For the implied gross yields shown in the Key Investment Metrics in 1.3 Offer at a Glance, dividends declared with respect to earnings in FY2014F are forecast to be imputed to 72% of the corporate tax rate and dividends declared with respect to earnings in FY2015F are forecast to be imputed to 73% of the corporate tax rate. There is no guarantee that the actual amount of imputation credits attached to dividends will be the same as that forecast.

Non-resident holders of Instalment Receipts or Shareholders receiving dividends will generally be subject to non-resident withholding tax. The Company generally expects to pay supplementary dividends to non-resident holders of Instalment Receipts or Shareholders pursuant to the foreign investor tax credit regime to reduce or eliminate the economic impact of withholding taxes for those non-residents. To the extent that dividends are not fully imputed, the amount of any supplementary dividends will be reduced on a pro rata basis. The Company will receive from the IRD a tax credit equivalent to the amount of supplementary dividends paid by the Company so there is no disadvantage to holders of Instalment Receipts or Shareholders generally.

Non-resident investors should seek their own advice regarding the consequences of owning Instalment Receipts or Shares in their own jurisdictions.


 You can find out more about the New Zealand taxation implications of an investment in Meridian in 7.4 New Zealand Taxation Implications.

KEY FACTORS THAT DETERMINE RETURNS


No amount of returns is promised. The key factors that will determine your returns (if any) are the market price for Instalment Receipts and Shares and the Meridian board's decisions in relation to dividends or other distributions.

The returns will be affected by Meridian's operational performance and financial results. These in turn will be affected by a range of risk factors relevant to the electricity industry generally and to the Company's business in particular. These risk factors could reduce or eliminate the returns you may receive from owning Instalment Receipts or Shares and your ability to get back some or all of your investment.

20. Meridian's BBB+ long-term corporate credit rating is one notch higher than its standalone credit profile (bbb) to reflect S&P's view of the benefit of its 100% ownership by the Crown. S&P has noted that the one notch higher rating is likely to be maintained while the Crown owns greater than 50% of the Company. Meridian's long-term credit rating remains subject to change. You can find a fuller discussion of Meridian's long-term credit rating under the heading "Risk Management Policy" in 4.2 Board, Management and Corporate Governance.

 You can read a summary of the principal risks under the heading “What are my risks?” below and a more detailed discussion of these and other risk factors is set out in *5 What are the Risks?*

If you sell your Instalment Receipts or, following payment of the Final Instalment, your Shares you may be required to pay brokerage or other sale expenses. Your returns will also be affected by the amount of tax that Meridian is, or you are, required to pay.

 You can find out more about how New Zealand taxation may affect your returns by reading *7.4 New Zealand Taxation Implications*.

10% SHARE LIMIT

No person other than the Crown may have a ‘relevant interest’ in more than 10% of the Shares on issue. If this 10% Limit is breached, a Shareholder will be required to sell Shares to remedy the breach. If a Shareholder fails to do so, the Company may sell the Shares owned by that Shareholder on its behalf. A Shareholder will not be entitled to receive dividends in respect of Shares in which a relevant interest is held over the 10% Limit. If the board determines the breach was not inadvertent, a Shareholder who holds Shares in breach of the 10% Limit will not be entitled to receive dividends on any of its Shares.

As the Instalment Receipts confer a relevant interest in the underlying Shares, this 10% Limit also applies to the Instalment Receipts to the extent that a holding of Instalment Receipts gives rise to an interest in more than 10% of the Shares. The Trust Deed contains provisions that apply in the event of breach of the 10% Limit. These provisions require the sale of Instalment Receipts, allow the Crown to direct the Trustee to sell Instalment Receipts (and for this purpose the Trustee is appointed as agent and attorney for the holder of the Instalment Receipts) and limit the holder’s rights to receive dividends from the underlying Shares represented by those Instalment Receipts.

What are my risks?

You may not be able to get back any or all of your investment and you may not receive the returns you expect. This could be because you are unable to sell your Instalment Receipts or, following payment of the Final Instalment, your Shares for the price you paid for them (or at all) or because dividends or distributions paid on the Shares are less than you expect.

The principal risks that may have an impact on Meridian’s business or financial results, and which could reduce or eliminate the value of your Instalment Receipts or, following payment of the Final Instalment, your Shares or the returns on them, are:

- **Adverse Hydrological Conditions**

Meridian’s hydro generation (comprising approximately 90% of its New Zealand generation) is dependent on the availability

of, and access to, water. One of the principal risks faced by Meridian is the impact of adverse hydrological conditions resulting from dry periods or drought conditions in the catchment areas of the Waitaki or Manapōuri hydro systems. Such conditions may reduce water levels, which would have a negative impact on Meridian’s generation capability. Low levels of storage as a result of low inflows often coincide with high wholesale market prices. If that occurs, Meridian may be forced to purchase electricity from the wholesale market at those high prices to meet its customer commitments at a time when it is generating less electricity to sell into the wholesale market. The financial consequences of the low inflows experienced in 2012 in the Waitaki catchment are an example of this risk. The prospective financial information included in *6.5 Prospective Financial Information* has been prepared on the basis of average outcomes of hydrological conditions. Actual conditions and outcomes experienced during FY2014 and FY2015 are likely to be different. As a result, Meridian’s actual financial performance is likely to differ from that forecast.

- **Labour-Green Proposed Market Reform**

On 18 April 2013, two opposition political parties, the Green Party of Aotearoa New Zealand and the New Zealand Labour Party, announced separate proposals for electricity sector regulatory reform which would involve significant structural changes. While the implementation, timing and final details of these proposals are uncertain, their implementation as currently proposed would have a material adverse effect on Meridian.

- **Other Fuel Security and Supply Risks**

The availability of the fuel (water and wind) that Meridian requires to generate electricity may reduce for a number of other reasons. These may include regulatory changes (including changes in water policy), resource consent conditions or varying wind levels. The cost of that fuel may also increase, for example, as a result of the imposition of charges for the use of water where none currently apply.

- **Power Station Operation**

Meridian’s power stations may not be able to generate the expected amounts of electricity if they cannot operate in the normal manner or at all. This could occur for a wide range of reasons. These may include natural disaster, plant failure, operator error, or resource consents either not being renewed or being renewed with unfavourable changes to conditions.

- **Tiwai Point Aluminium Smelter**

New Zealand Aluminium Smelters (NZAS) is Meridian’s largest customer. Details of the NZAS Agreement are described in *4.2 Business Description* under the heading “NZAS Agreement”. If NZAS closes its Tiwai Point aluminium smelter or significantly reduces its electricity consumption (whether or not it also terminates its agreement with Meridian), Meridian may be adversely impacted. This is because such a closure may result in a reduction in wholesale electricity

prices and in electricity prices generally, and therefore a reduction in Meridian's revenue. In some circumstances, the impact on Meridian is likely to be severe.

- **Wholesale Electricity Prices**

The wholesale price at which Meridian sells the electricity it generates, or buys the electricity it then sells to customers, may be unfavourable. Wholesale electricity pricing is subject to significant variability as a result of a number of factors. These may include hydrological conditions, power station availability, transmission constraints, competitor behaviour, regulatory changes, and wider market demand and supply conditions.

- **Electricity Sales**

The volume and price at which Meridian is able to sell electricity to customers may be adversely affected by the addition of further electricity generation capacity, competitor behaviour, economic conditions, changes in customer demand or regulatory changes. In addition, costs relating to sales to customers may increase as a consequence of regulation.

- **Australian Legislative Change**

On 7 September 2013, Australia elected a new Federal Government. The new Government has declared an intention to repeal the Carbon Price Scheme and to review the Mandatory Renewable Energy Target Scheme (MRET Scheme) in 2014 in accordance with the legislative schedule. Changes to either or both of the above schemes could reduce Meridian's Australian profitability and the value of its Australian wind farms.

- **Other Regulatory Changes**

Changes in the regulatory environment may adversely affect Meridian. These could include changes to the wholesale or retail electricity market, changes to the Emissions Trading Scheme (ETS), changes to the transmission pricing methodology as currently being contemplated, or changes arising from the proposed reforms for freshwater and resource management systems. Also, there could be further regulation of retail electricity prices which are generally not regulated (other than a requirement for a low user tariff).

- **Catastrophic Events**

A single (or multiple) catastrophic event could generate losses significantly greater than Meridian's material damage and business interruption insurance limit which is currently \$900 million.

The value of your investment may also be affected by the following principal risks that are specific to Instalment Receipts:

- **Market Price May Be Less Than Final Price**

On the Final Instalment Payment Date, the market price of the Shares may be less than the Final Price under the Offer or the amount of the Final Instalment.

- **Trading Price of Instalment Receipts**

The partial payment characteristics of the Instalment Receipts may exacerbate percentage price movements in the trading price. In addition, the trading price may be affected by features of the Offer particular to Instalment Receipts.

- **Consequences of Failing to Pay the Final Instalment**

Holders of Instalment Receipts on the Final Instalment Record Date (4 May 2015) will be bound to pay the Final Instalment by the Final Instalment Payment Date (15 May 2015). If a holder of Instalment Receipts fails to pay the Final Instalment then the Shares held by the Trustee in respect of those Instalment Receipts may be sold, in whole or in part, under the Crown's security interest. The proceeds of sale will be applied first towards the default interest and fees, costs and expenses described in 7.2 *Description of Instalment Receipts and Trust Deed* under the headings "Default Interest" and "Fees, Costs and Expenses", and then towards payment of the Final Instalment. Any surplus sale proceeds remaining after these payments have been made will be paid to the holder. Holders of Instalment Receipts remain liable for any shortfall if the proceeds of sale are insufficient to meet the default interest and fees, costs and expenses and the full Final Instalment amount.

All of these factors mean that on the sale of an Instalment Receipt or a Share at any time or on a winding up of Meridian, a holder may receive less than the amount paid in respect of that Instalment Receipt or Share.

These and other risks are more fully described in 5 *What are the Risks?*. You should carefully consider these risks before making your investment decision.

CONSEQUENCES OF INSOLVENCY

If Meridian or the Crown becomes insolvent, you will not become liable to pay any money to any person. However, insolvency of either will not relieve holders of Instalment Receipts from their obligations to the Crown to pay the Final Instalment. If Meridian is liquidated then all claims by its creditors will rank ahead of any entitlement of Shareholders to any distribution. Each Share confers an equal right to participate in any such distribution. Instalment Receipts are not securities of Meridian that would participate directly in the liquidation of Meridian. However, any distribution in respect of Shares represented by Instalment Receipts as part of a liquidation of Meridian would be paid to the Trustee. The Trustee would apply the proceeds of the distribution in accordance with the terms of the Trust Deed. Under the Trust Deed, the Trustee would take Reasonable Steps to pay holders of Instalment Receipts any such proceeds distributed to the Trustee on the Shares represented by their Instalment Receipts unless the Crown's security interest applied following a failure by the holder to pay the Final Instalment. Any distribution, either on Shares or under the Trust Deed, made on liquidation of the Company may be less than the amount of your investment.

Can the investment be altered?

As at the date of this Offer Document, the Final Price has not been set. A Retail Price Cap of \$1.60 per Share will apply to the Final Price payable by New Zealand Applicants who are allocated Instalment Receipts and corresponding Shares in the Retail Offer and who continue to hold their Instalment Receipts until 4 May 2015. The Final Price will be set by the Crown, in its sole discretion, after the conclusion of the bookbuild process. Once set, the Final Price cannot be changed.

The rights attaching to Instalment Receipts are governed by the Trust Deed. The Trustee and the Crown may, by agreement between them, amend the Trust Deed in a broad range of circumstances set out in the Trust Deed. However, no amendment may:

- impair the rights of any holder of Instalment Receipts, by payment of the Final Instalment as provided in the Trust Deed, to receive a transfer of the Shares corresponding to the Instalment Receipts and, pending such transfer, to enjoy its rights and interests in respect of such Shares, subject to the terms of the Trust Deed;
- vary the date for payment, or amount, of the Final Instalment;
- abrogate any right which any holder of Instalment Receipts would otherwise have to receive dividends in respect of the Shares corresponding to the Instalment Receipts;
- abrogate any right which any holder of Instalment Receipts would otherwise have to give voting instructions to the Trustee; or
- in respect of certain provisions, be made without the consent of Meridian.

Subject to these restrictions, changes to the Trust Deed do not generally require the consent of holders.

Holders do not have the right to pay the Final Instalment and receive the underlying Shares early.

Meridian may only amend its Constitution (which sets out the rights attached to Shares) if the amendments are approved by a special resolution of Shareholders. Meridian cannot take any action that affects the rights of any interest group of Shareholders unless the action has been approved by a special resolution of that affected interest group.

A special resolution must be approved by at least 75% of Shareholders entitled to vote and who actually vote on that resolution. Under certain circumstances, if your rights are affected by an action approved by a special resolution, you may require Meridian to purchase your Shares.

How do I cash in my investment?

SALE OF INSTALMENT RECEIPTS AND SHARES

You may cash in your investment by selling your Instalment Receipts or, following commencement of trading in Shares, your Shares. Any sale must be made in accordance with the requirements of the Constitution, the NZX Main Board Listing

Rules, the ASX Listing Rules and any applicable laws. In the case of the Instalment Receipts, any transfer must also be made in accordance with the requirements of the Trust Deed. This provides that, by a transferee becoming a registered holder of an Instalment Receipt, the transferee automatically agrees to be bound by all of the terms of the Trust Deed, including the obligation to pay the Final Instalment.

You may transfer Instalment Receipts by a transfer document in the form prescribed by the Trust Deed or otherwise approved by the Registrar, or by any method of transfer of marketable securities operated in accordance with the requirements of the Constitution, the NZX Main Board Listing Rules, the ASX Listing Rules and any applicable laws, and which is approved by the Registrar.

As at the date of this Offer Document, there is no established market for the Instalment Receipts or Shares. However, in the opinion of Meridian and the Crown, a market for the Instalment Receipts is likely to develop on completion of the Offer and a market for the Shares is likely to develop following commencement of trading in Shares.

APPLICATION TO NZX

Application has been made to NZX for permission to list Meridian and to initially quote the Instalment Receipts and then subsequently the Shares on the NZX Main Board. All of NZX's requirements relating to that application that can be complied with as at the date of this Offer Document have been complied with. However, NZX accepts no responsibility for any statement in this Offer Document. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange regulated under the Securities Markets Act 1988. Initial quotation on the NZX Main Board is expected to occur in respect of Instalment Receipts on 29 October 2013 (on a conditional settlement basis) under the stockcode 'MELCA' and in respect of Shares on 30 April 2015 (on a deferred settlement basis) under the stockcode 'MEL'. Trades of Shares occurring on the NZX Main Board are expected to be on a deferred settlement basis until the Shares are available on the register following their transfer by the Trustee to holders who paid the Final Instalment on the due date.

This means that any holder who sells their Shares on the NZX Main Board (or the ASX) on or before the date that the Shares are available on the register (which is expected to occur on 21 May 2015) will not receive the proceeds of such a sale until after 27 May 2015, being the expected date of settlement of all deferred trades.

To be eligible to trade Instalment Receipts or Shares on the NZX Main Board you must have an account with a NZX Firm, a CSN and an Authorisation Code (FIN). If you do not have an account with a broker you should be aware that opening an account can take a number of days depending on the NZX Firm's new client procedures. If you do not have a CSN you will be automatically assigned one. If you applied online you will also be able to obtain your CSN at www.meridianshares.govt.nz from 25 October 2013 or, if you did not apply online, by calling **0800 90 30 90** from the same date. You will also receive a CSN from the Registrar when

you receive your allotment notice for the Offer (which is expected to be sent on the Allotment Date, after trading has commenced). If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on 24 October 2013. If you have a broker and have not received a FIN by the date you want to trade Instalment Receipts, your broker can arrange to obtain your FIN from the Registrar. Your broker will be charged \$20 for requesting your FIN from the Registrar and may pass this cost on to you.

Trading of the Instalment Receipts on the NZX Main Board is anticipated to commence on 29 October 2013. Initial quotation and trading of Instalment Receipts on the NZX Main Board will be initially on a conditional basis until the Crown has advised NZX that the Shares have been transferred to the Trustee and settlement of the Institutional Offer has occurred, which is expected to be on 30 October 2013. Trading of Instalment Receipts on a normal settlement basis on the NZX Main Board is expected to commence on 31 October 2013.

If the Offer is cancelled during the conditional period, all conditional trades will be cancelled and NZX Firms will be required to refund any purchase money to persons who purchase Instalment Receipts during the conditional period.

APPLICATION TO ASX

Application will be made to ASX after this Offer Document (accompanied by the Additional Australian Information) has been lodged with ASIC for Meridian to be admitted to the official list of the ASX and for the Instalment Receipts to be granted official quotation on the equity securities market operated by ASX. An application will also be made to ASX for quotation of the Shares prior to the expected initial quotation of the Shares on the ASX on 30 April 2015. ASX takes no responsibility for the contents of this Offer Document and the Additional Australian Information or for the merits of the investment to which this Offer Document and the Additional Australian Information relate. Admission to the official list of the ASX and quotation of the Instalment Receipts and the Shares on the ASX are not to be taken as an indication of the merits, or as an endorsement by ASX, of Meridian, the Instalment Receipts or the Shares.

Initial quotation on the ASX is expected to occur in respect of Instalment Receipts on 29 October 2013 (on a conditional and deferred settlement basis) under the stockcode 'MEZCA' and in respect of Shares tradeable from 30 April 2015 (on a deferred settlement basis) under the stockcode 'MEZ'. Trades of Shares occurring on the ASX are expected to be on a deferred settlement basis until the Shares are available on the register following their transfer by the Trustee to holders who paid the Final Instalment on the due date.

FAILURE TO ACHIEVE LISTING

If admission to list Meridian and to quote the Instalment Receipts or the Shares on the NZX Main Board is denied, or the sale of securities under the Offer does not proceed for any other reason, all Application amounts will be refunded in full without interest

no later than five Business Days after announcement of the decision not to proceed. Failure to achieve admission to list on the ASX will not, of itself, prevent the sale of securities under the Offer from proceeding.

FEES AND CHARGES

If you sell your Instalment Receipts or, following commencement of trading in Shares, Shares you will not pay any charges to Meridian or the Crown. If you wish to sell your Instalment Receipts or Shares (after payment of the Final Instalment) on the NZX Main Board after confirming your allocation you must contact a NZX Firm. If you sell your Instalment Receipts or Shares on the NZX Main Board or, if listed on the ASX, on the ASX you may have to pay fees and charges to your broker or other adviser.

PAYMENT OF FINAL INSTALMENT

Persons registered as holders of Instalment Receipts on 4 May 2015 must have paid the Final Instalment in respect of those Instalment Receipts by 5.00pm on 15 May 2015. The last trading date for the Instalment Receipts is expected to be 29 April 2015. Reminder notices will be sent to holders prior to the Final Instalment Payment Date although the accidental omission to send or non-receipt of a reminder notice will not affect a holder's obligation to pay the Final Instalment by the Final Instalment Payment Date.

If a holder does not pay the Final Instalment in respect of its Instalment Receipts when due, then the Trustee (on behalf of and as agent for the Crown) must, unless otherwise directed by the Crown, sell the underlying Shares represented by those Instalment Receipts and the holder will be liable for default interest and fees, costs and expenses as set out in 7.2 *Description of Instalment Receipts and Trust Deed* under the headings "Default Interest" and "Fees, Costs and Expenses".

10% SHARE LIMIT

Instalment Receipts or Shares may also be sold on behalf of a holder of Instalment Receipts or a Shareholder by the Trustee or the Company in the circumstances outlined above under the heading "What Returns Will I Get?" – "10% Share Limit".

SHARE CANCELLATION

In certain circumstances, your Shares could be cancelled by Meridian through a reduction of capital, share buy back or other form of capital reconstruction approved by the board and, where applicable, the Shareholders.

Who do I contact with inquiries about my investment?

If you have any queries about the risk or suitability of an investment in the Instalment Receipts or the Shares you should consult your financial adviser or a NZX Firm.

If you have inquiries about the Instalment Receipts, you should contact:

The Registrar

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road, Takapuna
Auckland 0622
Telephone: +64 (9) 488 8777
Facsimile: +64 (9) 488 8787
Email: enquiry@computershare.co.nz

Or

The New Zealand Trustee

The New Zealand Guardian Trust Company Limited

Level 7, Vero Centre, 48 Shortland Street
Auckland 1010
Telephone: +64 (9) 909 5100
Facsimile: +64 (9) 969 3732
Email: corporateoffice@nzgt.co.nz

Or (for Australian resident holders of Instalment Receipts only)

The Australian Trustee

The Trust Company (Australia) Limited

Level 15, 20 Bond Street
Sydney, New South Wales, 2000
Australia
Telephone: +61 (2) 8295 8100
Facsimile: +61 (2) 8295 8659
Email: trust_compliance_team@thetrustcompany.com.au

If you have inquiries about the Shares, you should contact the Registrar at the address, phone number or email set out above.

Is there anyone to whom I can complain if I have problems with the investment?

If you have complaints about the Instalment Receipts, you should contact the Registrar or the Trustee at the address or phone number set out above. If after the Final Instalment is paid you have complaints about the Shares, you should contact the Registrar at the address or phone number set out above. There is no ombudsman or industry body to which you can make complaints about the Instalment Receipts or the Shares.

There is no approved dispute resolution scheme under which you can make complaints about the Shares. If you are not an Australian resident holder of Instalment Receipts and you have

a complaint about Instalment Receipts which cannot be resolved with the Trustee, you may direct your complaint to:

Financial Services Complaints Limited

Level 4, 101 Lambton Quay
Wellington 6011
Telephone: 0800 347 257 or +64 (4) 472 3725
Facsimile: +64 (4) 472 3728
Email: info@fscl.org.nz

What other information can I obtain about this investment?

OFFER DOCUMENT AND FINANCIAL STATEMENTS

This Offer Document contains or refers to information about the Instalment Receipts, the Shares and Meridian. Meridian's financial statements contain or refer to other information about the Shares and Meridian. You may obtain a copy of Meridian's most recent financial statements, free of charge, at **www.nzx.com**. A copy of the Crown's most recent financial statements can be obtained free of charge from the Treasury website **www.treasury.govt.nz/government/financialstatements**.

The Offer Document, financial statements and other documents relating to Meridian are also filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment and are available for public inspection free of charge, including at **www.business.govt.nz/companies**.

If any significant adverse developments occur (prior to commencement of the bookbuild process, which is part of the process to be used by the Crown to determine the Final Price and the allocation of Shares), the Crown and Meridian may advise investors of those developments by publishing advertisements in newspapers, with additional information on the Offer website **www.meridianshares.govt.nz**, pursuant to an exemption granted by the Financial Markets Authority under the Securities Act.

ANNUAL INFORMATION

If you are a holder of Instalment Receipts or a Shareholder at the relevant record date you will be entitled to receive Meridian's annual report, with audited financial statements, and its half-yearly report. You will either receive this information automatically, or receive notification of your right to request this information.

Meridian is also required to make annual and half-yearly announcements to NZX and, if listed on the ASX, to ASX, and such other announcements as are required by the applicable listing rules. You will be able to obtain this information by searching under Meridian's stockcode 'MELCA' (in respect of Instalment Receipts) or 'MEL' (in respect of Shares) on NZX's website **www.nzx.com** or, if listed on the ASX, 'MEZCA' (in respect of Instalment Receipts) or 'MEZ' (in respect of Shares) on ASX's website **www.asx.com.au**.

ON REQUEST INFORMATION

If you are a holder of Instalment Receipts or a Shareholder, you are also entitled to request copies of the following documents:

- the most recent financial statements of Meridian required to be registered under the Financial Reporting Act 1993, together with a copy of the auditor's report on those statements;
- Meridian's most recent annual report;
- this Offer Document (which is an investment statement and prospectus) and any registered document extending the Offer period;
- each Trust Deed; and
- a comparison of the actual results and returns of Meridian against the prospective financial information and returns in this Offer Document, once available.

This information will be made available to you, free of charge, upon a request in writing being made to Meridian at its registered office as set out in the Directory.

Forward-Looking Statements

This Offer Document contains certain statements that relate to the future, including, in particular, the information set out in *6.5 Prospective Financial Information*. Forward-looking statements should be read together with the other information in this Offer Document, including the risk factors in *5 What are the Risks?* and the assumptions and the sensitivity analysis set out in *6.5 Prospective Financial Information*.

Such forward-looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of the Crown and Meridian and which may cause the actual results, performance or achievements of Meridian to differ materially from those expressed or implied by such statements. The Crown and Meridian disclaim any responsibility to update any such risk factors or publicly announce the results of any revisions to any of the forward-looking statements contained in this Offer Document to reflect developments or events, except to the extent required by the Securities Act or the Securities Regulations or, in the case of Meridian, the NZX Main Board Listing Rules, the ASX Listing Rules or the Financial Reporting Act 1993.

Given these uncertainties, you are cautioned not to place undue reliance on any forward-looking statements contained in this Offer Document. Under no circumstances should you regard the inclusion of forward-looking statements as a representation or warranty by the Crown, Meridian, their respective officers, the directors of Meridian or any other person referred to in this Offer Document with respect to the achievement of the results set out in any such statement, or that the underlying assumptions used will in fact be realised.



West Wind wind farm, Wellington, has 62 turbines and can generate enough electricity each year for about 71,000 average New Zealand homes.



02

Investment Highlights

In this section

Key Strengths of Meridian and
Highlights of the Offer26

Why should you read this section?

It provides you with an overview of the key strengths of Meridian and highlights of the Offer.

Your decision whether or not to invest in Meridian Shares should be based on your consideration of this Offer Document as a whole and not just this section, which provides an overview of the key strengths of Meridian and highlights of the Offer.

As with any investment, there are risks associated with an investment in the Shares. Therefore, in particular you should consider the risk factors that could affect Meridian's performance described under the heading "What are my Risks?" in 1.4 *Answers to Important Questions* and in 5 *What are the Risks?*

References are provided to the relevant sections of this Offer Document where more detailed information on the topics covered in this section can be found.



PAY FOR SHARES IN TWO INSTALMENTS

OVER 18 MONTHS WHILE
RECEIVING IN FULL ANY
DIVIDENDS DECLARED
DURING THAT PERIOD
(INCLUDING ANY
IMPUTATION CREDITS)

FIRST INSTALMENT OF
\$1.00
PER SHARE

PAYABLE ON APPLICATION

FINAL INSTALMENT CAPPED AT
\$0.60
PER SHARE

FOR NEW ZEALAND APPLICANTS IN THE RETAIL OFFER
WHO CONTINUE TO HOLD THEIR INSTALMENT RECEIPTS
UNTIL 4 MAY 2015

Refer to 1.3 Offer at a Glance, 1.4 Answers to Important Questions, 5 What are the Risks?, 6 Financial Information and 7.2 Description of Instalment Receipts and Trust Deed for more information. You should read the selected prospective financial information presented here in conjunction with the assumptions and basis of preparation set out in 6.5 Prospective Financial Information. There is no guarantee that the prospective financial information will be achieved.



Attractive Instalment Receipts Structure

IMPLIED GROSS INSTALMENT YIELD OF

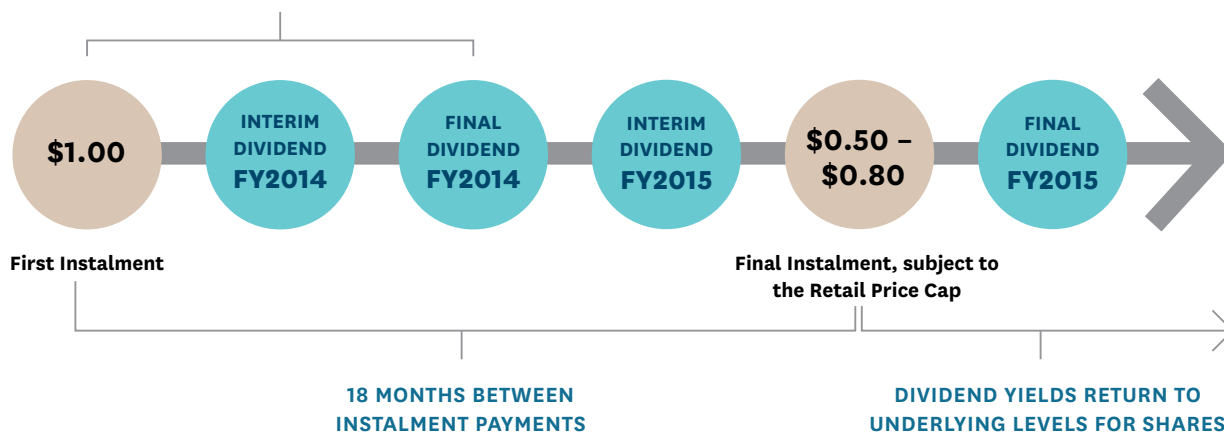
13.4%²¹

FOR THE FIRST 12 MONTHS

BASED ON AN IMPLIED GROSS SHARE DIVIDEND YIELD OF

7.4% - 8.9%²¹

IN 2014F



21. See 1.3 Offer at a Glance under the heading "Key Investment Metrics" for a description of how this is calculated. After the Instalment Receipt period, the dividend yield will return to underlying levels for Shares at the time.



Powering New Zealand

ELECTRICITY – AN

ESSENTIAL SERVICE

UNDERPINNING OUR ECONOMY

NEW ZEALAND'S LARGEST

HYDRO GENERATOR AND
LARGEST WIND FARM OPERATOR²³

NEW ZEALAND'S LARGEST GENERATOR,
PRODUCING APPROXIMATELY

30%

OF THE COUNTRY'S ELECTRICITY²²

OVER

270,000

CONNECTIONS TO
HOMES, FARMS AND BUSINESSES THROUGH
THE MERIDIAN AND POWERSHOP BRANDS²⁴

22. Calculated as the five year average (from FY2009 to FY2013) of Meridian's total generation (GWh) as a proportion of New Zealand's total generation. The Tekapo A and B stations, which were sold to Genesis Energy in June 2011, are excluded from Meridian's stated generation volumes. Generation data sourced from the Electricity Authority.

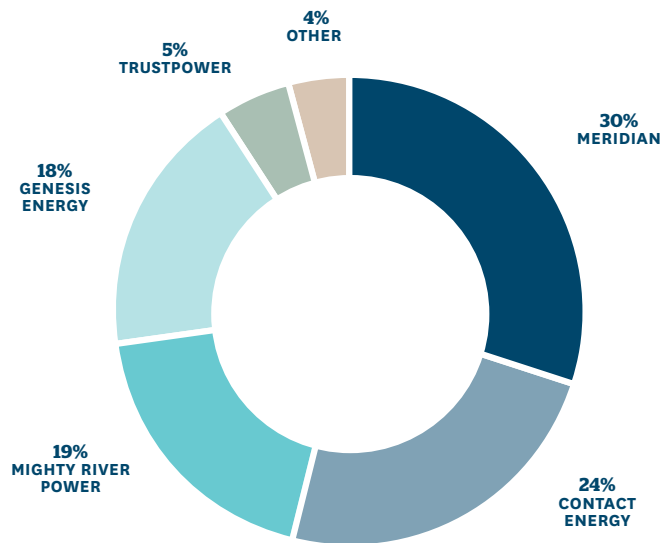
23. Based on the five year averages (from FY2009 to FY2013) of each of Meridian's hydro generation and wind generation (GWh) as a proportion of New Zealand's total hydro generation and wind generation, respectively. Generation data sourced from the Electricity Authority.

24. Based on installation control points (ICPs) per retailer as at 30 June 2013. Data sourced from the Electricity Authority.



Refer to 3 Industry Overview, 4.2 Business Description and 5 What are the Risks? for more information.

Electricity Generation by Company in FY2013



2

Investment Highlights

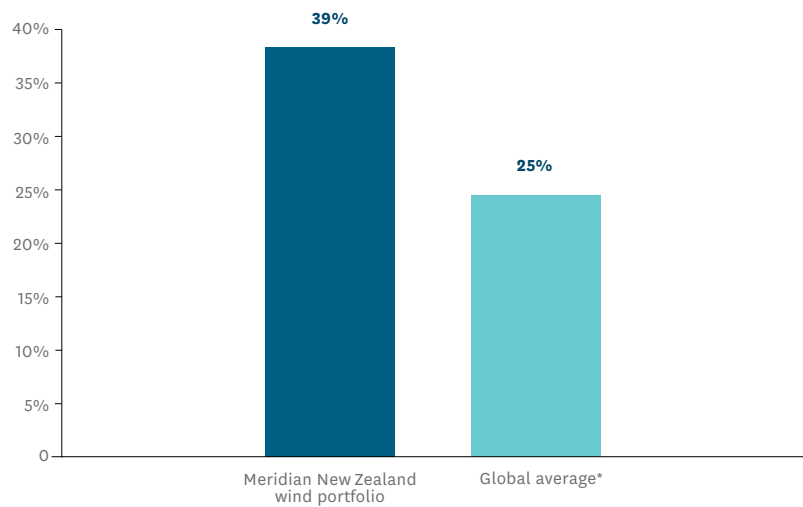
Key Strengths of Meridian and Highlights of the Offer



Meridian Wind Efficiency

Refer to 4.2 Business Description and 5 What are the Risks? for more information.

2012 average capacity factor*



* Based on capacity factor: the ratio of the actual energy produced in a given period, to the hypothetical maximum possible. Each of Meridian's wind farm capacity factors is compared against average capacity factors by country for 2012. Navigant Research, World Market Update 2012.



100% Renewable Energy Generation

GENERATES ELECTRICITY ONLY FROM

RENEWABLE RESOURCES

WIND AND WATER

RECOGNISED AS A

HIGHLY EFFICIENT OPERATOR

OF HYDRO ASSETS WHEN
BENCHMARKED AGAINST GLOBAL PEERS²⁶

OPERATES A WIND FARM PORTFOLIO THAT IS

SIGNIFICANTLY MORE PRODUCTIVE

THAN INTERNATIONAL AVERAGES²⁵

SUCCESSFULLY BUILT

RENEWABLE PROJECTS OFFSHORE

INCLUDING IN AUSTRALIA, ANTARCTICA,
THE UNITED STATES AND TONGA

25. Based on capacity factor: the ratio of the actual energy produced in a given period, to the hypothetical maximum possible. Each of Meridian's New Zealand wind farm capacity factors is compared against average capacity factors by country for 2012. Navigant Research, World Market Update 2012.

26. Based on long run averages calculated by Meridian using data sourced from the GKS (Generation Knowledge Services) Benchmarking Survey, February 2013: a study of 419 stations (representing over 100,000 MW in total) primarily from North America but also with global representation.



Proven Results

HIGH QUALITY ASSETS WITH

LOW OPERATING COSTS

MAJOR REFURBISHMENTS COMPLETED

RECENTLY FOR BENMORE AND MANAPŌURI STATIONS

TRACK RECORD OF INVESTING IN

SUCCESSFUL

RENEWABLE PROJECTS IN AUSTRALIA

COMPLEMENTARY

GENERATION AND RETAIL

OPERATIONS MEAN MERIDIAN CAN BETTER MANAGE VARIABILITY OF EARNINGS

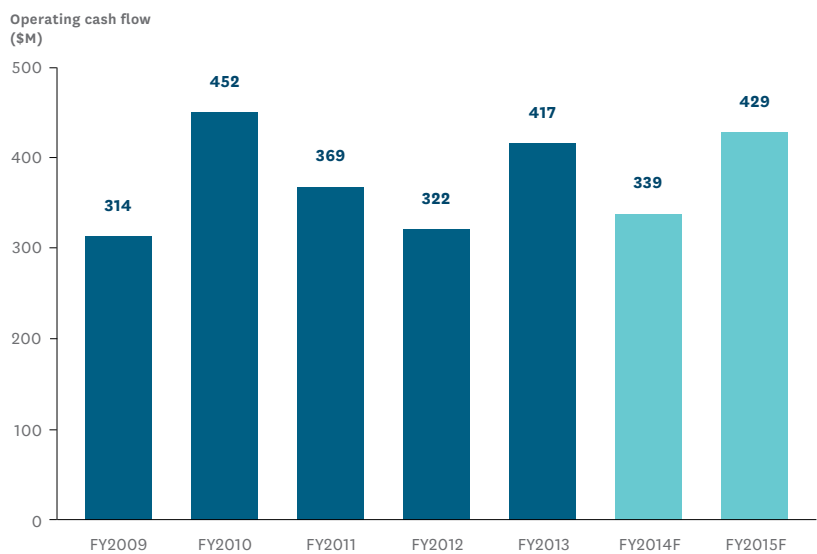
STRONG AND

STABLE OPERATING CASH FLOWS



Refer to 3 Industry Overview, 4.2 Business Description, 5 What are the Risks? and 6 Financial Information for more information. You should read the selected prospective financial information presented here in conjunction with the assumptions and basis of preparation set out in 6.5 Prospective Financial Information. There is no guarantee that the prospective financial information will be achieved.

Meridian Operating Cash Flow



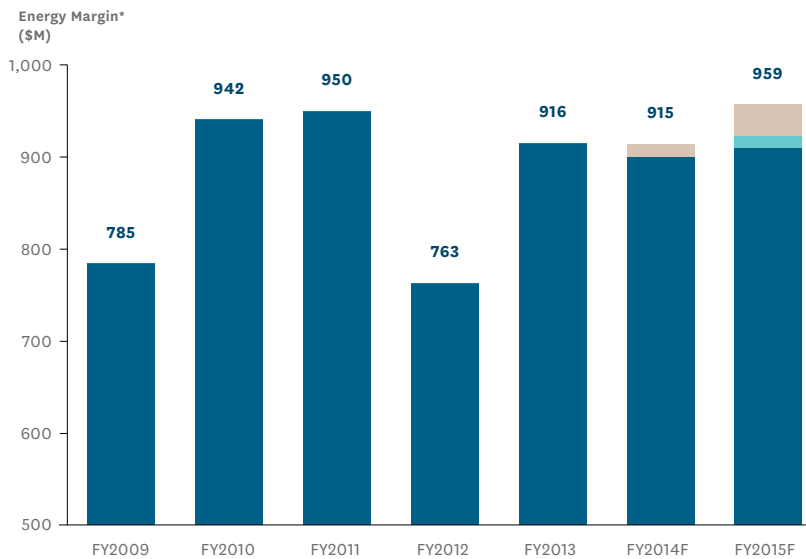
2

Investment Highlights

Key Strengths of Meridian and Highlights of the Offer



Meridian Energy Margin



- Mt Mercer contribution
- Mill Creek contribution

* Energy Margin is a non-GAAP financial measure. You can find an explanation of Energy Margin and why Meridian uses it as a measure of financial performance, as well as a reconciliation of Energy Margin in 6.2 Overview of Operational and Financial Information under the heading "Overview of Certain Non-GAAP Financial Information".



Future Growth

TWO WIND FARMS

UNDER CONSTRUCTION

MILL CREEK

(NEW ZEALAND)
EXPECTED TO COMMENCE OPERATIONS
IN MAY 2014²⁷

MT MERCER

(AUSTRALIA)
EXPECTED TO COMMENCE OPERATIONS
IN NOVEMBER 2013²⁸

PROVEN CAPABILITIES IN

RENEWABLE DEVELOPMENTS

TO FACILITATE GROWTH IN NEW ZEALAND
AND AUSTRALIA WHEN MARKET CONDITIONS
ARE SUPPORTIVE

Refer to 4.2 Business Description, 5 What are the Risks? and 6 Financial Information for more information. You should read the selected prospective financial information presented here in conjunction with the assumptions and basis of preparation set out in 6.5 Prospective Financial Information. There is no guarantee that the prospective financial information will be achieved.

27. First generation in May 2014, with full production occurring in early FY2015.

28. First generation in November 2013, with full production occurring in late FY2014.



Through the Meridian and Powershop brands, Meridian retails electricity to more than 270,000 customer connections.



03

Industry Overview

In this section

3.1	New Zealand	38
	The Electricity Sector	38
	Electricity Market	
	Mechanics	41
	New Zealand Regulatory	
	Framework	42
3.2	Australia	44
	The Electricity Sector	44
	Electricity Market	
	Mechanics	44
	Australian Regulatory	
	Framework	45

Why should you read this section?

You will get an overview of the New Zealand and Australian electricity industries applicable to Meridian, which will assist you to better understand Meridian's business and financial information as well as the risks associated with an investment in Meridian.

This section provides an overview of the New Zealand and Australian electricity industries generally, as they apply to Meridian's activities. How these general features of the industry affect Meridian's business and your investment in Shares is described in *4 About Meridian*, *5 What are the Risks?* and *6 Financial Information*. You should read the industry overview in conjunction with those sections.

This section of the Offer Document contains information which has been sourced from the New Zealand Government and its agencies, including the Electricity Authority, Transpower and the Ministry of Business, Innovation and Employment. Limited information has also been sourced from NZX.

Information has also been sourced from the Australian Government and its agencies including the Australian Department of Resources, Energy and Tourism, Australian Bureau of Statistics, Australian Energy Market Operator, Clean Energy Council, Australian Energy Regulator and Australian Energy Market Commission.

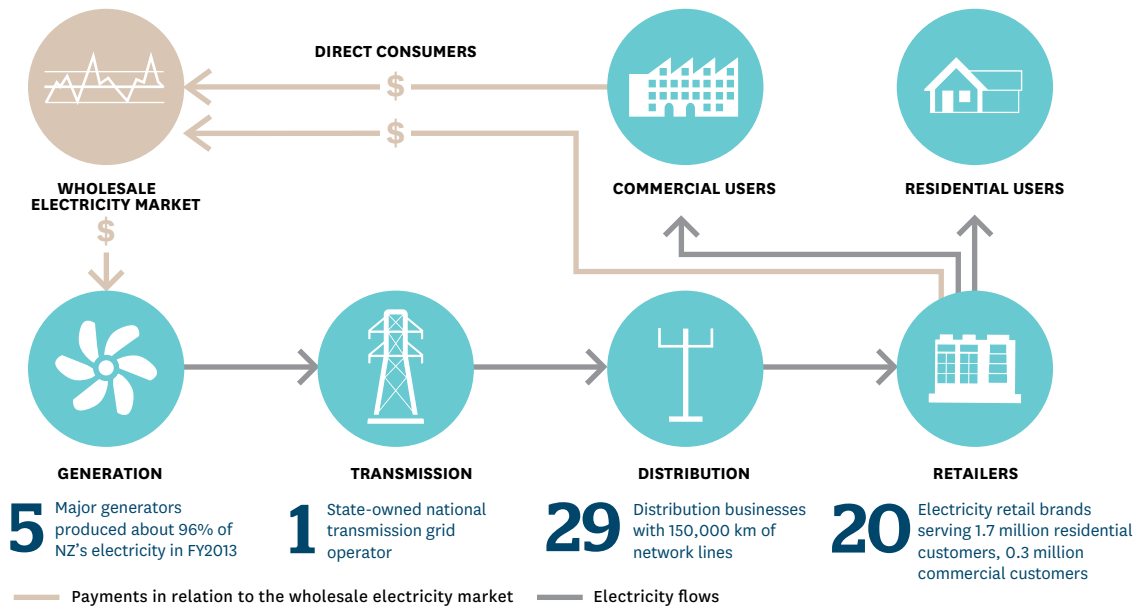
New Zealand

The Electricity Sector

The New Zealand electricity market comprises a number of key participants as set out in the diagram below. New Zealand's total installed electricity generation capacity is approximately 10,000 MW. Peak demand during winter can exceed 6,500 MW and, in 2012, electricity demand was around 37,500 GWh.

Most New Zealand electricity generation and retailing is undertaken by five large, vertically integrated generator/retailers: Meridian; Contact Energy; Genesis Energy; Mighty River Power and TrustPower. Meridian and Genesis Energy are currently 100% Crown-owned companies, while Contact Energy and TrustPower are privately owned and have their shares quoted on the NZX Main Board. Mighty River Power is 53%²⁹ Crown-owned and has its shares quoted on the NZX Main Board and the ASX.

New Zealand Electricity Industry



Generators – generate electricity at power stations throughout the country and sell that electricity to the wholesale spot market.

The National Grid – Transpower, an SOE, is the owner and operator of the national grid which comprises the towers, wires and cables that transport electricity at high voltages from power stations to distribution networks and directly to large industrial users throughout the country. Transpower is also the System Operator, and in this role is responsible for scheduling electricity generation to meet consumer demand and for the maintenance of system voltage and frequency.

Distribution Businesses – own the distribution networks that carry electricity from the national grid to residential, commercial and some industrial users. There are currently 29 businesses that operate distribution networks.

Retailers – buy electricity from the wholesale spot market and on-sell it to end consumers, at market prices determined by each electricity retailer. The five largest retailers had a combined 96% market share by customer numbers (ICPs) as at 30 June 2013.

Regulators – The Electricity Authority oversees the electricity market. A number of other regulatory authorities also have roles (refer to “New Zealand Regulatory Framework” in this section).

²⁹. Including Shares held by managers of the New Zealand Superannuation Fund.

Measuring Electricity

RATES OF GENERATION/CONSUMPTION

MW **Megawatt: 1 MW = 1,000,000 watts**
Enough to light 10,000 x 100 watt light bulbs

GW **Gigawatt: 1 GW = 1,000 megawatts**

AMOUNTS OF GENERATION/CONSUMPTION

MWh **1 MWh = 1 megawatt for 1 hour**
Enough electricity for one average New Zealand household for 46 days

GWh **1 GWh = 1 gigawatt for 1 hour**
Enough electricity for 125 average New Zealand households for one year

GENERATION

New Zealand's electricity is generated from a variety of sources. In the period from January 2010 to December 2012, approximately 74% of total generation was from renewable sources including hydro (56%), geothermal (13%) and wind (4%). Unlike some other countries, New Zealand does not directly subsidise renewable generation.

Other fuel types in New Zealand's generation mix include natural gas (20%) and coal (6%).³⁰ These fuel types are increasingly being used on an 'as required' or 'peaking' basis when supply from other sources is constrained or limited or when demand or wholesale electricity prices are high.

The combination of high dependence on hydro generation and limited water storage capacity across the major hydro systems in New Zealand means that hydrological conditions (higher or lower than average rainfall or snowmelt) can have a significant impact on electricity supply, and therefore wholesale prices.

TRANSMISSION

Transpower operates the national grid, which uses a high voltage direct current (HVDC) link to transfer electricity between the North Island and South Island, and high voltage alternating current (HVAC) to transmit electricity around the rest of the national grid. The HVDC link is currently undergoing an upgrade to improve the grid's ability to transport electricity between the North Island and the South Island. The first part of the upgrade was completed in May 2013, with the commissioning of Pole 3. The remaining upgrade to the control system of Pole 2 is underway and is scheduled for completion in December 2013. The recent investment by Transpower in upgrading the national grid has resulted in significant increases in both HVDC and HVAC transmission charges. Transmission costs, as described below, affect profitability of electricity generators and retailers, and transmission constraints can have a significant impact on wholesale electricity prices.

Transmission network charges are regulated by the transmission pricing methodology. The current methodology has been in place since 1 April 2008 and is designed to allow Transpower to recover the full economic costs of providing the transmission services. Transmission network charges are imposed on generators, distributors and industrial consumers that connect directly to the national grid. All charges associated with the HVDC link

are currently imposed on South Island generators. The majority of HVAC charges are imposed on distributors and industrial consumers that connect directly to the national grid.

TRANSMISSION PRICING METHODOLOGY REVIEW

The transmission pricing methodology determined by the Electricity Authority is currently under review. The Electricity Authority is consulting on methodology changes to determine who will pay for the costs of the transmission network, and the basis for setting transmission charges. The Electricity Authority has issued a proposal which has been the subject of extensive consultation. Under the Electricity Authority's proposal, the way in which transmission charges are calculated and levied would change significantly. The key aspects of the Electricity Authority's current proposal are:

- the introduction of a 'beneficiaries pay' charge regime for the HVAC and HVDC assets which would see changes to the way the charges for these assets are allocated. The key change is that charges for the HVDC link are proposed to be shifted from South Island generators only and allocated to all generators, industrial consumers (that connect directly to the national grid), and distributors or retailers across the country; and
- the introduction of a residual charge for the remainder of the HVAC and HVDC assets that are not recovered by the beneficiaries pay charge. These charges are proposed to be allocated to generators (50%) and industrial consumers (that connect directly to the national grid) and retailers or distributors (50%).

The outcome of this consultation process is uncertain, and it is unclear what if any changes will be made to the transmission pricing methodology and the timing of any changes. Resolving the transmission pricing methodology remains on the Electricity Authority's top ten list of priority market development projects. The Electricity Authority does not expect its second issues paper on this subject to be released prior to the second half of 2014 and does not expect any changes to the transmission pricing methodology would be effective before 1 April 2015.

The potential impact of the Electricity Authority's proposal on Meridian is described in 4.2 Business Description.

30. Each calculated as a percentage of total generation in New Zealand in the period from January 2010 to December 2012.

3.1 Industry Overview New Zealand

DISTRIBUTION

In New Zealand, ownership separation must exist between distribution businesses and generators above certain capacity thresholds.

Because the scope for competition in electricity distribution is limited, the prices that distribution businesses can charge are regulated by the Commerce Commission. Distribution costs (also called lines charges), which comprise fixed and variable components, are generally charged to retailers, which then incorporate the charges into their customer pricing.

RETAILERS

Most New Zealand consumers buy their power from electricity retailers that have purchased electricity from the wholesale market. The retailers generally arrange installation of appropriate metering, meter reading, billing and payment collection, and pay distribution charges in relation to electricity sold to consumers. Retail electricity prices are determined by competition among the nation's electricity retailers and, aside from a requirement to provide an optional low user tariff, are generally not directly regulated.

The typical retail contract is a fixed price variable volume contract which allows consumers to use as much electricity as they want at a fixed price per unit. Retailers generally reserve the right to change the price charged under these contracts and consumers can usually terminate their contracts with minimal notice.

The rate at which customers switch from one retailer to another ("switching") is one indicator of the level of competition in the retail electricity market. In 2011, the Consumer Switching Fund established by the Government began operating the 'What's My Number?' marketing campaign, which promotes the benefits of

comparing and switching electricity retailers, in particular the potential for cost savings for consumers. This campaign may have been a factor in the higher rate of switching that has occurred since 2011, as depicted in the chart below.

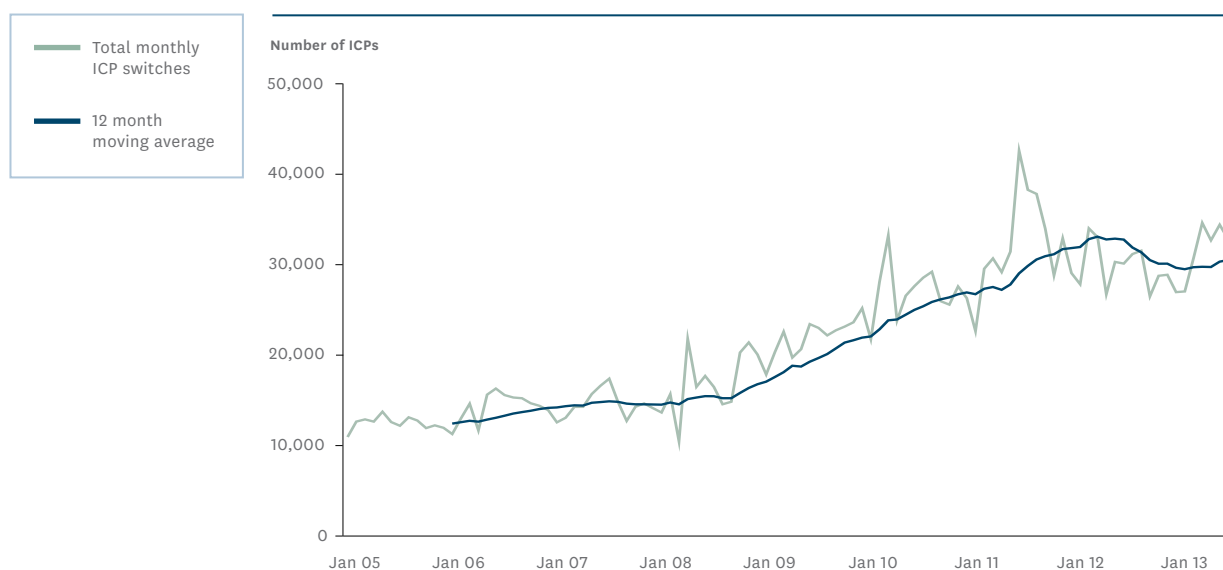
The extent of retail competition varies across New Zealand but almost all electricity consumers have a choice of retailer – more than ten in some areas. Notwithstanding relatively low legislative barriers to entry and the recent increase in switching, the five largest retailers (Meridian, Contact Energy, Genesis Energy, Mighty River Power and TrustPower) had a combined 96% market share by customer numbers (ICPs) as at 30 June 2013.

CONSUMERS

There are approximately two million individual electricity consumer connections in New Zealand. The North Island accounted for 63% of the total electricity consumption in New Zealand in 2012 with the remaining 37% consumed in the South Island.

Residential household demand, driven primarily by water heating, space heating and refrigeration, accounts for approximately 34% of total electricity consumption and 87% by customer numbers (ICPs). The commercial sector (which comprises most New Zealand businesses) accounts for approximately 24% of consumption while the industrial sector (which is made up mostly of large manufacturing businesses) is responsible for approximately 32% of national consumption. The remaining 10% of national consumption is accounted for by the agriculture, forestry, fishing, and food processing sectors. New Zealand Aluminium Smelters (NZAS), the owner of the Tiwai Point aluminium smelter, is the largest single user of electricity in the country (accounting for approximately 13% of national electricity in 2012). Meridian's agreement with NZAS is further described in 4.2 *Business Description*.

Monthly National Consumer Retailer Switching



Electricity consumption follows daily and seasonal patterns. Monthly demand is typically lower in warm months (for example, February) and can increase by more than 30% at peak times during winter (July and August).

Although national electricity consumption increased at an average annual rate of 1.8% in the ten years to 2007, in the period since then consumption has been relatively flat with national demand declining in four of the last five years. This is due to a combination of factors, including poor economic conditions, reduced demand from the Tiwai Point aluminium smelter (which was a substantial contributor to two of the four years of decline), reduced demand in the wake of the 22 February 2011 earthquake in Canterbury and relatively flat demand from large industrial manufacturing. Historically, over the long term residential household demand has generally tended to move in line with population growth and overall electricity demand has tended to move in line with economic growth.

Electricity Market Mechanics

The wholesale electricity market determines the wholesale price each half hour (also called the ‘spot price’) by matching the supply of electricity from generators with demand from users (electricity retailers and some large industrial customers) at various ‘nodes’ (locations where electricity flows into or out of the national grid). The lowest cost combination of generation offers which satisfy demand are accepted. Spot prices for the half hour are normally determined by the highest price within the accepted combination of offers. There is no regulatory cap to the price that can be offered by generators.

The New Zealand electricity companies that are both generators and retailers do not supply their customers with the electricity they generate. Instead, they sell their generation into the wholesale market at the node nearest their power station, and buy electricity to supply their customers at the node nearest the customer’s location. Being on both sides of the wholesale spot market (as sellers and buyers) allows the generation/retail companies to better manage the risk of wholesale spot price variability. For example, if wholesale electricity prices rise, these companies can at least partially offset the increased cost for their retail businesses with the higher wholesale prices they receive from their generation businesses - and vice versa if wholesale prices fall. This is referred to as vertical integration.

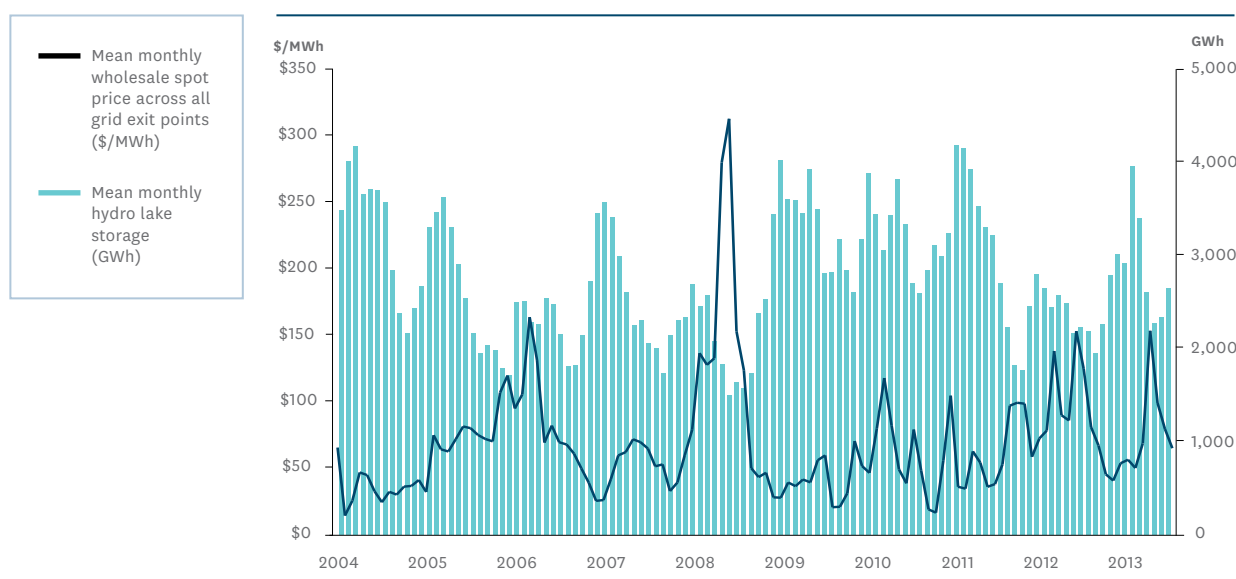
Wholesale electricity prices are typically higher in winter months when demand is higher. However, prices also move in response to other factors such as hydro lake inflows or storage levels, power station or transmission outages and competitor behaviour. Price movements can occur over either short half-hour trading periods or more sustained timeframes.

The graph below shows the sharp spike in the wholesale electricity price which occurred in the winter of 2008 due to low hydro lake storage as a result of lower than average rainfall.

For a discussion of recent wholesale electricity price movements and their impacts on Meridian, refer to 6.3 Analysis of Historical Financial and Operational Performance.

Prices also vary by location, sometimes significantly, depending on the costs of electricity losses and constraints in the transmission of electricity from the point of generation to consumers or as a result of short-term transmission constraints on the flow of electricity through the national grid. This is known as locational or nodal pricing.

Wholesale Electricity Prices and National Hydro Storage



These transmission constraints (both planned and unplanned) can create situations of over supply or under supply in regions throughout the country, leading to either lower or higher wholesale prices in those regions. The HVDC link can experience constraints, which affects supply and prices between the North Island and the South Island (although the recent commissioning of Pole 3 is likely to reduce the scale and frequency of these constraints, as described under the heading “Transmission” above). Transpower’s grid investment programme is designed to address transmission constraints.

ELECTRICITY CONTRACTS

Electricity contracts are generally used to hedge the risk of wholesale electricity price movements or where a company believes it can improve returns or reduce risk by fixing a future electricity price. Generators enter into these contracts with other generators, large industrial consumers and independent retailers (known as ‘over-the-counter’ or OTC contracts), or through the New Zealand Electricity Futures and Options market operated by the ASX. These contracts generally have the effect of either locking in the price at which a retailer or large consumer purchases specified volumes of electricity from the wholesale market (referred to as ‘buy-side’ contracts) or locking in the price at which a generator sells specified volumes of electricity to the wholesale market (referred to as ‘sell-side’ contracts).

THE FREQUENCY KEEPING AND RESERVES MARKETS

Electricity systems must operate within a frequency range to ensure the proper functioning of the system. The actual frequency is constantly changing as demand and supply in the entire system change. In order to maintain the frequency of the electricity system within the target range it is sometimes necessary to inject additional electricity into the system, or remove electricity from the system, at short notice. Transpower contracts with some providers, including generators, to provide this additional electricity and to maintain reserves of generation capacity to enable them to provide frequency keeping electricity on short notice. Generators submit offer prices for these services and Transpower selects the lowest cost provider.


FINANCIAL TRANSMISSION RIGHTS (FTRs)

FTRs are financial contracts based on the difference in the wholesale price between two nodes on the national grid for an amount of electricity transmission for a defined period of time. FTRs provide participants in the wholesale electricity market with a tool for managing exposure to the price differences across the national grid caused by nodal pricing. A market for FTRs between the Benmore node in the South Island and the Ōtāhuhu node in the North Island has been in operation since June 2013. The market is operated by Transpower and currently allocates four different FTR products via monthly auctions. The Electricity Authority recently released a high level consultation paper proposing the introduction of FTRs between nodes within each of the North Island and the South Island. Details regarding specific products and the timing of implementation are not set out in the paper.

New Zealand Regulatory Framework

The New Zealand electricity industry is governed by both general and sector-specific Acts and regulations and by a number of regulatory authorities. The industry went through a period of significant structural reform in the mid to late 1990s. Over this period the wholesale electricity market was established and full separation of distribution businesses from generation and retail businesses was enforced. Contact Energy was spun out of ECNZ, and ECNZ was subsequently separated into three competing state-owned generation/retail companies - Meridian, Genesis Energy and Mighty River Power. Since 1999, a number of changes have been made to facilitate wholesale and retail competition, and to provide greater regulatory oversight of the market and monopoly aspects of the industry.

On 18 April 2013, two opposition political parties, the Green Party of Aotearoa New Zealand and the New Zealand Labour Party, announced separate proposals for electricity sector regulatory reform which would involve significant structural changes.

 See 5 What are the Risks? for further information on the Labour-Green proposed market reform.

RELEVANT NEW ZEALAND INDUSTRY LEGISLATION

Electricity Industry Act 2010	<ul style="list-style-type: none"> • Provides the regulatory framework for the Electricity Authority and its oversight of the electricity industry • Required Meridian to sell Tekapo A and B power stations to Genesis Energy in 2011, and to enter into virtual asset swaps (long-term financial hedge instruments) with Genesis Energy and Mighty River Power
Resource Management Act 1991 (RMA)	<ul style="list-style-type: none"> • Regulates the use of New Zealand’s natural and physical resources • Generally requires that environmental approvals (usually resource consents) be obtained for the use of land, water, air and geothermal fluid and for any major electricity generation projects • Resource consents must meet the RMA’s purpose of promoting the sustainable management of natural and physical resources • Resource consents to utilise water are usually issued for a finite term • Resource consents to utilise wind are not required although the construction of wind farms does require consents and there are likely to be operational conditions, such as noise limits, that extend beyond the construction period • Resource consents are not renewed automatically at expiry and new consents need to be applied for to continue to undertake consented activities on expiry • The Minister for the Environment has the ability under the RMA to issue National Policy Statements (NPS) which provide guidance, and National Environmental Standards (NES), which establish mandatory standards, for regulatory decision-makers. The NPS for Renewable Electricity Generation 2011 (which gives recognition to the benefits of renewable electricity generation), the NPS for Freshwater Management 2011 (which requires regional councils to set quality and quantity limits on freshwater usage, including for hydro generation) and (when introduced) the proposed NES on Ecological Flows and Water Levels (which aims to promote consistency across New Zealand in regulatory decision making on flows and water levels) can influence the issuance of resource consents in the energy sector

RELEVANT NEW ZEALAND INDUSTRY REGULATORY BODIES

Electricity Authority	<ul style="list-style-type: none"> • Independent Crown entity established in 2010 to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers • It does this through market design, overseeing market operations and monitoring and enforcing compliance with market rules • Also develops and administers the Electricity Industry Participation Code
Commerce Commission	<ul style="list-style-type: none"> • An independent Crown entity, established under the Commerce Act 1986 • Enforces legislation to promote competition and consumer protection in New Zealand markets and regulates those industries where effective competition does not exist and is not likely to exist in the future

EMISSIONS TRADING SCHEME (ETS)

The ETS, introduced in 2008, is New Zealand’s primary policy response to climate change. The ETS places a price on emissions, creating an incentive for businesses and consumers to respond to this cost and change their behaviour. Options for businesses include investing in energy efficiency, offsetting emissions through planting trees, or mitigating the financial impacts by purchasing carbon credits.

The stationary energy sector (which includes all fossil fuels used in electricity generation and geothermal energy) has been required to report its emissions since 1 January 2010 and to surrender eligible greenhouse gas emission ‘units’ to the Government since 1 July 2010. A ‘unit’ is effectively a right to emit one tonne of carbon dioxide equivalent of greenhouse gas, and can be purchased on open markets in New Zealand and overseas.

Until full implementation of the ETS, emitters are required to surrender only one unit for every two tonnes of emissions and can buy units from the global or domestic carbon market to meet their surrender obligations, or can meet their surrender obligations by buying New Zealand units from the Government at a fixed price of \$25 per unit. These legislated transitional arrangements have been extended for an indefinite period, subject to a review in 2015.

Australia

The Electricity Sector

The National Electricity Market (NEM) is the major wholesale electricity market in Australia in which six state and territory jurisdictions participate - Queensland, New South Wales, Australian Capital Territory (ACT), Tasmania, South Australia and Victoria.³¹ The NEM has almost five times as many customers as the New Zealand market and nearly five times as much installed generation capacity (48,311 MW). There are similarities between New Zealand and Australia in terms of key roles in the electricity supply chain as described below, but there are significant differences in the mix of generation types, the operation of retail markets and the level and types of regulation.

GENERATION

In the period from January 2006 to June 2013, approximately 90% of total electricity in the NEM was produced by generators burning fossil fuels (coal and gas), although generation from these fuel types has been declining since 2008. During this period, hydro generation accounted for approximately 7% of generation output, with the role of wind generation expanding under climate change policies such as the Mandatory Renewable Energy Target (MRET). In the year ended 30 June 2013, wind generation accounted for approximately 3% of generation output in the NEM.

TRANSMISSION AND DISTRIBUTION

The NEM provides an interconnected transmission network through five separate state-based networks that are linked by cross border interconnectors. These transmission assets are owned by both corporates and state governments. Revenue for transmission networks is regulated and is recovered from distributors who in turn charge retailers.

Within the NEM there are 13 major electricity distributors which are owned by both private companies and state governments. Revenue for distribution networks is regulated and determined based on an assessment of the level of revenue required to cover efficient costs and earn an appropriate return on capital. Distribution costs are recovered from electricity retailers who, in turn, pass these costs through to customers.

RETAILERS

As at October 2012, there were 21 active retailers in the NEM. The number of active retailers in the NEM has increased steadily since the introduction of full retail competition in all jurisdictions except Tasmania. Not all retailers are active in all jurisdictions, with the state profile as at October 2012 as follows: 16 in Victoria; 12 in South Australia; 11 in Queensland; 11 in New South Wales;

2 in ACT and 1 in Tasmania. The NEM has three major privately owned retailers (AGL Energy, Origin Energy Limited and EnergyAustralia Pty Limited) supplying approximately 75% of small electricity customers.³²

CONSUMERS

As at June 2012, there were approximately 9.7 million customers in the NEM and approximately 199,000 GWh of electricity was generated in the year ended 30 June 2012 to meet their demand. Since 2007/08, energy usage in the NEM has declined. This is attributable to a number of factors, including the impacts of subsidised solar photovoltaic technology for residential use, energy efficiency measures, and slowed economic growth combined with higher electricity prices.

MARKET AND SYSTEM OPERATOR

The Australian Energy Market Operator (AEMO) is responsible for the operation of the NEM, including the dispatch of electricity generation to meet consumer demand and financially settling the market. Its functions are prescribed in the National Electricity Law (NEL), while procedures for market operations, power system security, network connection and access, pricing for network services in the NEM and national transmission planning are all prescribed in the National Electricity Rules (NER).

Electricity Market Mechanics

Wholesale electricity trading in the NEM is similar to in New Zealand, in that it is conducted through a wholesale market where supply and demand are simultaneously matched in real-time through a process managed by AEMO.

In order to manage the financial risk associated with wholesale market volatility, participants in the NEM often use a range of contracts (including power purchase agreements) to tighten the range of prices derived from (or paid for) electricity that will be produced (or consumed) at a given time in the future.

The NER set a wholesale market price cap³³ and a market floor price.³⁴ These prices reflect the maximum and minimum prices that generators can bid into the market. The wholesale price cap is also the price that is automatically triggered if AEMO directs a network service provider (whether distribution or transmission) to temporarily suspend supply of electricity to certain customers in the NEM where system security is at risk. In addition to the market price cap, the sum of the spot prices for each half hour interval in a rolling seven day period cannot exceed a cumulative price threshold.³⁵

31. The NEM excludes the Northern Territory and Western Australia due to significant distance between the load centres in those states and the NEM.

32. Residential customers or business customers with consumption that is less than specified consumption thresholds set out in legislation. These consumption thresholds vary between jurisdictions in the NEM.

33. The wholesale spot market price cap is published by the Australian Energy Market Commission (AEMC) and is A\$13,100/MWh for the 2013 to 2014 period.

Australian Regulatory Framework

The Australian electricity industry has recently undergone a period of structural reform. Since June 2005, the NEM has been governed in accordance with the NEL and the NER. In addition to the NEL and the NER, a range of federal, state and local planning laws also apply to electricity projects.

All jurisdictions except Victoria and South Australia currently apply some form of retail price regulation for electricity services. Retail prices are set by state or territory government agencies. Queensland has announced plans to remove electricity price regulation in South-East Queensland by 1 July 2015.

Many NEM jurisdictions continue to regulate retail prices for electricity supplied under a standard retail contract.

RELEVANT AUSTRALIAN INDUSTRY LEGISLATION

National Electricity Law (NEL)

- The NEL is effected through uniform ‘application’ state or territory statutes in each participating jurisdiction of the NEM, for example, the National Electricity (Victoria) Act 2005 in Victoria
- The NEL establishes the governance and enforcement framework and key obligations surrounding the NEM and the regulation of access to electricity networks

and

National Electricity Rules (NER)

- The NEL is supported by the NER, which govern wholesale trading, the operation of the NEM and provide the regulatory framework for electricity networks
- The NER are often changing and being updated. Businesses need to take this into account as changes to the NER may affect the costs of participating in the NEM for generators or retailers

National Energy Customer Framework (NECF)

- The NECF, which includes the NERL, is a single national regime for the sale and supply of electricity and gas by retailers and distributors to retail customers under which consumer protections for energy customers in the NEM are enforced by the AER
- The NECF primarily deals with retailer-customer relationships, distributor interactions with customers and retailers, retailer authorisations and compliance monitoring and reporting, enforcement and performance reporting
- NEM participating jurisdictions are transitioning from state and territory legislative regimes operated by local regulators to the NECF

and

National Energy Retail Law (NERL)

State and Territory Laws

- Each state and territory participating in the NEM also has its own electricity legislative regime, for example, in Victoria, this includes the Electricity Industry Act 2000 which regulates the Victorian electricity supply industry
- State and territory legislation contain separate licensing requirements applicable to retailers (prior to that jurisdiction’s transition to NECF) and generators

RELEVANT AUSTRALIAN INDUSTRY REGULATORY BODIES

Australian Energy Market Operator (AEMO)

- Responsible as the NEM Market Operator and Power System Operator
- The AEMO’s role, as prescribed in the NEL, includes managing the NEM, overseeing the reliability and security of the NEM, directing production of generators during period of supply shortfall, ensuring supply reserves meet reliability standards and overseeing national transmission planning for the electricity transmission grid

Australian Energy Market Commission (AEMC)

- Responsible for maintaining and developing the NER, including managing consultation and decisions on rule changes proposed by others

Australian Energy Regulator (AER)

- The AER does not have a role in setting retail energy prices but does set the prices charged for using energy networks to transport energy to customers
- In jurisdictions where the NECF has commenced, the AER is responsible for regulation of retail energy markets and is responsible for the enforcement and monitoring of compliance with the NERL and the National Electricity Retail Rules
- Additionally, the AER is responsible for the economic regulation of energy networks and monitors wholesale electricity and gas markets to ensure suppliers comply with the legislation and rules, including taking enforcement action where necessary in all NEM participating jurisdictions

34. The market floor price is set in the NER and is a negative amount of A\$-1,000/MWh.

35. The cumulative price threshold is published by the AEMC and is set as A\$197,100 for the 2013 to 2014 period.

CARBON PRICE SCHEME

The Australian Government's scheme comprising a price on carbon dioxide and equivalent emissions took effect on 1 July 2012. Under current legislation, the fixed 'carbon price' will convert to an emissions trading scheme with a floating price in 2015, with links to international markets. On 7 September 2013, Australia elected a new Federal Government. It is a declared policy of the newly elected Federal Government to repeal the Carbon Price Scheme, although this remains subject to some uncertainty in terms of the Government's ability to achieve legislative change and, accordingly, the timing for that legislative change.

The Carbon Price Scheme does not have a direct impact on renewable generators. The additional costs imposed by the Carbon Price Scheme have had the effect of increasing wholesale electricity prices. The impact on renewable energy generators depends on both the wholesale electricity price and the price for Large-scale Generation Certificates (described below). However, an increase in wholesale electricity prices may not directly of itself benefit renewable energy generators. The increased costs of the scheme have been, in general, passed through to retailers and their customers.

MANDATORY RENEWABLE ENERGY TARGET SCHEME (MRET SCHEME)


The Mandatory Renewable Energy Target Scheme (MRET Scheme) has been established to encourage additional generation of electricity from renewable energy sources to meet the Australian Government's commitment to generating a prescribed volume of Australia's electricity supply from renewable energy sources by 2020. The MRET Scheme has provided a strong financial incentive to invest in wind farms in Australia.

Legislation was passed in June 2010 to separate the Renewable Energy Target (RET) into two parts: the Large-scale Renewable Energy Target (LRET) and the small-scale renewable energy scheme. The effect of the separation is that eligible renewable power stations, such as wind farms, no longer have to compete with small-scale technologies in the Renewable Energy Certificate (REC) market. The LRET requires that, by 2020, 41,000 GWh of electricity be sourced from renewable generation each year.

Large-scale Generation Certificates (LGCs) which relate to the LRET are created in the online 'REC Registry' by renewable energy power stations from renewable generation. Entities that make wholesale purchases of electricity (including retailers) are required under the Renewable Energy (Electricity) Act 2000 to purchase LGCs and surrender them to the Clean Energy Regulator on an annual basis. LGCs are usually sold through the open LGC market to liable entities, where price varies according to supply and demand.

Renewable generators such as wind farm operators can generate additional revenue by selling LGCs to wholesale purchasers of electricity. There is an established spot and forward over-the-counter market for the trading of LGCs.

The Federal Government has declared an intention to review the MRET Scheme in 2014 in accordance with the legislative schedule.

 See 5 *What are the Risks?* under the heading "Other Legislative and Regulatory Risks" for information on potential changes to the Carbon Price Scheme and/or the MRET Scheme, including the effect of these changes on Meridian.

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Ōhau A hydro power station generates enough electricity for about 143,000 average New Zealand homes.



04

About Meridian

In this section

Why should you read this section?

4.1 Meridian at a Glance	50
4.2 Business Description	51
4.3 Board, Management and Corporate Governance	66
4.4 Relationship between Meridian and the Crown.....	76
4.5 Independent Engineer's Report	83

You will find out information about Meridian's business, management and assets, including an independent engineer's report on Meridian's generation assets. You will also find out information about Meridian's current and continuing relationship with the Crown.

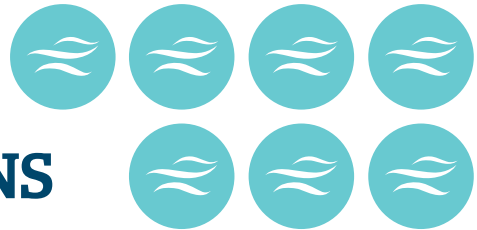
Meridian at a Glance

100% RENEWABLE ENERGY GENERATION



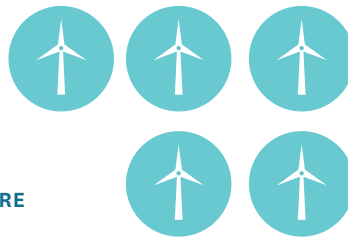
7 HYDRO POWER STATIONS

IN NEW ZEALAND



5 WIND FARMS

IN NEW ZEALAND AND AUSTRALIA, AND TWO MORE UNDER CONSTRUCTION



NEW ZEALAND'S LARGEST GENERATOR, PRODUCING APPROXIMATELY

30%

OF THE COUNTRY'S ELECTRICITY³⁶



RENEWABLE PROJECTS BUILT IN

**AUSTRALIA,
ANTARTICA,
UNITED STATES
AND TONGA**

OVER

270,000

CONNECTIONS TO HOMES, FARMS & BUSINESSES



THROUGH THE MERIDIAN AND POWERSHOP BRANDS³⁷

Business Description

Overview and Strategy

Meridian commenced operations in 1999 when the Crown separated ECNZ into three SOEs. The Company's strategy is to operate as an efficient, vertically integrated electricity generation and retail company. As a generator and retailer, Meridian relies on third parties for the transmission and distribution of electricity.

The key elements of Meridian's business are:

- a portfolio of efficient and reliable electricity generation assets;
- a high performing retail business operating under two retail brands;
- sophisticated risk management systems to mitigate the risk of adverse hydrological conditions (resulting from extended dry periods or drought conditions) and volatile wholesale electricity prices; and
- proven capabilities in renewable development to assist growth in New Zealand and Australia when market conditions are supportive.

Meridian generates electricity from 100% renewable resources. The Company owns and operates New Zealand's largest portfolio of hydro and wind generation assets and has made significant investments to maintain and enhance these assets over the long term. Meridian generates about 30% of New Zealand's electricity³⁶ from seven hydro and four wind facilities, with a fifth under construction. With a large part of the Company's generation assets located in the South Island, Meridian understands the importance of ongoing engagement with iwi, particularly Ngāi Tahu (the largest iwi in the South Island) with which Meridian has a strong working relationship. In Australia, Meridian owns and operates one wind farm in South Australia with a second wind farm under construction in Victoria.

Meridian's generation and retail portfolio is carefully managed to reduce earnings volatility that can arise from adverse hydrological conditions. The Company also utilises risk management tools (such as financial contracts tied to the wholesale electricity price) to reduce its exposure to such adverse hydrological conditions.

Meridian has over 270,000 customers (by ICPs)³⁷ across its two brands, Meridian and Powershop. Meridian's largest customer is the NZAS aluminium smelter at Tiwai Point, which consumed the equivalent of 41% of Meridian's total electricity generation in the five year period ended 30 June 2013. The Company's remaining customer sales are in the industrial, agricultural, business and residential sectors. Meridian Retail provides electricity to many customer segments in New Zealand with particular expertise in the agricultural sector, whilst Powershop provides an online service to business and residential customers. Both brands are focussed on reducing cost from the retail supply chain, providing market-leading customer service and utilising smart metering to further enhance efficient, online customer service.

Having developed the largest portfolio of wind farms in New Zealand and having successfully developed and managed wind farms in Australia (including, in partnership with AGL Energy, the largest wind farm in the Southern Hemisphere) Meridian is seeking opportunities in the Australian market to apply its expertise in renewable development.

36. Calculated as the five year average (from FY2009 to FY2013) of Meridian's total generation (GWh) as a proportion of New Zealand's total generation. The Tekapo A and B stations, which were sold to Genesis Energy in June 2011, are excluded from Meridian's stated generation volumes. Generation data sourced from the Electricity Authority.

37. Based on ICP data sourced from the Electricity Authority.

Business Structure

Meridian is a vertically integrated energy company, comprising four areas of operation.

Markets and Production

- Operating and maintaining renewable (hydro and wind) power stations
- Offering generation, frequency keeping and instantaneous reserves to the wholesale electricity market
- Purchasing electricity from the wholesale market to supply its Meridian Retail and Powershop customers
- Managing Meridian's financial exposure to the wholesale electricity market by entering into financial contracts with other electricity generators and users of electricity
- Developing a pipeline of renewable generation options
- Managing the procurement and construction of current and new renewable projects
- Maintaining an ongoing relationship with the communities in which Meridian operates

Retail

- Marketing and selling electricity to industrial, agricultural, business and residential customers through the Meridian and Powershop brands
- Managing electricity sales volumes and customer mix to maximise value within risk management guidelines
- Providing meters and meter data services to Meridian's own customers and to the customers of other electricity retailers through its subsidiary Arc Innovations

Corporate

- Finance
- Strategy
- Human resources
- Information and communications technologies
- Legal and corporate governance services
- Risk assurance
- External relations, brand and communications
- Regulatory and policy
- Managing consenting and consent conditions

Australia

- Operating and maintaining Meridian's wind assets in Australia
- Offering generation to the wholesale electricity market in Australia
- Managing Meridian's financial exposure to the wholesale electricity market in Australia by entering into financial contracts with other generators and users of electricity
- Developing a pipeline of renewable generation options
- Managing the procurement and construction of current and new renewable projects
- Marketing and selling electricity to customers through the Powershop brand

New Zealand Generation

Meridian is New Zealand’s largest electricity generator and has a 100% renewable generation platform.

The Company owns and operates seven hydro stations and one wind farm in the South Island, and three wind farms in the North Island. Meridian generated about 30%³⁸ of the total electricity produced in New Zealand in the five year period ended 30 June 2013.

Having complementary hydro and wind technologies provides increased flexibility and resilience in electricity generation and enables Meridian to better respond to variations in prices and conditions. Both types of generating assets have low operating costs and, typically, long operating lives.

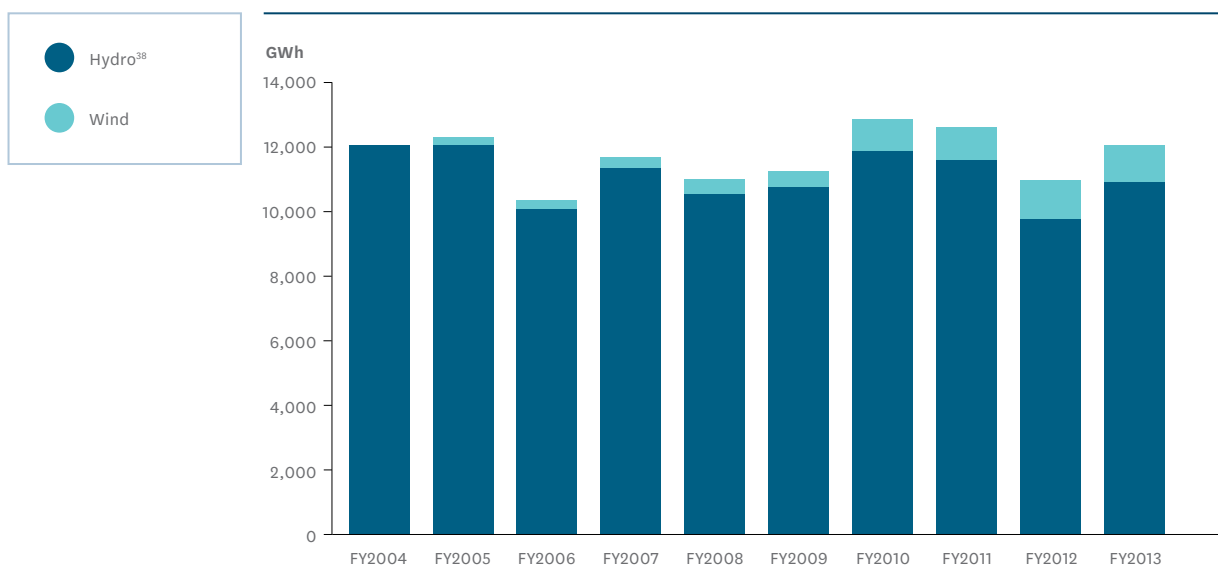
Meridian has made significant investments in its in-house hydro asset management capability and in its hydro assets to ensure they operate reliably and efficiently. Meridian has recently completed significant capital upgrades of the generation plant at its two largest stations, Manapōuri and Benmore, and is currently underway with major refurbishment works at its Waitaki station.

Meridian’s hydro assets were benchmarked internationally in a study published in 2013 of 419 hydro power stations conducted by GKS (Generation Knowledge Services) Hydro. Based on long run averages calculated from data sourced from the GKS study, Meridian believes that Manapōuri power station ranked in the top three of the large hydro category for operational efficiency and the Waitaki hydro scheme ranked in the top 25% of the medium hydro category.

Meridian’s New Zealand hydro and wind generation assets are controlled from Meridian’s head office in Wellington where weather conditions, hydro inflows, lake levels, wind speeds, generation output and wholesale market conditions are continuously monitored. Meridian’s generation control system is currently being upgraded. All of Meridian’s generation assets can also be controlled from Meridian’s Twizel office if necessary and, in the event of total generation control system failure, each generation asset can be operated from the respective hydro station or wind farm.

[▶ You can find out more about the condition and maintenance of Meridian’s generation assets in 4.5 Independent Engineer’s Report.](#)

Meridian Generation



38. The Tekapo A and B stations, which were sold to Genesis Energy in June 2011, are excluded from Meridian’s stated generation volumes.

Hydro Generation

Hydro power stations generate electricity by releasing water stored behind a dam and passing it through turbines that are directly coupled to generators. This means that the amount of electricity generated by a hydro power station is dependent on hydro inflows from rainfall, snowmelt and lake storage levels.

Some key terms used in this section to describe Meridian's hydro power schemes are **capacity**, **production** and **storage**.

CAPACITY

A hydro station comprises one or more generation units (or turbines), each of which has a capacity. Capacity is a measure of the maximum rate at which energy in the form of electricity can be generated by the station and is expressed in MW.

PRODUCTION

The production of a hydro station (expressed in GWh) describes the total amount of electricity generated by the station over a particular period. The production of a hydro power station is determined by its capacity and the availability of water for generation.

STORAGE

Storage relates to the amount of water in the catchment (ie the lakes and rivers) for the relevant hydro scheme and can be expressed in terms of a volume of water (cubic meters) or the equivalent potential energy generation of that water (GWh). When expressed in energy terms (GWh), it reflects the generation potential of passing that stored water through a hydro power station or chain of hydro power stations.

Meridian's hydro power stations are long life assets with low operating costs. Since 2003, annual generation from Meridian's hydro assets has ranged between 9,790 GWh (in FY2012) and 12,095 GWh (in FY2005).³⁹ The main cause of fluctuating annual generation is the variability of inflows into the storage lakes for Meridian's hydro schemes. Like most New Zealand hydro power schemes, Meridian's hydro stations have constrained storage capacity as a result of lake sizes and operating regulations regarding lake levels and minimum flow requirements for rivers. Meridian's hydro schemes have a combined maximum storage equivalent to approximately 2,200 GWh of generation, which amounts to approximately 48% of New Zealand's total hydro storage for electricity generation.

WAITAKI HYDRO SCHEME

Meridian's six hydro stations in the Waitaki hydro scheme operate as a linked chain of generation stations. Genesis Energy's Tekapo A and B power stations are at the head of the chain and are followed by Meridian's Ōhau A, B and C, Benmore, Avimore and Waitaki power stations. In the five year period ended 30 June 2013, Meridian's stations within the Waitaki hydro scheme accounted for approximately 53% of Meridian's total energy generation.

The Waitaki hydro scheme has two primary storage lakes – Lake Tekapo and Lake Pūkaki. Genesis Energy manages Lake Tekapo and the water released from this lake for hydro generation flows through the Tekapo A and B power stations into Lake Pūkaki, providing approximately 45% of the inflows into Lake Pūkaki. Meridian manages Lake Pūkaki, New Zealand's largest hydro storage lake, which provides approximately 37% of New Zealand's total hydro electricity storage. Meridian's operation of Lake Pūkaki as the largest single hydro storage reservoir in the country is critical to how the Company, and the overall electricity sector, manages the risk of adverse hydrological conditions resulting from dry periods or drought conditions.

In 2011, Meridian sold the Tekapo A and B power stations to Genesis Energy as a requirement of the Government's electricity industry reforms. A water management agreement between Meridian and Genesis Energy is in place to 2025, and provides guidelines for operations designed to ensure the water is managed appropriately, including the management of high or low inflows through the scheme.

A key feature of the Waitaki hydro scheme is its ability to meet daily peaks in electricity usage. With the largest storage reservoirs in the country and highly flexible plant, electricity output can be increased or decreased quickly in response to such peaks and to wholesale market conditions.

A change to the Waitaki Catchment Water Allocation Regional Plan in October 2012 now allows Meridian to use up to 545 GWh of additional stored water from Lake Pūkaki at times when Transpower has declared a 'public savings' campaign to conserve electricity. Meridian is currently undertaking engineering work to assess how much of the additional stored water can be accessed operationally. While engineering assessments are still being completed, Meridian is confident, from an engineering and operational perspective, that up to 178 GWh of this additional stored water can be accessed from September 2014 onwards with certain operational flow constraints. Accessing the remaining 367 GWh is likely to be subject to certain engineering and operational flow constraints.

The main consents for the Waitaki hydro power scheme are not due to expire until 2025.

39. The Tekapo A and B stations, which were sold to Genesis Energy in June 2011, are excluded from these generation figures.

MANAPŌURI HYDRO STATION

Manapōuri is the largest hydro power station in New Zealand with a capacity of 800 MW.⁴⁰ It is located on the edge of Lake Manapōuri's west arm in the Fiordland National Park, in the lower South Island. The Manapōuri catchment receives the highest average rainfall of all hydro catchments in New Zealand. The power station generated an average of 4,626 GWh each year in the five year period ended 30 June 2013, or approximately 39% of Meridian's total energy generation in that period.

Construction of Manapōuri began in 1964 and the station was fully operational in 1972. It was built to supply electricity to the Tiwai Point aluminium smelter. The capacity and efficiency of Manapōuri was improved with the construction of a second tail race tunnel in 2002. Since then all seven generators have undergone a major electrical and mechanical refurbishment.

If the Tiwai Point aluminium smelter were to close, the current transmission system operated by Transpower has the capacity to allow Meridian to supply the majority of Manapōuri's generation

capacity to the national grid and the wholesale electricity market. Transpower has advised that the transmission network between Manapōuri and the rest of the South Island could be upgraded and it expects such an upgrade to take three years to implement from commencement of the project. In Meridian's opinion, under normal market conditions this upgrade would allow Meridian to supply a significant majority of Manapōuri's generation capacity to the national grid.

You can find out more about how these transmission constraints may affect Meridian if the Tiwai Point aluminium smelter were to close in 5 *What are the Risks?* under the heading "Tiwai Point Aluminium Smelter".

The main consents for the Manapōuri hydro system are not due to expire until 2031.

WATER RIGHTS

Meridian relies on a framework of legal titles to land, statutory rights, operating easements and resource consents to authorise its activities in respect of the Waitaki hydro scheme and the Manapōuri power station.

The Government is in the process of reviewing and reforming the legislation and regulations which govern freshwater management in New Zealand. These reforms may impact on regional plans that cover Meridian's hydro schemes.

On 9 March 2013, Ministers released a paper "Freshwater Reform: 2013 and beyond", containing proposals for a series of reforms for freshwater management. These reforms are based on the recommendations of the Land and Water Forum, a collaborative stakeholder group comprising representation from a broad range of stakeholders with interests in freshwater. The Land and Water Forum's recommendations included:

- the need for a National Policy Statement (the government introduced a National Policy Statement for Freshwater Management in 2011);
- a more comprehensive role for iwi in water management;
- a continued role for regional policy and decision making;
- an alternative collaborative regional planning process;
- a national objectives framework within which regional councils set freshwater objectives and limits at a catchment level; and
- methods to manage within water limits, including allocation.

On 10 July 2013, the Government announced that the first stage of the freshwater reforms had been finalised.

These reforms include the development of a national objectives framework for freshwater management and a new collaborative planning option (as an alternative approach within the present RMA planning framework) allowing for groups of stakeholders to develop consensus recommendations which will form the basis for drafting of regional plans. The Government has also reiterated its commitment to increasing the involvement of iwi/Māori in freshwater planning and clarifying provisions for iwi/Māori views to be explicitly considered before planning decisions on fresh water are made. Changes to accounting requirements for freshwater takes and discharges will also be introduced as part of these foundation measures.

The March 2013 proposals paper outlined a number of next steps in water reforms, to be pursued in further stages of the reforms. These next steps include further reforms to managing within quality and quantity limits for fresh water. Matters such as tools for allocation and managing over-allocation, consenting of water takes and incentives for efficient water use (such as pricing or standards) will be considered in these next stages of reform.

Meridian is monitoring these processes and will continue to monitor the Government's water reform package.

Changes to the management of freshwater in New Zealand may adversely affect Meridian to the extent that such changes impose restrictions, conditions or additional costs on the Company's hydro generation activities. As these new policy settings are still being developed by the Government, it is not possible to quantify their potential impacts on Meridian or on the New Zealand electricity sector generally.

40. While the actual capacity of Manapōuri is 850 MW, Meridian can only operate the station to a maximum of 800 MW to manage resource consents.

Wind Generation

Meridian is New Zealand's largest wind generator, currently owning and operating four New Zealand wind farms. With a fifth station, Mill Creek (near Wellington), due to start generating electricity in 2014, Meridian's New Zealand portfolio of wind will reach 416 MW (expected to represent 61% of New Zealand's wind generation capacity). Wind power has added an important element of diversity of generation and earnings to Meridian's renewable generation mix, and has provided a source of significant growth for the Company in New Zealand and Australia since its establishment in 1999.

Wind is becoming an increasingly important part of New Zealand's energy mix. This is demonstrated by the

investment in wind generation across the country which now totals more than 620 MW, producing about 4% of New Zealand's electricity needs.

New Zealand has some of the highest average wind speeds for wind generation in the world. This means that New Zealand wind farms, including those owned and operated by Meridian, generally outperform those in Australia, Europe and much of the United States in terms of their production efficiency.

Meridian's wind farms are located in Southland, Wellington, Manawatū and Waikato. This geographical spread means that all stations are subject to different local wind conditions and different distribution and transmission risks.

Australian and other International Generation

Australia

Since its initial entry into Australia in 2001, Meridian has considered Australia as the most attractive market to export its capabilities in wind power development. Australia currently has regulatory mechanisms in place that support renewable development as described in *3 Industry Overview*. LGCs (as described in *3 Industry Overview*) are a significant source of Meridian's revenue in Australia.

In 2001, Meridian acquired the Power Facilities plant comprising a number of NSW hydro stations. Meridian then acquired Southern Hydro, a Victorian hydro power generator, in 2003 and amalgamated the acquired assets with the Power Facilities plant to form the group known as the 'Southern Hydro Group'. Meridian further developed the Southern Hydro Group and sold it in 2005 for a gain on sale of approximately \$625 million.

Meridian currently owns and operates the Mt Millar wind farm in South Australia, approximately 100km south-west of Whyalla on the Eyre Peninsula. Mt Millar was commissioned in 2006 and Meridian purchased the wind farm from the Transfield Services Infrastructure Fund in 2010.

Meridian is currently constructing Mt Mercer wind farm near Ballarat in Victoria. Scheduled for completion in 2014, Mt Mercer will have a capacity of 131 MW, bringing Meridian's total operating portfolio in Australia to 201 MW.

Meridian's Australian business operates out of its offices in Melbourne. It has its own subsidiary board which includes the Meridian Chief Executive and Chief Financial Officer, and two independent directors (including the subsidiary board chair). This gives additional in-market knowledge to complement the corporate support and oversight provided from New Zealand.

DEVELOPMENT AND SALE OF THE MACARTHUR WIND FARM

In 2010 Meridian entered into a 50:50 joint venture with AGL Energy to build the 420 MW Macarthur wind farm, situated near Hamilton, 245km west of Melbourne, Australia. Meridian funded its portion of the A\$1 billion project with an award-winning project finance arrangement and the overall project provided a strong foundation for the re-establishment of Meridian in Australia. Macarthur was fully commissioned in early 2013 and is the biggest wind farm in the Southern Hemisphere.

In June 2013 Meridian announced that it had sold its interest in Macarthur to Malakoff Corporation Berhad, a Malaysian power generator and retailer. The sale generated a profit before tax of \$101.4 million for the Company. While Meridian's intention was to retain its investment in Macarthur long term, the low interest rate environment and the opportunity to invest in other renewable generation in Australia proved a compelling reason to proceed with the sale.

Meridian's investment in the Macarthur wind farm generated a strong return on investment and provided the Company with valuable offshore experience and the opportunity to invest in other Australian renewable generation.

United States

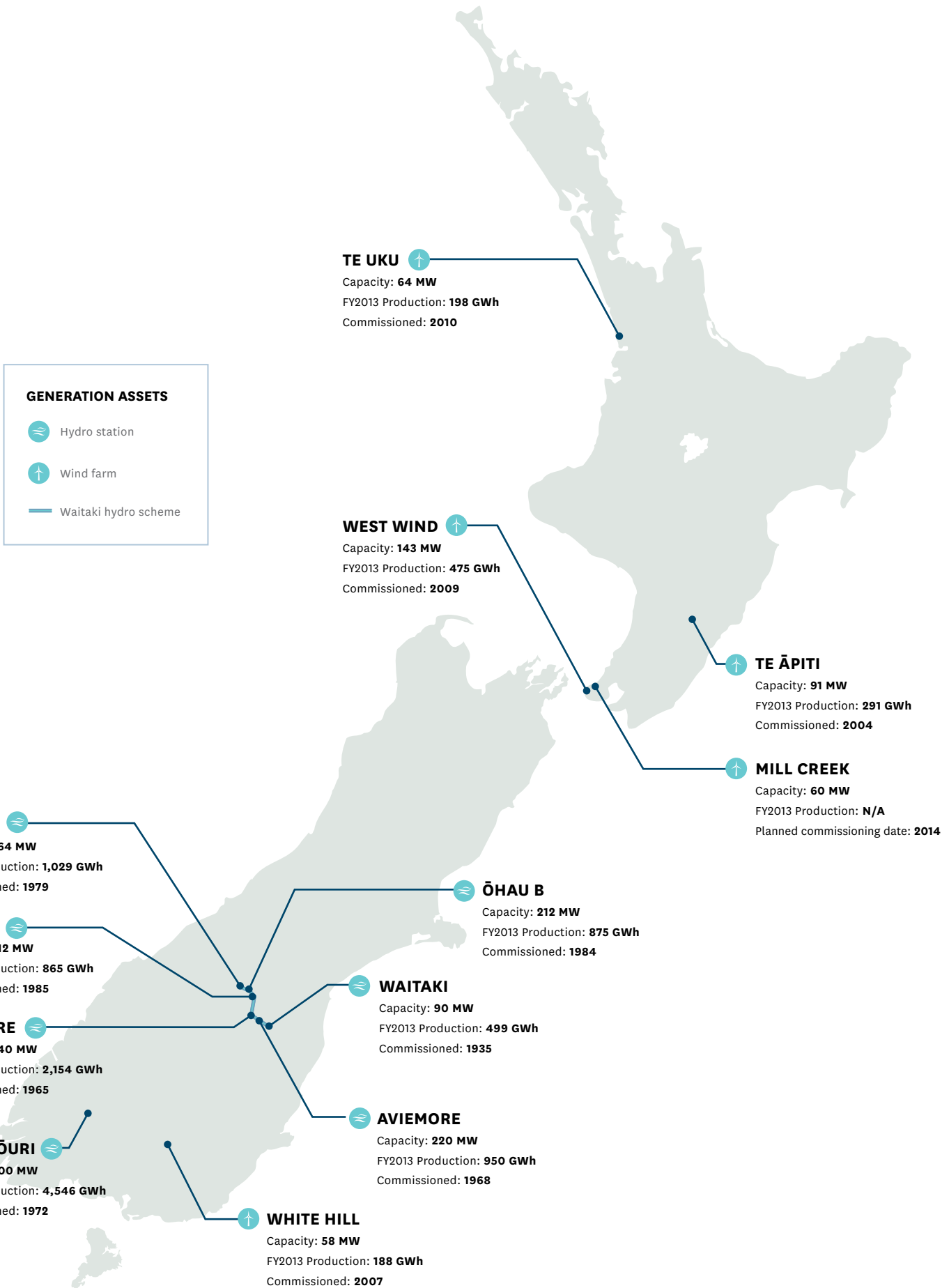
Meridian subsidiary Meridian USA is based in Pleasanton in the wider San Francisco Bay Area. Meridian USA operates CalRENEW-1, a 5 MW solar photovoltaic farm, and is three years into a 20 year contract with Pacific Gas and Electric Company which purchases all of its electricity generated at rates set out in a power purchase agreement. Meridian is currently evaluating its sale options in the United States and intends to make an exit from that market.

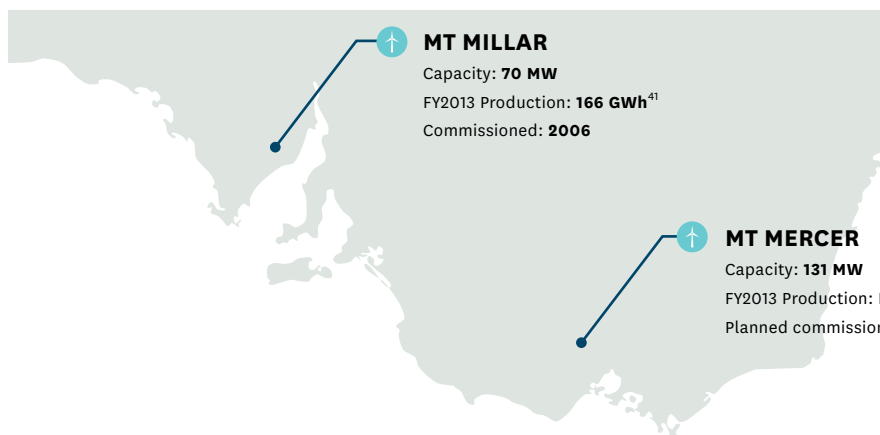
Ross Island, Antarctica

In 2010, Meridian, in partnership with the New Zealand Antarctic Institute (NZAI), completed the design construction and commissioning of a 1 MW wind farm on Ross Island in Antarctica. Using its expertise and experience in wind power, along with logistics and operations support from NZAI and the United States Antarctic Program, Meridian demonstrated its ability to deliver a logistically difficult renewable project in a remote part of the world. The wind farm on Ross Island is now owned and operated by NZAI with Meridian providing asset management support.

Tonga

In 2012, Meridian, in partnership with Tonga Power and the Governments of New Zealand and Tonga, commissioned the 1 MW Maama Mai solar facility on the island of Tongatapu in Tonga. Meridian will retain ownership of the plant under the terms of a finance lease until 2017 at which time the asset will be transferred to Tonga Power. Meridian will continue to provide asset management and advisory support services until the asset is transferred.





Land Tenure Information

TE UKU

Te Uku wind farm is situated on land owned by third parties. Meridian has the benefit of a number of easements which give the Company the right to construct, operate and maintain the wind farm on the third party land. The easements are not due to expire until 28 February 2051.

TE ĀPITI

Te Āpiti wind farm is located in part on freehold land owned by Meridian and in part on land owned by third parties. Pursuant to Wind Farm Development Agreements, Meridian has been granted a number of easements which give the Company the right to construct, operate and maintain the wind farm on the third party land. The easements have been granted to Meridian in perpetuity.

WEST WIND

West Wind wind farm is located in part on freehold land owned by Meridian and in part on land owned by third parties. Pursuant to a Wind Farm Development Agreement, Meridian has been granted an easement to construct, operate and maintain the wind farm on the third party land. Survey work is currently being completed on part of the site following which the relevant easements will be registered. The easement is not due to expire until 19 August 2029 and will automatically extend for a further 25 years on expiry subject to the Company not being in material breach of any term of the easement. In addition, Meridian has been granted an airspace easement granting rights for turbine blades to encroach into the airspace of adjoining land. This easement has been granted to Meridian in perpetuity.

The majority of the Meridian freehold land upon which a portion of the West Wind wind farm is situated is subject to a memorial under the State-Owned Enterprises Act 1986 (refer to 5 *What are the Risks?* under the heading “Treaty of Waitangi and Other Claims” for more information).

41. After the application of the marginal loss factor prescribed by the AEMO. The marginal loss factor reflects electricity losses between the generation station and the reference point where the spot price is set (the regional reference node).

MILL CREEK

Mill Creek wind farm is currently being constructed on farm land owned by third parties. Meridian has the benefit of a registered easement granting rights to construct, operate and maintain the wind farm development on third party land. Pursuant to a Wind Farm Development Agreement, Meridian has been granted a further easement to construct, operate and maintain the wind farm development on adjoining third party land. In addition, Meridian has been granted various easements granting rights to build, own and operate electricity lines and associated telecommunications equipment via overhead and/or through underground cables. Once the construction of the wind farm has been completed the site will be surveyed and the remaining easements registered. The easements are not due to expire until 14 August 2052 at the earliest.

WAITAKI HYDRO SCHEME

Meridian holds legal freehold title to all land on which the hydro stations within the Waitaki hydro power scheme are situated. Meridian has the benefit of a number of registered operating easements conferring rights of access over Crown land and rights to: take, store and release water; convey and drain water; and install and operate hydro electricity water works over lakes and riverbeds, within the Waitaki hydro scheme.

MANAPŌURI

The Crown is the owner of the land on which the majority of the Manapōuri hydro power station is situated (being land within Fiordland National Park). Meridian has the right to access and occupy this land and to maintain and operate the Manapōuri hydro station under the provisions of the Electricity Act 1992 and the Manapōuri-Te Anau Development Act 1963 (for as long as these Acts remain in force). Outside Fiordland National Park, Meridian holds freehold title to the land which the Manapōuri and Te Anau lake control structures occupy and has the benefit of certain registered operating easements conferring rights on Meridian to store water, and to install and operate hydro electricity water works.

WHITE HILL

White Hill wind farm is located in part on freehold land owned by Meridian and in part on land owned by third parties. Pursuant to Wind Farm Development Agreements, Meridian has been granted a number of easements which give the Company the right to construct, operate and maintain the wind farm on the third party land. Three of these easements have been granted to Meridian in perpetuity. The remaining easement is not due to expire until 28 March 2031 and will automatically extend for a further 25 years on expiry subject to Meridian not being in material breach of any term of the easement.

MT MILLAR

Mt Millar wind farm is situated on land owned by third parties. Meridian has the benefit of leases and a licence agreement which give the Company the right to construct, operate and maintain the wind farm on that third party land.

The leases are due to expire, at the earliest, on 27 February 2031. Meridian may require each third party landowner to extend the lease for a further 25 years. The licence agreement is due to expire on 27 February 2031. If the leases are extended, the term of the licence will automatically extend for a further 25 years.

MT MERCER

Mt Mercer wind farm is currently under construction on land owned by eight third party landowners. Meridian has the benefit of leases which give the Company the right to construct, operate and maintain the wind farm on that land.

The leases are due to expire on the date that is 25 years following the date the wind farm commences full operation. Meridian may require each third party landowner to extend the lease for a further ten years (two options of five years).






Meridian has the benefit of transmission easements which give the Company the right to construct, operate and maintain the transmission line for the wind farm across land owned by third parties. The transmission easements have been granted to Meridian in perpetuity.

Customers

Meridian sells electricity to the industrial, business, agricultural and residential markets within New Zealand through its two retail brands, Meridian and Powershop. The NZAS aluminium smelter located at Tiwai Point is Meridian's largest customer, consuming the equivalent of 41% of Meridian's total electricity generation in the five year period ended 30 June 2013. The key terms of the agreement between Meridian and NZAS are set out in this section under the heading "Significant Electricity Contracts".

Customer Segments

Meridian manages its customer sales mix based on a combination of sales volumes and profit margin rather than total customer numbers. Meridian invests significant resources into maintaining customer analytics that support the Company's marketing and sales activities. The following table summarises Meridian's main customer segments.

SEGMENT	DESCRIPTION	SALES VOLUME FY2013 GWh	CUSTOMER NUMBERS ICPs AS AT 30 JUNE 2013 ⁴²
 Residential/ Small Business	Domestic households and small businesses on fixed price contracts (often referred to as non half-hourly sales)	2,923 (20%)	218,466
 Powershop	Domestic households and small business customers of Meridian's Powershop subsidiary	506 (4%)	51,271
 Commercial	Larger business customers, corporate and industrial organisations (often referred to as half-hourly sales)	2,232 (15%)	2,101
 Financial Contract Sales (including NZAS)	Predominantly end-user and inter-generator customers on sell-side CFDs	7,013 (49%)	15
 Spot	Spot contracts involve acting as an agent for a customer to transact on the wholesale spot market, and typically only generate administration fees or margin. Spot customers are medium or large business and industrial customers	1,781 (12%)	239

42. The ICP numbers in this table are based on the data which appears in Meridian's financial information set out in 6 *Financial Information*. This data differs from ICP data sourced from the Electricity Authority that appears elsewhere in this Offer Document due to differences in the way ICPs are measured (including, for example, the treatment of non-active ICPs).

MERIDIAN RETAIL

Meridian Retail supplied electricity to more than 220,000 customers (by ICPs)⁴³ throughout New Zealand as at 30 June 2013, representing 81% of Meridian's total customers and 11% of total customers throughout New Zealand. The Meridian brand has historically had a strong presence in the South Island but over time Meridian has increased the proportion of its North Island customer base so that, as at 30 June 2013, North Island customers represented 48% of all Meridian customers.



In a market characterised by high switching rates and increasing competition, Meridian is focused on providing the best possible customer experience including competitive pricing plans and tools that help customers monitor and manage their electricity usage. Recent initiatives include:

- significant investments in improving the Company's billing systems;
- improvements in the quality of customer analytics and customer support systems, which has improved the quality of the Company's retail customer base; and
- the development of new tools offering customers an online portal to monitor and forecast electricity consumption.

In the year ended 30 June 2013, Meridian Retail's switching rate⁴⁴ was 18.9% of customers, a reduction from 19.8% in the previous year. This is broadly consistent with national switching rates which have ranged between 15% and 20% over the last three years. Meridian Retail actively monitors its customer profile and targets reduced switching over time.

Meridian Retail has a strong presence in the South Island agricultural sector and is currently focused on growing its North Island presence, which was marked by the opening of a Hamilton office in March 2013. The Company has a dedicated agribusiness team and all sales staff have Industry Training Organisation qualifications in farming and agriculture.

POWERSHOP

Meridian launched Powershop in 2009 to harness the opportunities that retailing electricity online offered. Powershop is a wholly owned subsidiary of Meridian which operates an online shop for electricity that allows customers to buy blocks of power called 'Powerpacks'. This approach to retailing electricity is delivered through online and smartphone self-service account management, and provides customers with tools to monitor energy use and cost.



Powershop has promoted its unique services and products with topical marketing and advertising campaigns. As at 30 June 2013, Powershop had more than 50,000 customers (by ICPs),⁴³ making up approximately 19% of Meridian's total customers and 2.6% of total customers throughout New Zealand.

Powershop has achieved rapid customer growth, culminating in Powershop leading the 2011 New Zealand Deloitte Fast 50 index, with the fastest revenue growth recorded in the index's history. Powershop also placed sixth in the Asia-Pacific Deloitte Fast 500 in 2011, which was the highest placing for a New Zealand company on that list.

Powershop's unique approach to retailing electricity has also resulted in a number of other awards, including the Innovation in Marketing Award at the New Zealand Marketing Awards and the TUANZ Innovation of the Year Award in 2011, the Canstar Blue Most Satisfied Customer Award in both 2011 and 2013, and the Deloitte Energy Excellence Awards Energy Retailer of the Year in 2012.

Meridian has now established a Powershop presence in the Australian retail market, starting in Victoria.

Other Subsidiaries

ARC INNOVATIONS

Arc Innovations provides residential and commercial metering equipment and related data services to more than 120,000 New Zealand homes and businesses. Arc Innovations has been in operation since 2003 and is a wholly owned subsidiary of Meridian.



Arc Innovations supplies, installs and manages data from smart meters for Meridian and other electricity retailers. Smart meters capture real-time electricity consumption data and communicate this back to a central point. Smart meters enable electricity retailers to provide customers with more accurate and detailed information on their electricity usage, and are a platform for retailers to provide better information and additional services to customers.

DAMWATCH

Meridian also operates a subsidiary company, Damwatch, which has core expertise in dam engineering, instrumentation, and safety and surveillance services. Damwatch provides expert advice to Meridian and other dam owners, in New Zealand and offshore.



43. Based on ICP data sourced from the Electricity Authority.

44. Calculated as the annualised average of ICPs lost in each month to ICPs held in each month for the year ended 30 June 2013.

Managing Electricity Revenues

Meridian's principal source of revenue is the sale of electricity in the New Zealand and Australian wholesale and retail electricity markets. The coordination of wholesale and retail operations contributes to reducing earnings variability.

WHOLESALE ELECTRICITY SALES AND PURCHASES

Meridian sells the electricity it generates into the wholesale market and receives the prevailing market price at each location where its electricity flows into the national grid.

Meridian purchases electricity that it sells to customers from the wholesale market at the prevailing market price at each location where electricity is drawn from the national grid.

The majority of the electricity Meridian purchases is sold at fixed prices to customers, including individual households, small businesses, farms and large commercial and industrial organisations. Retail prices are intended to cover the cost of electricity generation, transmission and distribution, metering, levies and taxes, costs incurred in serving each customer and a retail profit margin.

BEING AN INTEGRATED GENERATOR AND RETAILER

The broadly offsetting relationship between the revenue from sales to the wholesale electricity market and the costs of purchasing from the wholesale electricity market provides Meridian with significant insulation from the volatility that can be experienced in wholesale market prices. Meridian plans to operate its combined portfolio of New Zealand electricity generation and retail customers so that it is generally 'long' in generation; that is, it generates more electricity than it sells to customers, which assists in maintaining the effectiveness of this integrated relationship.

However, the usual offsetting relationship between wholesale electricity sales and wholesale electricity purchases may be less effective at certain times. For example, Meridian's generation volume may decline below average levels during extended periods of low rainfall resulting in adverse hydrological conditions. In this situation, Meridian's purchases from the wholesale market may exceed its sales to the wholesale market. In addition, because wholesale prices are determined separately for each node in the transmission network, the wholesale prices that Meridian receives for selling electricity may at times be significantly different to the wholesale prices it pays for electricity to serve its customers. For further information, see "Overview of the Main Factors that affect Meridian's Operational and Financial Performance" in 6.3 *Analysis of Historical Financial and Operational Performance*.

Meridian seeks to limit its exposure to these adverse situations by entering into a variety of contracts tied to the wholesale electricity market price. Generally speaking, these contracts have the effect of either fixing the price at which Meridian purchases specified volumes of electricity from the wholesale market, or fixing the price at which Meridian sells specified volumes of electricity to the wholesale market. Details of Meridian's more

significant long-term contracts are set out under the heading "Significant Electricity Contracts" below.

Meridian does not have the same scale or diversity of generation or retail activities in Australia as it does in New Zealand. Meridian is therefore more exposed to movements in the wholesale electricity price in Australia. As a result, Meridian's Australian business is more reliant on financial contracts of the type described in the previous paragraph to manage electricity revenues and on the continued operation of the MRET Scheme which provides, through the creation of LGCs, a substantial part of Meridian's Australian earnings.

SIGNIFICANT ELECTRICITY CONTRACTS


The majority of Meridian's significant long-term electricity contracts are contracts for difference (CFDs). An electricity CFD does not result in the physical supply of electricity; it is an agreement where the parties agree to pay each other the difference between the wholesale electricity price (sometimes referred to as the 'floating price') and an agreed fixed price for a specified volume of electricity. One of the parties to the CFD will be the fixed price payer and the other will be the wholesale price payer. Generally, when the wholesale price is higher than the agreed fixed price, the wholesale price payer will make a payment based on the price difference as applied to the specified volume of electricity. Conversely, when the wholesale price is lower than the agreed fixed price, the fixed price payer will make a payment based on the price difference as applied to the specified volume of electricity.

NZAS Agreement

New Zealand Aluminium Smelters (NZAS) is Meridian's largest customer. In the five year period ended 30 June 2013, the smelter consumed the equivalent of 41% of Meridian's total electricity generation. NZAS's shareholders are Rio Tinto Alcan (New Zealand) Limited (which owns 79% and is part of the Rio Tinto group of companies) and Sumitomo Chemical Company, Limited (a Japanese company which owns 21% of NZAS). The relationship between Meridian and NZAS goes back to Meridian's establishment, when Meridian took over a series of physical supply contracts the earliest of which had originally been entered into between the Crown and an earlier owner of the smelter. As a result of that first contract (dated 1963), the Crown built the Manapouri power station and the original counterparty built the smelter. Those physical supply contracts expired on 31 December 2012, at which time the subcontract Meridian had with Transpower for the transmission of electricity to the smelter also terminated.

The current agreement between Meridian and NZAS was entered into in 2007 and commenced on 1 January 2013. Pacific Aluminium (a business unit of Rio Tinto) approached Meridian in July 2012 seeking to renegotiate the NZAS Agreement due to low global aluminium prices and concerns as to the ongoing viability of the smelter. As a result of those negotiations, the NZAS Agreement was amended on 7 and 15 August 2013. The key terms of the amended NZAS Agreement are set out on the opposite page.

TIWAI POINT ALUMINIUM SMELTER – MERIDIAN AND NZAS

 Refer to 5 *What are the Risks?* for discussion of the risks associated with the Tiwai Point aluminium smelter.

Meridian does not physically supply NZAS with electricity. Rather, NZAS purchases the electricity it consumes from the wholesale electricity market. In order to provide price certainty to NZAS, the NZAS Agreement is a CFD which has the effect of fixing the price that NZAS pays and Meridian receives for the CFD quantity of electricity.


Under the NZAS Agreement, Meridian (as the wholesale price payer) pays NZAS the wholesale price for the CFD quantity, which is a base quantity of 572 MWh per hour (equivalent to 5,011 GWh per annum), and NZAS (as the fixed price payer) pays Meridian a fixed price for the same quantity. There are some circumstances in which the CFD quantity drops below the base quantity, for example, during events affecting the smelter's operation that are outside the smelter's reasonable control. The CFD fixed price adjusts with changes in the consumers price index and will increase if the New Zealand dollar value of aluminium rises above agreed levels.

Regardless of whether NZAS consumes any electricity or not, the parties are required to make the CFD payments for the CFD quantity during the term of the NZAS Agreement.

572 MW represents the major part of NZAS's electricity needs, although the smelter is able to consume up to around 630 MW of electricity. In the financial year ended 30 June 2013, NZAS consumed an average of 554 MW of electricity. To put this figure in perspective, the Wellington region consumed an average of 345 MW over the same period.

Flexibility to reduce to 400 MWh per hour

The NZAS Agreement provides some flexibility for NZAS to elect to reduce the CFD quantity. In particular, NZAS may choose to reduce the base CFD quantity to 400 MWh per hour (equivalent to 3,504 GWh per annum) by giving one year's notice to Meridian during a window between 1 January 2014 and 31 December 2015. If NZAS exercises this option, this changes some of the parties' rights and obligations under the NZAS Agreement, as described below. The CFD quantity reduces below the base quantity of 400 MWh per hour in similar circumstances as referred to above in relation to the period when the base quantity is 572 MWh per hour.

 Refer to 6.5 *Prospective Financial Information* under the heading "NZAS Agreement Reduces to 400 MWh per hour" for discussion of the possible implications for Meridian if NZAS elects to reduce the base CFD quantity to 400 MWh per hour.

Price discount

The NZAS Agreement provides a financial incentive on NZAS to consume electricity in accordance with quantities specified in the agreement in which case NZAS receives a discount to the CFD fixed price. If NZAS does not consume this quantity of electricity during the period until 31 December 2016, it is required to repay the cumulative discount it has received, capped at three years of that discount, and it loses any future discount. This financial incentive to avoid the requirement to repay the cumulative discount and the loss of future discounts will continue to apply after 31 December 2016 if NZAS has not exercised the option to reduce the base CFD quantity to 400 MWh per hour.

From 1 January 2017 if NZAS has exercised the option to reduce the base CFD quantity to 400 MWh per hour, it no longer receives the price discount described above, but the CFD fixed

price reduces to be equivalent to the discounted CFD fixed price prior to that date.

Prudential security

Meridian provides prudential security to the New Zealand electricity market on NZAS's behalf for the first amount of electricity NZAS takes up to the CFD quantity (plus GST and ancillary services) which means that, if NZAS does not pay the electricity market for that electricity, Meridian will have to make that payment. To ensure that NZAS's payment is at least partially paid, Meridian will pay its CFD payment directly to the electricity market.

Liability and guarantees

If NZAS fails to pay the CFD payment, repay the discount, or repay amounts that Meridian pays under the prudential security, Meridian has some recourse to guarantees provided by NZAS's shareholders. However, the guarantors' liability under those guarantees is capped and those caps may not be sufficient to fully compensate Meridian for the amounts not paid by NZAS.

Meridian has no current expectation that NZAS will fail to pay, but NZAS's business is exposed to global aluminium prices which fluctuate over time and therefore, as with many contracts, Meridian is exposed to credit risk (on NZAS and the guarantors).

Managing adverse hydrological conditions

Meridian is able to require NZAS to reduce its electricity consumption at times when the South Island hydro lake storage is low. If Meridian exercises this right, NZAS's reduction in consumption and the associated reduction in the CFD quantity will have the effect of reducing the amount of the CFD payment payable by Meridian, and is likely to reduce wholesale electricity prices generally, so will be advantageous to Meridian when electricity prices are high and Meridian's generation is low. There are some restrictions on when Meridian may exercise this right, including that it may not exercise this more than five times during the term of the NZAS Agreement and no more than two times in three years and three times in six years. In addition, Meridian must pay NZAS a fee for exercising the right. This right has not been exercised by Meridian as at the date of the Offer Document.

Termination of the NZAS Agreement

The NZAS Agreement expires on 31 December 2030. NZAS may terminate the NZAS Agreement earlier by giving between 12 and 18 months' notice to Meridian. The earliest termination date is 31 December 2016. From 1 January 2017, if NZAS has exercised the option to reduce the base CFD quantity to 400 MWh per hour and does not consume electricity in accordance with the quantities specified in the agreement, Meridian may terminate the NZAS Agreement either on seven days' notice or after one year. During the one year notice period (if the option were to be elected), NZAS and Meridian would be required to continue to make the CFD payments.

During the term of the NZAS Agreement, Meridian and NZAS have other termination rights in a range of specific circumstances, including if the other party does not cure a failure to pay an amount due, breaches the assignment provisions of the agreement or suffers an insolvency or financial distress-type event. NZAS may also terminate if it plans to decommission the smelter (although it cannot give notice that it is decommissioning until 1 January 2015 and there is a financial incentive to decommission over a period of years so NZAS is more likely to use its termination rights described in the paragraph immediately above).

Virtual Asset Swaps

The Government's electricity industry reforms resulted in Meridian, Genesis Energy and Mighty River Power entering into virtual asset swaps which commenced on 1 January 2011 for 15 year periods. The virtual asset swaps are CFDs and do not result in the physical supply of electricity. The intention was to provide all three parties with wholesale price protection in the island where they had no or few generation assets, enabling them to compete more effectively in the retail markets in those locations.

The virtual asset swaps with Mighty River Power are based on a notional volume of up to 700 GWh per annum, with the South Island component priced and settled at the Benmore node (where Meridian is the wholesale price payer) and the North Island component at the Whakamaru node (where Meridian is the fixed price payer). The virtual asset swap with Genesis Energy is based on a notional volume of up to 450 GWh per annum, with the South Island component priced and settled at the Benmore node (where Meridian is the wholesale price payer) and the North Island component at the Huntly node (where Meridian is the fixed price payer). The notional volume of each virtual asset swap ramps up to the maximum stated above over the first three years of the 15 year period and ramps down over the last three years.

Lead In and Long Term Hedges

The lead in hedge is a CFD between Meridian (as fixed price payer) and Genesis Energy (as wholesale price payer). It was entered into in conjunction with the sale of the Tekapo A and B power stations from Meridian to Genesis Energy in 2011 to assist Meridian's adjustment to reduced generation capacity in the South Island. The lead in hedge runs from 2011 to 2014, with an initial notional volume of 482 GWh per annum in 2011 ramping down to zero at the end of 2014. It is priced and settled at the Benmore node in the South Island.

The long term hedge is also a CFD between Meridian (as fixed price payer) and Genesis Energy (as wholesale price payer) that was put in place as part of the Government's electricity market reforms in 2010. It is a complementary hedge to the lead in hedge, in that as the lead in hedge ramps down, the long term hedge ramps up. The long term hedge runs from 2013 to 2025 and is based on a notional volume of up to 438 GWh per annum. It is priced and settled at the Huntly node in the North Island.

The Genesis Swaption

The Genesis swaption was entered into between Meridian and Genesis Energy in October 2009 to provide Meridian with an additional tool to manage adverse hydrological conditions. The Genesis swaption is also useful for Meridian to cover its retail sales position, rather than having to rely on its own generation production.

The Genesis swaption is only available to Meridian between April and October each year, and the last year it is available is 2014. When the Genesis swaption is available, Meridian can (at its election) require Genesis to enter into a CFD with a notional volume of up to approximately 1,000 GWh per annum, with Meridian as the fixed price payer and Genesis Energy as the

wholesale price payer. In return, Meridian pays Genesis Energy a fixed premium for every month that the swaption is available. If a CFD is entered into under the Genesis swaption, the CFD is priced and settled at the Huntly node in the North Island.

Meridian is currently considering its options for replacing the Genesis swaption when it terminates in 2014. The prospective financial information in 6.5 *Prospective Financial Information* has been prepared on the assumption that it will be replaced with a similar instrument or instruments.

The Tekapo Canal Contract

When Genesis Energy carries out remediation work on the Tekapo Canal it reduces water inflows to Lake Pūkaki, which can have a financial impact on Meridian. To address this, Meridian is party to another contract with Genesis Energy which Meridian can effectively opt into whenever Genesis Energy undertakes remediation work on the Tekapo Canal. Prior to Genesis Energy undertaking such remediation work, Meridian is required to elect whether or not it requires the Tekapo Canal contract to be available during the term of that work. If Meridian elects for it to be available, the Tekapo Canal contract then has principally the same terms as the Genesis swaption (except with a different premium and term). The Tekapo Canal contract is available until 2017.

Generation Development

The majority of new generation in New Zealand over the last several years has been in wind and geothermal. Investment in wind generation has been a significant area of growth for Meridian and it has successfully constructed seven wind farms across New Zealand and Australia, and on Ross Island in Antarctica.

The Company has proven expertise in designing, consenting, constructing and operating wind farms. Meridian has two wind farms currently under construction, one at Mill Creek near Wellington and another at Mt Mercer near Ballarat in Victoria, Australia. Meridian has investment criteria and processes in place used to evaluate potential capital commitments.

Meridian considers wind generation to be among the most economically viable forms of future electricity generation in New Zealand. The potential wind generation projects within Meridian's development pipeline are at various stages of the resource consent process and Meridian's development portfolio also includes a consented 35 MW hydro development at Lake Pūkaki within the Waitaki hydro scheme.

However, Meridian is unlikely to build any new generation capacity in New Zealand in the next three to five years due to the current levels of capacity available in the market and the lack of electricity demand growth across the country. Meridian has no current plans to build any further new generation capacity in Australia beyond Mt Mercer, and any future plans to do so will depend on the regulatory and competitive framework in Australia at the time.

Transmission Pricing Review

The Electricity Authority is currently consulting on methodology changes to determine who will pay for the costs of the transmission networks and the basis for setting transmission charges. Under the Electricity Authority's October 2012 proposal, Meridian would face a significant decrease in its current HVDC charges, and an increase in HVAC charges. Provided that some of the HVAC charges can be recovered from consumers, the proposal would be beneficial to Meridian. However, the outcome of this consultation process remains uncertain and it is unclear what, if any, changes will be made to the transmission pricing methodology and the timing of any changes. Further detail on the Electricity Authority proposal is set out in *3 Industry Overview*. Meridian has not included any possible benefits from a change in the transmission pricing methodology in the prospective financial information set out in *6.5 Prospective Financial Information*.

Team, Partnerships and Community

PEOPLE

As at 30 June 2013, the Group had a total of 827 full-time equivalent employees,⁴⁵ with the composition shown in the table below.

CATEGORY	NUMBER
Markets and Production	213
Damwatch	34
Retail	244
Powershop	74
Arc Innovations	83
Corporate and Shared Services	88
Information and Communications Technology	54
Australia	32
United States	5

Meridian has a focus on the highest levels of health and safety performance in its workplaces. Between August 2011 and 30 June 2013, the Company recorded no lost time injuries across its permanent and contractor workforce.

45. Employee numbers are for full-time equivalent employees and do not include contractors or consultants. Employee numbers in each category have been rounded to the nearest employee.

ENGAGING WITH IWI

Meridian understands the key role that iwi play in the management of natural resources, which is an area of common interest with the Company's commitment to renewable energy.

In particular, Meridian acknowledges the importance of Ngāi Tahu. Ngāi Tahu have mana whenua (or tribal authority) of over 80 per cent of Te Waipounamu – the South Island of New Zealand. This authority extends over the Waitaki and Manapōuri hydro catchments where the Company's hydro generation assets are located.

Given the kaitiakitanga (or guardianship) role Ngāi Tahu has over these catchments, Meridian and Ngāi Tahu understand the importance of having shared values and have worked together to build relationships at a board, executive management and operational level.

Ngāi Tahu and Meridian have agreed to a range of joint initiatives which are targeted at building the capabilities of the people in both entities through training and development opportunities.

PARTNERSHIPS AND THE COMMUNITY

Meridian considers that building strong relationships with customers, stakeholders and communities is critical to retaining its long-term licence to operate as a generator and retailer of electricity.

Meridian's corporate sponsorship programme has supported a number of partner organisations including KidsCan, South Island Rowing and a number of environmental initiatives.

Meridian operates six community fund programmes, which, since inception, have provided over \$3.9 million to community-based initiatives including environmental conservation, volunteer emergency services, schools and heritage restoration.

Board, Management and Corporate Governance

Board Of Directors

As at the date of this Offer Document, Meridian's board consists of nine non-executive directors including a Chair, a Deputy Chair and seven other independent directors. The board has determined that, in its view, all of the directors are independent directors for the purposes of the NZX Main Board Listing Rules.



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Chris Moller

CHAIR

BCA, DIPLOMA OF ACCOUNTING, ACA (NZICA)

Chris Moller has been on the Meridian board since May 2009 and was appointed Chair in January 2011. Chris also serves on the Audit and Risk Committee. Chris has extensive experience in New Zealand and international business at both director and executive level. He is the former Chief Executive Officer of the New Zealand Rugby Union, co-leading New Zealand’s successful bid to host the Rugby World Cup 2011. His 15 year career in the dairy industry included roles as Deputy Chief Executive of Fonterra and Chief Financial Officer of the New Zealand Dairy Board. Chris is currently Chair of New Zealand Transport Agency and SKYCITY Entertainment Group Limited. He is also a director of Westpac New Zealand Limited. Previously he was a director of NZX Limited, Synlait Limited, the International Cricket Council, Cricket World Cup 2015 Ltd, Rugby New Zealand 2011 Limited (which entered into voluntary liquidation following the conclusion of the Rugby World Cup 2011) and National Foods (Pty) Limited.

04

Mark Cairns

DIRECTOR

BE (HONS), BBS, POST GRAD DIP BUS ADMIN, MGMT, FIPENZ

Mark Cairns joined the Meridian board in July 2012. He currently serves on the Audit and Risk Committee. Mark has extensive experience in port operations and transportation. He has been Chief Executive of NZX-listed Port of Tauranga Limited since 2005. Prior to joining Port of Tauranga Limited, he was Chief Executive of C 3 Limited (formerly Toll Owens Limited) for five years, following his role as General Manager (Central) at Fulton Hogan Limited. Mark is Chair of Quality Marshalling (Mount Maunganui) Limited and is a director of Northport Limited, North Tugz Limited and Port of Tauranga Trustee Company Limited. Mark has also previously held director roles in C 3 Limited, Metropack Limited and Tapper Transport Limited.

02

Peter Wilson

DEPUTY CHAIR

CA (NZICA)

Peter Wilson joined the Meridian board in May 2011. Peter is a Chartered Accountant and business consultant, and was formerly a partner of Ernst & Young. He has extensive experience in banking, business establishment, problem resolution, asset sales and management of change functions. Peter has been involved in companies undertaking capital raising activities and has wide ranging governance experience in the public market, the private sector and with Crown-owned entities. Peter serves on the Audit and Risk Committee, and is currently Chairman of Westpac New Zealand Limited and Augusta Capital Limited. Peter is also a director of PF Olsen Limited and Farmlands Co-operative Society Limited. Past directorships include The Colonial Motor Company Limited, Westpac Banking Corporation and NZ Farming Systems Uruguay Limited.

05

Jan Dawson

DIRECTOR

BCOM, FCA (NZICA), MINSTD

Jan Dawson joined the Meridian board in November 2012. Jan is a professional independent director with appointments to a number of New Zealand and Australian companies. She was previously the Chair and Chief Executive for KPMG New Zealand, following a career spanning 30 years specialising in audit and accounting services in the United Kingdom, Canada and New Zealand. Jan is Chair of the Audit and Risk Committee. Jan is currently a director of Air New Zealand Limited, Westpac New Zealand Limited, AIG Insurance New Zealand Limited, Counties Manukau District Health Board and Goodman Fielder Limited. She was also previously a director of Regional Treasury Management Limited and numerous companies associated with KPMG subsidiaries. She is currently President of Yachting New Zealand.

03

John Bongard

DIRECTOR

BCOM, ONZM

John Bongard has been a director of Meridian since May 2011 and currently serves on the Remuneration and Human Resources Committee. John has more than 30 years’ experience in marketing appliances around the world and has established new sales companies in Australia and in the United States. He has held a number of executive-level positions during his 36 year career within the Fisher & Paykel Group, including, until 2009, serving as Chief Executive Officer and as Managing Director of Fisher & Paykel Appliances Holdings Limited. He is currently Chair of PSCTH Thailand and The Rising Foundation and Local Chair of BNZ Partners Highbrook. John is a director of HJ Asmuss & Co Limited, Narta Australia Pty Limited and Netball New Zealand, and was previously a director of Tourism Holdings Limited. He is also a trustee of Counties Manukau Pacific Trust Board.

06

Mary Devine

DIRECTOR

BCOM, MBA, ONZM

Mary Devine became a director of Meridian in May 2010. Mary is Chair of the Remuneration and Human Resources Committee. She has had a 20 year career in executive roles in private New Zealand companies. A former Chief Executive of Australasia’s largest fashion and homewares multi-channel retailer, EziBuy, she is currently Managing Director of department store, J. Ballantyne & Co. Mary has extensive experience in corporate strategy, brand marketing and multi-channel retailing and was this year awarded an ONZM for services to business. She is currently a director of IAG New Zealand Limited and Briscoe Group Limited. Mary is also a trustee of the New Zealand Hockey Foundation.

07

Sally Farrier

DIRECTOR

BE (HONS), MBA, GDIPAPPFIN

Sally Farrier was appointed a director of Meridian in July 2012 and serves on the Safety and Sustainability Committee. She is a professional non-executive director and corporate adviser, with extensive experience in industry restructuring and economic reform, privatisation, business strategy and risk management. Sally's professional career has focused on the utility sector (water, electricity and gas) spanning a number of consulting and director roles in New Zealand and Australia. Sally was previously an Australian National Water Commissioner, a member of the Department of Primary Industries Portfolio Strategy Board, a member of the Victorian Water Trust Advisory Council and a member of the Independent Panel for Victorian Regional Sustainable Water Strategies. Sally was formerly a director of Hydro Tasmania, Manidis Roberts Pty Limited and Western Power. She is currently a director of Farrier Swier Consulting Pty Limited.

08

Anake Goodall

DIRECTOR

BA, MBA, MPA

Anake Goodall joined the Meridian board in May 2011 and serves on the Remuneration and Human Resources Committee. Anake has diverse management and governance experience including being a union delegate in the meat industry, a founding board member of the Makarewa Credit Union, holding various executive roles in community-based organisations, and as adviser to the Government and iwi. Most recently, he served as Chief Executive Officer of Te Rūnanga o Ngāi Tahu, and was before that responsible for managing all aspects of Ngāi Tahu's Treaty settlement process. Anake is currently a director of NXT Fuels Limited (formerly Aquaflow Bionomic Corporation Limited) and Enspiral Foundation Limited. He is a member of the Environmental Protection Authority, the Te Waihora Co-Governance Group and the Canterbury Earthquake Recovery Review Panel, and is an Adjunct Professor at the University of Canterbury. He has previously been a director of various Te Rūnanga o Ngāi Tahu entities. Anake is Chair of the Manawapōpore Trust, Trustee of the Hillary Institute of International Leadership, and is a New Zealand Harkness Fellow. Anake was a director of Quik Bake Products Limited at the time it was placed in receivership in 1989.

09

Stephen Reindler

DIRECTOR

BE (HONS), AMP, FIPENZ

Steve Reindler joined the Meridian board in September 2008 and is Chair of the Safety and Sustainability Committee. Steve is an engineer who has a background in large-scale infrastructure and heavy industry manufacturing. He has gained extensive experience through his previous engineering roles at New Zealand Steel Limited and Auckland International Airport Limited, and through his industry position as inaugural Chairman of the Chartered Professional Engineers Council. He is currently a director of Port of Napier Limited, and an independent advisor to Transfield Services Limited. Steve was previously a director of Stevenson Group Limited and an advisory director of Glidepath Limited. He served as a Senior Office Holder on the board of the NZ Institution of Professional Engineers and was President of the Institution in 2011.

Executive Management Team



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Mark Binns

CHIEF EXECUTIVE
LLB

Mark Binns joined Meridian as Chief Executive in January 2012. Prior to this appointment Mark was Chief Executive of the Infrastructure Division of Fletcher Building Limited, the company's largest division. Mark worked at Fletcher Building and its predecessor, Fletcher Challenge Limited, for 22 years. During that period he was responsible for operations in Australia, South East Asia, India, South America, the United States and the South Pacific, as well as in New Zealand. Mark also held director roles in numerous subsidiary companies of the Fletcher Building group. His career has seen him closely involved in some of New Zealand's largest infrastructure projects, including the Wiri Prison public-private partnership, Waterview Connection, Eden Park, SKYCITY, Museum of New Zealand Te Papa Tongarewa and the Manapōuri tunnel. By training, Mark is a qualified lawyer and, prior to joining Fletcher Challenge, was a partner at Simpson Grierson in Auckland.

04

Ben Burge

CHIEF EXECUTIVE OFFICER, MERIDIAN ENERGY AUSTRALIA
BCOM, LLB (FIRST CLASS HONS)

Ben Burge joined the Meridian Group in 2011 as the Chief Executive of Meridian Energy Australia and is responsible for Meridian's Australian business. Ben has had extensive experience in the Australian market dealing in securities and derivatives in equities, debt and energy. Ben was the founder and Chief Executive of ASX-listed media business Emitch Limited and has held the roles of Chief Executive and partner of investment bank JT Campbell & Co, and partner of IBM in the Business Analytics and Optimisation business unit.

02

Paul Chambers

CHIEF FINANCIAL OFFICER
BSC (HONS), FCA (ICAEW), CA (NZICA)

Before taking up his role at Meridian in 2009, Paul Chambers was Chief Financial Officer of Transfield Services New Zealand. Paul has extensive senior finance experience in a variety of industries, including ports, manufacturing and retail, both in the United Kingdom and in France. Paul is a Chartered Accountant and is currently a director of the Meridian subsidiaries Powershop, Arc Innovations and Meridian Energy Australia. His team has responsibility for strategy coordination, performance measurement, external reporting, funding, risk management coordination, procurement and financial transaction services.

05

Jacqui Cleland

GENERAL MANAGER, HUMAN RESOURCES
BBS, M. PHIL (PSYCH)

Jacqui Cleland joined Meridian as General Manager of Human Resources in September 2012. She has an extensive background in human resources and has held senior human resources management roles in New Zealand Post, New Zealand Inland Revenue and Fonterra. Jacqui was previously a trustee of the New Zealand Post Superannuation Plan. Jacqui also spent a number of years as a university lecturer, teaching and researching in a wide range of business and human resources topics. Jacqui's team focuses on developing leaders and executing strategies to help Meridian's people utilise and grow their capabilities, competencies and skills. This ensures the Company is well supported to deliver on its business objectives and aspirations.

03

Neal Barclay

GENERAL MANAGER, MARKETS AND PRODUCTION
BCA, CA (NZICA)

Neal Barclay has been General Manager of Markets and Production since October 2009. He joined Meridian in July 2008 as Chief Financial Officer. Prior to joining Meridian, Neal, a Chartered Accountant, held a number of general manager roles in a 13 year career with Telecom New Zealand Limited. Neal is responsible for the Company's New Zealand generation asset portfolio, including seven hydro power stations and four wind farms that deliver about 30% of New Zealand's electricity generation, and for the Company's wholesale trading and risk position. Neal's role also involves managing renewable projects and renewable generation options.

06

Alan McCauley

GENERAL MANAGER, RETAIL
BCA, MBA, PGDFA, CA (NZICA)

Alan McCauley joined Meridian in July 2013 as General Manager of Retail. His career in the energy industry has spanned 18 years in roles in both Australia and New Zealand. Alan was a member of the project team which established Red Energy in Australia in 2003. As General Manager of Customer Management at Red Energy until June 2013, Alan was a key member of the executive team that grew that company into a profitable and award-winning energy retailer. He has previously worked in managerial and consulting roles for Contact Energy, ECNZ and Electro Power Limited. Alan was a director of Athletics New Zealand from July 2006 until August 2013 and is a current director of Athletics Victoria.

07

Glen McLatchie

GENERAL MANAGER, INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

BBS, MIS

Glen McLatchie joined Meridian in May 2010 and is responsible for ensuring the Company has the appropriate ICT infrastructure, data, processes, security and applications in place to meet the Company's requirements. Glen has over 20 years' experience in delivering business and information technology change and has held a number of general management positions in both commercial and information technology business functions. He has held several senior management roles with a global focus based in Australia, the United Kingdom and France over a 13 year period with BP Oil International Limited. Prior to joining Meridian, Glen was the director of ICT Transformation and Strategic Planning for Contact Energy and prior to this was the General Manager of Retail Automation Limited (a division of the former Provenco Group Limited).

08

Jason Stein

GENERAL COUNSEL AND COMPANY SECRETARY

LLB, BCA

Jason Stein joined Meridian in 2008 as Assistant General Counsel and was appointed General Counsel and Company Secretary in 2010. Jason was also appointed General Manager of the Office of the Chief Executive in 2011. Jason is a lawyer and has held in-house roles at financial institutions and in the energy sector, including at vice president and senior counsel levels. Jason has been working in the New Zealand energy sector since 2004. He was formerly the Group Legal Manager of Vector Limited. Jason's team is responsible for providing and managing the Company's legal services and providing the corporate governance and company secretarial functions to the Company, the board and the management team. He also holds directorships associated with Meridian's subsidiaries.

09

Guy Waipara

GENERAL MANAGER, EXTERNAL RELATIONS

BE (HONS), MBA

Guy Waipara (Rongowhakaata) was appointed as General Manager of External Relations at Meridian in August 2010. Guy is responsible for the Company's corporate reputation which includes Company brand, consenting, environmental management, relationship management, regulatory and external communications. Guy has previously held roles at Meridian in offshore business development and setting company strategy. He has over 20 years' experience in the electricity sector and previously worked at Transpower in roles responsible for transmission planning and network development. Guy is currently a director of Meridian USA and was previously a director of Energy for Industry (EFI).

Corporate Governance

The board has a commitment to creating and delivering shareholder value through the effective governance of Meridian. The board's primary role is to supervise management of Meridian by providing strategic guidance, adopting appropriate policies and procedures and ensuring Meridian's directors, senior management and employees are fulfilling their functions effectively and responsibly.

The Chief Executive, together with the senior executive team, is responsible to the board for:

- developing and making recommendations on Company strategies and specific strategic initiatives;
- managing and implementing strategies approved by the board;
- formulating and implementing the delegated financial authority policy;
- managing business risk; and
- the day-to-day management of Meridian.

The Company's governance framework is designed to ensure the highest standards of business behaviour and accountability. Accordingly, the board has adopted corporate policies and procedures which reflect best practice in New Zealand and Australia, incorporating principles and guidelines issued by the Financial Markets Authority and recommendations issued by NZX and ASX.

The main policies and practices adopted by Meridian, which will take effect from listing, are summarised below.

Board Charter and Committees

The board has adopted a written charter which is the principal specification of the governance framework and sets out the governance requirements for the board.

The board may from time to time establish appropriate committees of directors to assist it by focusing on specific responsibilities in greater detail than is possible for the board as a whole, reporting to the board and making any necessary recommendations.

The board has established four standing committees.

AUDIT AND RISK COMMITTEE

This committee comprises a minimum of three directors. Its primary objective is to assist the board in fulfilling its audit and risk assurance responsibilities by:

- ensuring the integrity of the Company's internal and external financial reporting;

- ensuring the adequacy of the Company's internal control framework and environment;
- overseeing the appointment, remuneration, qualifications, independence and performance of the external auditor and the integrity of the audit process as a whole;
- monitoring the performance and leadership of the independent and internal audit functions;
- providing a formal forum for free and open communication between the board, the internal and external auditors and management;
- monitoring and reviewing the effectiveness of the Company's process for identifying and managing risk;
- ensuring that the Company is in a state of readiness to maintain business continuity in the event of adverse circumstances; and
- ensuring the Company is appropriately insured to cover losses which may occur as a result of adverse circumstances.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

This committee comprises a minimum of three directors. Its primary objective is to assist the board in fulfilling its human resources responsibilities by:

- ensuring the Company's policies and strategies that relate to employment and people align with the Company's strategic objectives and performance;
- ensuring the Company's remuneration policies and practices reward fairly and responsibly with a clear link to the Company's strategic objectives and corporate and individual performance; and
- reviewing and recommending the remuneration of the directors.

SAFETY AND SUSTAINABILITY COMMITTEE

This committee comprises a minimum of two directors. Its primary objective is to assist the board in fulfilling its safety and sustainability responsibilities by overseeing:

- Meridian's actions to meet its obligations to maintain the overall wellness, and occupational health and safety of its people;
- integration of safety and sustainability in the formulation of Meridian's corporate strategy, risk management framework, and people and culture priorities;
- the social, environmental and ethical impacts of Meridian's policies and practices;
- initiatives to enhance Meridian's safety and sustainable business practices and reputation as a responsible corporate citizen; and

- Meridian’s compliance with corporate governance requirements in relation to safety and sustainability issues and reporting.

GOVERNANCE AND NOMINATIONS COMMITTEE

This committee comprises a minimum of three directors. Its primary objective is to assist the board in fulfilling its responsibilities in the governance of the Company by monitoring the overall governance of the business, board (and committee) composition and performance (including board diversity), director independence and conflicts of interest.

CODE OF CONDUCT

Meridian’s Code of Conduct will, from listing, play a key role in establishing the framework by which Meridian employees are expected to conduct themselves. The Code of Conduct is designed to facilitate behaviour and decision making that meets the Company’s business goals and is consistent with the Company’s values, policies and legal obligations. The Code of Conduct plays a key role in establishing Meridian’s organisational culture and demonstrating its commitment to the highest standards of ethical practice, accountability and transparency.

RISK MANAGEMENT POLICY

Meridian operates an active programme to ensure ongoing risk management across the Group. The Risk Management Policy has been developed to meet the New Zealand Standard: “AS/NZS ISO 31000 Risk Management – principles and guidelines”. The purpose of the Risk Management Policy is to embed within Meridian a group-wide capability in risk management which provides a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks faced by Meridian. The Policy sets out the risk management principles of Meridian within which management is expected to conduct structured risk management. Risks identified through this policy framework are reviewed by the Audit and Risk Committee regularly.

TREASURY POLICY

Meridian targets a long-term credit rating of BBB+ from S&P (or its equivalent).

A long-term credit rating is an expression of the general creditworthiness and credit quality of an entity based on an analysis of quantitative and qualitative metrics and refers to its ability and willingness to honour its existing debt responsibilities. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency. Ratings should be evaluated independently of any other information. Meridian’s BBB+ long-term corporate credit rating is one notch higher than its standalone credit profile (bbb) to reflect S&P’s view of the benefit of its 100% ownership by the Crown. S&P has noted that the one notch higher rating is likely to be maintained while the Crown owns greater than 50% of the Company. On the S&P long-term rating scale, the standalone ‘bbb’ rating indicates

that the entity has adequate capacity to meet its financial commitments, but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments than a higher rated entity.

CONTINUOUS DISCLOSURE, SHAREHOLDER COMMUNICATIONS AND SECURITIES TRADING POLICIES

Meridian has also adopted:

- a Continuous Disclosure Policy which establishes procedures which are aimed at ensuring directors and management are aware of and fulfil their disclosure obligations under the NZX Main Board and ASX Listing Rules;
- a Shareholder Communications Policy to ensure that communication with Meridian shareholders and the investment community is consistent and adheres to the principles of continuous disclosure; and
- a Securities Trading Policy designed to assist staff and related parties to ensure they remain within the law when trading in securities. The Securities Trading Policy provides for ‘blackout periods’ during which specified persons (including directors and senior management) are prohibited from trading in Meridian securities.

Chief Executive Employment Agreement

Meridian has entered into an employment agreement with Mark Binns in relation to his employment with Meridian as Chief Executive. The Chief Executive receives an annual base salary of \$1,100,000. He is also entitled to receive up to 65% of his annual base salary in the form of a short-term incentive that is payable at the discretion of the board of Meridian. The amount of the short-term incentive payment will be based on the achievement by the Chief Executive of certain performance hurdles for the previous financial year. The Chief Executive is a member of KiwiSaver, so he also receives matched employer contributions of 4% (or \$44,000). Once Meridian is listed on the NZX Main Board, the Chief Executive will be entitled to participate in the Executive LTI Plan, a description of which is set out under the heading “Executive Long-term Incentive Plan” in 4.3 *Board, Management and Corporate Governance*. The total remuneration of the Chief Executive may be reviewed each financial year at the discretion of the board of Meridian.

Mr Binns will be employed as Chief Executive until his employment is terminated in accordance with his employment agreement. Pursuant to the employment agreement, the Chief Executive and Meridian have mutual rights of termination on the provision of six months’ written notice. Meridian may also terminate the Chief Executive’s employment on the grounds of redundancy, serious misconduct or where an act of bankruptcy is committed. The Chief Executive will be entitled to receive certain termination payments following the termination of his employment.

Director Interests

DIRECTOR REMUNERATION

None of the directors is entitled to any remuneration from Meridian except for directors' fees and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as directors. The Company's shareholders have approved annual fees of \$91,000 for each director, \$165,000 for the Chair, \$114,000 for the Deputy Chair and an additional aggregate allowance of \$70,000 for board committee work. These fees take effect from the date on which the Company is listed. Prior to this, shareholders agreed to the payment by the Company of additional fees of up to \$195,000 to compensate directors for additional work required for the transition to a mixed ownership model company.

DIRECTOR SHAREHOLDINGS

Directors may apply for Shares under the Retail Offer, in the same way that any New Zealand Applicant can. Directors are able to participate in the offer to Eligible Employees. To the extent that any directors acquire Instalment Receipts or Shares those acquisitions must be disclosed to the market as required by law.

Employee Remuneration and Share Plans

EXECUTIVE REMUNERATION

Meridian aims to motivate and reward executives with a level and mix of remuneration that reflects their role and accountabilities within the Company and appropriately aligns the interests of executives with those of Shareholders. The Company targets a total remuneration opportunity that is competitive within the market and actual pay that is commensurate with Company and individual performance. The Meridian Remuneration and Human Resources Committee reviews executive performance outcomes annually. In addition to market information, the Remuneration and Human Resources Committee obtains advice from independent consultants when considering remuneration arrangements and making recommendations to the Meridian board.

Executive total remuneration is currently made up of two components: fixed remuneration and a short-term incentive plan. Executives will transition to a new remuneration package so that, with effect from 1 July 2015, they will move to an arrangement comprising three components: fixed remuneration; short-term performance incentives and long-term performance incentives. This is to ensure appropriate weighting of incentives between short and longer-term performance and to align executive packages with longer-term Shareholder value.

EXECUTIVE LONG-TERM INCENTIVE PLAN

A new Executive LTI Plan is being implemented for the executive management team in conjunction with the Offer to enhance the alignment between Shareholders and those executives most able to influence financial results after the Company has been listed.

Under the new Executive LTI Plan, executives purchase Shares (or, whilst Instalment Receipts are on issue, Instalment Receipts) funded by an interest free loan from the Company, with the Shares or Instalment Receipts (as applicable) held on trust by the trustee of the Executive LTI Plan. The interest free loan will also be used by executives to pay the Final Instalment for any Instalment Receipts held by the trustee at the time the Final Instalment is due.

The Shares or Instalment Receipts will be held on trust until the end of a three year vesting period. In the case of the first offer under the Executive LTI Plan, Instalment Receipts and, following payment of the Final Instalment, Shares will be held by the trustee until the conclusion of the 2016 financial year.

Instalment Receipts purchased for the first offer made under the new Executive LTI Plan will be purchased in the Offer at the Final Price payable under the Retail Offer. Any future offer of Shares (or Instalment Receipts) under the plan will be made at their market price at the time. The aggregate maximum dollar amount of Shares to be initially acquired for the purposes of the new plan (as represented by Instalment Receipts) is \$1,362,250 for which the trustee of the Executive LTI Plan will receive a guaranteed allocation under the General Offer.

Vesting of Shares (including Shares initially represented by Instalment Receipts) with an executive at the conclusion of a three year vesting period is dependent on continued employment through the three year period, the Company's absolute total shareholder return being positive and the Company's total shareholder return relative to a benchmark peer group meeting certain criteria. If Shares vest, executives are entitled to a cash amount which, after deduction of tax (but before other applicable salary deductions), is equal to the amount of their loan balance for Shares which have vested. That cash amount is applied towards repayment of their loan balance.

Under the Executive LTI Plan, where total shareholder return measures are used, performance is measured against a benchmark peer group comprising of certain energy generator/retailer competitor companies as at the start of the vesting period.

Vesting of Shares is dependent on two factors. Firstly, the Company must achieve a positive absolute total shareholder return over the measurement period. Secondly, the Company's performance relative to the performance of the benchmark peer group is measured, with a sliding scale to apply for the number of Shares to vest. If the Company's total shareholder return performance over the measurement period exceeds the 50th percentile total shareholder return of the benchmark peer group, 50% of an executive's Shares will vest. 100% of an executive's Shares will vest upon meeting the performance of the 75th percentile of the benchmark peer group, with vesting on a

straight line basis between these two points. No Shares will vest if the Company's total shareholder return over the measurement period is less than the 50th percentile total shareholder return of the benchmark peer group.

In the event that the total shareholder return performance in absolute terms is less than zero, or in relative terms does not meet the peer group relative total shareholder return hurdle (being the 50th percentile total shareholder return of the benchmark group), or if the participant ceases to be employed by the Company other than for a qualifying reason, the Shares (or Instalment Receipts as applicable) will be forfeited to the trustee without compensation and the relevant executive will receive no benefits under the plan. Where the total shareholder return exceeds the 50th percentile of the benchmark peer group but is below the 75th percentile, those Shares which have not vested will be forfeited to the trustee without compensation. Where any Shares or Instalment Receipts (as applicable) are forfeited to the trustee without compensation, the obligations of the employee with respect to the interest free loan provided for the acquisition of the forfeited Shares or Instalment Receipts (as applicable) will be assumed by the trustee, in consideration for the transfer of the relevant Shares or Instalment Receipts to the trustee. The trustee may then sell those Shares or Instalment Receipts (as applicable), hold them on trust for future allocations under the Executive LTI Plan, or transfer them to the Company pursuant to a put option granted by the Company.

As the ability of Meridian to issue Shares in the future is limited by the statutory requirement for the Crown to maintain a holding of at least 51% of the Shares, any future offer under this plan will likely need to be satisfied through on-market acquisitions of Shares by the trustee.

To comply with the laws of overseas jurisdictions, a cash award plan is being adopted for members of the executive management team based outside New Zealand. The terms of the cash award plan, including performance hurdles, seek to replicate the terms of the Executive LTI Plan, except to the extent a cash bonus (calculated by reference to the market price of Shares at the vesting date) vests at the end of the vesting period instead of Shares or Instalment Receipts. As a consequence of this difference, under the cash award plan no Shares or Instalment Receipts are acquired, no loan is provided and no trustee is required. At the time of the Offer, it is expected that only the

Chief Executive Officer of Meridian Australia will participate in the cash award plan. To mitigate its potential exposure under this cash award plan, the Company may acquire and hold Shares as treasury stock, in an amount equal to the number of Shares on which the cash award is based.

EMPLOYEE SHARE OWNERSHIP PLAN

It is intended that an Employee Share Ownership Plan will be introduced at the beginning of the 2015 financial year. This plan will provide eligible permanent employees of Meridian with the opportunity to buy Shares at their market price, by way of salary deductions. Whilst the precise terms of the programme are still to be determined, it is expected that upon the employees remaining employed by Meridian for three years and certain performance hurdles being met, additional Shares would be granted to those employees at no extra cost.

It is expected that initial participation in the Employee Share Ownership Plan will allow employees to purchase Instalment Receipts until such time as the Shares are listed. Whilst the Instalment Receipts are listed, for each Instalment Receipt acquired, an amount equal to the Final Instalment will be retained from the salary deductions. That amount retained will be used to meet the Final Instalment on behalf of the employee.

The terms of the Employee Share Ownership Plan will be made available to all eligible employees, once those terms are confirmed.

Relationship between Meridian and the Crown

The Crown as a Shareholder of Meridian

The Crown, acting by and through the Shareholding Ministers, is currently the sole shareholder of Meridian. Following completion of the Offer, the Crown will continue to be Meridian's majority shareholder with a holding of at least 51% of the Shares in the Company.

Meridian was a State Owned Enterprise under the State-Owned Enterprises Act 1986 until 30 August 2013, when it became a mixed ownership model company governed by the Public Finance Act. In broad terms, the Public Finance Act and the Constitution provide that the Crown must hold at least 51% of the Shares and no other person may have a relevant interest in more than 10% of the Shares. As the Instalment Receipts confer a relevant interest in the underlying Shares represented by those Instalment Receipts, the 10% Limit also applies to the Instalment Receipts to the extent that a holding of Instalment Receipts gives rise to an interest in more than 10% of the Shares.


Further information on the ownership restrictions is set out under the heading "Shareholding Restrictions" below.

SHAREHOLDER DECISIONS AND GOVERNANCE

Following completion of the Offer, the Crown intends that its shareholding in Meridian will continue to be held by and through the Minister of Finance and the Minister for State-Owned Enterprises and monitored by The Treasury. If Parliament passes a resolution that Meridian is a public organisation, then it will be subject to periodic financial reviews by a select committee established by Parliament.

As the holder of at least 51% of the Shares, the Crown generally will be able to control the outcome of matters put to Shareholders that require majority approval, including resolutions for the election and removal of directors. Further, the Crown's shareholding is likely to have significant influence over the outcome of special resolutions put to Shareholders that require the approval of a 75% majority (for example, resolutions approving changes to the Constitution or approving major transactions of Meridian), especially given the number of shareholders in listed companies who typically do not exercise their respective voting rights.

In addition, the Chair nominated by the board must be approved by the Minister of Finance.

 The other rights that the Crown has as a shareholder of the Company are the same as those of all other Shareholders, which are described in more detail in 7.3 *Statutory Information*.

CAPITAL RAISINGS AND DIVIDEND REINVESTMENT PLANS

The Crown has been a supportive shareholder of Meridian, evidenced by the Crown's support of the Company's investment in domestic and international development projects. Following the Offer, the Crown intends to continue to be supportive of the Company and its plans. This does not imply any guarantee of the Shares by the Crown, or any commitment in respect of future capital contributions.


Due to the ownership restrictions in the Public Finance Act and the Constitution, any future equity capital raising that involves issuing any class of shares in, or voting securities of, Meridian will only be able to proceed if the Crown agrees to participate to the extent required to maintain an interest of at least 51%, as required by the Public Finance Act.

The Crown's ongoing support of future equity capital raisings by the Company will be subject to:

- the board satisfying the Crown that it is in the best interests of the Company to raise equity;
- the Crown being satisfied that it is in its best interests to provide some of that equity;
- the Crown retaining discretion to limit the amount of its participation in the equity raising depending on the circumstances; and
- an appropriation (being an authorisation) from Parliament for the Crown to purchase Shares under the equity raising.

Any decision by the Crown on whether to make equity capital available to Meridian will be made by the Government at the time and will be considered taking into account all relevant factors and circumstances, including competing capital requirements. The outcome of such decisions regarding capital allocation by the Crown may therefore be critical to any equity capital raising Meridian wishes to undertake in the future.

Under the Co-ordination Agreement (as further described in 7.2 *Description of Instalment Receipts and Trust Deed*), Meridian has agreed that until the Final Instalment Payment Date it will not undertake certain corporate actions, including issuing securities (other than debt securities) without Crown consent or implementing a dividend reinvestment plan.

 This risk to Meridian's ability to raise capital is described in more detail under the heading "Availability and Cost of Capital" in 5 *What are the Risks?*

The Company may, in the future, put in place a dividend reinvestment plan that it may seek to activate from time to time. The Crown agrees with the Company that a dividend reinvestment plan may be an appropriate tool for managing the short-term capital needs of the Company resulting from adverse hydrological conditions or other significant unforeseen adverse events.

The Crown intends to consider its support of a dividend reinvestment plan by the Company on the same basis as any other future equity capital raising by Meridian (as described above).

However, a dividend reinvestment plan that would not dilute the Crown's shareholding could be activated without consultation with the Crown. For example, this could include a dividend reinvestment plan satisfied through an on-market buy back of Shares by the Company. In these circumstances the Crown can choose whether or not to participate.

NO GUARANTEE

The Crown does not guarantee the Shares or the Instalment Receipts or any returns in respect of them or the Company or any obligations of the Company.

NZX MAIN BOARD LISTING RULES

Following the completion of the Offer, the Crown (including Crown departments, agencies and entities) and companies in which the Crown has a majority shareholding will be 'Related Parties' of Meridian for the purposes of the NZX Main Board Listing Rules. As a result, any transactions between Meridian and the Crown (including Crown departments, agencies and entities) or other companies in which the Crown has a majority shareholding, that exceed certain materiality thresholds set out in the NZX Main Board Listing Rules, will require the approval of a majority of Shareholders entitled to vote on that transaction. The Crown will not be entitled to exercise its voting rights in favour of any resolution to approve such a transaction. However, NZX has granted a waiver from the requirement to obtain Shareholder approval where Meridian enters into transmission agreements with Transpower in specified circumstances and those agreements exceed the materiality thresholds. The waiver, including the circumstances in which the waiver applies, are described in 7.3 *Statutory Information* under the heading "NZX Main Board Listing Rule Waivers and Approval".

The Crown as a Shareholder of other Mixed Ownership Model Companies and SOEs

The Crown is also currently the sole or majority shareholder of other participants in the New Zealand electricity industry, including Mighty River Power, Genesis Energy and Transpower.

The business activities of these companies affect Meridian's performance and are expected to continue to do so following the completion of the Offer.

GOVERNANCE OF SOEs

As SOEs, the principal objective of each of Genesis Energy and Transpower, as required under the State-Owned Enterprises Act 1986, is to operate as a successful business. In addition, each of Genesis Energy and Transpower is a company incorporated under the Companies Act and has a board of directors that owes duties in accordance with that Act in the same way that company directors in the private sector do.

Genesis Energy is currently, and is expected to continue to be, a competitor of Meridian. Equally, Transpower is currently, and is expected to continue to be, required to deal with Meridian (and Genesis Energy) on an arm's-length basis, notwithstanding the Crown's shareholding in each company.

In addition, the Commerce Act 1986, which prohibits certain anti-competitive behaviour, applies to SOEs in effectively the same way that it applies to private sector companies notwithstanding the fact that each SOE is wholly owned by the Crown. As a result, each of Meridian, Mighty River Power and Genesis Energy have been subject to the restrictions in the Commerce Act 1986 and the sale of Shares by the Crown pursuant to the Offer will not affect the application of those restrictions.

INFORMATION PROVIDED TO THE CROWN

Each SOE provides certain detailed information to The Treasury (on behalf of the Crown), including their respective business plans and other commercially sensitive information. This information is used for the purposes of monitoring the Crown's investment in the relevant company and providing advice to the Shareholding Ministers in relation to any required shareholder decisions.

Under the Public Finance Act, Meridian is required to provide certain limited information to The Treasury that is not publicly available to enable The Treasury to prepare the Government's consolidated financial statements. This information comprises monthly financial statements, and five year forecasts that are submitted twice a year. Mixed ownership model companies are not expected to provide business plans to The Treasury.

The Treasury treats as confidential any information provided to it by an SOE or mixed ownership model company that is not publicly available and, unless required by law, does not disclose it to third parties, including to other companies in which the Crown has an investment. The Crown and the Company have entered into a confidentiality agreement with respect to that information. The Treasury can be compelled by law to disclose information in certain circumstances, including pursuant to the Official Information Act 1982 which provides certain rights of access to information held by Government departments (although access to information can be denied under that Act under certain grounds, including if its disclosure would be likely to unreasonably prejudice the commercial position of the person who supplied it or to protect information that is subject to an obligation of confidence, provided the withholding of the information is not outweighed by the public interest in making it available).

Accordingly, confidential information that the Crown receives from any of Genesis Energy, Mighty River Power or Transpower in its capacity as shareholder of those companies will not be available to the other companies in which it is a shareholder, including Meridian, unless disclosure to them is required by law. However, in making decisions in relation to its shareholdings (including participation in future equity capital raisings), the Crown will have knowledge of that confidential information available to it, subject to the constraints of the Securities Markets Act 1988 and other relevant legislation.

EXTENSION OF THE MIXED OWNERSHIP MODEL TO GENESIS ENERGY

As part of the extension of the mixed ownership model (of which this Offer forms part), the Government has announced that it also proposes selling up to 49% of its shares in Genesis Energy by way of a public offer. The Crown has indicated that the sale of shares in Genesis Energy is likely to take place in the first half of 2014, subject to market conditions, company readiness and other factors.

The Crown as a Regulator

Following completion of the Offer, the activities of Meridian will continue to be regulated by the Crown and certain Government agencies. The relationships between the Crown and the relevant regulatory bodies are summarised below.

ELECTRICITY AUTHORITY AND COMMERCE COMMISSION

As independent Crown entities, the Electricity Authority and the Commerce Commission operate largely independently of the Government. Legislation specifically prohibits responsible Ministers for independent Crown entities from directing the entity to have regard, or give effect, to a Government policy unless the legislation establishing the entity specifically allows for it. In this regard:

- the Electricity Industry Act 2010 provides that the Electricity Authority must have regard to statements of Government policy concerning the electricity industry that are issued by the relevant Minister, although to date no such statements have been issued; and
- the Commerce Act 1986 requires the Commerce Commission to have regard to statements of the economic policies of the Government that are issued in writing from time to time.

However, responsible Ministers are not able to direct either the Electricity Authority or the Commerce Commission in relation to their statutorily independent functions or to require the performance or non-performance of a particular act, or the bringing about of a particular result, in respect of a particular person or persons.

Under the Crown Entities Act 2004, the Minister of State Services and the Minister of Finance may jointly direct Crown entities (including the Electricity Authority and the Commerce Commission) to comply with specified requirements for the purposes of supporting a 'whole of Government' approach and improving public services. A whole of Government direction may not be given in relation to a statutorily independent function or to require the performance or non-performance of a particular act, or the bringing about of a particular result, in respect of a particular person or persons.

MINISTRIES OF BUSINESS, INNOVATION AND EMPLOYMENT (MBIE) AND FOR THE ENVIRONMENT

The MBIE and the Ministry for the Environment are Government departments and form part of the Crown. They provide policy advice on:

- energy issues (MBIE);
- consumer policy (MBIE);
- safety standards (MBIE through the High Hazards Unit);
- workplace safety and health (MBIE); and
- the RMA, renewable generation and electricity transmission policy (Environment).

ENERGY EFFICIENCY AND CONSERVATION AUTHORITY (EECA)

The EECA is not an independent Crown entity in the same way that the Electricity Authority and Commerce Commission are and may be directed by its responsible Minister to give effect to a Government policy that relates to the EECA's functions and objectives.

ELECTRICITY AND GAS COMPLAINTS COMMISSIONER (EGCC)

The EGCC is not a Crown entity. It is an independent dispute resolution service for consumers established by certain industry participants.

ENVIRONMENTAL PROTECTION AUTHORITY (EPA)

Like the EECA, the EPA is not an independent Crown entity and may be directed by its responsible Minister to give effect to a Government policy that relates to the EPA's functions and objectives, including national consenting under the RMA and management of the ETS.

The Crown as a Customer

A number of Crown departments, agencies and entities are customers of Meridian and its subsidiaries.

Contractual Relationships between the Crown and Meridian

In connection with the establishment of ECNZ in 1988, the Crown and ECNZ entered into the Crown Sale Deed pursuant to which the Crown agreed to sell electricity generating assets to ECNZ. To enable ECNZ to be split up in 1999, Meridian and ECNZ entered into an agreement pursuant to which ECNZ would sell certain assets to Meridian, including those comprising the Waitaki hydro scheme and the Manapōuri hydro power station (Meridian Transfer Deed).

Meridian has acquired legal title to all land on which these assets are situated with the exception of the land on which the Manapōuri hydro power station and ancillary wharves sit, a 0.75 hectare freehold parcel on the Pūkaki Canal and two operating easements in the Waitaki power scheme. The Pūkaki Canal parcel and the operating easements remain the subject of negotiation with the Crown.

Except as described below, the Crown has granted Meridian the benefit of all the rights of ECNZ under the Crown Sale Deed as they relate to the assets it purchased from ECNZ. The Crown Sale Deed originally included:

- a right to compensation from the Crown where any tax, royalty, levy or impost was imposed upon Meridian's use of water in respect of its hydro power stations and as a consequence Meridian incurred costs or expenses (which were not reflected in increased prices for energy generally) or was deprived of revenue; and
- an obligation on the Crown to compensate Meridian for any costs arising from resumption for use in a Treaty settlement of the land acquired by the Company from ECNZ that were not covered by compensation under the Public Works Act 1981.

These rights of compensation were never required to be claimed by Meridian or by any of the other companies formed from the separation of ECNZ. As part of the preparatory work for the extension of the mixed ownership model, the Crown considered it desirable for policy reasons for Meridian, Genesis Energy and Mighty River Power to relinquish these rights to ensure that with respect to these matters all generation/retail companies are in the same position and taxpayer capital is not transferred to private investors with no benefit to the Crown. Consequently these rights were relinquished.

Shareholding Restrictions

The Public Finance Act was amended in June 2012 to include restrictions on the ownership of certain types of securities issued by each mixed ownership model company (including Meridian) and consequences for breaching those restrictions. The Constitution and the Trust Deed incorporate these restrictions and mechanisms for monitoring and enforcing them.

A summary of the restrictions on the ownership of Shares under the Public Finance Act, the Constitution and the Trust Deed is set out below. If the Company issues any other class of shares, or other securities which confer voting rights, in the future, the restrictions summarised below would also apply to those other classes of shares or voting securities.

51% HOLDING

The Crown must hold at least 51% of the Shares on issue.

The Company must not issue, acquire or redeem any Shares if such issue, acquisition or redemption would result in the Crown falling below this 51% holding.

10% LIMIT

No person (other than the Crown) may have a 'relevant interest'⁴⁶ in more than 10% of the Shares on issue (10% Limit).

As the Instalment Receipts confer a relevant interest in the underlying Shares represented by those Instalment Receipts, the 10% Limit also applies to the Instalment Receipts to the extent that a holding of Instalment Receipts gives rise to an interest in more than 10% of the Shares. Because Instalment Receipts will represent a maximum of 49% of the Shares (with the Crown holding its Shares directly and not holding Instalment Receipts as a consequence of the Offer), a person may hold more than 10% of all Instalment Receipts on issue so long as those Instalment Receipts do not represent more than 10% of the Shares on issue (including those held by the Crown).

The Company must not issue, acquire or redeem any Shares, and will request the Registrar to not register any transfer of Instalment Receipts, if it has actual knowledge that such issue, acquisition, redemption or transfer will result in any person other than the Crown exceeding the 10% Limit.

Ascertaining Whether a Breach has Occurred

If a holder of Instalment Receipts or Shares breaches the 10% Limit or knows or believes that a person who has a relevant interest in Shares held by that holder may have a relevant interest in Shares in breach of the 10% Limit, the holder must notify the Company of the breach or potential breach.

The Company may require a holder of Shares or Instalment Receipts to provide the Company with a statutory declaration if the board knows or believes that a person is, or is likely to be, in breach of the 10% Limit. That statutory declaration is required to include, where applicable, details of all persons who have a relevant interest in Shares as a result of the Shares or Instalment Receipts held by or on behalf of that holder.

Determining Whether a Breach has Occurred

The Company has the power to determine whether a breach of the 10% Limit has occurred. In broad terms, if:

- the Company considers that a person may be in breach of the 10% Limit; or
- a holder of Instalment Receipts or Shares fails to lodge a

46. In broad terms, a person has a 'relevant interest' in a Share if the person (a) is the registered holder or beneficial owner of the Share; or (b) has the power to exercise, or control the exercise of, a right to vote attached to the Share or has the power to acquire or dispose of, or to control the acquisition or disposition of, that Share. A person may also have a 'relevant interest' in a Share in which another person has a 'relevant interest' depending on the nature of the relationship between them.

statutory declaration when required to do so or lodges a declaration that has not been completed to the reasonable satisfaction of the Company,

then the Company is required to determine whether or not the 10% Limit has been breached and, if so, whether or not that breach was inadvertent. The Company must give the affected Shareholder or holder of Instalment Receipts the opportunity to make representations to the Company before it makes a determination on these matters.

Effect of Exceeding the 10% Limit

A person who is in breach of the 10% Limit must:

- comply with any notice that they receive from the Company requiring them to dispose of Instalment Receipts or Shares or their relevant interest in Shares, or take any other steps that are specified in the notice, for the purpose of remedying the breach and reducing their holding below the 10% Limit; and
- ensure that they are no longer in breach within 60 days after the date on which they became aware, or ought to have been aware, of the breach. If the breach is not remedied within that timeframe, the Company (in the case of Shares) or the Trustee (in the case of Instalment Receipts) may arrange for the sale of the relevant number of Shares or Instalment Receipts, on behalf of the relevant holder. In those circumstances, the Trustee or the Company will pay the net proceeds of sale, after the deduction of any other costs incurred in connection with the sale (including brokerage and the costs of investigating the breach of the 10% Limit), to the relevant holder as soon as practicable after the sale has been completed. Any sale of Instalment Receipts held by Australian residents would take place on either the ASX or the NZX Main Board at the discretion of the Crown. Any sale of Instalment Receipts held by other persons, or any sale of Shares, would take place on the NZX Main Board.

If a relevant interest is held in any Shares in breach of the 10% Limit then, for so long as that breach continues:

- no votes may be cast (either directly by a Shareholder or by a direction given to the Trustee by an Instalment Receipt holder) in respect of any of the Shares in which a relevant interest is held in excess of the 10% Limit; and
- a registered holder of Instalment Receipts or Shares in which a relevant interest in Shares is held in breach of the 10% Limit will not be entitled to receive, in respect of the Shares in which a relevant interest is held in excess of the 10% Limit, any dividend or other distribution authorised by the board in respect of the Shares.

However, if the board determines that a breach of the 10% Limit was not inadvertent, or that it does not have sufficient information to determine that the breach was not inadvertent, then in that case the restrictions on voting and entitlement to receive dividends and other distributions described in the preceding paragraphs will apply in respect of all of the Instalment Receipts or Shares (as applicable) held by the relevant Shareholder or holder (and not just the Shares in which a relevant interest is held in excess of the 10% Limit).

An exercise of a voting right attached to a Share by the Trustee (acting on the direction of a holder of Instalment Receipts) or by a holder of Shares (as applicable) where a relevant interest in that Share is held in breach of the 10% Limit must be disregarded in counting the votes concerned. However, a resolution passed at a meeting is not invalid where votes exercised in breach of the voting restriction were counted by the Company in good faith and without knowledge of the breach.

The board may refuse to register a transfer of Shares and the Company will request the Registrar to refuse to register a transfer of Instalment Receipts if it knows or believes that the transfer will result in a breach of the 10% Limit or where the transferee has failed to lodge a statutory declaration requested from it by the board within 14 days of the date on which the Company gave notice to the transferee to provide such statutory declaration.

Crown Directions

The Crown has the power to direct the board to exercise certain of the powers conferred on it under the Constitution. For example, where the Crown suspects that the 10% Limit has been breached but the board has not taken steps to investigate the suspected breach, the Crown may require the Company to investigate whether a breach of the 10% Limit has occurred or to exercise a power of sale of the relevant Share that has arisen as described under the heading “Effect of Exceeding the 10% Limit” above. The Crown has similar powers in relation to the Instalment Receipts.

Trustee Corporations and Nominee Companies

Trustee corporations (including the Trustee and Public Trust) and nominee companies (that hold securities on behalf of a large number of separate underlying beneficial holders) are exempt from the 10% Limit provided that certain conditions are satisfied. The New Zealand Trustee satisfies these conditions and will be exempt from the 10% Limit in respect of its holding of Shares as Trustee. The Australian Trustee may be subject to the 10% Limit which may, in the future, require an additional Australian Trustee to be appointed by the Crown depending on the holdings of Instalment Receipts by Australian residents.

The Crown as a Treaty Partner

The Crown is a party to the Treaty of Waitangi (Treaty) with Māori. Treaty obligations lie only with the Crown and not with companies or individuals. The manner in which the Crown might choose to respond to Treaty claims and the Crown’s relationship with Māori, however, may have implications for Meridian.

BACKGROUND

The Treaty was entered into between the Crown and Māori in 1840. The New Zealand courts have recognised the constitutional importance of the Treaty but have determined that the Treaty itself is not directly enforceable in New Zealand Courts. However, Treaty principles are incorporated into a number of New Zealand statutes, including the RMA. Treaty obligations attach only to the Crown and do not bind private legal persons such as Meridian, its directors or its Shareholders (other than the Crown).

The Waitangi Tribunal is a permanent commission of inquiry that can inquire into claims by any Māori that the Crown has acted in breach of Treaty principles. Where the Waitangi Tribunal considers a claim to be well-founded, it can make recommendations to the Crown on how to redress any breaches or recognise any rights. Generally, these recommendations are non-binding on the Crown. In very limited circumstances (and as outlined below) the Waitangi Tribunal can issue recommendations in respect of land that are binding on the Crown.

New Zealand courts can apply Treaty principles in relation to actions by the Crown when legislation expressly allows them to do so. The Courts have also been willing to consider the principles of the Treaty when interpreting statutes and reviewing administrative actions of the Crown.

CROWN MUST ACT CONSISTENTLY WITH THE TREATY

Section 45Q of the Public Finance Act provides that nothing in Part 5A of the Public Finance Act permits the Crown to act inconsistently with the principles of the Treaty.

Section 45Q of the Public Finance Act applies to all acts of the Crown in relation to its ownership of Shares. Accordingly, acts of the Crown in relation to its ownership of such Shares must not be inconsistent with the principles of the Treaty.

In broad terms, section 45Q would have implications for the proposed exercise of the relevant power or right by the Crown if that action would impair materially the Crown's ability to recognise rights of Māori protected under the Treaty, or the Crown's ability to provide redress for breaches of such rights.

It is possible that circumstances may arise in the future in which section 45Q is relevant and the Crown is required to exercise rights that it has as the owner of Shares in the Company in a manner that takes into account not only the Crown's commercial interests, but also its obligations as a Treaty partner under the Treaty. This would depend on the nature of the right being exercised and the factual context in which it was being exercised. However, the Crown considers that it is very unlikely that such circumstances will arise in practice.

Neither section 45Q, nor Treaty obligations generally, apply to the Company, its directors and its non-Crown Shareholders.

TREATY SETTLEMENTS

The Crown has accepted a moral obligation to resolve historical Treaty claims and seeks to negotiate settlements directly with claimant groups to do so. An historical Treaty claim is one that relates to acts or omissions of the Crown prior to 21 September 1992. The Crown also accepts that the moral obligation to observe Treaty principles applies to Crown acts and omissions after that date.

Meridian's hydro assets at Waitaki and Manapōuri and the White Hill wind farm fall within traditionally recognised areas of significance to Ngāi Tahu.

A Deed of Settlement, dated 21 November 1997 between Te Rūnunga o Ngāi Tahu and the Crown (the Ngāi Tahu Deed), settled longstanding claims by Ngāi Tahu in connection with certain breaches of the Treaty of Waitangi by the Crown. The Crown gave effect to the redress committed to under the Ngāi Tahu Deed through the Ngāi Tahu Claims Settlement Act 1998 (the Settlement Act). For the purposes of the Ngāi Tahu Deed and the Settlement Act, 'Ngāi Tahu' represents the interests of Ngāi Tahu, Ngāti Mamoe, and Waitaha iwi, and their respective hapū.

The Ngāi Tahu Deed and the Settlement Act settle all historical claims by any Ngāi Tahu claimant, and release the Crown from any liability in respect of such claims, arising out of or which relate to any loss of interests in land, water, rivers, harbours, coastal marine areas, minerals, forests or any natural and physical resources in the Ngāi Tahu claim area. This includes any such claims made by a Ngāi Tahu claimant based on rights arising under the Treaty, in respect of Treaty principles or under any statute or common law duty (including customary law and aboriginal title).

Under Part 9 of the Settlement Act, Ngāi Tahu had rights of first refusal over certain land that is owned by Meridian and which is required by the Company to operate its South Island hydro power stations. Part 9 of the Settlement Act required Meridian, if it elected to sell or otherwise dispose of this land, to first offer it to Ngāi Tahu before offering the land to any other interested parties. Except in respect of one parcel of land, on which a supply depot is situated, Ngāi Tahu irrevocably waived these rights to land owned by Meridian in 2005.

LAND MEMORIALS REGIME

The land memorials regime was introduced in 1988 by amending the State-Owned Enterprises Act 1986 to require that memorials (a formal notation) be registered on certificates of title to all Crown land transferred to SOEs under the State-Owned Enterprises Act 1986. The purpose of these memorials was to protect Māori claims to such land that had not yet been heard and determined by the Waitangi Tribunal. The effect of these memorials is that, in certain circumstances, the Waitangi Tribunal has the power to order the return of such land to Māori ownership. The Waitangi Tribunal has only once (in 1998) used its power to issue interim orders regarding memorialised land to order the resumption of land. A settlement was then agreed and the Waitangi Tribunal did not issue final resumption orders. The absence of binding Waitangi Tribunal orders over SOE land is because historical Treaty claims are generally settled by negotiations between the Crown and the claimants and not through land resumption orders being imposed by the Waitangi Tribunal.

Meridian's hydro power stations are located in Ngāi Tahu territory. Ngāi Tahu settled its historical Treaty claims with the Crown in 1998. As a result of this settlement, no memorials are registered on the titles to the properties on which Meridian's hydro power stations, and the White Hill wind farm, are located.

The Meridian freehold land on which a portion of the West Wind wind farm is situated is subject to resumption memorials (pending settlement of the remaining historical Treaty claims in the Wellington area). No other Meridian wind farm land is subject to land memorials.

WAITANGI TRIBUNAL CLAIMS

The National Freshwater and Geothermal Resources Claim


In early 2012, a claim was lodged with the Waitangi Tribunal that broadly involved two key questions:

- what type of rights and interests (if any) do Maori have in freshwater and geothermal resources under the Treaty, and would the Crown be in breach of the Treaty if it continued with the mixed ownership model?; and
- how those rights (if any) might be best redressed or recognised? (This question is still to be dealt with by the Tribunal.)

The first part of the claim was heard by the Waitangi Tribunal in 2012. The Waitangi Tribunal concluded that when the Treaty was signed, iwi and hapū had the exclusive right to control access to, and use of, water while it was in their tribal area, except to the extent that the Treaty bargain provided for some sharing of the water with incoming settlers. The Treaty also gave the Crown the kāwanatanga (governance) right to manage water in the best interests of all. The Waitangi Tribunal also considered that Māori have residual proprietary rights today in particular water bodies, although it has not yet examined the nature of such rights.

The Waitangi Tribunal considered that the Crown has a Treaty obligation to protect those rights and this warranted a delay in the Crown's initial public offering of shares in Mighty River Power (Mighty River Power Offer) until further consultation took place with Māori on a mechanism to recognise those rights.

Ultimately the Supreme Court allowed the Mighty River Power Offer to proceed. In the Supreme Court, the Crown acknowledged that Maori have rights and interests in water and geothermal resources, and that recognition of those rights and interests must include mechanisms in relation to the ongoing use of those resources. These mechanisms may include decision-making roles in relation to protection, use, access and allocation, and charges or rentals for use. Accordingly, while the Crown has settled all relevant Ngāi Tahu historical claims (see "Treaty Settlements" above), the outcome of this claim may yet still impact on Meridian in the future.

 You can find further information in relation to Waitangi Tribunal claims in *5 What are the Risks?* under the heading "Treaty of Waitangi and Other Claims".

Independent Engineer's Report



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The Directors
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15 July 2013

Independent Engineer's Summary Report on Meridian Energy Limited Power Generation Assets

This letter has been prepared at the request of Meridian Energy Limited (Meridian) for inclusion in a combined prospectus and investment statement relating to the partial sale of Meridian.

Beca Carter Hollings & Ferner Limited (Beca) is a provider of engineering and related consultancy services. In February 2013, Beca was retained by Meridian to conduct an independent engineer's review of the Meridian power generating assets described below and to provide a written report (Report) on its findings.

Beca led this review, with support from its sub consultant, AMEC Americas Limited (AMEC). Details of the qualifications of the key individuals involved in the review are set out later in this letter.

The purpose of this letter is to summarise the key opinions expressed in Beca's full Report of 5 June 2013.

Study Scope and Process

In summary, Beca reviewed information provided by Meridian (Meridian Information) and conducted short site visits to:

- Review the condition of Meridian's New Zealand and Australian based power generation and associated assets, including the New Zealand hydro system and wind farm system and the Australian wind farm system (together, the Meridian System);
- Review and assess asset management plans and operation and maintenance plans as to their appropriateness and consistency with what would be expected of a prudent owner of the Meridian System;
- Review material risks to the ongoing operation of the existing generation assets;
- Review and assess asset management plans and processes, including information systems, to confirm whether they are appropriate to ensure the ongoing viability of each generation facility; and
- Assess the ability of Meridian to continue to operate the Meridian System for the foreseeable future.

Further detail regarding Beca's scope is set out in the final section of this letter.

Beca's Opinion

On the basis of our review of the Meridian Information and our short site visits, and subject to the assumptions, qualifications and limitations set out in this letter and the Report, Beca offers the following opinions.

Condition of Assets

- The Meridian System appears to be generally in a good state of repair for a system of its type and having regard to its age and the environment in which it operates.
- The Meridian System appears to be generally well equipped with adequate physical facilities and processes to continue operating the Meridian System.
- Operating and maintenance practices reviewed by Beca are consistent with prudent industry practices as observed in developed countries.
- Meridian's maintenance records indicate the Meridian System appears generally adequately maintained and is supported by projected maintenance and capital asset replacement plans.
- The Meridian System should have a useful life beyond 2022, assuming that the current operating and maintenance practices continue.

Maintenance and Capital Programmes

Meridian has comprehensive plans established that define rules for preventative maintenance, refurbishment and asset replacement, based on factors such as number of operations, number of years in service and condition assessments.

Hydro System

Meridian has completed major refurbishment projects of the generating plant at Aviemore, Manapōuri and Benmore in 2000, 2005 and 2011, respectively.

The generator transformers have been refurbished and upgraded at Manapōuri and Ōhau A (completed in 2000 and 2008, respectively) and new transformers have been installed at Aviemore and Benmore (completed in 2012 and 2013, respectively).

Meridian is part way through a transformer refurbishment project at Ōhau B and C, however the main refurbishment work on the generators, turbines, excitation, protection systems and Structural Safety Evaluation work is not due to start until 2015.

Structural Safety Evaluations have been completed on the Aviemore and Waitaki dam structures, with upgrade works completed at Aviemore in 2006.

Meridian upgraded its fire protection systems to current industry standards throughout the hydro power stations during the period 2006 to 2012, with the exception of the CO₂ fire suppression systems in the generators at the Waitaki power station. Waitaki is scheduled to be upgraded by July 2014.

The Waitaki power station major refurbishment project is now underway. The second stage (comprising a major upgrade and refurbishment of the generating units) is expected to commence within the next five to ten years and will take three to four years to complete.

Wind Farm System

All of Meridian's New Zealand and Australian wind energy assets were found to be generally consistent with wind industry best practices. This applies to the design, construction, operation and maintenance. Meridian's management and staff appear to be proactive in operation of the assets.

Beca considers that Meridian's maintenance and capital asset replacement programmes (in relation to both hydro and wind farm systems) are consistent with what would be expected of a prudent asset owner, taking into account the age and condition of the assets.

Meridian Risks, Mitigation Processes and Strategies

In this section, we outline key risks to the ongoing operation of the Meridian System. As instructed by Meridian, Beca's review was limited to assessing risks reasonably likely to have a Balance Sheet impact of greater than NZ\$100 million (BSM) and Profit and Loss impact of greater than NZ\$5 million (PLM).

Natural Disasters

Natural disasters are not uncommon in New Zealand and Australia. While such disasters can never be mitigated entirely, and have not been assessed as to likelihood, we consider Meridian has appropriate emergency response processes in place to mitigate these events in a manner consistent with a prudent asset owner, taking into account the age and condition of the Meridian System.

Dam Safety

In particular, the Dam Safety Assurance Programme (DSAP) is a long term care programme that Meridian has in place to proactively manage the safety of dams and their associated hydraulic structures so as to mitigate catastrophes associated with these natural disasters. The DSAP includes regular inspections, monitoring of structures and testing of spillway and diversion systems, and requires that any issues identified that relate to the structural integrity of the dams and the ability to enable controlled release from the reservoirs are addressed to ensure continued safe operation.

We reviewed reports in relation to the potential impact of extreme seismic loads at each of the Waitaki sites. Those reports state Meridian's hydraulic structures are unlikely to fail under the Safety Evaluation Earthquake seismic load criteria, although there remains some uncertainty regarding the effects on the Pūkaki Canal from rupture of the Ostler Fault. Meridian is undertaking a prioritised programme of structural safety evaluations of all its hydraulic structures. Moreover a failure of the Manapōuri Lake Control Gates while highly unlikely may result in a reduction in the lake level below Meridian's minimum consent to operate the Manapōuri power station. The occurrence of either event may meet the PLM threshold.

Fire

Fire detection, sprinkler, and deluge systems provide coverage for the highest priority equipment.

As noted above, Meridian upgraded its fire protection systems to current industry standards throughout the hydro power stations during the period 2006 to 2012, with the exception of the CO₂ fire suppression systems in the generators at the Waitaki power station. Waitaki is scheduled to be upgraded by July 2014. A major fire resulting from the failure of fire suppression systems at any of the stations is considered unlikely, but may result in outages that meet the PLM threshold.

Equipment Failure

Meridian has a maintenance refurbishment and capital asset replacement programme in place that is consistent with what would be expected of a prudent asset owner taking into account the age and condition of the assets.

In the unlikely event that a single generating unit fails at the hydro stations or at the wind farms it is unlikely that the BSM threshold would be met because of the capacity factor of the overall system and individual stations, multiple/redundant components/systems at stations, and multiple units at each station and excess generating capacity in the system. It is possible however that the PLM threshold might be met in any given year.

Hydro System

The generator stators at the Waitaki power station are considered to be in imminent failure condition but have been operating this way since 1992. A single non-earth surge could affect more than one unit. Given the number of units there is spare generating capacity so a "run to first unit failure mode" has been adopted. Upon first failure the upgrade programme for the generating units will be initiated. A multiple unit failure (four or more) of a duration of greater than eight months may meet the PLM threshold.

The cooling oil in the transformers at Manapōuri contains an anti-oxidising corrosive sulphur compound that is known to lead to the deposition of conductive copper sulphide on the winding insulation of power transformers that may, over time, lead to a transformer failure. This is an unquantifiable risk as there is uncertainty as to the level of deposition that may cause a transformer failure. Meridian has a programme to monitor the situation, replace the oil, and continue monitoring the situation after the oil is replaced, in an effort to mitigate the risk of failure. A single unit outage at Manapōuri for a duration of greater than eight months may meet the PLM threshold.

Given the serial water connection between Ōhau A and Ōhau B and Ōhau C stations, a single unit outage at Ōhau A for duration of greater than eight months may meet the PLM threshold.

The probability of any of these events is low to moderate for Manapōuri, low for Waitaki, and very low for Ōhau A.

Wind Farm System

The transformers at White Hill and Te Āpiti are subject to the same issues as the transformers at Manapōuri and Meridian has implemented a similar programme as Manapōuri at White Hill and Te Āpiti to mitigate the risk of failure. Loss of a transformer would result in a shutdown of the relevant windfarm, which would meet the PLM threshold in as little as four months.

Other than the transformers at White Hill and Te Āpiti, it is unlikely that any interruption to the wind farm system other than a catastrophic event will meet the BSM or PLM threshold.

Operator and Maintenance Error

Meridian has demonstrated a proactive approach to problem solving and the optimising of station performance. Ongoing training programmes, including graduate engineer and apprenticeship programmes, are a proactive means to address the aging workforce and natural attrition. It is unlikely that operator/maintenance error would result in the materiality thresholds being met.

Management, Organisation and Personnel

The Meridian System current management staff and workforce seem knowledgeable and have demonstrated the capability to manage, operate and maintain the Meridian System. Operating and maintenance practices at the Meridian System are consistent with prudent industry practices as observed in developed countries. The Meridian System management has demonstrated a proactive approach to problem solving and the optimisation of plant performance. Communication and coordination between the different working groups (eg Strategic Engineering, Tactical Engineering, Operations, Commercial and trading) appears to function quite well.

Meridian's current maintenance and capital asset replacement programme seem reasonable. The major equipment management strategies are logical, practical, and appear to be employed in their overall programming.

Meridian has two internal training programmes; a two year programme for trades apprenticeships; and a three year programme for graduate engineers. While there is not always a vacant position for graduates of these programmes, it gives Meridian early insight into aptitude and competency of future employees.

ICT and Control Systems

Overall Meridian appears to have a robust Information Communication Technology (ICT) organisation structure with an expected level of centralised ICT functional management, and appropriate integration into the operational business. The risks of the major upgrade of the Generation Control System (GCS) appear to be understood and with mitigation strategies in hand both pre and post go-live. The state of the Computerised Maintenance Management System (CMMS) and asset management systems appears consistent with expectations and similar organisations. Two main risks were identified:

- Loss of central GCS control. In the short term, until the planned GCS upgrade is complete, there is a risk of hardware failure. The other potential cause of loss of central GCS control is deliberate cyber-attack, with risk heightened both due to publicity around the float, and the upgrade of control system technology to contemporary ICT. Meridian appears to be applying the level of mitigation expected to mitigate this risk; however the probability and consequence are difficult to quantify. The PLM threshold may be reached if central GCS control was lost for ten days or more.
- Hostile take-over of remote or back up control centres. This will be mitigated by the GCS upgrade project which will have additional security layers in the control system, allowing central control to lock out other control centres.

Asset Management

Meridian's Asset Management Plan is mature and well developed for the hydro assets. For wind farms, the predominant industry business model is for the Original Equipment Manufacturer (OEM) to provide contractual operational and maintenance support under a warranty period and Meridian has followed this model. As the OEM contracts and warranty periods expire, Meridian is taking appropriate actions to develop a five year strategy and supporting processes to manage these wind farm assets.

Qualifications of Review Team

Chris Styan, Senior Consultant, Dip. Tech (Electronics), BCIT

Blair Seckington, Director Power Technology, BaSc (Mechanical), P.Eng (Ontario, Newfoundland)

Ian Shepanik, Senior Consultant, P.Eng (Ontario)

Dr. Thomas Hyde, Director, BE (Chemical and Materials), PhD (Chemical Engineering)

Terry Littlewood, Technical Director – Electrical & Controls, B.E. (Electrical and Electronics)

Dr. James Burr, Technical Director – Geotechnical, BE (Civil) (1st class Hons), PhD (Geotechnical Engineering), CPEng, Category A Recognised Engineer (Dam Safety Regulations)

Ian Jackson, Technical Director – Asset Services, BSc (Hons), Higher Diploma In Aerospace Studies

Dr. Peter McCafferty, General Manager – Power, BEng (Hons) (Electrical and Electronic), PhD (Electrical and Electronic Engineering), MIET

Pat Fail, Consultant, B.E. (Chemical), C.Eng, MChemE, FIPENZ.

Assumptions, Limitations and Qualifications

The following is a list of principal assumptions made by Beca in developing the Report and preparing this letter:

- Beca has assumed that the Meridian System will continue to be operated and maintained by staff as equally competent as Meridian's present staff and workforce and in accordance with the policies, standards and practices set out in the operating and maintenance plans reviewed by Beca.
- Beca has assumed that Meridian will continue to operate and maintain the Meridian System in accordance with good engineering practice, employing preventive maintenance systems, capital replacement programmes and operating procedures that meet industry standards observed in developed countries, which are commensurate with the requirements for uninterrupted operation of the Meridian System at projected levels of production and quality, and do not exceed the practical operating limits of the Meridian System (or any component thereof).
- Beca has assumed that the properties of fuel to the Meridian System will remain consistent with that of fuel supplied to the Meridian System during its recent operating period.
- Beca has assumed that Meridian will continue with its capital asset replacement/rebuild programme for the Meridian System in accordance with the programme reviewed by Beca.

In accordance with Beca's scope of work, a number of matters were excluded from Beca's review, as detailed in full in the body of the Report. In broad terms, Beca did not review or make any determination regarding:

- Legal, regulatory, insurance, commercial, financial, environmental or hydrological volatility issues;
- The suitability of Meridian's generation technology;
- The likelihood of occurrence of any earthquake, volcanic eruption or other natural disaster;
- The impact of changes in the Socio-Economic-Political environment of New Zealand or Australia;
- The availability, access to, and management of fuel (water and wind);
- Issues relating to transmission system constraints, interruptions and/or failures; and
- The electricity markets in New Zealand and Australia.

Site reviews were limited to physical visits of 1 to 4 hours to each of the sites in the Meridian System. No internal inspections or independent testing was carried out on individual units or plant. Following each site visit, Beca reviewed, over a two week period, the Meridian Information for that site. While additional information relevant to the Meridian System may be known to individuals within Beca or its sub consultant, such knowledge cannot be imputed to the team involved in the preparation of the Report and such knowledge (if any) did not form part of Beca's review.

Beca's review was completed on 10 May 2013. Neither the Report nor this letter address any information provided, or matter, fact or circumstance occurring after those dates in respect of the relevant parts of the Meridian System.

In completing its review, Beca relied upon the accuracy and completeness of all information, data, projections and assumptions provided to Beca by, or on behalf of, Meridian. Beca did not audit or verify the accuracy or completeness of such information. To the extent such information is inaccurate or incomplete, the opinions expressed by Beca in this letter may no longer be valid and should be reviewed.

While Beca believes the use of the assumptions detailed in this letter and the Report were reasonable for the purposes of the review, Beca makes no assurances with respect thereto and some assumptions may vary significantly due to unforeseen events and circumstances. To the extent that conditions differ from those assumed in the Report, opinions expressed by Beca in the Report and this letter may no longer be valid and should be reviewed.

This letter sets out Beca's professional opinion on the matters addressed in it based on Beca's review of the Meridian Information and no statement in this letter should be construed as a statement of fact by Beca. Draft versions of this letter and the Report were provided to Meridian together with a request to confirm that there are no material errors or omissions in the Report or the letter. Confirmation has been provided to and relied upon by Beca.

This letter and the Report were prepared for the sole use of Meridian in accordance with the terms of engagement between Beca and Meridian. Unless otherwise agreed by Beca in writing and to the maximum extent permitted by law, no other person is entitled to rely on this letter or the Report.

This letter addresses Beca's key findings in the Report only. This means that certain elements of the Report are not included in this letter, and such matters may be relevant to a more detailed understanding of the Beca work and findings (which is beyond the purpose of this letter).

Beca makes no recommendation or comment on and gives no guarantee in respect of the securities being offered under the combined Prospectus and Investment Statement in which this letter is incorporated.

Yours sincerely



Thomas Hyde
Director

on behalf of

Beca Carter Hollings & Ferner Ltd

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Hydro technicians at Benmore hydro power station.



05

What are the Risks?


<i>In this section</i>	<i>Why should you read this section?</i>
Principal Risks for Investors 92	You will better understand the risks of making an investment in Meridian, including the specific risks faced by Meridian’s operations, business and financial performance.
Meridian Specific Risks..... 92	This section is very important and should be read in full.
Instalment Receipt Specific Risks..... 102	
General Investment Risks 102	
Consequences of Insolvency 103	

Principal Risks for Investors

Your principal risk is that you may not be able to get back some or all of your original investment or you may not receive the returns you expect. This could happen for a number of reasons, including that:

- the price at which you are able to sell your Instalment Receipts or, after payment of the Final Instalment, your Shares is less than the price you paid for them;
- you are unable to sell your Instalment Receipts or, after payment of the Final Instalment, your Shares at all – for instance, because there are not enough buyers in the market;
- the Company does not pay dividends to the level you expected, or at all. Meridian's profits are variable and this can adversely affect the dividend paid;
- the operational and financial performance of Meridian is worse than expected; or
- the Company becomes insolvent and is placed in receivership or liquidation - if this were to occur prior to the Final Instalment Payment Date you would still be obliged to pay the Final Instalment despite the Company's insolvency.

Any investment in the share market has risks associated with it, and this investment is no exception. The key risks specific to Meridian and other general market risks are set out in this section. These risks, if they were to occur, could materially adversely affect the financial position or performance of Meridian through reduced revenue, increased costs, loss of customers, damage to reputation or a combination of these.

 You should consider such risk factors together with the other information in this Offer Document. In particular, you should read [4.2 Business Description](#), [4.3 Board, Management and Corporate Governance](#) and [6 Financial Information](#) for further information on how Meridian manages the risks facing its business.

The risk factors set out below are not the only ones faced by Meridian. There may be additional risk factors of which Meridian is currently unaware, or that Meridian currently deems not material but which may subsequently become key risk factors for Meridian.

Meridian Specific Risks**AVAILABILITY OF WATER**

Meridian's hydro generation (comprising approximately 90% of its New Zealand generation) is dependent on the availability of, and access to, water. The principal risks to Meridian include that it is unable to generate expected levels of electricity due to either temporarily or permanently reduced availability of, or access to, water. This may adversely affect Meridian's future operating results. Lower levels of hydro generation may arise from a number of factors, including:

- **Adverse Hydrological Conditions**

The Waitaki and Manapōuri hydro systems are heavily influenced by seasonal hydrological conditions. Adverse hydrological conditions, resulting from dry periods or drought conditions in the catchment area of the Waitaki or Manapōuri hydro systems, may reduce water levels and significantly affect Meridian's generation capability. Low levels of storage as a result of low inflows often coincide with high wholesale market prices. If that occurs, Meridian may be forced to purchase electricity from the wholesale market at those high prices to meet its customer commitments at a time when it is generating less electricity to sell into the wholesale market. The financial consequences of the low inflows experienced in 2012 in the Waitaki catchment are an example of this risk. The prospective financial information included in *6.5 Prospective Financial Information* has been prepared on the basis of average outcomes of hydrological conditions. Actual conditions experienced during FY2014 and FY2015 are likely to be different. As a result, Meridian's actual financial performance is likely to differ from that forecast.

- **Lake Pūkaki Inflows from Tekapo Power Scheme**

Meridian relies, in part, on inflows to Lake Pūkaki from the Tekapo power scheme managed by Genesis Energy. Genesis Energy purchased the Tekapo power stations from Meridian on 1 June 2011 and holds resource consents to operate that power scheme until 30 April 2025. As part of that sale, Meridian and Genesis Energy entered into a water management agreement,⁴⁷ which, amongst other things, obliges Genesis Energy to pass minimum monthly volumes of water through the Tekapo power stations to Meridian during normal operating conditions. After the water management agreement expires in 2025, Genesis Energy or any subsequent owner of the Tekapo power stations will not have this obligation and therefore could adjust its operations or permit additional extraction of water for irrigation in a way that diverts inflows away from Lake Pūkaki, which could reduce Meridian's generation capability on the Waitaki hydro system.

47. The water management agreement between Meridian and Genesis Energy is publicly available at [www.dia.govt.nz/Pubforms.nsf/NZGZT/Supplement_Treasury93Jul11.pdf/\\$file/Supplement_Treasury93Jul11.pdf](http://www.dia.govt.nz/Pubforms.nsf/NZGZT/Supplement_Treasury93Jul11.pdf/$file/Supplement_Treasury93Jul11.pdf)

- **Multiple Users Accessing Water**

The water that Meridian uses to generate electricity is a scarce resource. Meridian may face increasing competition from other users, for example irrigation, which might cause a shortfall in the quantity of available water.

OTHER FUEL SECURITY AND SUPPLY RISKS

Other fuel security and supply risks which can result in lower levels of generation or increased costs of generation for Meridian include:

- **Resource Consents and Other Environmental Approvals**

Meridian relies on resource consents and other environmental approvals to construct and operate its wind farms and to access water for, and to operate, its hydro generation sites, and the surrounding affected catchments (rivers and lakes). Each consent or approval is issued subject to conditions that must be complied with and which may be reviewed under certain circumstances. Consents that expire, such as the water permits associated with Meridian's hydro schemes, may not be re-consented, or may be re-consented on terms that are less favourable to Meridian. Over time, the planning framework against which any resource consent is assessed may become less favourable making it harder to re-consent or leading to a tougher operating regime. Existing land use consents issued in respect of the construction and operation of Meridian's wind farms do not usually have expiration dates. Any changes to resource consents that arise out of the re-consenting process could restrict or stop generation, or new consented operating conditions may be commercially unfavourable. There is also a risk that Meridian may breach the conditions of its consents or not hold all required consents for its activities. The consequences of such breaches or failure to hold consents can include abatement notices by the relevant authority or enforcement orders by the Environment Court requiring that the non-compliant or non-consented activities cease, remedial work be undertaken or compensation be paid. Breaches of relevant consents or enforcement orders may also result in Meridian being prosecuted.

You can find out more about the resource consenting and review process in [3 Industry Overview](#) and about the term of Meridian's consents in [4.2 Business Description](#).

- **Wind Variability**

The generation from Meridian's wind farms is heavily influenced by varying wind levels. Periods of low wind significantly affect Meridian's wind generation capacity.

- **Government Regulation of Resource Use and Access**

The Government, local councils or other regulatory bodies may impose restrictions, conditions or additional costs on the ability of Meridian to access or use hydro, wind and other fuel sources. Examples include imposing limits on minimum flows or maximum nutrient levels in rivers

which have hydro generation and imposing charges or royalty payments on users of water. Future plan changes may also adversely affect activities which are currently permitted without resource consents. National or regional water policies could be changed to allocate more water to agricultural users or to meet specified iwi interests or for other purposes, reducing the available flow from the Waitaki or Manapōuri catchments for Meridian. The Government is in the process of developing a package of reforms for freshwater and resource management systems. A further description of this process is set out in [4.2 Business Description](#). Meridian could be adversely affected by such restrictions, conditions or additional costs to the extent that it is not able to pass on such costs to customers.

LABOUR-GREEN PROPOSED MARKET REFORM

On 18 April 2013, two opposition political parties, the Green Party of Aotearoa New Zealand and the New Zealand Labour Party, announced separate proposals for electricity sector regulatory reform. These proposals do not include complete plans for reform, and the final outcome of any reform initiative is uncertain. It is also uncertain whether either party will have the political opportunity to implement their respective proposals. The following are some key features of the proposals of relevance to Meridian:

- **Single-Buyer Model**

A common feature of the proposals is the establishment of a state agency to act as a single buyer of wholesale electricity from generators. The Labour Party claims that its proposed reforms will reduce total electricity charges by between \$500 million and \$700 million per year. The Green Party proposal estimates \$750 million a year in savings. These figures imply that Meridian's electricity revenues would be materially lower if this proposal were to be implemented. These estimated reductions and savings are in respect of the electricity industry generally, and are not specific to Meridian. However, because under the Labour Party's proposal the single wholesale electricity buyer would set prices for each generator based on that generator's historical capital, with some adjustment for inflation, and on current operating costs, owners of low-operating-cost generation assets such as Meridian's hydro assets would expect to face significantly greater reductions in electricity revenue than owners of higher-operating-cost assets if this proposal were implemented.

- **Retail Separation and Pricing**

The Labour Party's proposal includes a potential separation of generation and retail activities in the electricity sector. This could result in the separation of Meridian into two, distinct businesses with separate boards of directors and management teams. The proposals also include regulation of the retail price of electricity. The Labour Party and the Green Party have proposed different approaches to the regulation of retail prices.

- **Central Planning**

Under both proposals, responsibility for planning and procuring new electricity generation projects would be placed with the new, single-buyer state agency rather than the electricity generation companies.

As the proposals are incomplete, it is possible that the features summarised above change significantly before any eventual implementation. It is also possible that none, or all, of these proposals come into effect. As acknowledged in the Green Party's discussion paper on its proposal, if approved, it would take time to fully implement the single-buyer model. The Ministry of Economic Development's 2006 Review of the New Zealand Electricity Market (which considered a single-buyer model as one of two alternatives to the competitive market model) envisaged a two year pre-launch timetable, followed by the single buyer gradually replacing the existing wholesale market over the following two years. While the implementation, timing, and details of these proposals are uncertain, their implementation as currently proposed would have a material adverse effect on Meridian. The effect of this regulatory uncertainty was illustrated by the decrease in the share price of certain electricity sector participants following announcement of the proposals. If political developments make it appear more likely that these proposals will be implemented, Meridian's share price may be adversely affected.

POWER STATION AVAILABILITY RISKS

Meridian's ability to generate electricity is dependent on the continued efficient operation of its power stations. The viability, efficiency or operability of Meridian's power stations could be adversely affected by a range of factors, including:

- **Plant Failure**

Meridian relies upon various pieces of equipment and technology at each of its power stations. If any pieces of material equipment or technology, including, for example, turbines or control gates, suffer failures requiring unplanned power station outages, replacement or repair, Meridian's generation production may be reduced. Wind farms generally use the same plant throughout one site. Serial defects may therefore have an adverse effect on the operation of a particular wind farm plant to the extent they are not covered by warranties or other remediation.

- **Generation Technology**

Meridian makes long-term investments in its power stations. If significant advances in technology occur, these power stations may be rendered relatively less competitive or obsolete, due to the reduced marginal cost of new entrant plant. In addition, changes in technology or unexpected issues arising from Meridian's ongoing asset management and maintenance programme may increase costs for Meridian or reduce its generation production.

- **Catastrophic Events**

A catastrophic event such as a major earthquake, landslide, fire, flood, cyclone, explosion, act of terrorism or other disaster, could adversely affect or cause a failure of any or all of Meridian's power stations or other operations, or failure of the national high voltage transmission grid. Such an event could also affect major consumers of electricity (including Meridian customers), which could have an adverse effect on the markets in which Meridian operates or third party property owners. Meridian currently insures for material damage and business interruption losses up to \$900 million. It is possible that the insurance portfolio will not provide sufficient cover under situations where a single catastrophic event occurs or multiple catastrophic events occur in succession or where insurers contest or delay paying an insurance claim.

- **Reliance on Third Party Providers**

There is a risk that goods and services that are required for plant maintenance, repair and operation are difficult to procure, or will not be delivered on time or to the necessary quality or expected cost.

OTHER OPERATIONAL RISKS

Meridian has a large, complex and highly specialised business which presents a number of other operational risks, including:

- **Health and Safety**

There is a risk that an incident could lead to a fatality of staff, a contractor or a member of the public. Meridian operates in a technically challenging environment with extremely large electrical and mechanical assets including underground, inside large structures, on tall wind and hydro structures and in close proximity to large volumes of water. Staff are exposed to hazards on operating assets, on construction sites at Mill Creek and Mt Mercer and in remote locations requiring a lot of on-road and off-road driving.

- **Operational Error**

An error made in the operation of one or more of Meridian's power stations or related infrastructure could have a significant adverse effect on Meridian, the electricity market or the environment, including the safety of its employees, contractors, customers or the general public.

- **Information Technology and Telecommunications System or Asset Failure**

Meridian relies upon various information technology and telecommunications systems and assets to operate its business. If some or all of these systems or assets were compromised or some or all of these systems or assets were to suffer unexpected failure or require upgrading earlier than planned, Meridian's financial performance or the safety of its employees, customers and the general public could be adversely affected. In particular, all generation is controlled centrally from Meridian's Wellington office. Failure of the generation control system could cause material disruption to

Meridian's business. Meridian from time to time undertakes projects relating to the upgrade and/or replacement of its information technology systems. Any delays to, or failure in, the implementation of such projects could have an adverse impact on Meridian's financial performance.

- **Information Technology Security**

There is a risk that the security of critical information technology systems could be compromised. If such a compromise did occur it may interrupt or disable critical systems. Meridian could incur costs to stop the attack, repair the systems and mitigate any business interruption. Meridian's reputation would likely suffer due to reduced service, potential environmental damage, potential risk to public safety, and perception of poor security and the Company may be exposed to subsequent fines and penalties.

- **Acts of Vandalism or Protest**

Meridian's operations may be adversely affected by an act of vandalism or protest at one or more of its sites.

SHORT-TERM WHOLESALE MARKET PRICE RISK

Meridian is exposed to wholesale electricity prices both as a seller of the electricity it generates and as a buyer of the electricity it supplies to its customers. A large proportion of Meridian's generation costs and the prices it charges its customers are fixed, while wholesale electricity prices are set by the market and can be volatile. Wholesale prices are influenced by many independent factors including hydrological conditions, power station availability, transmission constraints, competitor behaviour, regulatory changes and wider market demand and supply conditions. High wholesale prices create a risk that Meridian may have to purchase electricity at prices higher than those it charges its customers, while low wholesale prices create a risk that the revenue Meridian receives for selling the electricity it generates does not cover its costs. Wholesale prices are uncapped which means that the financial impacts on Meridian can potentially be significant.

While Meridian constructs its portfolio of generation and sales to customers so that it generally generates more electricity than it sells to customers, the position may be reversed for a number of reasons, including dry periods or drought conditions in the South Island, where Meridian's hydro assets are located, planned or unplanned outages at its power stations or unusually high demand, which may occur as a result of unusual weather conditions. Other factors that can impact Meridian's exposure to wholesale electricity prices are:

- **Nodal Pricing**

Because New Zealand has a system of nodal pricing and the NEM (in Australia) has a system of regional nodal pricing (that is, the wholesale price at each node (or regional reference node in Australia) is a function of supply and demand at that node), wholesale prices may vary significantly between reference nodes. These differences can be driven by any, or a combination of, different

hydrological or other weather conditions in different regions, transmission constraints preventing the free flow of electricity from nodes with excess supply to nodes with constrained supply, and competitor behaviour, where generators exert temporary local pricing power. An example of this occurred in New Zealand on 26 March 2011, when a planned grid outage led to significantly elevated wholesale market prices of around \$19,000/MWh in the upper North Island. Although the Electricity Authority reset the price to \$3,000/MWh, Meridian's financial results were negatively affected by having to purchase electricity to supply North Island customers at the elevated prices.

- **Transmission Constraints**

Historically, capacity constraints and outages in the HVDC link between the North and South Islands have been key drivers of price separation between the North Island and South Island. Transpower is currently completing a project to upgrade the HVDC link (as described in *3 Industry Overview*) which should reduce the degree and frequency of transmission constraints between islands, but the effectiveness of the improved link in reducing price differences is yet to be tested under adverse conditions. A key assumption included in *6.5 Prospective Financial Information* is that transmission outages required by Transpower to complete the commissioning of the upgraded HVDC link will align with the published project outage schedule (as at 26 July 2013). If the timing and/or extent of the required outages differ significantly from those published, these could have a material impact on Meridian's Energy Margin for the year ending 30 June 2014.

TIWAI POINT ALUMINIUM SMELTER

NZAS is Meridian's largest customer. Details of the NZAS Agreement are described in *4.2 Business Description* under the heading "NZAS Agreement".

If NZAS closes its Tiwai Point aluminium smelter or significantly reduces its electricity consumption (whether or not it also terminates or breaches its agreement with Meridian), Meridian is likely to be adversely impacted. This is because such a closure or reduction is likely to result in a reduction in Meridian's revenue, largely caused by a reduction in electricity prices (both wholesale and retail).

The size of any such reductions in Meridian's revenue and associated losses, and therefore the severity of the impact on Meridian, would depend on a number of variables including the volume of NZAS's reduction, the period over which NZAS's reduction occurs, transmission constraints, the rate of residual New Zealand electricity demand growth and the response by generators and electricity market participants. For example, other electricity generators with thermal generation plant could elect to mothball or retire their plant which could have the effect of reducing the supply of electricity and may moderate any reduction in wholesale electricity prices. In some circumstances, the impact on Meridian may be severe.

The transmission constraints arise because the transmission system is configured for current consumption, including NZAS's consumption, and would require upgrading if NZAS's consumption significantly reduces. Further information about the upgrade required is set out in 4.2 *Business Description* under the heading "Manapōuri Hydro Station". Until that upgrade is completed, Meridian's revenue would be lower because it would not be able to generate its full capacity at its Manapōuri hydro station. After the upgrade is completed, Meridian would be able to generate from a significant majority of capacity at that station, but its revenue would still be likely to be lower compared to its likely revenue immediately prior to NZAS's reduction because of lower electricity prices.

Under the NZAS Agreement, Meridian provides prudential security to the New Zealand electricity market on NZAS's behalf for the first amount of electricity NZAS takes up to the CFD quantity (plus GST and ancillary services) which means that, if NZAS does not pay the electricity market for that electricity, Meridian would have to make that payment. Meridian has a number of rights in the NZAS Agreement to assist it to manage this credit risk, including that it pays its CFD payment directly to the electricity market (which ensures that NZAS's payment for electricity is at least partially paid), having guarantees from NZAS's guarantors to cover NZAS's repayment of amounts paid by Meridian under the prudential security (although those guarantees are capped) and having the right to terminate the NZAS Agreement (and therefore its obligation to provide the prudential security in the future) if NZAS fails to pay an amount due under that agreement.

NZAS may also fail to pay other amounts owing to Meridian under the NZAS Agreement. The impact that any failure by NZAS to pay an amount owing under the NZAS Agreement would have on Meridian would depend on a number of factors including whether the amount owing were guaranteed by NZAS's guarantors and was within the cap under those guarantees, wholesale electricity prices at that time, and whether NZAS continued to, or ceased, consuming electricity at the same time that it failed to pay. In addition, the CFD fixed price under the NZAS Agreement escalates with the consumers price index rather than with wholesale electricity prices. Meridian may be adversely affected if the movements in that index significantly diverge from wholesale electricity prices as its CFD payments to NZAS would increase.

LONGER-TERM ELECTRICITY MARKET EXPOSURE RISKS

The level of customer demand relative to supply from generators is a key determinant of electricity prices over the longer-term. A fall in demand or generation over supply may adversely affect prices, potentially for a sustained period.

- **Factors Affecting Demand**

Demand can be affected by a number of factors, including level of activity in the industrial sector, competitor behaviour, regulatory changes, population growth, economic conditions, technological advances in the more efficient use and generation of electricity (including by customers, potentially as a consequence of regulatory subsidisation of

competing technologies) and weather (for further discussion on weather effects on demand, refer to 6.3 *Analysis of Historical Financial and Operational Performance*), all of which could affect electricity prices.

- **Factors Affecting Supply**

Supply may increase in advance of any material increase in demand, resulting in downward pressure on electricity prices. Supply may increase as a consequence of a number of factors, including capacity-increasing advances in power station technology or the continued operation of plants previously signalled as 'end-of-life'. Additional factors affecting supply include:

- **New Generation Build** – the commissioning of additional power stations in New Zealand or Australia, or distributed generation such as residential solar panels; and
- **Gas or Oil Discovery** – a New Zealand gas discovery or an oil discovery in which gas is a substantial by-product, resulting in existing thermal power stations increasing their production levels.

ELECTRICITY SALES RISKS

The volumes and prices at which Meridian is able to sell electricity to customers can materially influence Meridian's financial performance and are influenced by many of the same factors that affect wholesale market prices over the longer-term (as described in the previous risk factor). They can also be influenced by:

- **Competitor Behaviour**

Competitor behaviour, such as aggressive pricing campaigns or the entry of new competitors, may put downward pressure on retail electricity prices and may also reduce Meridian's market share or require Meridian to increase its sales and marketing costs in order to maintain sales volumes. Competitor behaviour can also be affected by changes in customer behaviour, including reductions in demand (for example, a reduction in consumption by the Tiwai Point aluminium smelter), the displacement of demand by technology change or large business customers choosing to buy electricity directly on the wholesale spot market rather than entering into fixed contracts. In recent years the retail market has seen an increase in competition, which has resulted in higher switching. High levels of customer switching affect the cost of acquiring and maintaining Meridian's customer base.

- **Customer Credit or Concentration**

Meridian could be adversely affected if a large group of customers or one or more major customers were to default on payment for electricity provided, for CFD payments favourable to Meridian, or on other payment obligations to Meridian. In such situations Meridian would generally have provided the electricity or CFDs to customers prior to the default becoming evident, which could make the recovery of costs difficult. If a major customer were to experience financial difficulties, there is also a contagion risk that such

financial difficulties could cause one or more other major customers to default. Meridian could also be adversely affected if a concentrated customer segment, such as the pulp and paper industry or the base metals sector, were to experience financial difficulties. Refer to the paragraphs under the heading “Tiwai Point Aluminium Smelter” earlier in this section for discussion of the credit risk in relation to NZAS.

Meridian may also face increased costs relating to its sales to customers under existing regulation, for example, the Customer Compensation Scheme, which requires the Company to compensate residential customers during official electricity conservation campaigns.

See 6.3 *Analysis of Historical Financial and Operational Performance* for details about how wholesale and retail electricity prices affect the Company’s financial performance, and 6.5 *Prospective Financial Information* for details about Meridian’s assumed wholesale and retail electricity prices in FY2014F and FY2015F.

ELECTRICITY BUY-SIDE AND SELL-SIDE CONTRACT RISKS

Meridian buys and sells electricity contracts on the New Zealand Electricity Futures and Options market operated by the ASX, and enters into CFDs and other derivatives, including options, with competitors and customers directly. Meridian faces the risk that prices at the time the contracts come into effect differ from the contract prices and this could result in Meridian suffering a loss under those contracts and, as market prices are uncapped, that loss could be material. The electricity contracts market is competitive, and the prices, terms or availability of contracts may change unfavourably due to a number of factors, including the behaviour of competitors. Meridian is also exposed to counterparty credit risk on contracts that it directly enters into with competitors or customers.

Meridian also faces the risk of losses in wholesale trading and/or the associated hedge trading in the Australian market, particularly given the Australian market has large wholesale price variability with extreme price spikes sometimes in the summer months. Derivative contracts are used to stabilise the risks of variable spot prices and manage exposure to wholesale electricity prices by making payments or receiving revenues on fixed prices. Underperformance in the wholesale electricity market could be associated with a failure by Meridian to manage an appropriate balance between electricity supply and demand and the effect of these on its hedging portfolio, or the occurrence of unforeseen events.

GROWTH AND DEVELOPMENT RISKS

There can be no assurance that any acquisitions and other growth initiatives will achieve the targeted returns on investment or that current development projects will not require greater capital than expected to be successful. Any domestic and international growth initiatives could adversely affect Meridian’s financial results if operating expenditure or capital expenditure does not result in the anticipated increase in sales or profits.

Additionally, if Meridian engages in new types of development activity, it could be exposed to new risks or heightened levels of pre-existing risks.

Managing the development and construction of a new power station is a large, complex activity involving multiple parties which carries risks that the project will not be executed as planned, including delays, increased costs or an inability to meet the required power station specifications. Such development activity also relies on third party suppliers. In certain cases, a limited number of third party equipment manufacturers, suppliers and service providers are available which could have adverse consequences for any project. There is also a risk that Meridian may not be able to obtain sufficient capital on acceptable terms to enable it to develop its growth opportunities. For example, this may occur if the Crown, which is legally unable to have its shareholding diluted below 51% pursuant to the Public Finance Act, does not wish to participate in any equity capital raising (see 4.4 *Relationship between Meridian and the Crown* for further details). In addition, Meridian may be unable to obtain sufficient debt funding on acceptable terms for further development.

TRANSMISSION AND DISTRIBUTION RISKS

Meridian is reliant on third parties for the transmission and distribution of electricity. This exposes Meridian to the risk of planned or unexpected transmission or distribution failures. Such failures could include a transmission failure in the national grid operated by Transpower or in any of the network assets to which Meridian’s Australian generation assets are connected, or a failure at a line operated by a distribution company such as the power outage in central Auckland in February and March 1998. Meridian is particularly exposed to an outage of the HVDC transmission connection between the North Island and South Island. An upgrade of the HVDC link (as described in 3 *Industry Overview*) is scheduled for completion in December 2013, which will restore the link to a two pole operation. The HVDC link will then operate with two poles in parallel or at reduced capacity with a single pole. The transmission systems in New Zealand and Australia are also susceptible to a range of unpredictable natural hazards such as floods, heavy snowfalls, earthquakes, cyclones and solar flares.

OTHER LEGISLATIVE AND REGULATORY RISKS

Meridian is subject to the risk that changes to legislation or regulation in either New Zealand or Australia (including electricity regulation, and new or changed environmental regulation) may adversely affect its sales, costs, relative competitive position, development initiatives or other aspects of its financial or operational performance or force other undesired changes to its business model. Specific issues in relation to potential legislative or regulatory change that may adversely affect Meridian include:

- **Wholesale and Retail Market Structure**

The Governments in New Zealand or Australia, or the market operators and regulators in the NEM in Australia, may seek to further regulate the wholesale and retail markets or introduce measures that may increase Meridian’s costs or restrict the type or extent of its operating activities.

- **Transmission Pricing**

Meridian uses the transmission network to transmit electricity from its generation stations to consumers across the wholesale electricity market. The Electricity Authority is currently reviewing the transmission pricing methodology, which determines who will pay for the costs of the transmission network, and the basis for setting transmission charges. Under the Electricity Authority's October 2012 proposal, Meridian would face a significant decrease in its HVDC charges. It will also face an increase in HVAC charges. Provided that some of the HVAC charges can be recovered from consumers, the proposal would be beneficial to Meridian. However, the outcome of this consultation process remains uncertain and it is unclear what, if any, changes will be made to the transmission pricing methodology and the timing of any changes. Resolving the transmission pricing methodology remains on the Electricity Authority's top ten list of priority market development projects. The Electricity Authority does not expect its second issues paper on this subject to be released prior to the second half of 2014 and does not expect any changes to the transmission pricing methodology would be effective before 1 April 2015. Meridian has not included any possible benefits from a change in the transmission pricing methodology in the prospective financial information set out in *6.5 Prospective Financial Information*.

- **Electricity Market Operation**

In New Zealand, the Electricity Authority has a role in industry and market monitoring, and has broad powers to conduct enquiries into market events in order to understand causes and determine if a change to market rules or some form of market facilitation measure is required. The Electricity Authority has two ongoing enquiries into wholesale market prices, one in relation to the impact of the HVDC pole commissioning tests on wholesale market prices and the incentives of the current commissioning arrangements to minimise the costs associated with asset commissioning, and one into a high price situation on 20 June 2013. Either of these enquiries may result in changes to market rules that may increase Meridian's costs or restrict the type or extent of its operating activities.

- **Retail Electricity Pricing**

The Governments in New Zealand or Australia may seek to regulate retail electricity prices or introduce other measures that may decrease retail electricity prices, increase Meridian's costs, restrict activity or otherwise increase business risk without the ability to reflect the increased risk in price or margin. The Electricity Authority has indicated that it will be closely monitoring electricity retail pricing in New Zealand in 2013.

- **Freshwater Reform**

The Government is in the process of developing a package of reforms for freshwater and resource management systems. Meridian could be adversely affected by these reforms to the extent that they include mechanisms to recognise Māori rights and interests in freshwater, impose a pricing regime on water or impose restrictions, conditions or other additional costs on its hydro generation activities.

- **Emissions Trading Scheme (ETS)**

Recently the New Zealand Government implemented further restrictions on the type of emission units that may be used for compliance purposes under the ETS. The Government has also recently announced its decision not to sign New Zealand up to the legally binding second Kyoto Protocol commitment period from 2013. The Government has expressed its intention to meet New Zealand's existing Kyoto targets as part of the first commitment period while continuing to do its fair share in reducing emissions, but future domestic policy and the associated price of units is subject to change and is therefore uncertain. While the ETS does not generally have a direct impact on Meridian (because Meridian is not required to surrender emission units in respect of its hydro and wind generation schemes), additional costs imposed by the ETS can affect wholesale electricity prices. Future amendments to the ETS which impact wholesale electricity prices could adversely affect contracts that Meridian has entered into that are tied to the future wholesale electricity price.

- **Australian Regulation**

On 7 September 2013, Australia elected a new Federal Government. It is a declared policy of the newly elected Federal Government to repeal the Carbon Price Scheme, although this remains subject to uncertainty in terms of the Government's ability to achieve legislative change and, accordingly, the timing for that legislative change.

The abolition of the Carbon Price Scheme would be expected to result in a reduction in the wholesale price of electricity. Renewable electricity generators such as Meridian obtain their income from selling electricity to the wholesale market and selling Large-scale Generation Certificates (LGCs) for their renewable generation. If the wholesale price of electricity reduces as a result of the abolition of the Carbon Price Scheme and there is no corresponding increase in the price of LGCs, then the total revenue Meridian receives for electricity generated will fall. If this affects long term electricity prices, this may result in a reduction in the value of Meridian's Australian wind farms.

Furthermore, the Federal Government has declared an intention to review the MRET Scheme in 2014 in accordance with the legislative schedule and it is possible that changes will be made to the MRET Scheme. This may include restricting the basis on which LGCs can be created or removing the ability to create LGCs, or decreasing or abolishing the targets under the MRET Scheme thereby

reducing or eliminating the requirement to surrender (demand for) LGCs. Any such change to the MRET Scheme would have a negative impact on the income received by renewable generators, including the generation arm of Meridian's operations, due to loss of revenue that would otherwise be derived from the creation and sale of LGCs. If the MRET Scheme is abolished or reduced, future wind farm development in Australia may not be viable.

See 3 *Industry Overview* for a description of the Australian regulatory framework.

- **Non-Compliance**

Failure to comply with applicable legislation or regulation can also result in fines, injunctions, penalties, requirements for remedial works, the total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect.

KEY RELATIONSHIP RISKS

Major contracts with customers or suppliers might be terminated or not renewed upon expiry. Replacement contracts with new customers or suppliers may be on less favourable terms. If these relationships deteriorate as a result of changes in key individuals (either in Meridian or in its partners), or for any other reason, this may have an adverse effect on the financial performance of Meridian.

TREATY OF WAITANGI AND OTHER CLAIMS

Claims by Māori to interests in land or other resources, under the Treaty of Waitangi or otherwise, may, if successful, adversely affect Meridian to the extent that such claims directly or indirectly impose restrictions, conditions or additional costs on the Company's generation activities. Specific issues include:

- **Access to Freshwater**

A second hearing of the Waitangi Tribunal will consider whether Māori rights and interests in relation to water and geothermal resources are adequately recognised and provided for and whether Crown policies are in breach of the Treaty. This hearing relates closely to the issues considered by the claim discussed in more detail under the heading "Waitangi Tribunal Claims" in 4.4 *Relationship between Meridian and the Crown*. The Government will need to consider whether any recommendations of the Waitangi Tribunal should result in a change of Government policy in relation to the management of freshwater in New Zealand or an acceleration of its current proposed reforms. As discussed in more detail under the heading "Water Rights" in 4.2 *Business Description*, these reforms are likely to include greater consideration being given to iwi interests before council decisions on freshwater planning are made. Such reforms or changes in Government policy may impose restrictions, conditions or additional costs on Meridian's access to freshwater.

- **Novel Legal Action**

A novel claim may be raised by Māori against the Crown or Meridian based on, for example, customary rights, constructive trust, or a breach of fiduciary duty. If successful, such a claim may result in a remedy being awarded which impacts on the Company's generation activities. Such a claim may relate to an interest in land, or to an interest in another resource such as water or air.

- **Land Memorials**

The Meridian freehold land on which a portion of the West Wind wind farm is situated is subject to a memorial under the State-Owned Enterprises Act 1986. This memorial means that, in certain circumstances, the Waitangi Tribunal has the power to order the return of the land to Māori ownership. This memorial will be removed once all iwi with interests in the Wellington area have settled their outstanding Treaty claims. This regime is discussed in more detail under the heading "Land Memorials Regime" in 4.4 *Relationship between Meridian and the Crown*.

Further information in relation to these issues can be found in 4.4 *Relationship between Meridian and the Crown*.

LITIGATION AND DISPUTE RISKS

Meridian may from time to time be the subject of complaints, litigation, inquiries or audits initiated by customers, employees, commercial partners, suppliers, landlords, Government agencies, regulators or other third parties, including those in overseas jurisdictions, alleging or investigating matters such as asset ownership, resource use, product quality and supply issues, injury, health, environmental, safety or operational concerns, nuisance, negligence, failure to comply with applicable laws and regulations or failure to comply with contractual obligations. Such matters, even if successfully addressed without direct adverse financial effect, could have an adverse effect on Meridian's reputation and divert its financial and management resources from more beneficial uses. If Meridian were found to be liable under any such claims, this could have a material adverse effect on Meridian's future financial performance.

SHAREHOLDING RISKS

- **Crown Shareholding**

Following completion of the Offer, the Crown must hold at least 51% of the Shares and will be prohibited from reducing its holding below that level by the Public Finance Act. Also, the Crown must hold at least 51% of any other class of shares (voting or non-voting) or other securities in Meridian that confer voting rights. This will ensure that the Crown remains the Company's majority Shareholder. Consequently, the Crown will have the ability to control the election of directors and the potential outcome of most matters submitted to a vote of the Shareholders. A sale, or a perception that such sales may occur, of the Crown's Shares in the future could adversely affect the market price of Shares. If the Crown sells less than 49% of its Shares under the Offer, the Government would be able

to subsequently sell down a further holding of the Crown's Shares. However, under current legislation the Crown will not be able to sell its holding of Shares to below 51%. The interests of the Crown will be influenced by a number of factors and may not coincide with the interests of Meridian or other Shareholders.

- **10% Shareholding Cap**

The holding of Shares in the Company will be governed by the Public Finance Act, Constitution and Trust Deed, which provide that no person, other than the Crown, may have a 'relevant interest' in more than 10% of any class of shares in Meridian or any class of voting securities of Meridian. Instalment Receipts confer a relevant interest in the underlying Shares represented by those Instalment Receipts. This may affect the market price of Instalment Receipts or Shares by making the Instalment Receipts or Shares less appealing to certain investors. It may also affect the demand for Instalment Receipts or Shares as investors with large holdings may not be able to purchase more Instalment Receipts or Shares without breaching the 10% Limit on Shares.

- **Future Government Offers**

The Offer is the second of a series of significant share offerings within a wider programme that are proposed by the Government to be conducted over a three to five year timeframe that commenced in late 2011. The timing of any subsequent share offerings is dependent on a number of factors, including market conditions, readiness of the other companies and political determination. The implementation of the subsequent share offerings may affect the demand for and trading price of the Instalment Receipts or Shares. This may be due to investors that have participated in the Offer deciding to sell their Instalment Receipts or Shares either to obtain funds to participate in future offerings or to ensure that their total exposure to utility companies is not above a certain level. In addition, if a subsequent offer decreases Meridian's relative weighting in the NZX50 (or other indices), investors that track indices may decide to dispose of a portion of their Shares.

- **Effect of Section 45Q of the Public Finance Act**

All acts of the Crown in relation to its ownership of Shares are, by virtue of section 45Q of the Public Finance Act, required to be carried out in a manner that is consistent with the principles of the Treaty. It is possible, therefore, that circumstances may arise in the future in which section 45Q is relevant and the Crown is required to exercise rights that it has as the owner of Shares in a manner that takes into account not only the Crown's commercial interests, but also its obligations as a Treaty partner under the Treaty. This would depend on the nature of the right being exercised and the factual context in which it was being exercised.

INSURANCE RISK

Meridian currently insures for material damage and business interruption losses up to \$900 million. When Meridian undertakes its annual renewal of insurance policies, typically in May, it may face higher than expected costs of insurance, it may not be economic to take out insurance at current levels or insurance capacity may not be available at any prices. It is anticipated that this situation would be greatly exacerbated should a significant natural disaster occur in New Zealand.

AVAILABILITY AND COST OF CAPITAL

A deterioration of Meridian's financial condition, a reduction in Meridian's credit rating or instability in local and global capital markets could increase Meridian's cost of borrowing or eliminate its ability to raise additional debt or replace existing debt as it matures. The current debt maturity profile of Meridian is described in 6 *Financial Information*.

Meridian may be constrained in its ability to execute its strategy if sufficient capital is not available due to the status of its balance sheet or its shareholding structure. In particular, Meridian may not be able to fund development (both domestically and internationally) or any required major asset upgrades on its hydro and wind generation assets.

In Meridian's case, the Crown's shareholding and the provisions of the Public Finance Act add some further aspects to this risk. The ability of Meridian to raise capital may be limited by the legal restriction under the Public Finance Act that no person, other than the Crown, may have a relevant interest in more than 10% of any class of shares or any class of voting securities of Meridian. Furthermore, under that Act, any future equity capital raising that involves issuing shares, or securities with voting rights, in Meridian will only be able to proceed if the Crown agrees to participate to the extent required to maintain its interest of at least 51%, as required by the Public Finance Act (see 4.4 *Relationship between Meridian and the Crown* for further details). At the date of this Offer Document, the Crown has made no commitments regarding possible future capital contributions. Any decision by the Crown on whether to make equity capital available to Meridian will be made by the Government at the time and will be considered taking into account all relevant factors and circumstances, including competing capital requirements. Such competing capital requirements may include actual or expected requests for capital from Genesis Energy or Mighty River Power. An appropriation from Parliament is also required for the Crown to purchase Shares under an equity raising.

Meridian has agreed that until the Final Instalment Payment Date it will not undertake certain corporate actions, including issuing securities (other than debt securities) without Crown consent or implementing a dividend reinvestment plan.

No proceeds of the Offer will be made available to Meridian.

EXCHANGE RATE AND CURRENCY RISK

There is exchange rate risk attached to earnings on Meridian's operations and investments outside New Zealand. This occurs when foreign currency earnings, capital returns or investments are converted into New Zealand dollars, at which point any foreign exchange gains or losses will be recognised as operating profits or costs or as movements in the foreign currency translation reserve.

Meridian incurs some costs denominated in foreign currencies, usually in relation to contracts for the provision of equipment and related services. Consequently there may be a risk that unfavourable foreign exchange movements will occur between the time at which a contract is entered into and the time at which it is settled. Meridian uses financial instruments to hedge its exposure to foreign currency denominated costs at the time contracts are confirmed. The cost of such contracts can vary and the use of such financial instruments may result in financial losses to Meridian if actual foreign exchange movements differ from those expected.

ACCOUNTING AND TAXATION RISKS

Changes to IFRS and other accounting standards, or to the application of IFRS and other accounting standards, may affect Meridian's reported financial position and/or reported financial performance. You can find information about the Company's accounting policies and treatment of financial instruments in *6.7 Accounting Policies*.

Changes to New Zealand or overseas taxation law or practice may adversely affect Meridian's financial performance. In addition, specific tax risks affecting Meridian include:

- **Unavailability of Imputation Credits**

There is a risk that dividends from Meridian will not be imputed to the extent forecast in the prospective financial information set out in *6.5 Prospective Financial Information*. That may be the case, for example, if a greater proportion of Meridian's profit is generated outside New Zealand than expected, or if a change in Meridian's shareholding were to cause imputation credits to be forfeited.

- **Depreciation of West Wind Roading Costs**

Meridian has treated all expenditure related to the construction of access roads and hard stands at wind farm sites as part of the cost base of depreciable property for tax purposes. The IRD has indicated that it may formally review the extent to which expenditure incurred in relation to the West Wind access roads and hard stands is depreciable for tax purposes. Should Meridian's view be incorrect, depreciation deductions previously claimed may be reversed and future depreciation deductions may not be able to be claimed in the future.

- **Australian Capital Gains Tax on Macarthur Wind Farm**

Meridian has calculated and provided for Australian capital gains tax on the sale of its interest in the Macarthur wind

farm in its FY2013 financial statements. To confirm the approach and calculations, Meridian is requesting a private ruling from the Australian Taxation Office. The outcome of this ruling may result in tax payable being higher than what was included in the FY2013 financial statements.

REPUTATION RISKS

Meridian has a large, complex and highly specialised business which presents a number of reputational risks. The Company could be adversely affected should it, or the industry generally, suffer from adverse publicity. The impact on Meridian could be a reduction in sales or increase in costs, which may affect financial performance. Specific issues which could give rise to reputation risk include:

- errors by directors, management, contractors or related industry operators negatively reflecting on Meridian;
- errors by Meridian in its customer connections or disconnections, billing or general customer communications;
- adverse environmental impact caused by, or perceived to have been caused by, Meridian's operations;
- a health and safety incident occurring on premises or land under the operational control of Meridian or being caused by Meridian or contractors; and
- a reduction in corporate citizenship standards reflecting poorly on Meridian's reputation.

As a large electricity generator and retailer, Meridian manages a number of operations where care must be taken to ensure the safety of customers and the general public where Meridian operations can create a safety risk to customers or the public. Specific risks include:

- cutting off a medically dependant consumer leading to harm or, potentially, to death of that customer;
- errors by Meridian subcontractors working on electrical equipment in and adjacent to customers' houses, putting the safety of customers at risk;
- recreational use by the public of waterways adjacent to or on Meridian's operations such as structures or canals (in particular, the generation sites in the Waitaki basin). These can be dangerous places due to the volume of water and the generation of electricity; and
- risks associated with rapid increases in water volumes in catchment areas which the public have access to. Meridian releases large volumes of water into such catchment areas on a regular basis.

PERSONNEL RISKS

The Group employs over 800 employees in varying roles across power stations and office environments. With continued growth and development (including offshore) Meridian faces increased complexity in governing and operating its business. The risks associated with Meridian's directors and employees include the loss of key personnel, the unavailability of specific expertise, industrial action, union demarcation issues (particularly offshore), the risk of pandemic and fraud or theft.

Instalment Receipt Specific Risks**MARKET PRICE MAY BE LESS THAN FINAL PRICE**

The Final Price will be determined by the Crown after the close of the bookbuild process. On the Final Instalment Payment Date, the market price of the Shares may be less than the Final Price under the Offer or the amount of the Final Instalment. Holders of Instalment Receipts on the Final Instalment Record Date will be liable to pay the Final Instalment regardless of whether the market price of the Shares is more or less than the Final Price or the amount of the Final Instalment.

TRADING PRICE OF INSTALMENT RECEIPTS

The partial payment characteristics of the Instalment Receipts may make percentage price movements in them on the NZX Main Board and the ASX, greater than percentage price movements that would otherwise apply to the underlying Shares if those Shares were tradable directly on that market in similar circumstances.

In addition, the trading price of Instalment Receipts and Shares may be affected by features of the Offer. For example, the value of the deferred payment incentive diminishes over the 18 month Instalment Receipt period and there is the possibility of material sales in the market by holders in advance of the Final Instalment Record Date (to avoid the need to pay the Final Instalment) and following the Final Instalment Record Date (once holders have obtained the benefit of the Retail Price Cap for New Zealand Applicants in the Retail Offer and the Participating Iwi Offer). Material sales of Instalment Receipts or Shares may result in the trading price being adversely affected.

CONSEQUENCES OF FAILING TO PAY THE FINAL INSTALMENT

Payment for the Shares is to be made in two instalments. Holders of Instalment Receipts on the Final Instalment Record Date (4 May 2015) will be bound to pay the Final Instalment by the Final Instalment Payment Date (15 May 2015). If a holder of Instalment Receipts fails to pay the Final Instalment then the Shares held by the Trustee in respect of those Instalment Receipts may be sold, in whole or in part, under the Crown's security interest. The proceeds of sale will be applied first towards the default interest and fees, costs and expenses described in 7.2 *Description of Instalment Receipts and Trust Deed* under the headings "Default Interest" and "Fees, Costs and Expenses", and then towards payment of the Final Instalment. Any surplus sale proceeds remaining after these payments have been made will be paid to the holder. Holders of Instalment Receipts remain liable for any shortfall if the proceeds of sale are insufficient to meet the default interest and fees, costs and expenses and the full Final Instalment amount.

General Investment Risks**ECONOMIC RISK**

Like any other investment, returns from your Instalment Receipts and, following payment of the Final Instalment, Shares are influenced by the level of economic activity and uncertainty. For example, a contraction in the New Zealand or global economy may negatively affect the performance of Meridian by reducing demand for electricity, affecting customers' ability to pay for electricity (and influence related Government intervention on behalf of customers), and affecting input costs and other underlying fundamentals.

TAXATION RISKS

A change to the existing rate of company income tax, or other changes to tax law or practice in New Zealand or in other relevant international jurisdictions which affect Meridian, may affect the Company's returns. A change to tax law applying to you personally could affect your returns.

ASX LISTING RISK

Failure to achieve admission to list on the ASX will not, of itself, prevent the sale of securities under the Offer from proceeding. In that situation, there will be no active trading market in the Instalment Receipts and, following payment of the Final Instalment, Shares on the ASX, thereby potentially decreasing the overall liquidity of these securities.

GENERAL MARKET RISKS

Prior to this Offer there has been no public market for the Shares. There can be no assurance that an active trading market in the Instalment Receipts or Shares will develop or that the price of your Instalment Receipts or Shares will increase. There may be relatively few potential buyers or sellers of the Instalment Receipts or Shares on the NZX Main Board or, if listed, on the ASX at any time. This may increase the volatility of the market price of your Instalment Receipts or Shares. It may also affect the prevailing market price at which you are able to sell your Instalment Receipts or Shares. Future issues of Shares may dilute your interest in the Company and affect the trading price of Instalment Receipts or Shares.

Factors such as changes in the New Zealand or international regulatory environment, New Zealand and international equity and debt markets, New Zealand dollar and foreign currency movements and the New Zealand and global economy could cause the market price of your Instalment Receipts or Shares to fluctuate after the Offer.

The market prices of stocks have historically been variable, including in response to changes in capital markets or the economy.

Consequences of Insolvency

In the event of the insolvency of the Company, you will not be liable to pay any money to any person. However, insolvency of Meridian will not relieve holders of Instalment Receipts from their obligations to the Crown to pay the Final Instalment. All creditors (secured and unsecured) of Meridian will rank ahead of your claim as a Shareholder or a holder of Instalment Receipts if the Company is liquidated. After all such creditors have been paid, any remaining assets will be available for distribution among all Shareholders who rank equally. Instalment Receipts are not securities of Meridian that would participate directly in the liquidation of Meridian. However, any distribution in respect of Shares represented by Instalment Receipts as part of a liquidation of Meridian would be paid to the Trustee. The Trustee would apply the proceeds of the distribution in accordance with the terms of the Trust Deed. Under the Trust Deed, the Trustee would take Reasonable Steps to pay holders of Instalment Receipts any such proceeds distributed to the Trustee on the Shares represented by their Instalment Receipts unless the Crown's security interest applied following a failure by the holder to pay the Final Instalment. Any distribution, either on Shares or under the Trust Deed, made on liquidation of the Company may be less than the amount of your investment.



Benmore hydro power station spillway.



06

Financial Information

In this section

6.1	Introduction to Meridian's Financial Information	106
6.2	Overview of Operational and Financial Information ..	112
6.3	Analysis of Historical Financial and Operational Performance	120
6.4	Further Financial and Accounting Information	126
6.5	Prospective Financial Information.....	133
6.6	Summary Historical Financial Information	148
6.7	Accounting Policies.....	154
6.8	Statutory Auditor's Report..	161
6.9	Investigating Accountant's Report	164

If you do not understand the information in this section, you should consult a financial adviser.

Why should you read this section?

You can find out detailed information about Meridian's historical and prospective financial performance, including the important assumptions that have been used in the preparation of the prospective financial information.

References to "Meridian" in this section refer to the Group.

This section should be read in conjunction with the risk factors set out in 5 *What are the Risks?* and other information contained in this Offer Document. The Financial Information is presented in New Zealand dollars and is rounded, which may result in some discrepancies between the sum of components and totals within tables, and also in certain percentage calculations.

By virtue of the Securities Act (Meridian Energy Limited Crown share offer) Exemption Notice 2013, Meridian and the Crown are exempt from the requirement to include in or provide with this Offer Document, Meridian's financial statements for the financial year ended 30 June 2013. A copy of Meridian's full financial statements for the financial year ended 30 June 2013 is available free of charge at www.meridianshares.govt.nz or by calling **0800 90 30 90** and requesting a copy. Copies will be sent on request to any prospective investor as soon as practicable, but in any event, within 5 working days of Meridian or the Crown receiving the request.

The information in this section, when read together with the other information in this Offer Document, is not false or misleading in any particular by reason of failing to refer, or give proper emphasis, to adverse circumstances material to the Offer.

The Meridian board and the Crown confirm that the financial statements for the financial year ended 30 June 2013, when read together with the information in this Offer Document are not false or misleading in any particular by reason of failing to refer, or give proper emphasis, to adverse circumstances material to the Offer.

Introduction to Meridian's Financial Information

Meridian's Financial Operating Model

A SUMMARY OF HOW MERIDIAN MAKES MONEY

This Offer Document contains detailed description and analysis of a relatively complex industry and business. You are strongly encouraged to read that detail, particularly the parts that cover risks in *5 What are the Risks?* The following provides a simplified overview of how Meridian makes money as an introduction, before you read the detail in the rest of the financial information section.

Meridian generates electricity from 100% renewable resources, wind and water, which it sells on a national wholesale market at the market price at the time of generation. Meridian also buys wholesale electricity and sells it to consumers. It operates in two main countries – New Zealand and Australia.

NEW ZEALAND BUSINESS

Market Prices Change with Availability of Water

In New Zealand the wholesale price of electricity is highly variable from month to month. This is because so much of the national electricity supply comes from hydro generation. This means that when there is a lot of water flowing into hydro lakes (from rainfall or snowmelt) there is higher generation available and prices tend to be low. When there is less water flowing into the lakes, hydro generation volumes go down. This means that other more expensive forms of generation such as gas or coal need to be turned to, in order to supply the demand for electricity and so prices tend to rise.

Impact on Generation Earnings

When inflows into hydro lakes are high, Meridian tends to sell more electricity on the wholesale market at lower prices. When there is less water, Meridian tends to sell less electricity at higher prices. This water dependent variability introduces volatility into the income Meridian receives for its generation.

Impact on Earnings from Customers

Meridian also sells electricity at pre-agreed prices to end users – households, businesses, farms and large industrial users. This means that Meridian buys electricity from the wholesale market to satisfy the needs of its customers. When wholesale prices are high (usually when it is dry), this costs Meridian more than when wholesale prices are low (usually when it is wet).

Customer and Generation Earnings Complement Each Other

The different impact of water inflow conditions on earnings and costs can be summarised, in general terms, as:

- Wetter = lower generation income and lower cost to supply customers.
- Drier = higher generation income and higher cost to supply customers.

In other words, the impact of water inflow driven wholesale price changes on generation revenues and customer supply costs tend to offset each other so that overall earnings are smoothed.

This relationship can break down in extreme wet or dry conditions. For example, when it is extremely dry, Meridian may not have enough generation volume available to sell to take advantage of the high prices available and therefore may not be able to fully offset the negative impact on the cost to supply its customers.

An Easy Way to Think about Meridian's New Zealand Business

One simple way of thinking about the description set out above is that Meridian uses most of its generation to cover the needs of its customers and sells the volume left over at whatever the wholesale market price is at the time. When it is very dry, Meridian's generation may not cover its customers' needs and Meridian may be forced to buy expensive top-up supplies on the wholesale market. For this reason Meridian tends to plan to sell volumes that are less than it could cover with its generation in an average year. This leaves some headroom to cover dry conditions and means that when it is wet, Meridian has spare capacity to sell over and above what is needed to cover its sales to customers. Very wet conditions will tend to significantly reduce the price at which this excess can be sold.

Meridian spends significant money and effort to try to balance its customer and generation volumes and fix future electricity purchase and sales price through financial contracts, including through contracts with other generators that effectively work like dry year "insurance". This is covered more fully in *6.3 Analysis of Historical Financial and Operational Performance* under the heading "How Meridian Manages Volatile Wholesale Electricity Prices". Although Meridian can go a long way to removing volatility arising from water inflow variation, it is still a big influence on earnings.

Other Costs of Meridian's Business

In carrying out the two activities of generation and retailing to customers, Meridian has a series of costs on top of the cost of buying wholesale electricity. These include operating costs and funding costs such as:

- transporting electricity to customers (transmission and distribution);
- servicing customers (including metering, call centres, billing and marketing);
- keeping generation plant going (including maintenance, upgrades and insurance);
- funding capital investment in generation stations (interest and depreciation); and
- taxation.

These costs can all vary and impact earnings, however water inflows remain the biggest single influence on earnings over the short term.

Other Influences on Earnings

Other key factors influencing how much money Meridian makes include:

- how much electricity is being used in New Zealand (eg Is it a warm or cold winter? Does a big industrial user expand or reduce production?);
- competition for customers keeping retail prices down;
- new generation plant of Meridian and other generators increasing electricity supply;
- how easily electricity can be transported around the country (ie Are the transmission and distribution systems working properly?); and
- whether the rules currently governing electricity markets stay the same.

AUSTRALIAN BUSINESS

Over the last three years, Australia has represented an average of less than 5% of Meridian's energy margin (see below for a description of this measure).

Meridian is a generator of electricity using wind in Australia. It sells this electricity on the wholesale market. It has a small start up retail business, but at the moment wholesale price and generation volume are the main influences on the money it makes in Australia.

Understanding Meridian's Results over the Last Three Years

In order to get an understanding of how Meridian has performed in the last three years and before looking at graphs and numbers, it is worth looking at the key events and factors that influenced each of the three years.

FINANCIAL YEAR ENDED 30 JUNE 2011

Hydro Inflows – A relatively wet year (19th wettest out of the last 80 years⁴⁸) with consistent water inflows.

Assets – Meridian still owned the Tekapo hydro power stations until they were sold to Genesis one month before the end of the financial year.

Customers – Meridian grew its residential and small business customer base whilst reducing large commercial sales.

Other – Meridian settled a dispute concerning liability for electricity with New Zealand Aluminium Smelters during a pot line outage in 2008, resulting in an uplift in pre-tax earnings of \$28 million.

FINANCIAL YEAR ENDED 30 JUNE 2012

Hydro Inflows – Lowest water inflows into Meridian's lakes in 80 years.⁴⁸

Assets – Significant capital investment into the Macarthur wind farm in Australia.

Customers – Further growth in the numbers of residential and small business customers.

FINANCIAL YEAR ENDED 30 JUNE 2013

Hydro Inflows – An average year (36th wettest out of the last 80 years⁴⁸) but with a long dry spell in the second half of the year.

Assets – The Macarthur wind farm in Australia earned generation revenue for 5 months.

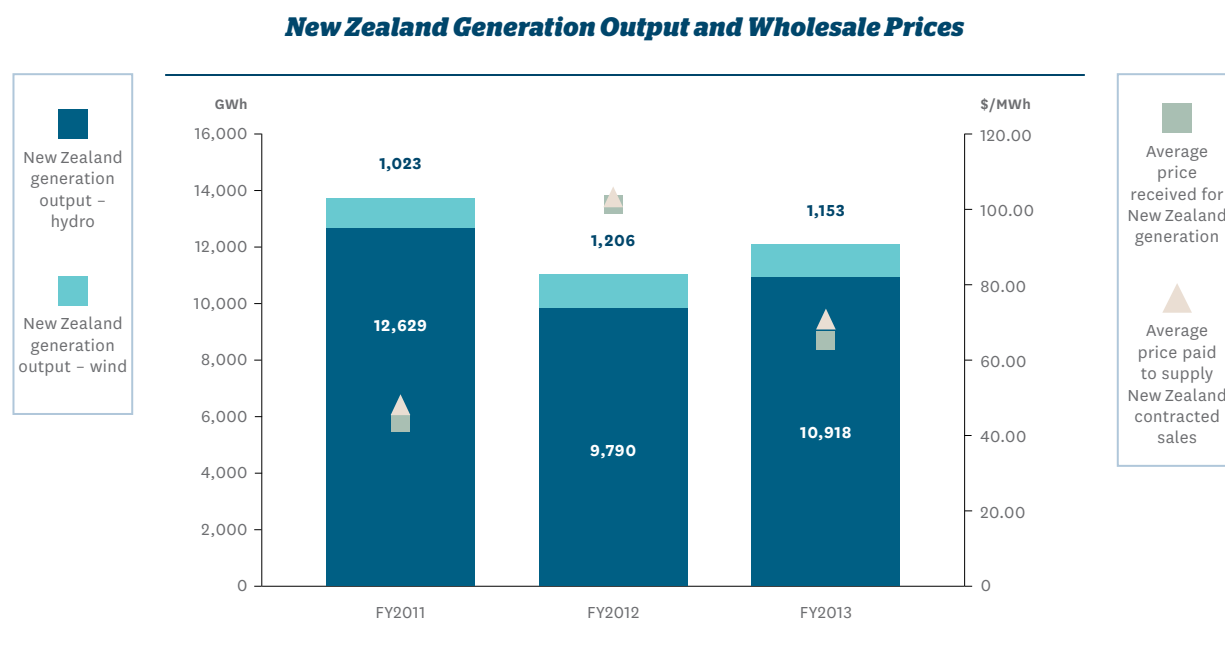
Customers – A new, higher priced, contract (since renegotiated downwards) came into force with Meridian's largest customer, the Tiwai Point aluminium smelter.

Other – Costs of paying for the inter-island transmission link went up significantly due to its upgrade, whilst the inter-island link was out of action for long periods during the upgrade.

48. 80 years of recorded combined water inflows into the Waitaki and Manapouri hydro storage lakes.

NEW ZEALAND GENERATION OUTPUT AND PRICE

The influence of water inflows on generation output and price can be seen in the following chart.



In FY2011 wet weather led to high generation and low prices. In the record dry of FY2012, Meridian's generation fell away and prices rose. In FY2013, better inflows were translated into higher generation but periods of dry weather in the second half of the year meant average prices were higher than they might otherwise have been.

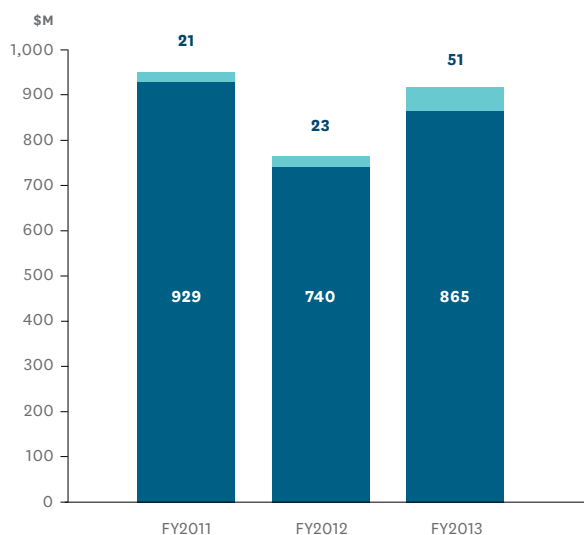
HOW THIS IMPACTED MERIDIAN'S RESULTS

The rest of the financial information section has extensive descriptions of various financial measures used by Meridian. Some of these are standard accounting measures, some are not. This section will focus on three of these measures which Meridian uses to focus on different aspects of performance.

1. **Energy Margin** – This is the margin that Meridian makes from its main business of generating and selling electricity after paying for electricity it has to buy, money it pays for “insuring” for dry years with other generators and paying for the cost of distributing electricity to customers. Meridian uses this measure to evaluate performance of its core business before other costs. See 6.2 *Overview of Operational and Financial Information* under the heading “Overview of Certain Non-GAAP Financial Information” for a full description of this measure.
2. **EBITDAF** – This is earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings. Meridian uses EBITDAF to evaluate the operating performance of Meridian without the non-cash impact of depreciation, fair value movements and other similar items and before the cost of funding and tax. See 6.2 *Overview of Operational and Financial Information* under the heading “Overview of Certain Non-GAAP Financial Information” for a full description of this measure.
3. **Net Profit After Tax (NPAT)** – This is final statutory accounting profit after all expenses have been deducted that is included in Meridian's published financial statements.

IMPACT OF GENERATION PRICE AND VOLUME ON ENERGY MARGIN

Energy Margin



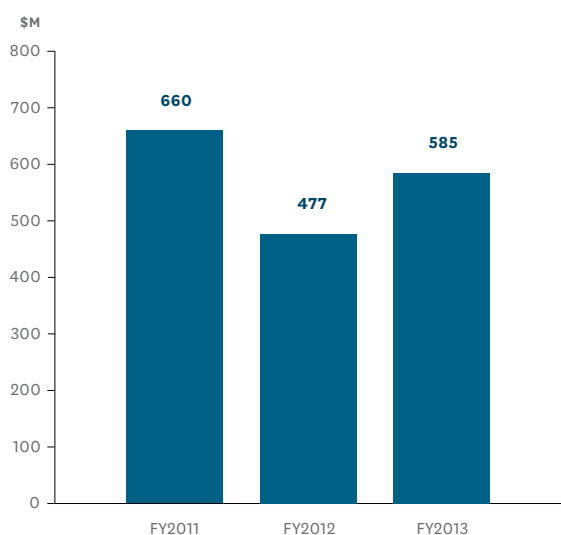
A chart of energy margin over the three years shows how generation volume and price translated into results. A number of other factors also had a significant impact in the period:

- in FY2011, Meridian still owned Tekapo hydro power stations which generated around 1,000 GWh each year; this volume was not available in FY2012 and FY2013;
- in FY2011, the year saw Meridian receiving \$28 million for settlement of a historical dispute;
- in FY2013, Meridian benefitted from the uplift on the Tiwai Point aluminium smelter contract price for six months (before it was renegotiated) and the start of generation by Macarthur wind farm in Australia; and
- in FY2013, a dry period in the second half and lack of availability of the inter-island link affected earnings. FY2013 also contained some of the “insurance” cost taken out during the extreme FY2012 dry year.



HOW THIS TRANSLATES INTO EBITDAF

EBITDAF



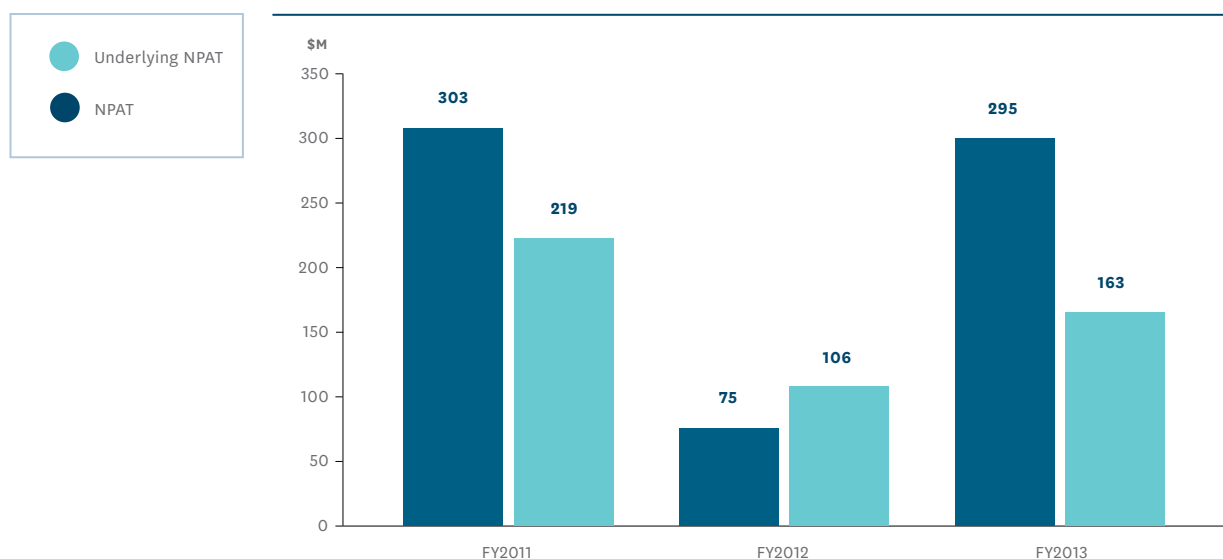
FY2012 saw other operating cost reductions, while increased costs of the inter-island transmission link in FY2013 resulted in increased other operating costs in that year. These movements had an impact on EBITDAF, however it leaves a similar overall trend between the years.

THE FINAL NET PROFIT AFTER TAX (NPAT) POSITION

The chart below shows the final net position (NPAT) along with an underlying figure that ignores one-off or infrequently occurring events (sales of property, impairments and write offs) and non-cash accounting fair value movements on financial instruments (a further description of this underlying measure is included in

6.2 *Overview of Operational and Financial Information* under the heading "Overview of Certain Non-GAAP Financial Information"). Meridian uses underlying NPAT to evaluate performance without events that are unlikely to re-occur and without non-cash fair value movements.

NPAT and Underlying NPAT



Net profit after tax takes into account a number of other factors.

FY2011 NPAT included two large items that were excluded from underlying NPAT:

- a gain on sale of the Tekapo stations of \$175 million before tax; and
- a reduction in the fair value of financial instruments of \$103 million.

FY2012 NPAT included three large items that were excluded from underlying NPAT:

- an increase in the fair value of financial instruments of \$53 million;
- write offs of \$60 million in respect of generation projects that will not be built and other discontinued operations; and
- a one-off tax charge of \$24 million relating to the effect of a change in legislation prohibiting the future deductibility of buildings depreciation.

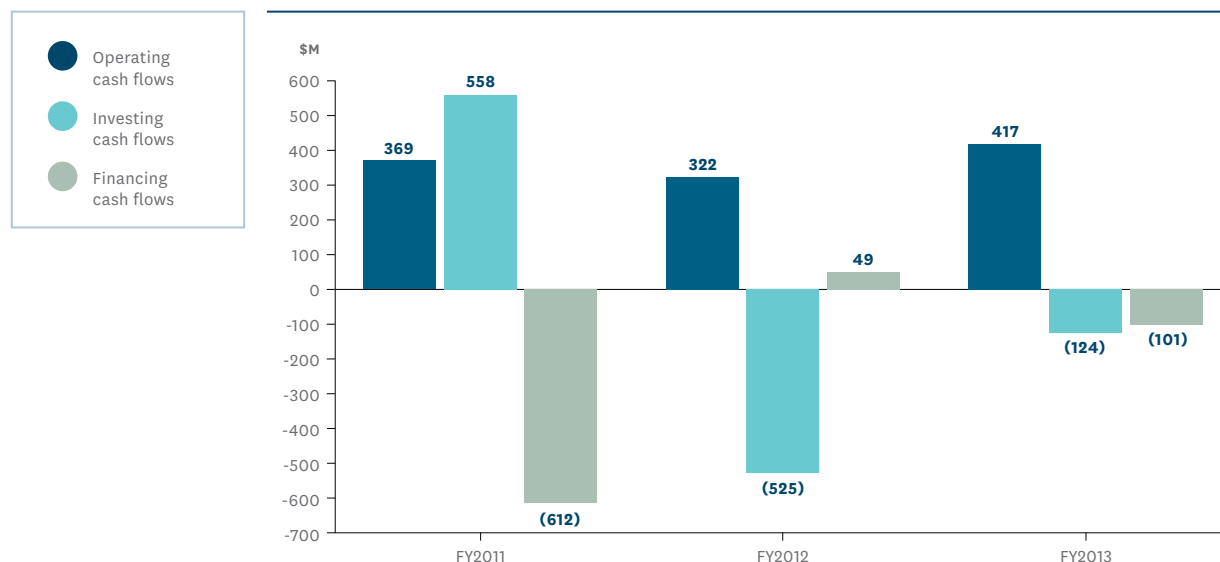
FY2013 NPAT included two large items that were excluded from underlying NPAT:

- a gain on the sale of the Macarthur wind farm of \$101 million before tax; and
- an increase in the fair value of financial instruments of \$94 million.

Non-cash fair value changes reflect the significant level of contracts (financial instruments) that Meridian takes out to fix its interest expense and electricity costs and revenues. An example of such a contract would be an interest rate swap, where Meridian swaps an obligation to pay floating (variable) interest rates for a fixed, certain, interest rate. These contracts are valued each year on a stand-alone basis, in order to comply with accounting standards and policies. The valuation movements, which have no cash effect, are included in Meridian's profit. A further description of fair value accounting is included in 6.3 *Analysis of Historical Financial and Operational Performance* under the heading "Accounting Treatment of Financial (Derivative) Contracts".

CASH FLOWS OVER THE LAST THREE YEARS

Cash Flows



Although the relationship is not exact, Meridian’s operating cash flows tend to follow EBITDAF performance. Operating cash flows in FY2012 fell reflecting the impact of record dry conditions in that year. These cash flows recovered in FY2013 with wetter conditions and the additional revenues from Macarthur wind farm and from the renegotiated Tiwai Point aluminium smelter contract.

Meridian’s investing and financing cash flows tend to fluctuate with investment in generation assets. The investing cash inflow

in FY2011 reflects the proceeds from the sale of Tekapo hydro power stations, which along with other operating profits were included in the \$684 million dividends distributed reflected in the financing cash flows.

In FY2012, investing cash outflows of \$525 million largely reflect the investment in the construction of the Macarthur wind farm.

In FY2013, construction commenced on the Mill Creek and Mt Mercer wind farms and the investment in Macarthur was sold.

HOW THIS INFLUENCED MERIDIAN’S BALANCE SHEET

Meridian’s balance sheet is dominated by two key elements: property, plant and equipment including generation assets (these make up approximately 90% of Meridian’s total assets); and borrowings. Both these elements fluctuate with investment activity. In FY2011, Tekapo A and B power stations were sold, lowering total asset value. In FY2012, construction of the

Macarthur wind farm commenced, increasing generation assets and borrowings. In FY2013, Macarthur was sold, reducing the value of generation assets and allowing borrowings to be repaid. These impacts can be seen in 6.2 *Overview of Operational and Financial Information* under the heading “Overview of Statement of Financial Position”.

A copy of Meridian’s full financial statements for the financial year ended 30 June 2013 is available free of charge at www.meridianshares.govt.nz.

Overview of Operational and Financial Information

Presented below are selected historical and prospective operational and financial information, and certain non-GAAP financial information and a description of how this non-GAAP financial information is measured, for FY2011 to FY2015F. This selected information is provided in addition to the financial information disclosure required under the Securities Regulations to help you understand the key determinates of Meridian's financial performance.

Overview of Income Statement

\$MILLION	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
Energy sales revenue	2,010.4	2,542.9	2,681.5	2,416.8	2,536.3
Other revenues*	42.6	27.3	29.7	23.0	23.0
Total revenue	2,053.0	2,570.2	2,711.2	2,439.8	2,559.3
Energy related expenses	(703.3)	(1,375.5)	(1,361.5)	(1,091.2)	(1,112.4)
Distribution expenses	(367.5)	(404.2)	(404.2)	(410.5)	(465.3)
Transmission expenses	(84.2)	(86.7)	(115.3)	(135.6)	(134.2)
Employee expenses	(89.5)	(79.6)	(88.6)	(83.3)	(87.2)
Other operating expenses	(148.6)	(147.6)	(156.8)	(170.8)	(170.1)
EBITDAF	659.9	476.6	584.8	548.4	590.1
Equity accounted earnings	(3.4)	(2.7)	0.1	-	-
Depreciation and amortisation	(224.3)	(225.1)	(219.7)	(222.0)	(232.8)
Gain / (loss) on sale*	174.1	(1.5)	106.6	(0.3)	(0.3)
Impairments*	(10.9)	(60.1)	(24.8)	-	-
Change in fair value of financial instruments – operational	(89.3)	121.3	51.1	(15.3)	(3.8)
Operating profit	506.1	308.5	498.1	310.8	353.2
Net interest expense*	(107.6)	(82.5)	(113.5)	(78.1)	(77.7)
Change in fair value of financial instruments – financing	(14.2)	(68.0)	42.7	28.3	17.9
Profit before income tax	384.3	158.0	427.3	261.0	293.4
Income tax expense	(81.2)	(83.4)	(132.2)	(73.1)	(82.4)
Net profit after tax	303.1	74.6	295.1	187.9	211.0
Basic and diluted earnings per Share (cents) ⁴⁹	11.8	2.9	11.5	7.3	8.2

* The following items have been summarised:

Other revenues: include energy related services revenue, and dividends received.

Gain / (loss) on sale: includes gains and losses from sale of property, plant and equipment, intangibles and investments.

Impairments: is the impairment of property, plant and equipment, intangibles and investments.

Net interest expense: is interest expense less interest income.

49. Basic and diluted earnings per Share is calculated based on the number of Shares on issue at 19 September 2013, 2,563,000,000, which will be the number of Shares on issue following the Offer. On 19 September 2013 Meridian made a taxable bonus issue of 962,999,998 ordinary shares to its existing Shareholders.

Overview of Statement of Financial Position

\$MILLION	FY2011 AS AT 30 JUNE 2011	FY2012 AS AT 30 JUNE 2012	FY2013 AS AT 30 JUNE 2013	FY2014F AS AT 30 JUNE 2014	FY2015F AS AT 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
Total shareholders' equity	4,931.3	4,825.7	4,688.0	4,606.3	4,530.1
ASSETS					
Current assets	627.2	570.8	766.1	442.6	439.5
Non-current assets	7,832.8	8,122.0	6,971.3	7,122.8	7,066.9
Total assets	8,460.0	8,692.8	7,737.4	7,565.4	7,506.4
LIABILITIES					
Current liabilities	569.7	593.4	520.5	446.0	493.0
Non-current liabilities	2,959.0	3,273.7	2,528.9	2,513.1	2,483.3
Total liabilities	3,528.7	3,867.1	3,049.4	2,959.1	2,976.3
NET ASSETS	4,931.3	4,825.7	4,688.0	4,606.3	4,530.1

Overview of Cash Flows

\$MILLION	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
Net cash inflows from operating activities	368.7	322.2	416.7	338.5	428.9
Net cash inflows / (outflows) from investing activities	557.7	(524.8)	(124.1)	(401.8)	(137.9)
Net cash inflows / (outflows) from financing activities	(612.0)	48.8	(101.3)	(246.2)	(291.0)
Net increase / (decrease) in cash and cash equivalents	314.4	(153.8)	191.3	(309.5)	-

Overview of Certain Non-GAAP Financial Information⁵⁰

SMILLION	FY2011	FY2012	FY2013	FY2014F	FY2015F
	12 MONTHS ENDED 30 JUNE 2011	12 MONTHS ENDED 30 JUNE 2012	12 MONTHS ENDED 30 JUNE 2013	12 MONTHS ENDING 30 JUNE 2014	12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
New Zealand Energy Margin	929.0	740.4	865.1	880.6	896.3
International Energy Margin	21.3	22.8	50.7	34.5	62.3
Total Energy Margin	950.3	763.2	915.8	915.1	958.6
Underlying NPAT	219.0	106.1	162.7	161.5	179.4
Net debt	1,245.8	1,607.7	794.7	1,120.7	1,108.6
Dividends per Share (cents) ⁵¹	6.3	2.8	9.8	10.5	11.5

Meridian's financial statements have been prepared in accordance with Generally Accepted Accounting Practice, or GAAP, in New Zealand. As such, they comply with the New Zealand equivalents to International Financial Reporting Standards, or NZ IFRS, as well as International Financial Reporting Standards as adopted by the International Accounting Standards Board, or IFRS.

In order to assist readers of Meridian's financial statements to better understand Meridian's financial performance, Meridian uses a number of non-GAAP financial measures. These measures are described below, together with reconciliations showing how these items (other than EBITDAF and operating profit) are calculated from the historical and prospective financial statements. EBITDAF and operating profit are shown in the financial information presented in the historical and prospective financial statements.

Because they are not defined by NZ GAAP, IFRS, or any other body of accounting standards, Meridian's calculation of these measures may differ from similarly titled measures presented by other companies. These measures are intended to supplement the NZ GAAP measures presented in Meridian's financial statements and not as a substitute for those measures.

EBITDAF

EBITDAF is earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings. EBITDAF is a non-GAAP financial measure that has been reported in historical financial statements and therefore is shown in the financial information presented in the prospective financial statements. Management use EBITDAF to evaluate the operating performance of Meridian without the non-cash impact of depreciation, amortisation, fair value movements of financial instruments and other one-

off and/or infrequently occurring expenses and the effects of Meridian's capital structure and tax position because it allows better comparison of operating performance to other electricity industry companies than NZ GAAP measures that include these items. However, EBITDAF should not be considered in isolation or as a substitute for NZ GAAP measures, such as total revenue, net profit after tax and cash flow measures.

ENERGY MARGIN

Energy Margin consists of:

- revenues received from sales to retail customers net of distribution costs, sales to large industrial customers and fixed price revenues from derivatives sold (contracted sales revenue); less
- the fixed cost of derivatives acquired to manage both generation volumes and exposure to wholesale electricity prices (cost of buy-side electricity derivatives); plus
- revenue from the volume of electricity that Meridian generates and generation acquired through derivative instruments that is in excess of volumes required to cover contracted customer sales (spot exposed revenue); plus or minus
- other associated market revenues and costs including electricity authority levies and ancillary generation revenues and charges eg frequency keeping (other market revenue / (expense)).

It provides a measure of financial performance that, unlike sales or total revenue, accounts for the variability of the wholesale electricity market and the broadly offsetting impact of the wholesale prices on the cost of Meridian's retail electricity purchases and revenues from generation. Meridian uses Energy Margin as a measure of financial performance in its presentation of historical financial performance within segmental reporting included in the notes to Meridian's financial statements.

50. The selected non-GAAP financial measures included in the table are calculated from numbers extracted from Meridian's audited financial statements and notes.

51. Dividends per Share is based on dividends declared with respect to earnings in the financial year (excluding special dividends) and on the number of Shares on issue at 19 September 2013, being 2,563,000,000, which will be the number of Shares on issue following the Offer. On 19 September 2013 Meridian made a taxable bonus issue of 962,999,998 ordinary shares to its existing Shareholders. Based upon forecasts in 6.5 Prospective Financial Information, dividends declared with respect to earnings in FY2014F are forecast to be imputed to 72% of the corporate tax rate and dividends declared with respect to earnings in FY2015F are forecast to be imputed to 73% of the corporate tax rate.

The following tables set out the calculation of New Zealand and International Energy Margin.

\$MILLION	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
Energy sales revenue	2,010.4	2,542.9	2,681.5	2,416.8	2,536.3
Energy related expenses	(692.7)	(1,375.5)	(1,361.5)	(1,091.2)	(1,112.4)
Energy distribution expenses	(367.4)	(404.2)	(404.2)	(410.5)	(465.3)
Energy Margin	950.3	763.2	915.8	915.1	958.6

The components of Energy Margin are set out in the table below.

\$MILLION	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
<i>New Zealand Energy Margin</i>					
<i>Contracted sales revenue</i>					
Retail contracted sales revenue (net of distribution expense)	552.1	585.6	597.8	575.7	579.2
Wholesale contracted sales revenue	436.1	395.4	457.3	375.9	355.4
Total contracted sales revenue	988.2	981.0	1,055.1	951.6	934.6
Cost of buy-side electricity derivatives	(77.6)	(332.3)	(282.9)	(194.5)	(167.7)
<i>Spot exposed sales</i>					
Generation sales revenue	591.5	1,107.7	783.4	735.0	789.4
Buy-side electricity derivatives spot revenue	47.6	304.4	224.8	149.2	127.1
Electricity purchase and derivative spot costs	(626.1)	(1,334.3)	(917.5)	(752.8)	(778.8)
Total spot exposed revenues	13.0	77.8	90.7	131.4	137.7
Other market revenue / (expenses)	5.4	13.9	2.2	(7.9)	(8.3)
Total New Zealand Energy Margin	929.0	740.4	865.1	880.6	896.3
<i>International Energy Margin</i>					
Contracted sales revenue (net of distribution expense)	-	-	0.2	4.0	28.3
Generation sales revenue	21.3	22.8	50.6	33.1	52.2
Electricity purchase expenses	-	-	(0.1)	(2.6)	(18.2)
Total International Energy Margin	21.3	22.8	50.7	34.5	62.3
Total Energy Margin	950.3	763.2	915.8	915.1	958.6

UNDERLYING NET PROFIT AFTER TAX (UNDERLYING NPAT)

Underlying NPAT is presented to enable an assessment and comparison of net profit after tax (NPAT) after removing from NPAT one-off and/or infrequently occurring events, impairments and changes in the fair value of financial instruments. In contrast to NPAT, the exclusion of these items enables a comparison of

the underlying performance of Meridian across time periods. Underlying NPAT is a measure of financial performance used by the Group in the presentation of historical financial performance in the Group's annual reports but is not presented in the Group's financial statements.

The following table sets out the calculation of Underlying NPAT.

\$MILLION	FY2011	FY2012	FY2013	FY2014F	FY2015F
	12 MONTHS ENDED 30 JUNE 2011	12 MONTHS ENDED 30 JUNE 2012	12 MONTHS ENDED 30 JUNE 2013	12 MONTHS ENDING 30 JUNE 2014	12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
NPAT	303.1	74.6	295.1	187.9	211.0
Net change in fair value of financial instruments – operational	89.3	(121.3)	(51.1)	15.3	3.8
Net change in fair value of financial instruments – financial	14.2	68.0	(42.7)	(28.3)	(17.9)
Premiums paid on electricity options (less interest)	(13.8)	(15.2)	(18.5)	(17.0)	(21.5)
Impairment of property, plant and equipment, investments and intangibles	11.0	60.1	24.8	-	-
Net (gain) / loss on sale of assets	(174.2)	1.1	(106.6)	-	-
Adjustments before tax	(73.5)	(7.3)	(194.1)	(30.0)	(35.6)
Net income tax adjustments	(13.0)	14.6	61.7	3.6	4.0
Effect of corporate tax rate change on deferred tax liability	2.4	0.6	-	-	-
Effect of change in building depreciation deductibility	-	23.6	-	-	-
Adjustments after tax	(84.1)	31.5	(132.4)	(26.4)	(31.6)
Underlying NPAT	219.0	106.1	162.7	161.5	179.4

OPERATING PROFIT

Operating profit (in some instances referred to as earnings before interest and tax (EBIT)) is a non-GAAP financial measure that has been reported in historical financial statements and therefore is shown in the financial information presented in the prospective financial statements. Management use operating profit to evaluate the operating performance of Meridian without the effects of Meridian's capital structure and tax position because it allows better comparison of operating performance to other electricity industry companies than NZ GAAP measures that include these items. However, operating profit should not be considered in isolation or as a substitute for NZ GAAP measures, such as total revenue, net profit after tax and cash flow measures.

NET DEBT

Net debt is defined as the value of current and non-current borrowings net of foreign exchange hedging less cash and cash equivalents. Net debt is a metric commonly used by investors as a measure of Meridian's indebtedness that takes account of liquid financial assets.

The following table sets out the calculation of net debt.

\$MILLION	FY2011	FY2012	FY2013	FY2014F	FY2015F
	12 MONTHS ENDED 30 JUNE 2011	12 MONTHS ENDED 30 JUNE 2012	12 MONTHS ENDED 30 JUNE 2013	12 MONTHS ENDING 30 JUNE 2014	12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
Total borrowings net of foreign exchange hedging	(1,614.0)	(1,822.1)	(1,177.5)	(1,194.0)	(1,181.9)
Less cash and cash equivalents	368.2	214.4	382.8	73.3	73.3
Net debt	(1,245.8)	(1,607.7)	(794.7)	(1,120.7)	(1,108.6)

Overview of Operational Information - Volume

	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
	NUMBER ICP	NUMBER ICP	NUMBER ICP	NUMBER ICP	NUMBER ICP
New Zealand customer numbers					
Meridian Retail – North Island	109,565	116,580	106,085	107,458	110,002
Powershop NZ – North Island	21,169	35,369	38,308	40,758	43,032
Meridian Retail – South Island	129,651	122,834	114,721	112,142	109,240
Powershop NZ – South Island	12,391	12,521	12,963	13,305	13,617
Total New Zealand customer numbers (ICPs⁵²)	272,776	287,304	272,077	273,663	275,891
	VOLUME GWh	VOLUME GWh	VOLUME GWh	VOLUME GWh	VOLUME GWh
New Zealand contracted sales					
Residential and small medium enterprises – Meridian Retail ⁵³	2,925	2,897	2,923		
Residential and small medium enterprises – Powershop NZ	267	444	506		
Corporate customers ⁵⁴	2,448	2,360	2,232		
Total New Zealand retail contracted sales to customers⁵⁵	5,640	5,701	5,661	5,563	5,629
New Zealand wholesale contracted sales					
NZAS sales ⁵⁶	4,861	5,073	4,886	5,011	5,011
Sell financial contracts	2,012	1,830	2,127	1,619	1,388
Total New Zealand wholesale contracted sales	6,873	6,903	7,013	6,630	6,399
New Zealand electricity market purchases					
Contracted purchases from market ⁵⁵	6,082	5,993	5,976	5,871	5,943
NZAS purchases from market ⁵⁶	4,763	4,776	2,396	-	-
Spot customer purchases	1,827	1,774	1,781	1,776	1,786
Total New Zealand electricity market purchases	12,672	12,543	10,153	7,647	7,729
New Zealand buy financial contracts	910	3,280	2,963	2,275	1,996

52. Installation control points.

53. Residential and small and medium size enterprises are typically non-half-hourly metered customers.

54. Corporate are typically half-hourly metered customers.

55. The difference between retail contracted sales to customers and contracted purchases from the market arises as a consequence of a number of factors, including distribution losses arising from energy used and lost in the transmission of electricity, and unaccounted for energy occurring as a result of incorrect billing or metering.

56. Sales prior to 1 January 2013 comprised a combination of physical electricity sales and financial contracts. From 1 January 2013, the NZAS Agreement changed from a physical supply requiring Meridian to purchase from the electricity market to a financial arrangement where the physical supply relationship is now between NZAS and the electricity market.

Overview of Operational Information - Volume (continued)

	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
	VOLUME GWh	VOLUME GWh	VOLUME GWh	VOLUME GWh	VOLUME GWh
New Zealand electricity generation					
Hydro	12,629	9,790	10,918	11,890	11,699
Wind	1,023	1,206	1,153	1,246	1,449
Total New Zealand electricity generation⁵⁷	13,652	10,996	12,071	13,136	13,148
International operations					
	NUMBER NMI	NUMBER NMI	NUMBER NMI	NUMBER NMI	NUMBER NMI
Australian customers (NMIs ⁵⁸)	-	7	400	11,272	33,018
	VOLUME GWh	VOLUME GWh	VOLUME GWh	VOLUME GWh	VOLUME GWh
Australian contracted customer sales	-	-	1	31	225
Total Australian electricity market purchases	-	-	1	32	233
Australian electricity generation - wind ⁵⁹	162	177	421	304	540
USA electricity generation - solar	10	11	11	10	10

57. FY2011 total New Zealand generation includes 1,015 GWh of generation production from Tekapo A and B hydro power stations which were sold to Genesis Energy on 1 June 2011.

58. National Metering Identifier.

59. FY2013 Australian electricity generation - wind includes 256 GWh of generation production from Meridian's 50% ownership of the Macarthur wind farm on an equity weighted basis which was sold to Malakoff Corporation Berhad on 28 June 2013.

Overview of Operational Information - Price

	FY2011 12 MONTHS ENDED 30 JUNE 2011	FY2012 12 MONTHS ENDED 30 JUNE 2012	FY2013 12 MONTHS ENDED 30 JUNE 2013	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
	HISTORICAL	HISTORICAL	HISTORICAL	FORECAST	FORECAST
	VWAP ⁶⁰ \$/MWh	VWAP \$/MWh	VWAP \$/MWh	VWAP \$/MWh	VWAP \$/MWh
New Zealand electricity prices					
New Zealand contracted sales to retail customers ⁶¹	98	102	105	104	103
New Zealand contracted sales to wholesale customers ⁶²	63	57	65	57	56
Total New Zealand contracted sales	79	78	83	78	78
Total New Zealand average cost to supply contracted sales ⁶³	48	103	71	60	63
New Zealand electricity generation					
	VWAP \$/MWh	VWAP \$/MWh	VWAP \$/MWh	VWAP \$/MWh	VWAP \$/MWh
Generation ⁶⁴	43	101	65	56	60
LWAP / GWAP ⁶⁵	1.14	1.07	1.08	1.08	1.07

60. Volume weighted average electricity price.

61. Volume weighted average electricity price received from retail contracted customers less distribution costs per MWh sold.

62. Volume weighted average electricity price received from wholesale contracted customers per MWh sold.

63. Volume weighted average cost to supply contracted customer sales per MWh.

64. Volume weighted average wholesale electricity price received for electricity generated and sold into the wholesale electricity market per MWh. These numbers exclude the impact of electricity financial contracts designed to firm generation revenue.

65. LWAP/GWAP is the ratio between:

- The price received per unit for Meridian's physical generation and acquired generation (buy hedge spot leg); and
- The price paid to supply each unit of contracted sales, inclusive of the impact of lines losses.

Analysis of Historical Financial and Operational Performance

This section describes Meridian’s financial operating model, including a discussion of certain key measures Meridian uses to measure its financial performance, a discussion of the main factors that affect Meridian’s operational and financial performance and an analysis of its results for FY2013 compared to FY2012 and FY2012 compared to FY2011.

Meridian’s Financial Operating Model

OVERVIEW

Meridian is an integrated retailer and generator of electricity. It operates hydro and wind generation plants in New Zealand and a wind farm in Australia and selectively develops new generation assets. It sells the electricity it generates to the wholesale market and buys electricity for resale to retail customers. This combined portfolio of retail and wholesale operations assists in reducing wholesale market risk and earnings volatility that can arise from adverse hydrological conditions.

HOW MERIDIAN RETAILS ELECTRICITY

Meridian sells electricity to customers including individual households, small businesses, farms and large commercial and industrial organisations under its Meridian Retail and Powershop brands in New Zealand and under the Powershop brand in Australia. Meridian sells the majority of this electricity at fixed prices, which are intended to cover the cost of electricity generation, transmission and distribution, metering, levies and taxes, costs incurred serving each customer and a retail profit margin.

HOW MERIDIAN BUYS AND SELLS WHOLESALE ELECTRICITY

Meridian buys electricity from the wholesale spot market to on-sell to its customers. This, and all associated market risk and variability, are managed by Meridian’s wholesale function. In addition to the cost of purchasing electricity, Meridian pays fees to distribution network companies that cover the costs of distribution of electricity to customers and incorporates these fees into its customer pricing.

Meridian sells the electricity it generates into the wholesale market and receives the prevailing market price at each location where its electricity flows into the national grid. Wholesale electricity prices can be volatile, however the effects of this on generation revenues and the cost of electricity purchases are broadly offsetting. Meridian plans to operate its combined portfolio of generation assets and customer mix so that it is

generally ‘long’ generation, that is, it generates more electricity than it sells to customers, which assists in maintaining the effectiveness of this offsetting relationship.

HOW MERIDIAN MANAGES VOLATILE WHOLESALE ELECTRICITY PRICES

However, for reasons discussed at greater length under the heading “Overview of the Main Factors that Affect Meridian’s Financial and Operational Performance”, the usual offsetting relationship between wholesale electricity sales and wholesale purchases may be less effective at certain times. For example, Meridian’s generation volume may decline below average levels resulting in Meridian’s purchases from the wholesale market exceeding its sales to the wholesale market at a time when it is more expensive than average to purchase electricity from that market.

Meridian seeks to limit its exposure to these adverse situations by entering into a variety of financial instruments tied to the wholesale electricity price. Generally speaking, these instruments have the effect of either fixing the price at which Meridian purchases specified volumes of electricity from the wholesale market (these instruments are referred to as ‘buy-side contracts’) or fixing the price at which Meridian sells a specified volume of electricity to the wholesale market (referred to as ‘sell-side’ contracts).

HOW MERIDIAN MEASURES ITS GROSS MARGIN

Meridian’s principal source of revenue is sales of electricity in the New Zealand and Australian wholesale and retail electricity markets. Given the interlinked elements of the electricity markets, Meridian uses a non-GAAP measure, Energy Margin, to capture the net operating effect of its electricity generation, wholesale purchases, retail sales and related derivative transactions. The calculation of Energy Margin is explained in 6.2 *Overview of Operational and Financial Information* under the heading “Overview of Certain Non-GAAP Financial Information”.

OTHER MERIDIAN REVENUE AND COSTS

In addition to revenues and costs that are recorded as part of Energy Margin, Meridian earns smaller amounts of revenue from other activities, including meter services, dam engineering advisory services and rents and other income from farmland, and incurs operating expenses that are recorded on the income statement under transmission expenses, employee expenses and other expenses including metering, sales and marketing, other customer servicing, generation asset maintenance, contractors’ fees, and professional service costs.

Transmission expenses are the charges levied directly on Meridian by Transpower for operating the national transmission network in New Zealand. These costs principally relate to the HVDC link between the North Island and the South Island, which is paid for by South Island generators. The recent upgrades to this HVDC link have increased these costs.

Overview of the Main Factors that Affect Meridian's Financial and Operational Performance

The following discussion highlights a number of factors that can have a significant effect on Meridian's financial and operational performance. This is not an exhaustive list of all factors which affect Meridian's financial and operational performance, and it should be read in conjunction with the subsequent discussion of Meridian's analysis of its results for FY2013 compared to FY2012 and FY2012 compared to FY2011 as well as *5 What are the Risks?*.

GENERATION OUTPUT

Meridian's generation output affects the revenue it earns from selling electricity into the wholesale market from volumes in excess of volumes required to meet contracted customer demand. Additionally, because Meridian's generation represents such a significant proportion of the total market supply, fluctuations in Meridian's output can affect the wholesale price.

INFLOWS

Meridian's generation output is largely influenced by the availability of fuel, which in the case of hydro power stations is inflows of water and in the case of wind farms is wind speeds. The level of water in the storage lakes above Meridian's hydro power stations depends on the amount of rain and snow melt in the catchment area for each lake. Storage is subject to the constraint of the maximum capacity of the storage lake. As a result, prolonged periods without rain or snow melt can result in Meridian reducing production from its hydro power stations. Similarly, when there is little or no wind at Meridian's wind farms, they do not produce electricity.

AVAILABILITY OF GENERATION PLANT

Meridian's production can also decline due to outages in either its power stations or the infrastructure that transmits electricity to the grid. Most outages are planned well in advance to carry out scheduled maintenance or mid-life upgrades, however unplanned outages can also occur, for example due to equipment failures.

CUSTOMER DEMAND

The main short-term factor affecting residential demand for electricity is seasonal conditions, with cold weather generally leading to higher consumption as a result of electric heating in homes. Industrial consumption is affected by economic conditions generally, and also conditions within energy-intensive industries such as heavy manufacturing, pulp and paper and aluminium smelting. In this regard, the level of demand from

NZAS, which is the biggest consumer of electricity in New Zealand, can significantly affect overall demand and therefore prices.

WHOLESALE ELECTRICITY PRICES

Meridian's generation earns the prevailing wholesale electricity prices at the locations nearest its power stations while its costs of purchasing electricity to supply to its customers are set at the prevailing wholesale electricity prices at the locations on the national grid nearest its customers.

Wholesale prices are set via a market which matches the supply of electricity from generators with demand from users (electricity retailers and some large industrial customers) at various locations on the national grid. The lowest cost combination of generation offers at each location which satisfy demand are accepted.

Because over half of New Zealand's electricity comes from hydro generation, the most important factor affecting overall supply is hydrological conditions throughout New Zealand. Other factors that can affect electricity supply include planned and unplanned power station outages, the supply and cost of other fuels such as gas and coal and the decisions of power station operators to increase and decrease their generation, in particular to operate higher cost 'peaking' plants at times of high demand.

There can be significant differences between the wholesale prices at different locations on the national grid, particularly when transmission constraints limit supply to certain areas. Historically, the HVDC link between the North Island and the South Island has imposed a constraint on transmission from the South Island, where Meridian's hydro power stations are located, to the North Island, resulting in different wholesale prices in the North Island than the South Island. Transpower's current grid investment program is designed to alleviate some of these constraints.


RETAIL CUSTOMER NUMBERS AND PRICES

Competition is high in all segments of the retail electricity market. This is most publicly observable in the residential segment, where large national movements in customer (ICP) numbers have been widely reported. Meridian seeks to maintain a portfolio of customers that complements its generation portfolio in terms of size and location. Meridian's financial performance is highly dependent on the price at which it sells electricity to its customers. Intense retail competition can create downward pressure on prices and relatively small changes in price can substantially affect Energy Margins.

INTEREST COSTS

Interest costs for Meridian are a function of the amount of contracted facilities, the level of drawn debt facilities, the interest rates payable under those facilities and the cost and amount of any interest rate hedging. Factors affecting debt levels include operational performance (affecting cash flows from operations), dividends paid and capital expenditure. Interest rates are primarily affected by local and international financial and economic conditions and Meridian's credit profile. Interest

costs reported in the income statement are reduced to the extent that interest costs are capitalised into asset work in progress.

 Further detail as to Meridian's Group Treasury Policy is provided in 6.4 *Further Financial and Accounting Information*.

ACCOUNTING TREATMENT OF FINANCIAL (DERIVATIVE) CONTRACTS

Meridian uses a variety of derivative financial instruments in its operations. These instruments are divided into two groups:

- **Financial Instruments – Operational** – these are instruments that Meridian uses to manage its exposure to wholesale electricity markets. They include buy-side derivative instruments, which Meridian uses to manage the exposure arising from its requirement to purchase electricity for resale, and sell-side instruments, which manage Meridian's exposure from selling its generation. The instruments Meridian uses include contracts for difference (CFDs), electricity options and electricity futures contracts; and
- **Financial Instruments – Financing** – these are instruments that Meridian uses to manage its exposure to interest rates and foreign currencies. The instruments Meridian uses include cross-currency interest rate swaps, interest rate swaps and foreign exchange contracts.

Accounting standards require financial instruments be recorded on the balance sheet at fair value. As the movements in fair value can be large, the accounting treatment adopted by the Group for financial instruments can have a material impact on the reported NPAT of the Group.

Generally, movements in the fair value of financial instruments are reported in the income statement, but do not impact Meridian's cash flows. However, if a specific and effective cash flow hedging relationship is established between a financial instrument and an underlying physical transaction, the financial instrument can be hedge accounted and movements in value are recognised in other comprehensive income and accumulated in equity.

Changes in fair value typically arise where the contracted price differs from the current market or expected price (depending on the type of financial instrument), or where there is a change in the market price or expected price (as the case may be) on a period to period basis. The main factors influencing the change in fair value movements for Meridian are changes in market interest rates and foreign currency rates, changes in expected electricity prices and the increase or decrease in the amount of financial instruments held by the Group.

In Meridian's case, the accounting treatment chosen by the Group varies across the financial instruments utilised. Foreign currency forward rate agreements (generally used by Meridian in relation to committed expenditure) are generally hedge accounted. The Group will seek to hedge account interest rate swaps and cross currency interest rate swaps where accounting standards permit and depending on the level of effectiveness.

Changes in fair value of hedged instruments are recorded in other comprehensive income and accumulated in equity. The change in fair value of instruments not designated as hedges such as the majority of Meridian's electricity derivative contracts are recorded in the income statement.

VALUATION OF GENERATION PLANT AND EQUIPMENT ACCOUNTING POLICY

Meridian's generation structures and plant assets (including land and buildings) are stated in the statement of financial position at their fair value. This is periodically assessed on behalf of the directors by an independent expert. In forming a view of value, assessments are made using a capitalisation of earnings and discounted cash flow methodologies.

The capitalisation of earnings methodology calculates value by reference to an assessment of future maintainable earnings and capitalisation multiples as observed from market prices of listed companies with broadly comparable operations to Meridian and the potential performance of the New Zealand economy in the near term.

The discounted cash flow methodology calculates value based on the present value of the cash flows that the assets can be expected to generate in the future.

If asset values increase, this will consequently increase depreciation costs and if asset values decrease this will reduce depreciation costs. All other things being equal, increased depreciation costs reduce profit and decreased depreciation costs increase profit for the period and subsequent periods.

Discussion of Historical Operational and Financial Performance

FY2013 COMPARED WITH FY2012

Overview

- **Net Improvement**

Meridian's NPAT in FY2013 was \$295.1 million. This result reflected improved hydrology conditions at Meridian's Waitaki and Manapōuri storage lakes and increased wholesale contracted revenues, both of which benefited New Zealand Energy Margin, the contribution to International Energy Margin from Macarthur wind farm and net gain from the subsequent sale of Meridian's investment in Macarthur wind farm. When compared with FY2012, NPAT in FY2013 was \$220.5 million (295.6%) higher.

- **Underlying Improvement**

Underlying NPAT, which removes the effects of non-cash fair value movements and other one-off and/or infrequently occurring events, such as the sale of the Macarthur investment (reconciliation is shown in 6.2 *Overview of Operational and Financial Information* under "Overview of Certain Non-GAAP Financial Information") was \$162.7

million in FY2013, an increase of \$56.6 million (53.3%) from FY2012. This increase reflected the improved Energy Margin contribution to EBITDAF, which increased by \$108.2 million (22.7%) to \$584.8 million in FY2013 from \$476.6 million in FY2012. This was partially offset by increased finance costs and higher levels of tax on improved operating profit.

Energy Margin

The impact of improved inflows into Meridian's hydro storage lakes following record low inflows in FY2012, the effects of the NZAS Agreement, which commenced on 1 January 2013, and revenues from the Macarthur wind farm in Australia were principal drivers of the improved Energy Margin which increased by \$152.6 million (20.0%) to \$915.8 million in FY2013 from \$763.2 million in FY2012.

New Zealand Retail Performance

Meridian Retail's and Powershop's combined contracted sales volumes declined by 40 GWh (0.7%) to 5,661 GWh in FY2013 from 5,701 GWh in FY2012. The transfer of 6,800 of Meridian's pre-pay customers to Mighty River Power's GLO-BUG pre-pay system and the transfer of the management of approximately 14,000 ICPs to Energy Direct NZ (EDNZ) contributed to this decline. Total ICPs declined by 15,227 (5.3%) to 272,077 in FY2013 from 287,304 in FY2012.

However despite lower retail ICP numbers and contracted sales volumes, Meridian Retail's and Powershop's combined contracted sales revenues (net of distribution expense) increased by \$12.2 million (2.1%) to \$597.8 million in FY2013 from \$585.6 million in FY2012, primarily as a result of a change in customer segment mix increasing the volume weighted average price of electricity (less distribution costs) sold to residential and business customers by 2.9% to \$105/MWh in FY2013 from \$102/MWh in FY2012.

New Zealand Wholesale Sales

Wholesale contracted revenues, which includes sales to NZAS and electricity derivatives sold to other industrial customers and generator/retailers increased by \$61.9 million (15.6%) to \$457.3 million in FY2013 from \$395.4 million in FY2012. The commencement of the NZAS Agreement on 1 January 2013 (in its then current form) was a key factor contributing to this result, along with the increased volume of the virtual asset swaps. See 4.2 *Business Description* under the heading "Significant Electricity Contracts – NZAS Agreement" and under the heading "Significant Electricity Contracts – Virtual Asset Swaps" for more information about these contracts.

New Zealand Cost to Supply Customers

The weighted average cost to supply contracted sales fell by \$32/MWh (31.0%) to \$71/MWh in FY2013 from \$103/MWh in FY2012. The cost of wholesale market purchases to supply contracted customers and the cost of spot settlement of electricity derivatives sold was \$917.5 million in FY2013, a decrease of \$416.8 million (31.2%) from \$1,334.3 million in FY2012.

New Zealand Generation Output and Price

Improved hydrology conditions in FY2013 resulted in total inflows of 12,172 GWh entering Meridian's hydro storage catchments, an increase of 3,076 GWh (33.8%) from 9,096 GWh of inflows in FY2012. These inflows enabled Meridian's New Zealand generation volumes to improve by 1,075 GWh (9.8%) to 12,071 GWh in FY2013 from 10,996 GWh in FY2012. The impact of increased inflows also contributed to the volume weighted average price for generation decreasing by 35.6% to \$65/MWh in FY2013 from \$101/MWh in FY2012. Revenue from sales of generation to the wholesale market was \$783.4 million in FY2013, a decrease of \$324.3 million (29.3%) from \$1,107.7 million in FY2012.

Higher levels of Meridian's New Zealand generation resulted in a lower volume of buy-side electricity derivative contracts being acquired to supplement generation. In FY2013, the net buy position of financial contracts decreased 614 GWh (42.3%) to 836 GWh from 1,450 GWh in FY2012. The cost of buy-side derivatives in FY2013 was \$282.9 million, a decrease of \$49.4 million (14.9%) from \$332.3 million in FY2012.

International

International Energy Margin improved \$27.9 million (122.4%) to \$50.7 million in FY2013 from \$22.8 million in FY2012. This increase was primarily the result of Macarthur wind farm revenues received from February 2013, when it was fully commissioned, until 28 June 2013, when Meridian's interest in the Macarthur wind farm was sold.

Transmission and Other Operating Expenses

Transmission expenses increased by \$28.6 million (33.0%) to \$115.3 million in FY2013 from \$86.7 million in FY2012. This largely resulted from Meridian's share of increased HVDC fees associated with Transpower's costs of upgrading the national grid, including the commissioning of the HVDC Pole 3.

Employee, customer servicing, maintenance and other operating expenses increased \$18.2 million (8.0%) to \$245.4 million in FY2013 from \$227.2 million in FY2012. Factors contributing to this increase were payment of at-risk performance incentives which had not been paid in relation to FY2012 when Group financial performance targets were not reached and other non-recurring costs including land access costs and listing costs.

Items Not Included in EBITDAF

Depreciation and amortisation was \$219.7 million in FY2013, \$5.4 million (2.4%) lower than FY2012.

During FY2013 Meridian recorded net gains on the sale of assets (pre tax) of \$106.6 million. This included a \$101.4 million before tax gain on the sale of Meridian's interest in the Macarthur wind farm in Australia to Malakoff Corporation Berhad, a Malaysian power generator and retailer, and a \$5.9 million gain on the sale of subsidiary business Energy for Industry (EFI) to Pioneer Generation Limited.

Impairments totalled \$24.8 million in FY2013, reflecting the continuing rationalisation of Meridian's development portfolio and divestment of non-core investments. Impairments primarily relate to the suspended North Bank Tunnel development project and further impairment of the Meridian Energy USA business.

A net positive change of \$51.1 million in the fair value of operational financial instruments was driven by movements in forward electricity and aluminium price paths. An increase in forecast New Zealand interest rates had a positive effect on the fair value of interest rate swaps, resulting in a \$42.7 million increase in the fair value of financing financial instruments.

Net finance costs increased by \$31.0 million (37.6%) to \$113.5 million in FY2013 from \$82.5 million in FY2012, reflecting interest costs on the financing of the Macarthur wind farm. During the construction phase of this project, finance costs were capitalised in line with accounting standards.

Tax expense increased by \$48.8 million (58.5%) to \$132.2 million in FY2013 from \$83.4 million in FY2012, reflecting improved profitability, including the gain on sale of the Macarthur wind farm. The effective tax rate was 30.9% in FY2013, compared to 52.8% in FY2012. The statutory tax rate in New Zealand is 28%.

Statement of Financial Position

Meridian's carrying value of property, plant and equipment decreased by \$1,194.6 million (15%) in FY2013 to \$6,769.0 million from \$7,963.6 million in FY2012. This resulted from the sale of Meridian's investments in the Macarthur wind farm and of its subsidiary, EFI, along with the effect of the renegotiated NZAS Agreement on the revaluation of generation structures and plant. The independent valuation assesses maintainable future earnings, asset performance and comparable company performance, and the revaluation resulted in the value decreasing by \$476.2 million (gross of deferred tax). This decrease reverses previous upward valuations held in the revaluation reserve.

In FY2013 borrowings declined by \$645.4 million (35.4%) in FY2013 to \$1,180.2 million from \$1,825.6 million in FY2012, reflecting the repayment of borrowings from Macarthur wind farm sale proceeds and improved operating cash flows.

Cash Flows

The improvement in hydrological conditions in FY2013 resulted in operating cash flows increasing \$94.5 million (29.3%) to \$416.7 million in FY2013 from \$322.2 million in FY2012. Net cash outflows from investing activities were \$124.1 million in FY2013, \$400.7 million (76.4%) lower than FY2012, reflecting the net proceeds received from the sale of Meridian's interest in the Macarthur wind farm and reduced capital development programme. These also contributed to Meridian's net cash outflow of \$101.3 million in FY2013 from financing activities compared to a net cash inflow of \$48.8 million in FY2012.

FY2012 COMPARED WITH FY2011

Overview

- **Net Decline**

Meridian's net profit after tax (NPAT) in FY2012 was \$74.6 million, a result which was dominated by the effects of the lowest combined inflows into Meridian's Waitaki and Manapōuri storage lakes in the 82 years for which records exist. When compared with FY2011, NPAT in FY2012 was \$228.5 million (75.4%) lower. The FY2011 result included the net gain from the sale of Tekapo A and B power stations to Genesis Energy of \$157.4 million and generation of 1,015 GWh from these stations, which resulted in revenues of \$44.0 million. The FY2011 result also included revenue of \$28.1 million from the settlement of a historical dispute with NZAS, concerning liability for electricity during a pot line outage in 2008.

- **Underlying Decline**

Underlying NPAT, which removes the effects of non-cash fair value movements and other one-off and/or infrequently occurring events (reconciliation is shown in 6.2 *Overview of Operational and Financial Information* under the heading "Overview of Certain Non-GAAP Financial Information") was \$106.1 million in FY2012, a decline of \$112.9 million (51.6%) from FY2011. This reduction primarily reflected the impact of the record low inflows into Meridian's hydro storage lakes on EBITDAF, which declined by \$183.3 million (27.8%) to \$476.6 million from \$659.9 million in FY2011.

Energy Margin

The impact of record low inflows into Meridian's hydro storage lakes and the sale of Tekapo A and B power stations in FY2011 were principal drivers of Energy Margin which declined by \$187.1 million (19.7%) to \$763.2 million in FY2012 from \$950.3 million in FY2011. The low levels of inflows received into Meridian's storage lakes required a conservative approach to generation, reducing the volume of generation sold into the wholesale spot market. This reduction was managed through the acquisition of buy-side electricity derivatives, which increased the cost of buy-side electricity derivatives.

New Zealand Retail Performance

During the year, retail market competition increased markedly. Meridian Retail and Powershop both benefited from increased customer switching, increasing combined customer numbers (ICPs) by 5.3% from 272,776 at 30 June 2011 to 287,304 at 30 June 2012, with North Island customer numbers increasing by 16.2% from FY2011. Meridian Retail and Powershop combined contracted sales revenues (net of distribution expense) increased by \$33.5 million (6.1%) to \$585.6 million in FY2012 from \$552.1 million in FY2011, a result of contracted sales volumes increasing and the volume weighted average price of electricity (less distribution costs) sold to residential and business customers increasing by 4.1% to \$102/MWh. Contributing to this overall price increase was an average 4.8% increase applied to Christchurch customers following a two-and-a-half-year price freeze in that region.

New Zealand Cost to Supply Customers

The weighted average cost of electricity purchased from the New Zealand wholesale electricity market to support contracted sales increased by \$55/MWh (114.6%) to \$103/MWh in FY2012 from \$48/MWh in FY2011. The cost of wholesale market purchases to supply contracted customers and the cost of spot settlement of electricity derivatives sold was \$1,334.3 million in FY2012, an increase of \$708.2 million (113.1%) from \$626.1 million in FY2011.

New Zealand Generation Output and Price

Meridian's New Zealand generation volume declined by 2,656 GWh (19.5%) to 10,996 GWh in FY2012 from 13,652 GWh in FY2011. This decline reflects the impact of the sale of Tekapo A and B power stations, which generated 1,015 GWh and contributed generation revenues of \$44.0 million in FY2011, and the dry conditions in Meridian's hydro storage catchments. The impact of record low inflows contributed to the volume weighted average price for generation increasing by 134.9% from FY2011, to \$101/MWh. Revenue from sales of generation to the wholesale market was \$1,107.7 million in FY2012, an increase of \$516.2 million (87.3%) compared to \$591.5 million in FY2011.

Increased electricity financial market liquidity and improved product sophistication enabled Meridian to supplement reduced generation volumes with buy-side electricity derivative contracts. In FY2012, the net position of financial contracts moved 2,552 GWh from a net sell position of 1,102 GWh in FY2011 to a net buy position of 1,450 GWh. The cost of buy-side derivatives in FY2012 was \$332.3 million, an increase of \$254.7 million (328.2%) from \$77.6 million in FY2011.

International

International Energy Margin improved \$1.5 million to \$22.8 million from \$21.3 million in FY2011, largely as a result of generation volumes increasing 9.3% in the year.

Other Operating Expenses

Employee, customer servicing, maintenance and other operating expenses declined by \$10.9 million (4.6%) to \$227.2 million in FY2012 from \$238.1 million in FY2011. Lower employee expenses were the dominant factor of this decline. As Group financial performance targets in FY2012 were not reached, general short-term incentives were not paid.

Items Not Included in EBITDAF

Depreciation and amortisation was \$225.1 million in FY2012, broadly consistent with FY2011. The impact of the sale of Tekapo A and B power stations reducing depreciation was largely offset by the increase in depreciation following a \$129.7 million upward revaluation of the carrying value of Meridian's generation assets at 30 June 2011.

Impairments totalled \$60.1 million in FY2012 as Meridian rationalised its generation development portfolio and exited from non-core investments. These included decisions to stop pursuing consents for Hayes wind farm and Mokihinui hydro power station, along with the sale of Meridian's interest in Whisper Tech's European joint venture, intellectual property and other rights.

A positive change of \$121.3 million in the fair value of operational financial instruments was driven by movements in forward electricity and aluminium price paths which positively impacted the fair value of the NZAS Agreement and other operational derivatives. A softening of forecast New Zealand interest rates had a negative effect on the fair value of interest rate swaps, resulting in a \$68.0 million decline in the fair value of financing financial instruments.

Net interest expense declined by 23.3% to \$82.5 million in FY2012 from \$107.6 million in FY2011, reflecting the combined impact of debt repaid from excess proceeds from the sale of Tekapo A and B power stations and interest on debt raised for funding the Macarthur wind farm development being capitalised in accordance with accounting rules.

Tax expense increased by \$2.2 million (2.7%) from \$81.2 million in FY2011 to \$83.4 million in FY2012. The effective tax rate was 52.8% in FY2012, compared to 21.2% in FY2011. The statutory tax rate in New Zealand changed from 30% to 28% at the commencement of FY2012. The high effective tax rate in FY2012 primarily reflected a \$23.6 million tax effect on deferred tax from a change in tax legislation removing the deductibility of tax depreciation on buildings and a \$16.5 million tax effect of expenditure not deductible for tax primarily relating to the impairments discussed above.

Statement of Financial Position

Meridian's carrying value of property, plant and equipment increased by 3.2% in FY2012 to \$7,963.6 million from \$7,720.8 million in FY2011. This was driven by Meridian's investment in the Macarthur wind farm development, partially offset by depreciation expense and impairments of work in progress.

In FY2012 borrowings increased by 16% to \$1,825.6 million compared with \$1,573.6 million in FY2011. Borrowings increased largely due to funding Meridian's 50% share of the construction of the Macarthur wind farm, partially offset by loans repaid from remaining proceeds from the sale of Tekapo A and B power stations.

Cash Flows

The challenging hydrology conditions experienced in FY2012 resulted in operating cash flows falling 12.6% from \$368.7 million in FY2011 to \$322.2 million in FY2012. Net cash outflows from investing activities were \$524.8 million in FY2012, primarily reflecting the investment in the construction of Macarthur wind farm during the year. Meridian had a net cash inflow of \$557.7 million from investing activities in FY2011 reflecting receipt of proceeds of \$820.2 million from the sale of Tekapo A and B power stations. Meridian had a net cash inflow of \$48.8 million from financing activities in FY2012, including cash applied to dividends of \$140.7 million compared to a net cash outflow from financing activities of \$612.0 million in FY2011, which included cash applied to dividends of \$683.7 million.

Further Financial and Accounting Information

MANAGEMENT DISCUSSION OF SEGMENTAL HISTORICAL FINANCIAL AND OPERATIONAL PERFORMANCE

The tables below detail Meridian's segment financial performance for FY2013, FY2012 and FY2011.

Meridian considers the business from the perspective of three reportable segments, being Wholesale, Retail and International. Segment performance is assessed on EBITDAF as presented in the income statement.

The Wholesale segment encompasses Meridian's generation development, generation production and sale of electricity into the wholesale electricity market, purchase of electricity from the wholesale electricity market and sale of electricity to large industrial customers and the retail segment at an agreed transfer price based upon forward wholesale market prices.

The Retail segment encompasses activity associated with the sale of electricity to retail customers, the purchase of electricity from the wholesale segment, and metering services.

For the purpose of segment reporting, purchases of electricity by the Retail segment are accounted for as purchases from the Wholesale segment at a transfer price that is set by reference to medium-term forward electricity prices on the New Zealand Electricity Futures and Options market, while the actual cost of electricity purchases is recorded within Wholesale. Meridian has adopted this approach in order to capture the effects of the volatility of wholesale electricity prices within Wholesale, and so that the Retail segment's results better reflect changes in the operating performance of the retail business over time.

The International segment comprises Meridian's Australian and United States operations, which include the generation of electricity and sale into these markets.

Other segments and unallocated corporate are not considered reportable segments. Other segments includes Meridian's portfolio of subsidiaries. Unallocated corporate includes business functions which support the Wholesale, Retail, International and other segments.

Segmental Financial Performance for the year ended 30 June 2013

\$MILLION	WHOLESALE	RETAIL	INTERNATIONAL	OTHER	UNALLOCATED CORPORATE	INTER-SEGMENT ITEMS	TOTAL
Energy sales revenue	2,061.2	1,166.5	51.4	9.7	-	(607.3)	2,681.5
Energy related expenses	(1,289.3)	(674.8)	(0.6)	(4.6)	0.5	607.3	(1,361.5)
Distribution expenses	(1.1)	(403.0)	(0.1)	-	-	-	(404.2)
Energy Margin	770.8	88.7	50.7	5.1	0.5	-	915.8
Dividend and other revenue	12.3	15.1	-	0.4	2.6	(0.7)	29.7
Transmission expenses	(113.2)	-	(2.1)	-	-	-	(115.3)
Gross margin	669.9	103.8	48.6	5.5	3.1	(0.7)	830.2
Employee expenses	(29.3)	(28.2)	(7.1)	(1.5)	(22.5)	-	(88.6)
Customer servicing, maintenance and other expenses	(64.2)	(58.0)	(6.9)	(2.2)	(26.0)	0.5	(156.8)
EBITDAF	576.4	17.6	34.6	1.8	(45.4)	(0.2)	584.8

Wholesale segment EBITDAF increased by \$63.2 million (12.3%) to \$576.4 million in FY2013 from \$513.2 million in FY2012. This improvement reflects the effects of increased inflows into Meridian's hydro storage catchments enabling increased generation production as well as increased wholesale contracted revenues. Wholesale contracted revenues, which include sales to NZAS and electricity derivatives sold to other industrial customers and generator/retailers including the sell-side of the virtual asset swaps, increased by \$61.9 million (15.6%) to \$457.3 million in FY2013 from \$395.4 million in FY2012. This increase resulted from the commencement of the NZAS Agreement on 1 January 2013 (in its then current form) and increased virtual asset swap volumes.

Retail segment EBITDAF in FY2013 increased by \$6.7 million (61.5%) to \$17.6 million from \$10.9 million in FY2012. This reflects the impact of increased contracted sales revenues (net of distribution costs) on Retail Energy Margin, which improved by \$14.2 million (19.1%) to \$88.7 million from \$74.5 million in FY2012.

In FY2013 Meridian began allocating directly attributable corporate overheads to the wholesale and retail segments. This resulted in allocations to the wholesale segment of \$14.0 million and retail segment of \$9.6 million.

International segment EBITDAF increased by \$22.3 million to \$34.6 million in FY2013 from \$12.3 million in FY2012. This was primarily the impact of revenues received from the Macarthur wind farm from February 2013 until Meridian's interest in the Macarthur wind farm was sold on 28 June 2013.

Segmental Financial Performance for the year ended 30 June 2012

\$MILLION	WHOLESALE	RETAIL	INTERNATIONAL	OTHER	UNALLOCATED CORPORATE	INTER-SEGMENT ITEMS	TOTAL
Energy sales revenue	1,985.1	1,156.6	23.3	20.9	-	(643.0)	2,542.9
Energy related expenses	(1,306.6)	(701.4)	(0.5)	(10.0)	-	643.0	(1,375.5)
Distribution expenses	(23.5)	(380.7)	-	-	-	-	(404.2)
Energy Margin	655.0	74.5	22.8	10.9	-	-	763.2
Other revenue	9.8	11.6	2.6	1.6	3.6	(1.9)	27.3
Transmission expenses	(84.7)	-	(2.0)	-	-	-	(86.7)
Gross margin	580.1	86.1	23.4	12.5	3.6	(1.9)	703.8
Employee expenses	(23.5)	(25.6)	(6.2)	(4.7)	(19.6)	-	(79.6)
Customer servicing, maintenance and other expenses	(43.4)	(49.6)	(4.9)	(4.5)	(45.2)	-	(147.6)
EBITDAF	513.2	10.9	12.3	3.3	(61.2)	(1.9)	476.6

Wholesale segment EBITDAF in FY2012 decreased by 31.2% to \$513.2 million from \$746.1 million in FY2011. This was largely the impact of record low inflows into Meridian's hydro storage lakes. This contributed to high average wholesale electricity prices. This benefited revenues received for generation sold, but had a converse impact on the cost of acquiring buy-side electricity derivatives used to supplement generation volumes and electricity purchased from the wholesale spot market which is sold to the Retail segment to support customer sales at a fixed price. Also contributing was the impact of the sale of Tekapo A and B power stations, which contributed generation revenues of \$44.0 million in FY2011.

Retail segment EBITDAF in FY2012 increased by \$35.3 million to \$10.9 million from a loss of \$24.4 million in FY2011. This improvement largely results from electricity sales revenues increasing by \$48.1 million (after removing increases from sales made to customers at the prevailing wholesale spot price) or 4.7%, as customer numbers grew, a shift in the sector mix of customers improved margins and a price increase was applied to Christchurch customers following a two-and-a-half-year price freeze in that region.

International segment EBITDAF increased by \$4.3 million to \$12.3 million from \$8.0 million in FY2011. This primarily resulted from increased volumes generated by the Mt Millar wind farm.

Segmental Financial Performance for the year ended 30 June 2011

\$MILLION	WHOLESALE	RETAIL	INTERNATIONAL	OTHER	UNALLOCATED CORPORATE	INTER-SEGMENT ITEMS	TOTAL
Energy sales revenue	1,546.4	1,029.0	21.8	15.3	-	(602.1)	2,010.4
Energy related expenses	(640.3)	(648.1)	(0.5)	(5.9)	-	602.1	(692.7)
Distribution expenses	(19.4)	(348.0)	-	-	-	-	(367.4)
Energy Margin	886.7	32.9	21.3	9.4	-	-	950.3
Other revenue	10.8	9.4	-	7.9	3.8	-	31.9
Transmission expenses	(82.3)	-	(1.9)	-	-	-	(84.2)
Gross margin	815.2	42.3	19.4	17.3	3.8	-	898.0
Employee expenses	(26.7)	(25.0)	(4.6)	(10.4)	(22.8)	-	(89.5)
Customer servicing, maintenance and other expenses	(42.4)	(41.7)	(6.8)	(9.1)	(48.6)	-	(148.6)
EBITDAF	746.1	(24.4)	8.0	(2.2)	(67.6)	-	659.9

Liquidity and Capital Resources

CAPITAL RESOURCES

Meridian's principal uses for cash are for developing new generation plant and associated infrastructure, maintaining its existing generation facilities and information systems, funding its operating expenses and working capital. During FY2011, FY2012 and FY2013 Meridian funded its capital requirements out of

surplus operating cash flow, supplemented by borrowings and issuance of debt securities. Meridian anticipates that the future capital requirements for its business will be funded through the same means.

CAPITALISATION AND OUTSTANDING DEBT

The table below outlines the consolidated cash, current and non-current borrowings, and total capitalisation of Meridian as at 30 June 2013.

\$MILLION	AS AT 30 JUNE 2013
Loans	
Current portion of term borrowings	146.7
Non-current term borrowing	1,033.5
Cash and cash equivalents	382.8
Equity	
Contributed equity	1,600
Retained earnings and reserves	3,088
Total shareholders' equity	4,688

LIQUIDITY RISK

Meridian maintains sufficient cash and marketable securities, adequate levels of available funding through committed credit facilities and the ability to close out market positions as part of its management of liquidity risk. Due to the dynamic nature of the underlying businesses, Meridian maintains flexibility in funding by keeping committed surplus credit lines available of at least

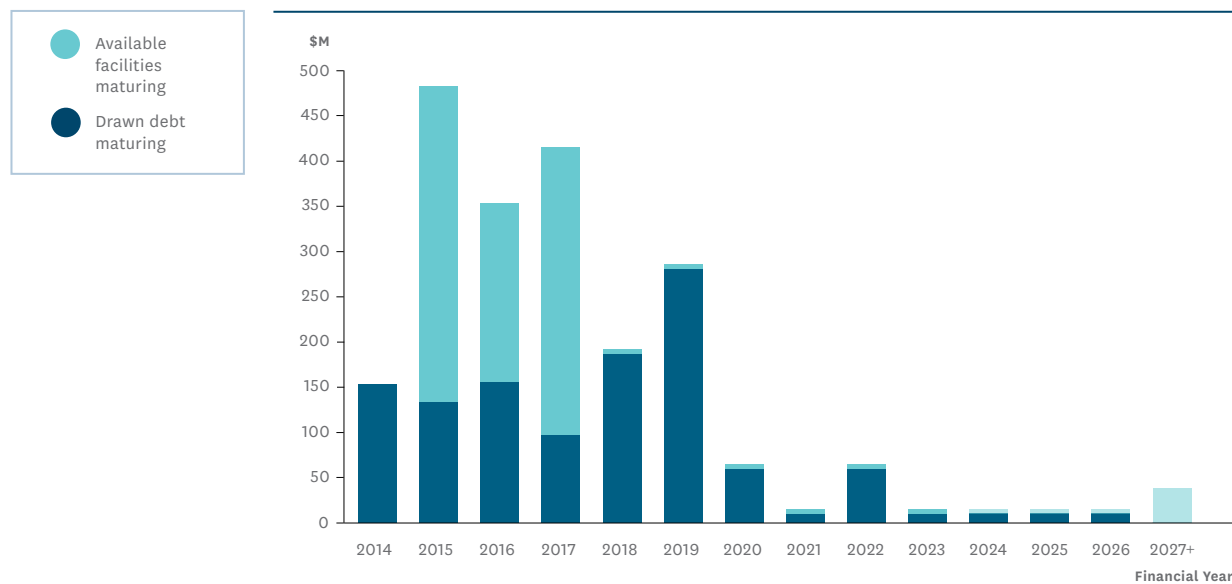
\$250 million to ensure it has sufficient headroom under normal and abnormal conditions.

The table below analyses Meridian's funding facilities at 30 June 2013. All facility limits and drawn debt are shown in New Zealand dollars.

\$MILLION	CURRENCY	FACILITY LIMIT	DRAWN DEBT	AVAILABLE
Bank funding ⁶⁶	NZD	675.0	-	675.0
Bank funding ⁶⁷	AUD	472.8	190.3	282.5
Renewable Energy Bonds ⁶⁸	NZD	200.0	200.0	-
Renewable Energy Notes ⁶⁹	NZD	12.5	12.5	-
EKF facility ⁷⁰	NZD	130.0	130.0	-
Floating rate notes ⁷¹	NZD	100.0	100.0	-
Fixed rate bond issue ⁷²	USD	479.9	479.9	-
Commercial paper ⁷³	NZD	70.0	70.0	-
		2,140.2	1,182.7	957.5

The graph below illustrates Meridian's existing debt maturity profile.

Debt Maturity Profile as at 30 June 2013



66. New Zealand dollar unsecured bank funding bears interest at the relevant New Zealand market rate plus a margin.

67. Australian dollar unsecured bank funding bears interest at the relevant Australian market rate plus a margin.

68. Renewable Energy Bonds are senior unsecured retail bonds bearing interest rates of 7.15% to 7.55% per annum.

69. Renewable Energy Notes are senior unsecured debt obligations paying a fixed rate of return over a set period of time.

70. EKF facility is an unsecured 15 year amortising term loan, provided by the official export credit agency of Denmark, for the construction of the Te Uku wind farm.

71. New Zealand dollar unsecured floating rate note bears interest at the relevant New Zealand market rate plus a margin.

72. United States dollar fixed rate bond issue are unsecured fixed rate bonds issued in the United States private placement market.

73. New Zealand dollar commercial papers are senior unsecured short-term debt obligations paying a fixed rate of return over a set period of time.

CONTRACTUAL MATURITIES

The following disclosure reflects all contractually fixed payoffs, repayments and interest from recognised financial assets and liabilities as well as the liquidity risk arising from derivative liabilities of the Group as at 30 June 2013.

While the table gives the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows nor the refinancing of debt instruments prior to expiry.

\$MILLION	DUE WITHIN 1 YEAR	DUE BETWEEN 1 AND 2 YEARS	DUE BETWEEN 3 AND 5 YEARS	DUE AFTER 5 YEARS	TOTAL UNDISCOUNTED CASH FLOWS
Non-derivative financial assets and liabilities					
Cash and cash equivalents	382.8	-	-	-	382.8
Trade and other receivables	261.9	-	-	-	261.9
Finance lease receivable	0.3	0.7	0.3	-	1.3
Payables and accruals	(274.7)	-	-	-	(274.7)
Provisions	(0.1)	-	-	-	(0.1)
Borrowings	(386.9)	(181.1)	(330.3)	(478.3)	(1,376.6)
Term payables	-	(7.2)	-	-	(7.2)
	(16.7)	(187.6)	(330.0)	(478.3)	(1,012.6)
Derivative financial net assets and liabilities-net settled					
Interest rate swaps/options	(27.6)	(20.0)	(28.6)	(12.9)	(89.1)
Electricity derivatives	(25.2)	(94.7)	(21.9)	(51.4)	(193.2)
	(52.8)	(114.7)	(50.5)	(64.3)	(282.3)
Derivative financial net assets and liabilities-gross settled					
Cross currency interest rate swaps					
Inflows	(55.1)	7.1	(114.1)	254.9	92.8
Outflows	(54.2)	4.5	(95.5)	287.2	142.0
Net inflows	(0.9)	2.6	(18.6)	(32.3)	(49.2)
Foreign exchange contracts					
Inflows	22.6	12.6	-	-	35.2
Outflows	15.4	11.3	-	-	26.7
Net inflows	7.2	1.3	-	-	8.5
Net financial liabilities	(63.2)	(298.4)	(399.1)	(574.9)	(1,335.6)

CAPITAL AND CONTRACTUAL COMMITMENTS

Meridian's capital expenditure and other commitments as at 30 June 2013 are set out in the tables below.

	\$MILLION
Capital expenditure commitments	
Property, plant and equipment	230.1
Software	3.9
	234.0
Less than one year	182.5
Later than one year and not later than three years	51.5
Later than three years and not later than five years	-
More than five years	-
	234.0

	\$MILLION
Non cancellable operating lease payments	
Less than one year	4.6
Later than one year and not later than three years	8.6
Later than three years and not later than five years	6.9
More than five years	3.5
	23.6

OFF-BALANCE SHEET ARRANGEMENTS

Meridian does not have any off-balance sheet financing arrangements.

FINANCIAL RISK MANAGEMENT FRAMEWORK

Meridian's activities expose it to a variety of financial risks: liquidity risks, market risk (including currency risk, cash flow risk, interest rate risk, electricity and other price risk) and credit risk. These risks are further described in 5 *What are the Risks?*.

Meridian manages financial risk through board approved policies and procedures, notably the Group Treasury Policy, Electricity Hedging Policy and Wholesale Credit Policy. These specify the responsibilities of the board and senior management with regards to the management of financial risk. Risk exposures are primarily managed through delegated authority limits and defined measures. Compliance with these limits is measured and monitored independently within the business and is reported to the Group board. Any non-compliance is escalated as per policy requirements. Policies are reviewed annually and are subject to regular internal audit.

MERIDIAN'S GROUP TREASURY POLICY

The Group Treasury Policy is applicable to all wholly owned entities and majority controlled entities of Meridian.

The Group Treasury Policy defines the obligations and responsibilities of the Meridian board, Chief Executive and treasury and finance functions in relation to all treasury related matters. It is approved by the board and subject to annual review. The board is responsible for monitoring compliance with the policy. A key objective of the Group Treasury Policy is to manage funding and liquidity requirements by securing debt funding that anticipates future funding needs and provides sufficient liquidity, an appropriate forecast debt profile, and funding costs comparable to those of similar rated entities.

FINANCIAL INSTRUMENTS

The Group Treasury Policy outlines approved financial instruments. Approved instruments for cash management and borrowing are: bank overdrafts; committed bank facilities; uncommitted money market facilities; commercial paper; medium term notes; renewable energy notes; and renewable energy bonds. Approved instruments for investment in cash (excluding balances held in transactional accounts) are: bank certificates of deposit; short term bank deposits; and treasury bills. Approved instruments for managing interest rate risk are: forward rate agreements; interest rate swaps and interest rate options on bank bills; and interest rate 'swaptions'.

ELECTRICITY PRICE RISK

Electricity hedging risk is managed through delegated authority limits established in the Electricity Hedging Policies which apply to the New Zealand and Australian businesses. These policies set limits on the volume of electricity contracts traded depending on the type of financial instrument employed. Meridian estimates both expected generation and electricity purchase requirements and determines its net position. Based on this net position Meridian enters into electricity derivative contracts to protect against price volatility within trading and risk parameters set and monitored by the board.

FOREIGN CURRENCY RISK

Foreign currency transaction risk is managed in line with the Group Treasury Policy. Foreign exchange hedge contracts are entered into with banks to hedge currency risk on highly probable forecast transactions to hedge foreign currency exposures of cash flows. When Meridian raises foreign currency funding it hedges all foreign currency and interest rate exposures back to the currency of the funding's ultimate utilisation through cross currency interest rate swaps.

INTEREST RATE RISK

The Group Treasury Policy requires Meridian to manage its exposure to interest rate risk by using interest rate hedges that apply minimum and maximum bands of interest rate cover to forecast debt levels. The policy specifies minimum and maximum level of fixed-rate cover for timeframes of up to 15 years, while specific board approval is required for interest rate hedging beyond 15 years. This is intended to reduce the variability of interest expense from year to year (as a result of changes in market rates). Meridian does not hedge account for its interest rate derivatives, therefore non cash fair value movements may cause volatility in reported net profit.

CREDIT RISK

Meridian's exposure to credit risk is managed through evaluation of the creditworthiness of prospective counterparties under criteria specified in the relevant board approved policy. For banks and financial institutions, only those with a minimum independent rating of 'A' are accepted. Financial instruments will only be entered into with counterparties, excluding New Zealand Aluminium Smelters (NZAS), with which Meridian has signed an ISDA⁷⁴ master agreement. For large business and industrial contracts, the Wholesale Credit Policy specifies counterparty credit and concentration limits. Credit assessments are performed for all new business, industrial and retail customers, with security required from customers with low credit scores or unsuitable credit histories.

CAPITAL RISK MANAGEMENT

The Chief Financial Officer is responsible for the assessment of capital at risk through analysis of the impact of cash flow variability on financial ratios which are used as measures of Group risk capacity and risk appetite. Group risk capacity is defined as the ability to meet banking covenants on existing debt facilities, while risk appetite is defined as the ability to meet a target of an S&P BBB+ credit rating. In order to maintain or adjust the capital structure to meet risk capacity and appetite limits, changes may be made to dividend policy, capital returned or injected and/or assets sold, constructed or purchased.

REPRESENTATIONS, UNDERTAKINGS, EVENTS OF DEFAULT AND REVIEW EVENTS

Meridian's debt arrangements contain certain representations, undertakings, events of default and review events which are usual for debt arrangements of their nature. The events of default include, broadly: non-payment (whether under that debt arrangement or another arrangement); a failure to remedy a breach of financial covenants within the specified period; a breach of warranty or other obligations under a debt arrangement; Meridian or any of its guaranteeing subsidiaries becoming insolvent, ceasing business or having a receiver or similar officer appointed in respect of it; or the occurrence of other circumstances which would or would be likely to have a material adverse effect in respect of Meridian and its guaranteeing subsidiaries taken together as a whole.

On the occurrence of an event of default or a review event, certain remedies may be exercised by the lenders, which include requiring funds borrowed to become due and payable. The events of default are subject to materiality thresholds and grace periods where appropriate. No events of default or review events have occurred.

In addition, some debt arrangements are subject to financial covenants which are customary for arrangements of their nature, which are described under the heading "Restrictions on Issuing Group" in 7.3 *Statutory Information*.

74. International Swaps and Derivatives Association.

Prospective Financial Information

This section contains:

- prospective financial information for the Group, as required by clause 11(1)(c) of Schedule 1 of the Securities Regulations, which include: prospective consolidated income statements, prospective consolidated statements of comprehensive income, prospective consolidated statements of financial position, prospective consolidated statements of changes in equity and prospective consolidated statements of cash flows;
- the basis of preparation of the prospective financial information, including the significant accounting policies applied;
- a description of the board of directors' best estimate general and specific assumptions that underpin the prospective financial information contained in this Offer Document; and
- an analysis of the sensitivity of prospective financial information to changes in a number of key assumptions.

BASIS OF PREPARATION

These prospective financial statements have been prepared in accordance with FRS-42 Prospective Financial Statements, subject to the Securities Regulations.

Prospective financial information is based on the board's assessment of events and conditions existing at the date of this Offer Document and the assumptions set out on pages 139 to 147 and accounting policies as discussed below. The directors believe that the following prospective financial information has been prepared with due care and attention, and consider the best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Offer Document. However, actual results are likely to vary from the information presented as anticipated results may not occur as expected, and the variations may be material. Accordingly, neither the directors nor any other person can provide any assurance that the prospective financial information will be achieved and investors are cautioned not to place undue reliance on the prospective financial information.

The following prospective financial information has been prepared for the purpose of the Offer and may not be suitable for any other purpose.

The prospective financial information is prepared entirely on a forecast basis.

This prospective financial information, including the assumptions underlying it, has been prepared by management and approved by the board. The board approved the prospective financial information on 19 September 2013 for use in this Offer Document. The Crown has not been involved in the preparation of the prospective financial information.

Prospective financial information by its nature involves risks and uncertainties, many of which are beyond the control of Meridian. These risks and uncertainties include, but are not limited to, those set out in 5 *What are the Risks?*.

There is no present intention to update prospective financial information or to publish prospective financial information in the future, other than as required by accounting standards. Meridian will present a comparison of this prospective financial information with actual financial results when reported in accordance with NZ GAAP and Regulation 44 of the Securities Regulations.

The directors are responsible for, and have authorised for issue, the prospective financial information on 19 September 2013.

NON-GAAP FINANCIAL INFORMATION

You should be aware that certain financial information included in the prospective financial information is considered "non-GAAP financial information", including profit measures other than net profit for the year as reported in the statutory financial statements. The notes to the various tables where non-GAAP financial information is reported include further information to help you interpret those terms which are not defined under NZ GAAP.

These measures include:

- Energy Margin;
- earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments, gain/(loss) on sale of assets and joint venture equity accounted earnings (EBITDAF);
- operating profit or earnings before interest and tax (EBIT);
- underlying net profit after tax (Underlying NPAT); and
- net debt.


The tables in 6.2 *Overview of Operational and Financial Information* under the heading "Overview of Certain Non-GAAP Financial Information" provides a reconciliation of Energy Margin, Underlying NPAT and net debt to the historical and prospective financial information. EBITDAF and operating profit are shown in the financial information presented in the historical and prospective financial statements.

ACCOUNTING POLICIES

The accounting policies applied to the preparation of prospective financial information are those which are expected to be used in future reporting periods and set out in 6.7 *Accounting Policies*.

Meridian is aware of New Zealand generally accepted accounting standards which have been issued and which will come into effect during the prospective financial information period and the wording of the policies in 6.7 *Accounting Policies* has been updated to reflect this. Meridian anticipates that while these standards may necessitate a change in disclosure, they are not expected to have a material impact on the financial statements during that period.

Subject to the foregoing, the significant accounting policies adopted in the preparation of prospective financial information are consistent with the accounting policies and methods of computation used in the preparation of Meridian's audited financial statements for the year ended 30 June 2013.

 Meridian's significant accounting policies adopted in the preparation of prospective financial information are provided in [6.7 Accounting Policies](#).

Prospective Consolidated Income Statements

\$MILLION	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
Energy sales revenue	2,416.8	2,536.3
Energy related sales revenue	13.9	14.4
Other revenue	9.1	8.6
Total operating revenue	2,439.8	2,559.3
Energy related expenses	(1,091.2)	(1,112.4)
Energy distribution expenses	(410.5)	(465.3)
Energy transmission expenses	(135.6)	(134.2)
Employee expenses	(83.3)	(87.2)
Customer servicing, maintenance and other expenses	(170.8)	(170.1)
Earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)	548.4	590.1
Depreciation and amortisation	(222.0)	(232.8)
Gain / (loss) on sale of assets	(0.3)	(0.3)
Net change in fair value of financial instruments gain / (loss) – operational	(15.3)	(3.8)
Operating profit	310.8	353.2
Net finance expenses	(78.1)	(77.7)
Net change in fair value of financial instruments gain / (loss) – financing	28.3	17.9
Profit before tax	261.0	293.4
Income tax expense	(73.1)	(82.4)
Net profit after tax	187.9	211.0
Net profit after tax attributed to:		
Shareholders of the parent	187.9	211.0
Non controlling interests	-	-
Earnings per share attributable to shareholders of the parent:		
Number of shares (thousands)	2,563,000	2,563,000
Basic and diluted earnings per share (cents)	7.3	8.2

Prospective Consolidated Statements of Comprehensive Income

\$MILLION	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
Net profit after tax	187.9	211.0
Other comprehensive income:		
Net gain / (loss) on cash flow hedges	(13.3)	(11.3)
Exchange differences arising from translation of foreign operations	-	-
Income tax relating to other comprehensive income	3.7	3.1
Total comprehensive income net of tax	178.3	202.8
Total comprehensive income after tax attributed to:		
Shareholders of the parent	178.3	202.8
Non controlling interests	-	-

Prospective Consolidated Statements of Financial Position

\$MILLION	FY2014F AS AT 30 JUNE 2014	FY2015F AS AT 30 JUNE 2015
SHAREHOLDERS' EQUITY		
Share capital	1,600.0	1,600.0
Reserves	3,006.3	2,930.1
TOTAL SHAREHOLDERS' EQUITY	4,606.3	4,530.1
ASSETS		
Current assets		
Cash and cash equivalents	73.3	73.3
Accounts receivable and prepayments	266.0	266.3
Inventories	4.3	4.3
Other assets	65.4	65.3
Derivative financial instruments	33.6	30.3
Total current assets	442.6	439.5
Non-current assets		
Finance lease receivable	0.6	0.6
Intangible assets	47.3	40.3
Property, plant and equipment	6,954.4	6,864.7
Derivative financial instruments	107.9	148.7
Deferred tax asset	12.6	12.6
Total non-current assets	7,122.8	7,066.9
TOTAL ASSETS	7,565.4	7,506.4
LIABILITIES		
Current liabilities		
Payables and accruals	259.3	268.5
Liabilities classified as held for sale	2.6	2.6
Current tax payable	21.3	24.8
Current portion term borrowings	133.4	167.0
Derivative financial instruments	29.4	30.1
Total current liabilities	446.0	493.0
Non-current liabilities		
Deferred tax liability	1,359.3	1,353.8
Term borrowings	1,060.6	1,014.9
Term payables	5.2	52.1
Derivative financial instruments	88.0	62.5
Total non-current liabilities	2,513.1	2,483.3
TOTAL LIABILITIES	2,959.1	2,976.3
NET ASSETS	4,606.3	4,530.1

Prospective Consolidated Statements of Changes in Equity

FY2014F 12 MONTHS ENDING 30 JUNE 2014 \$MILLION	SHARE CAPITAL	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	AVAILABLE FOR SALE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance as at 1 July 2013	1,600.0	3,073.9	(13.2)	8.9	1.6	16.8	4,688.0
Net profit after tax for the year	-	-	-	-	-	187.9	187.9
Cash flow hedge net loss taken to equity	-	-	-	(13.3)	-	-	(13.3)
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-
Income tax relating to other comprehensive income	-	-	-	3.7	-	-	3.7
Total comprehensive income for the year	-	-	-	(9.6)	-	187.9	178.3
Dividends paid	-	-	-	-	-	(260.0)	(260.0)
Balance as at 30 June 2014	1,600.0	3,073.9	(13.2)	(0.7)	1.6	(55.3)	4,606.3

FY2015F 12 MONTHS ENDING 30 JUNE 2015 \$MILLION	SHARE CAPITAL	REVALUATION RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	CASH FLOW HEDGE RESERVE	AVAILABLE FOR SALE RESERVE	RETAINED EARNINGS	TOTAL EQUITY
Balance as at 1 July 2014	1,600.0	3,073.9	(13.2)	(0.7)	1.6	(55.3)	4,606.3
Net profit after tax for the year	-	-	-	-	-	211.0	211.0
Cash flow hedge net loss taken to equity	-	-	-	(11.3)	-	-	(11.3)
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-
Income tax relating to other comprehensive income	-	-	-	3.1	-	-	3.1
Total comprehensive income for the year	-	-	-	(8.2)	-	211.0	202.8
Dividends paid	-	-	-	-	-	(279.0)	(279.0)
Balance as at 30 June 2015	1,600.0	3,073.9	(13.2)	(8.9)	1.6	(123.3)	4,530.1

Prospective Consolidated Statements of Cash Flows

\$MILLION	FY2014F 12 MONTHS ENDING 30 JUNE 2014	FY2015F 12 MONTHS ENDING 30 JUNE 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Receipts from customers	2,439.6	2,559.2
Interest received	3.9	2.6
	2,443.5	2,561.8
Cash was applied to:		
Payments to suppliers and employees	(1,914.4)	(1,968.0)
Interest paid	(82.7)	(80.4)
Income tax paid	(107.9)	(84.5)
	(2,105.0)	(2,132.9)
Net cash flows from operating activities	338.5	428.9
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Cash was provided from:		
Finance lease receivable	0.2	0.2
	0.2	0.2
Cash was applied to:		
Purchase of property, plant and equipment	(381.2)	(108.3)
Purchase of intangibles	(20.8)	(29.8)
	(402.0)	(138.1)
Net cash flows from investment activities	(401.8)	(137.9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was provided from:		
Borrowings	13.8	-
Cash was applied to:		
Dividends	(260.0)	(279.0)
Borrowings paid	-	(12.0)
	(260.0)	(291.0)
Net cash flows from financing activities	(246.2)	(291.0)
Net increase / (decrease) in cash and cash equivalents	(309.5)	-
Opening cash and cash equivalents	382.8	73.3
Closing cash and cash equivalents	73.3	73.3

Best Estimate General and Specific Assumptions

The prospective financial information in this section is based on various best estimate assumptions. The principal assumptions are summarised below and should be read in conjunction with the sensitivity analysis set out below, the risk factors set out in 5 *What are the Risks?* and in 6.7 *Accounting Policies*.

GENERAL ASSUMPTIONS

An overview of the New Zealand and Australian electricity industries, including a description of their component parts and the regulatory environment, is provided in 3 *Industry Overview*.

Set out below are the general assumptions that have been adopted by the Meridian board in preparing the prospective financial information:

- **Competitive and Regulatory Environment** – there will be no material change in Meridian’s competitive, legislative and regulatory environment;
- **New Zealand and Australian Electricity Markets** – there will be no material change in competitive behaviour in the retail and wholesale electricity markets, no material change in the transmission and distribution networks, and no material change in the current level of Meridian’s residential customer switching in the retail electricity market;
- **Economic Conditions** – there will be no change in domestic economic conditions, industrial business or population growth which would materially affect New Zealand or Australian electricity demand;
- **Key Customers and Suppliers** – there will be no material change in existing contractual, business and operational relationships with Meridian’s key customers and suppliers other than the renegotiated NZAS Agreement which took effect on 1 July 2013;
- **Business Acquisitions or Disposals** – there will be no material business acquisitions or disposals by Meridian;
- **New Zealand and International Tax Laws** – there will be no material change in tax laws applicable to Meridian; and
- **Accounting Standards** – there will be no change in accounting standards or accounting interpretations which would have a material effect on Meridian.

SPECIFIC ASSUMPTIONS

In addition to the general assumptions, below are specific assumptions that have been adopted by the Meridian board in preparing the prospective financial information.

Energy Margin

Meridian uses a non-GAAP measure, Energy Margin, to capture the net operating effect of its electricity generation, wholesale electricity purchases, retail and wholesale sales and related derivative transactions. The calculation of Energy Margin is explained in 6.2 *Overview of Operational and Financial Information* under the heading “Overview of Certain Non-GAAP Financial Information”.

When forecasting New Zealand Energy Margin, Meridian utilises a demand and supply simulation model of the New Zealand electricity system. Meridian has to make assumptions as to the amount of water that will be available in any period to power its generation assets, national demand for electricity, competitor generation offers, expected new power stations, transmission losses and constraints, and power station availability. Statistical models simulate Energy Margin outcomes based on the impact of the last 82 years of inflows reoccurring (if all other assumptions and conditions stayed the same). Meridian has assumed the mean of these outcomes for forecast Energy Margin in FY2014F and FY2015F. Energy Margins resulting from actual inflows will be different from this. If all other conditions and assumptions stay the same, around half the time a higher outcome would be expected and around half the time a lower outcome would be expected.

The impacts of availability of water are explained in 5 *What are the Risks?* and in 6.3 *Analysis of Historical Financial and Operational Performance* under the heading “Overview of the Main Factors that Affect Meridian’s Financial and Operational Performance”.

Energy Margin is a subset of selected line items extracted from the summary consolidated income statement, as set out in the table below.

\$MILLION	FY2014F	FY2015F
Energy sales revenue	2,416.8	2,536.3
Energy expenses	(1,091.2)	(1,112.4)
Energy distribution expenses	(410.5)	(465.3)
Total Energy Margin	915.1	958.6

The components of forecast Energy Margin are set out in the table below.

\$MILLION	FY2014F	FY2015F
New Zealand Energy Margin		
Contracted sales revenue		
Retail contracted sales revenue (net of distribution expense)	575.7	579.2
Wholesale contracted sales revenue	375.9	355.4
Total contracted sales revenue	951.6	934.6
Cost of buy-side electricity derivatives	(194.5)	(167.7)
Spot exposed sales		
Generation sales revenue	735.0	789.4
Buy-side electricity derivatives spot revenue	149.2	127.1
Electricity purchase and derivative spot costs	(752.8)	(778.8)
Total spot exposed revenues	131.4	137.7
Other market revenue / (expenses)	(7.9)	(8.3)
Total New Zealand Energy Margin	880.6	896.3
International Energy Margin		
Contracted sales revenue (net of distribution expense)	4.0	28.3
Generation sales revenue	33.1	52.2
Electricity purchase expenses	(2.6)	(18.2)
Total International Energy Margin	34.5	62.3
Total Energy Margin	915.1	958.6

New Zealand Contracted Sales

Meridian's contracted customer sales revenues include:

- **Retail** – sales of electricity to retail customers, which include individual households, small businesses, farms and large commercial organisations, under its Meridian Retail and Powershop brands; and

- **Wholesale** – electricity derivative sales to wholesale customers, which include NZAS, other generator/retailers and sales made on the New Zealand Electricity Futures and Options market.

Contracted sales volumes and volume weighted price received from contracted customers less distribution costs are summarised in the table below.

	VOLUME GWh		VOLUME WEIGHTED AVERAGE PRICE (\$/MWh)	
	FY2014F	FY2015F	FY2014F	FY2015F
Retail	5,563	5,629	104	103
Wholesale				
NZAS	5,011	5,011		
Virtual Asset Swaps	1,123	1,148		
Other electricity sell-side derivatives	496	240		
Total wholesale	6,630	6,399	57	56
Total New Zealand contracted sales	12,193	12,028	78	78
Spot sales	1,777	1,786	62	65

New Zealand contracted sales and related volumes and prices are subject to the following specific key assumptions, including:

- retail customer numbers increase by 1% in FY2014F from the closing position in FY2013 and increase by a further 1% in FY2015F;
- retail contracted sales volumes decrease by 1.7% in FY2014F compared with FY2013, this reflects the impact of customer transfers in FY2013 including 6,800 of Meridian's pre-pay customers to Mighty River Power's GLO-Bug pre-pay system and transfer of the management of approximately 14,000 customers to Energy Direct NZ;
- retail contracted sales volumes increase 1.2% in FY2015F compared with FY2014F, in-line with customer number growth;
- contracted energy sales prices for Meridian Retail and Powershop residential and business customers (non-half hour metered) remain unchanged in FY2014F and FY2015F;
- contracted energy prices on new corporate customer (half hour metered customers) contracts will reflect the forward electricity prices on the New Zealand Electricity Futures and Options market plus a margin;
- any increased fees charged by distribution companies will be largely passed onto the customer and therefore, do not affect Energy Margin;
- wholesale contracted sales volumes decrease by 5.5% in FY2014F from FY2013 and decrease a further 3.5% in FY2015F. These decreases largely reflect the expiry of existing derivative contracts;
- wholesale contracted sales include the NZAS Agreement, the current amendments to which were effective from 1 July 2013. See 4.2 Business Description under the heading "Significant Electricity Contracts – NZAS Agreement" for more information about this agreement. With respect to the NZAS Agreement, the following assumptions have been made in preparing the prospective financial information:
 - the CFD quantity is 572 MWh per hour (equivalent to 5,011 GWh per annum) in FY2014F and FY2015F;

- the CFD quantity of 572 MWh per hour will be continuous in FY2014F and FY2015F and the impacts from any exercise by NZAS of its option to reduce the CFD quantity to 400 MWh per hour (equivalent to 3,504 GWh per annum) will occur after FY2015F;
- NZAS (as the fixed price payer) pays Meridian a fixed price for the same quantity, regardless of whether NZAS consumes any electricity or not;
- the fixed price paid by NZAS includes a discount, the last three years of which is repayable, and future discounts are lost, if NZAS's electricity consumption is less than the quantities specified in the NZAS Agreement. It is assumed NZAS electricity consumption will be in accordance with the agreement and that NZAS will receive the discount in FY2014F and FY2015F;
- the fixed price of the CFD adjusts with changes in the consumers price index, and the forecast assumes that this will result in the fixed price increasing by 2.25% in FY2015F; and
- the agreement allows for future fixed price increases if the New Zealand dollar value of aluminium exceeds agreed levels, but the forecast assumes that these levels are not reached in FY2014F and FY2015F;
- the sell-side volume of the virtual asset swaps increase by 125 GWh in FY2014F from FY2013;
- the forecast assumes no new sell-side derivatives; and
- customers on spot contracts are charged the prevailing wholesale spot market price in each half hour of consumption. Sales volumes to spot customers are assumed to remain relatively constant across FY2014F and FY2015F.

New Zealand Buy-side Electricity Derivatives

Buy-side electricity derivatives contribute to the management of both generation volumes and exposure to wholesale electricity prices. The forecast volume acquired and the volume weighted price paid for buy-side electricity derivatives is summarised in the table below.

	VOLUME GWh		VOLUME WEIGHTED AVERAGE PRICE (\$/MWh)	
	FY2014F	FY2015F	FY2014F	FY2015F
Virtual Asset Swaps	1,123	1,148		
Other electricity buy-side derivatives	1,152	848		
Total New Zealand buy-side electricity derivatives	2,275	1,996	85	84

New Zealand buy-side electricity derivative volumes acquired and the volume weighted prices are subject to the following specific key assumptions, including:

- the buy-side of virtual asset swaps increase in FY2014F from FY2013, by the same volumes described in the sell-side assumptions;
- other electricity buy-side derivatives reduce in volume through the forecast period, reflecting the roll off of existing derivatives; and

- the forecast assumes no new buy-side derivatives other than a replacement for the Genesis swaption which expires in FY2015F.

New Zealand Spot Exposed Sales

Spot exposed sales arise from wholesale spot market revenue received from the volume of Meridian electricity generation and generation acquired through buy-side electricity derivatives that is in excess of the volumes required to cover contracted customer sales.

Forecast generation volumes and the volume weighted price received are summarised in the table below.

	VOLUME GWh		VOLUME WEIGHTED AVERAGE PRICE (\$/MWh)	
	FY2014F	FY2015F	FY2014F	FY2015F
Generation – Hydro	11,890	11,699		
Generation – Wind	1,246	1,449		
Total New Zealand generation	13,136	13,148	56	60

Spot exposed volumes at the generation node which are exposed to the wholesale market spot prices are summarised in the table below.

	SALES VOLUME GWh	
	FY2014F	FY2015F
Spot exposed volumes	2,291	2,274

New Zealand spot exposed sales are subject to the following specific key assumptions, including:

- based on Meridian's statistical demand and supply simulation models, it is forecast that generation volumes will increase in FY2014F to 13,136 GWh from FY2013 and remain relatively constant in FY2015F at 13,148 GWh and average prices forecast to be received for generation will be \$56/MWh in FY2014F and \$60/MWh in FY2015F;
- average price forecasts reflect the assumption that net growth in supply from new power stations and fewer older power stations being retired will exceed assumed national demand growth;
- the 60MW Mill Creek wind farm is forecast to deliver first power in May 2014 and when fully commissioned, it is expected to produce on average 235 GWh annually; and
- the capacity on the HVDC reflects Transpower's forward projections.

International Energy Margin

International Energy Margin is forecast to decrease in FY2014F by \$16.2 million from FY2013. This reflects reduced revenues following the sale of Meridian's interest in the Macarthur wind farm, offset in part by the additional Energy Margin forecast from the Mt Mercer wind farm and the launch of Powershop in Australia. Forecast Energy Margin increases by \$27.8 million in FY2015F. Specific assumptions underlying this forecast include:

- Mt Mercer wind farm will commence commissioning and deliver first power in November 2013 and be fully commissioned by June 2014; and
- Powershop Australia is forecast to grow its customer base to 11,272 in FY2014F and to 33,018 in FY2015F.

Transmission

Transmission expenses are forecast to increase by \$20.3 million or 17.6% in FY2014F from FY2013 and decline by 1% to \$134.2 million in FY2015F. Specific assumptions underlying this forecast include:

- actual transmission pricing as published by Transpower applies for the current pricing year which ends 31 March 2014;
- Transpower's indicative pricing applies from 1 April 2014;
- Australian transmission expenses increase as Mt Mercer is commissioned from November 2013; and
- it is assumed there is no change to the current transmission pricing methodology in New Zealand.

Transmission pricing is discussed in *3 Industry Overview* under the heading "Transmission".

Operating Expenditure

A breakdown of the forecast operating expenses by category and the related specific assumptions is provided below.

\$MILLION	FY2014F	FY2015F
Employee and related expenses	109.9	116.7
Generation maintenance	21.0	26.5
Metering and customer servicing	28.6	28.7
Promotions and brand	20.0	20.5
Insurance and regulatory	11.9	9.2
Other expenses	62.7	55.7
Total operating expenses	254.1	257.3

Forecast operating expenses are subject to the following specific assumptions:

- employee and related expenses increase by 6.8% in FY2014F compared to FY2013 and increase by a further 6.2% in FY2015F, due to general salary and remuneration increases and increased staffing levels as a consequence of the launch of Powershop in Australia;
- generation maintenance costs increase following the commissioning of Mill Creek and Mt Mercer wind farms. It is also assumed hydro asset maintenance costs increase and include mechanical overhaul costs associated with the refurbishment of the Waitaki power station;
- metering and customer servicing costs remain relatively constant compared with FY2013;
- issuer expenses relating to the Offer of \$9.7 million are incurred in FY2014F. These costs include legal, accounting and audit, insurance and other regulatory costs and promotional costs and are spread across promotions and brand, other expenses and insurance and regulatory expense categories;
- promotions and brand expenses resulting from the launch of Powershop into Australia increase in FY2014F and FY2015F; and
- listed public company costs of \$2.4 million in FY2014F and \$0.8 million in FY2015F, included in other expenses.

Depreciation and Amortisation

Depreciation and amortisation expense assumes that existing rates of depreciation and amortisation applied to relevant assets and planned capital expenditure is in line with Meridian's accounting policy. Depreciation and amortisation expense is forecast to increase by 1% in FY2014F from FY2013 and further increase by 4.9% in FY2015F.

Increased depreciation and amortisation reflects planned commissioning and capitalisation of Mill Creek and Mt Mercer wind farms and the upgrade of Meridian's generation control system.

Meridian has an accounting policy to measure generation structures and plant at fair value based upon periodic valuations by independent third party experts. There are no revaluation adjustments assumed in the forecast. Accordingly, forecast depreciation does not reflect any adjustments for any potential future revaluation impacts.

Change in Fair Value of Financial Instruments – Operational and Financing

Meridian holds various financial instruments for the purpose of managing its exposure to fluctuations in interest rates, foreign exchange rates and wholesale electricity prices. Instruments typically utilised are interest rate swaps, foreign currency forward rate agreements, electricity CFDs and electricity futures contracts.

The fair value of financial instruments is determined on a basis consistent with practices used in FY2013. In forecasting the change in fair value of financial instruments held by Meridian, the following key assumptions are made:

- there is no change in market forward curves for interest rates, foreign exchange or wholesale electricity prices over the forecast period and forward market prices are realised through the forecast period;

- Meridian maintains all financial instruments through to maturity;
- changes in fair value relate only to existing financial instruments and new financial instruments contracts are recognised at fair value at inception and through the forecast period;
- the NZAS Agreement is recognised at fair value at inception (1 January 2013) and then derecognised from 1 July 2013. This results in the \$11.3 million net asset held at 30 June 2013, reversing out through fair value movements in the income statement in FY2014F;
- over the forecast period external debt will be hedged as required by Meridian's Treasury Policy; and
- no new foreign exchange contracts are forecast as all known significant foreign dollar committed capital expenditure has been hedged as per Meridian's Treasury Policy.

Net Finance Expense

Assumed effective interest rates are 7.4% for FY2014F and 7.5% for FY2015F, which reflects the average funding costs over the forecast period, based on existing debt arrangements and interest rate hedges. Net finance expense is forecast to decrease in FY2014F compared with FY2013 reflecting an assumed lower net debt position following the sale of the Macarthur wind farm in FY2013. Net finance expense includes forecast interest income of \$4.0 million received in FY2014F and \$2.6 million received in FY2015F. For cash flow purposes it is assumed that interest is paid or received when it falls due.

Income Tax Expense

Assumed effective income tax rates are 28.0% in FY2014F and 28.1% for FY2015F, based upon corporate tax rates of 28% in New Zealand and 30% in Australia.

Working Capital, Cash and Other Cash Flow Assumptions

The working capital (accounts receivables and prepayments, inventories and payables and accruals) profile of Meridian is assumed to remain consistent with levels observed in FY2013. The receipt and payment of wholesale market settlements is a significant driver of working capital and can cause material changes in working capital balances at period end. Retail contracted sales receipts are assumed to follow seasonal patterns with most other payments and receipts being paid or collected either as incurred or recognised, or in the month following. Bank balances are assumed to be held constant to meet working capital requirements at \$73.3 million over the forecast period.

Cash flow from operating activities is forecast to decrease in FY2014F from FY2013, reflecting the decrease in EBITDAF following the sale of Macarthur wind farm in FY2013, and the impact of lower contracted sales revenue, along with higher tax payments assumed to occur in FY2014F, as a result FY2013 financial performance. In FY2015F, cash flows from operating activities are forecast to increase following the commissioning of Mill Creek and Mt Mercer.

Cash flow from investing activities is forecast to be broadly in line with capital expenditure forecasts after adjusting for the timing differences of accruals.

Capital Expenditure

Forecast capital expenditure is categorised below as either new investment or stay in business and development pipeline.

\$MILLION	FY2014F	FY2015F
New investment		
Mill Creek	122.4	12.5
Mt Mercer	193.0	41.7
Capitalised interest	5.4	8.4
Total new investment	320.8	62.6
Stay in business and development pipeline	78.9	72.6
Total capital expenditure	399.7	135.2

New investment expenditure is concentrated on the construction of Mill Creek in New Zealand and Mt Mercer in Australia.

Stay in business and development pipeline capital expenditure represents ongoing generation asset management, information technology system maintenance and maintaining a portfolio of future generation development options in New Zealand and Australia. Stay in business capital expenditure in the forecast period includes the refurbishment of the Waitaki power station and the upgrade of the generation control system.

From a cash flow perspective, expenditure is assumed to be paid the following month after being incurred.

Property, Plant And Equipment

No revaluation adjustments have been assumed in the forecast period.

Loans

The Group's debt facilities as at 30 June 2013, outlined in 6.4 *Further Financial and Accounting Information* under the heading "Liquidity Risk", are assumed to remain in place subject to the specific assumptions below. No existing facilities are callable by the lender prior to maturity.

During the forecast period the following sources of borrowings will be cancelled or are scheduled to mature or expire:

- \$125 million of the \$200 million Renewable Energy Bonds mature in March 2015;
- three tranches of the United States Private Placement notes were in place at 30 June 2013, totalling \$480 million. Tranche B (\$61 million) matures in April 2014, while Tranches C and D (\$419 million) remain in place over the forecast period;
- amortisation of the \$130 million EKF loan reduces borrowings by \$5 million in October 2013, April and October 2014, and April 2015. Closing EKF debt at June 2015 is therefore \$110 million; and
- two bank facilities totalling \$150 million will expire in November 2014, but are currently undrawn and would remain undrawn based on forecast debt levels.

Meridian's Treasury Policy requires committed debt facilities to be maintained at an amount that is at or close to \$250 million in addition to the projected core net debt levels over the next 12 months.

Dividends

• Pre-Offer

Total dividends declared by Meridian in relation to FY2013 were \$252.4 million, made up of an interim dividend of \$99.8 million which was paid to the Crown in April 2013 and a final dividend of \$152.6 million. This dividend will be paid to the Crown in September 2013 and is included in the FY2014F prospective consolidated financial statements.

• Post-Offer

It is forecast that Meridian will declare total dividends in relation to its financial performance in FY2014F of \$268.4 million, this includes an interim dividend of \$107.4 million paid in April 2014 and a final dividend of \$161.0 million paid in October 2014. In relation to financial performance in FY2015F total dividends of \$294.9 million are assumed to be declared. This includes an interim dividend of \$118.0 million paid in April 2015 and a final dividend of \$176.9 million paid in October 2015 (after the completion of FY2015F).

Based on the number of Shares currently on issue, dividends declared per Share for FY2014F is assumed to be 10.5 cents per Share and for FY2015F is 11.5 cents per Share. Dividends per Share is defined as dividends declared during the year divided by the number of ordinary Shares authorised, issued and fully paid, which is assumed to be 2,563,000,000 in both FY2014F and FY2015F.

Meridian's dividend policy commencing with respect to FY2014F and thereafter (as set out in 1.4 *Answers to Important Questions* under the heading "Dividend Policy"), subject to certain conditions being met, will be to make distributions at a dividend payout ratio within an average, over time, of 70% to 80% of Free Cash Flow (FCF). FCF is calculated as NPAT adjusted for post tax impact of fair value movements of derivatives and impairments, plus depreciation and amortisation, less the average level of capital cost of maintaining Meridian's asset base and systems (Stay in Business Capital Expenditure).

FCF is a non-GAAP financial measure. It is presented below only for the purposes of explaining Meridian's dividend policy as stated in this Offer Document.

The forecast dividend declared for FY2014F of 10.5 cents per Share and for FY2015F of 11.5 cents per Share represents a forecast dividend pay-out ratio of 80% of FCF.

It is assumed that the dividends declared in FY2014F and FY2015F will not be fully imputed for New Zealand tax purposes. Meridian expects an imputation range of 40% to 75% of the corporate tax rate, depending on hydrology conditions.

\$MILLION	FY2014F	FY2015F
NPAT	187.9	211.0
Net change in fair value of financial instruments gain / (loss) – operational	15.3	3.8
Net change in fair value of financial instruments gain / (loss) – financing	(28.3)	(17.9)
Tax adjustment	3.6	4.0
Depreciation and amortisation	222.0	232.8
Stay in business capital expenditure	(65.0)	(65.0)
Free cash flow	335.5	368.7
Tax rate applied on all taxable adjustments	28%	28%
Dividend declared	268.4	294.9
Forecast payout ratio	80%	80%

Issued Capital

The forecast assumes that no new equity is issued during the forecast period with 2,563,000,000 Shares on issue.

Related Party Transactions

Except as disclosed in 7.3 *Statutory Information*, it is assumed that all transactions with the Crown, Crown-owned entities and SOEs, subsidiaries and associates, jointly controlled assets and key management personnel will continue to be at arm's length and at normal market prices and on commercial terms.

Sensitivity Analysis

Prospective financial information is inherently subject to environmental, business, economic and competitive uncertainty, and accordingly actual results are likely to vary from prospective financial information and this variation could be material. A summary of the likely effects of variation in certain assumptions on forecast EBITDAF and NPAT is detailed below.

Cash flows from operating activities are affected by most EBITDAF movements to the extent that balances for receivables and payables change, as forecast cash flow assumes that debtor and creditor days remain constant. Interest and tax paid will also be affected when EBITDAF movements occur and any additional debt is assumed to incur interest costs at the forecast cost of funds. Cash flows from financing activities are affected by all EBITDAF movements to the extent that cash flow required from debt facilities may change.

The generation assets of Meridian are valued at fair value. The value of these assets is sensitive to changes in assumptions (over the long-term), including future wholesale electricity price,

discount rate applied and projected operational and capital expenditure. The value of these assets may increase or decrease depending on changes in the applicable assumptions. Any impact on operating generation assets of a change in fair value will first be accounted for against the Asset Revaluation Reserves within Shareholders' Equity which totalled \$3.1 billion as at 30 June 2013.

The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set out below. Sensitivities have been modelled on the basis of a change in the assumption affecting the full financial period of prospective financial information.

Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions. In reality, it is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. Furthermore, the sensitivity analysis does not take into account any potential mitigating actions that management may take.

DESCRIPTION OF SENSITIVITIES MODELLED – FY2014F AND FY2015F

New Zealand Retail Contracted Sales Volume

The forecast assumes that annual retail contracted sales volumes are 5,563 GWh in FY2014F and 5,629 GWh in FY2015F. Retail contracted sales volumes are dependent on a wide range of factors including competitor behaviour, economic activity and climatic conditions that are beyond Meridian's control. A change in retail contracted sales volume would affect retail contracted revenue and direct costs of sales including distribution costs, market purchase costs and indirect customer servicing costs

including metering. The sensitivity results are based on an increase or a decrease to assumed volumes and customer numbers of 5% each year of the forecast period (not cumulative). The average electricity consumption per customer in each segment is assumed to remain constant.

New Zealand Retail Contracted Energy Sales Price

The average annual contracted retail energy price is assumed to be \$104/MWh in FY2014F and \$103/MWh in FY2015F. Forecast retail price increases are less than increases in recent years, reflecting current market conditions. Retail prices are influenced by a range of factors including competitor behaviour and market conditions and are variable. A change in the retail energy price would affect retail contracted sales revenue (net of distribution costs). The sensitivity results are based on increasing or decreasing assumed energy prices by 5% for all retail customers, excluding customers on fixed rate and fixed term plans or contracts. The increase or decrease is assumed to apply from 1 July each year for the purpose of the sensitivity modelling.

Wholesale Electricity Price

The average annual volume weighted electricity prices received for New Zealand generation are expected to be \$56/MWh in FY2014F and \$60/MWh in FY2015F. Wholesale electricity prices are dependent on a wide range of factors that are beyond Meridian's control and are variable. A change in wholesale electricity prices will affect generation revenue, purchase costs and financial contract settlements. For the purposes of the sensitivity analysis, it is assumed that the price differential between the price paid for electricity to meet contracted sales and the price received from generation remains constant, therefore any wholesale electricity price change will only affect the spot exposed volumes. The sensitivity applied is an increase or decrease in the volume weighted average price. The price movement is applied over a single year and therefore is assumed to have no impact on the fair value of electricity financial instruments.

Hydrology Inflows

The New Zealand Energy Margin is forecast using statistical models which simulate New Zealand market outcomes based on the impact of the last 82 years of inflows reoccurring with a set of assumptions about competitor behaviour and plant, modelled against Meridian's forecast contract assumptions. This modelling presents a range of possible outcomes and Meridian has assumed the mean outcome for forecast Energy Margin in FY2014F and FY2015F. The percentile outcomes of the model indicate a range within which the revenue outcomes may be reasonably expected to fall, however this is dependent on a wide range of factors that are outside Meridian's control and are variable.

The percentiles used in this sensitivity represent the statistical likelihood of achieving the forecast EBITDAF (ie 75% indicates a 75% probability of modelled Energy Margin outcomes being achieved).

New Zealand Transmission Costs

The forecast assumes that transmission costs are \$135.6 million in FY2014F and \$134.2 million in FY2015F of which the New Zealand transmission costs are \$129 million in FY2014F and \$125 million in FY2015F. New Zealand transmission costs are dependent on a wide range of factors outside of Meridian's control and are variable. It is assumed that the transmission pricing methodology in New Zealand remains consistent throughout the forecast period. For the FY2014F sensitivity it is assumed that New Zealand transmission costs change by 10% on 1 April 2014 (the end of the current pricing period), and for FY2015F that costs change by 10% for the full year.

Forward Interest Rate Curve

Forecast fair values of interest rate financial instruments are based on a forward interest rate curve which is dependent on a wide range of factors that are beyond Meridian's control and are variable. The forecast assumes that realised interest rates track to forward curve expectations and there is no change in market forecasts for interest rates over the forecast period. The sensitivity results presented are based on a 100 basis points (bps) shift in the forward interest rate curve that is assumed to occur on 1 July 2013 for FY2014F and 1 July 2014 for FY2015F. These assumptions are applied independently for each forecast year and are not cumulative. A 100 bps change in the forward curve would have a significant one-off impact on the fair value of financial instruments and a lesser impact on the interest expense from the change in exposed interest costs on debt facilities. A change in the forward curve would not impact EBITDAF in either FY2014F or FY2015F.

DESCRIPTION OF SENSITIVITIES MODELLED – FY2015F ONLY

NZAS Agreement Reduces to 400 MWh per hour

The NZAS Agreement includes an option for NZAS to reduce the base CFD quantity from 572 MWh per hour to 400 MWh per hour. The earliest time that this reduction could occur is 1 January 2015. The sensitivity presented assumes that NZAS elects to reduce the base CFD quantity from 1 January 2015, and that this reduction in base CFD quantity corresponds to a reduction

in physical demand at the Tiwai smelter. The change in base CFD quantity would impact wholesale contracted revenue, and a reduction in physical demand could lead to a reduction in wholesale electricity prices and Meridian's generation volume. The sensitivity has been prepared based on the mean outcome of the statistical forecast models updated for a change in the smelter demand assumption and the NZAS CFD quantity assumption. The sensitivity does not assume any response from competitor generators or retailers.

FY2014F Forecast Sensitivities

SENSITIVITY	FORECAST	SENSITIVITY APPLIED	FY2014F IMPACT ON FORECAST EBITDAF \$MILLION	FY2014F IMPACT ON FORECAST NPAT \$MILLION
NZ retail contracted sales volume	5,563 GWh	5,285 – 5,841	(9.1) to 9.1	(6.6) to 6.6
NZ retail contracted energy sales price	\$104/MWh	\$98/MWh – \$109/MWh	(19.3) to 19.3	(13.9) to 13.9
NZ wholesale electricity price	\$56/MWh	\$36/MWh – \$76/MWh	(45.8) to 45.8	(33.0) to 33.0
Hydrology inflows	Mean	95% – 5%	(54.1) to 50.6	(38.9) to 36.4
		75% – 25%	(20.8) to 25.5	(15.0) to 18.4
NZ transmission expenses	\$129 million	+/- 10%	(3.0) to 3.0	(2.2) to 2.2
Forward interest rate		+/- 100 bps		33.7 to (36.9)

FY2015F Forecast Sensitivities

SENSITIVITY	FORECAST	SENSITIVITY APPLIED	FY2015F IMPACT ON FORECAST EBITDAF \$MILLION	FY2015F IMPACT ON FORECAST NPAT \$MILLION
NZ retail contracted sales volume	5,629 GWh	5,348 – 5,910	(8.3) to 8.3	(6.0) to 6.0
NZ retail contracted energy sales price	\$103/MWh	\$98/MWh – \$108/MWh	(23.7) to 23.7	(17.1) to 17.1
NZ wholesale electricity price	\$60/MWh	\$40/MWh – \$80/MWh	(45.5) to 45.5	(32.8) to 32.8
NZAS reduce base CFD quantity to 400 MWh per hour from 1 January 2015		- 172 MW	(21.1)	(15.2)
Hydrology inflows	Mean	95% – 5%	(65.5) to 64.6	(47.2) to 46.5
		75% – 25%	(27.3) to 24.1	(19.7) to 17.4
NZ transmission expenses	\$125 million	+/- 10%	(12.5) to 12.5	(9.0) to 9.0
Forward interest rate		+/- 100 bps		27.2 to (28.8)

Summary

Historical Financial Information

Summary consolidated financial statements for Meridian Energy Limited and its subsidiaries (the Group), as required by clause 9 of Schedule 1 of the Securities Regulations, are set out below.

The summary financial statements are presented in New Zealand dollars and are rounded to the nearest one hundred thousand dollars, which may result in some discrepancies between the sum of components and totals within tables.

The summary financial statements comply with FRS-43 Summary Financial Statements, subject to the exemption in clause 9(4) of Schedule 1 of the Securities Regulations, whereby the summary financial statements are not required to include:

- a comparison of, and explanations for major variances between, prospective and historical financial statements;
- events occurring after the balance date of a period; and
- comparative information for any period before the earliest period presented in the summary financial statements.

In all other respects, the summary financial statements comply with FRS-43.

The summary financial statements have been authorised for issue by a resolution of the directors dated 19 September 2013. The board of the Company has authorised the issue of full financial statements on the following dates:

- year ended 30 June 2009 – 26 August 2009;
- year ended 30 June 2010 – 23 August 2010;
- year ended 30 June 2011 – 22 August 2011;
- year ended 30 June 2012 – 12 August 2012; and
- year ended 30 June 2013 – 11 August 2013.

The summary financial statements have been extracted from Meridian's audited financial statements and unqualified audit opinions were received for each of those financial statements.

Summary financial statements cannot be expected to provide as complete an understanding as that provided by full financial statements. You can obtain copies of Meridian's annual financial statements and related audit reports from the public register at the Companies Office of the Ministry of Business, Innovation and Employment which you may inspect, including on the Companies Office website at www.business.govt.nz/companies. The full financial statements for each period shown in the summary financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS as appropriate for profit-oriented entities. These full financial statements also comply with International Financial Reporting Standards (IFRS).

Summary Consolidated Income Statements

\$MILLION	FY2009	FY2010	FY2011	FY2012	FY2013
Total revenue	1,892.4	2,061.9	2,052.9	2,570.2	2,711.2
Energy costs	(788.5)	(743.6)	(703.3)	(1,375.5)	(1,361.5)
Distribution expenses	(294.8)	(347.1)	(367.4)	(404.2)	(404.2)
Transmission expenses	(78.2)	(78.9)	(84.2)	(86.7)	(115.3)
Employee and other operating expenses	(218.5)	(250.6)	(238.1)	(227.2)	(245.4)
Earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments and other significant items (EBITDAF)	512.4	641.7	659.9	476.6	584.8
Equity accounted earnings of joint ventures	(1.9)	(2.0)	(3.4)	(2.7)	0.1
Depreciation and amortisation	(163.1)	(188.0)	(224.3)	(225.1)	(219.7)
Gain / (loss) on sale of assets	4.8	0.3	174.1	(1.5)	106.6
Impairment of assets	(9.2)	(18.4)	(10.9)	(60.1)	(24.8)
Foreign exchange contracts reclassified to profit or loss	-	(33.1)	-	-	-
Net change in fair value of financial instruments – operational	(114.1)	(14.9)	(89.3)	121.3	51.1
Operating profit	228.9	385.6	506.1	308.5	498.1
Net finance cost	(68.4)	(85.1)	(107.6)	(82.5)	(113.5)
Net change in fair value of financial instruments – financing	(32.5)	(23.3)	(14.2)	(68.0)	42.7
Profit before tax	128.0	277.2	384.3	158.0	427.3
Income tax expense	(38.7)	(93.2)	(81.2)	(83.4)	(132.2)
Profit after tax	89.3	184.0	303.1	74.6	295.1
Profit after tax attributable to:					
Shareholders of the parent company	90.2	184.8	303.8	74.9	295.1
Non-controlling interest	(0.9)	(0.8)	(0.7)	(0.3)	-

Summary Consolidated Statements of Comprehensive Income

SMILLION	FY2009	FY2010	FY2011	FY2012	FY2013
Net profit after tax	89.3	184.0	303.1	74.6	295.1
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Buy out of Whisper Tech Limited - minority shareholders	-	-	-	(1.0)	-
Revaluation gain/(reversal) on property, plant and equipment	-	1,213.7	129.7	-	(476.2)
Tax relating to items that will not be reclassified:					
Deferred tax on revaluation reserve	-	(364.1)	(39.1)	4.3	133.3
Deferred tax on sale of assets	-	-	147.1	-	-
Effect of corporate tax rate reduction on deferred tax	-	103.3	2.6	-	-
	-	952.9	240.3	3.3	(342.9)
Items that may be reclassified subsequently to profit or loss:					
Net gain / (loss) on cash flow hedges	26.9	(24.3)	(1.2)	(59.5)	28.3
Foreign exchange contracts (FECs) reclassified to profit or loss	-	33.1	-	-	-
Net gain / (loss) on available for sale investments	1.2	-	(0.3)	(0.3)	2.3
Exchange gain / (loss) arising from translation of foreign operations	0.3	(3.1)	2.1	(1.0)	(11.5)
Income tax relating to items that may be reclassified:					
Income tax relating to other comprehensive income	(8.3)	(2.6)	0.4	18.0	(9.2)
Other comprehensive income for the period net of tax	20.1	3.1	1.0	(42.8)	9.9
Total comprehensive income for the period net of tax	109.4	1,140.0	544.4	35.1	(37.9)
Total comprehensive income for the period attributable to:					
Shareholders of the parent company	110.3	1,140.8	545.1	35.4	(37.9)
Non-controlling interest	(0.9)	(0.8)	(0.7)	(0.3)	-

Summary Consolidated Statements of Changes in Equity

\$MILLION	FY2009	FY2010	FY2011	FY2012	FY2013
Opening equity	4,204.6	4,284.1	5,070.7	4,931.3	4,825.7
Total comprehensive income for the period	109.4	1,140.0	544.4	35.1	(37.9)
Dividends paid	(30.0)	(353.4)	(683.7)	(140.7)	(99.8)
Share options vested	0.1	-	(0.1)	-	-
Total equity	4,284.1	5,070.7	4,931.3	4,825.7	4,688.0
Represented by:					
Share capital	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0
Revaluation reserve	2,737.1	3,686.7	3,392.5	3,418.0	3,073.9
Foreign currency translation reserve	0.3	(2.7)	(0.7)	(1.7)	(13.2)
Cash flow hedge reserve	(5.5)	0.6	(0.2)	(41.8)	8.9
Available for sale reserve	0.4	0.4	0.2	-	1.6
Retained earnings	(50.7)	(216.0)	(61.4)	(148.8)	16.8
Total equity attributable to the shareholders of the parent	4,281.6	5,069.0	4,930.4	4,825.7	4,688.0
Share options vested	1.1	1.1	1.0	-	-
Non-controlling interest	1.4	0.6	(0.1)	-	-
Total equity	4,284.1	5,070.7	4,931.3	4,825.7	4,688.0

Summary Consolidated Balance Sheets

\$MILLION	FY2009	FY2010	FY2011	FY2012	FY2013
SHAREHOLDERS' EQUITY					
Share capital	1,600.0	1,600.0	1,600.0	1,600.0	1,600.0
Reserves	2,681.6	3,469.0	3,330.4	3,225.7	3,088.0
Share options vested	1.1	1.1	1.0	-	-
Non-controlling interest	1.4	0.6	(0.1)	-	-
Total shareholders' equity	4,284.1	5,070.7	4,931.3	4,825.7	4,688.0
ASSETS					
Current assets					
Cash and cash equivalents	47.9	54.4	368.2	214.4	382.8
Accounts receivable and prepayments	188.2	199.1	240.9	298.1	261.9
Derivative financial instruments	13.0	11.0	12.3	23.6	51.5
Other	17.8	7.1	5.8	34.7	69.9
Total current assets	266.9	271.6	627.2	570.8	766.1
Non-current assets					
Property, plant and equipment	6,743.1	8,207.3	7,720.8	7,963.6	6,769.0
Derivative financial instruments	114.0	171.9	41.7	111.0	134.2
Other	53.3	64.8	70.3	47.4	68.1
Total non-current assets	6,910.4	8,444.0	7,832.8	8,122.0	6,971.3
TOTAL ASSETS	7,177.3	8,715.6	8,460.0	8,692.8	7,737.4
LIABILITIES					
Current liabilities					
Payables and accruals	170.5	201.6	217.0	286.1	274.7
Current portion term borrowings	123.2	284.4	298.2	247.9	146.7
Derivative financial instruments	33.6	38.6	17.8	52.6	45.0
Other	29.6	32.4	36.7	6.8	54.1
Total current liabilities	356.9	557.0	569.7	593.4	520.5
Non-current liabilities					
Term borrowings	1,128.7	1,323.1	1,275.4	1,577.7	1,033.5
Derivative financial instruments	106.4	152.4	235.7	229.0	124.5
Deferred tax liability	1,301.2	1,559.5	1,412.3	1,444.2	1,364.2
Other	-	52.9	35.6	22.8	6.7
Total non-current liabilities	2,536.3	3,087.9	2,959.0	3,273.7	2,528.9
TOTAL LIABILITIES	2,893.2	3,644.9	3,528.7	3,867.1	3,049.4
NET ASSETS	4,284.1	5,070.7	4,931.3	4,825.7	4,688.0

Summary Consolidated Statements of Cash Flows

\$MILLION	FY2009	FY2010	FY2011	FY2012	FY2013
Net cash provided by operating activities	313.5	451.8	368.7	322.2	416.7
Net cash provided by / (used in) investing activities	(476.8)	(458.4)	557.7	(524.8)	(124.1)
Net cash provided by / (used in) financing activities	139.4	13.1	(612.0)	48.8	(101.3)
Net increase / (decrease) in cash and cash equivalents held	(23.9)	6.5	314.4	(153.8)	191.3

For further information please refer to 6.3 Analysis of Historical and Operational Performance. Meridian's audited financial statements for the year ended 30 June 2013 included the following subsequent events.

NEW ZEALAND ALUMINIUM SMELTERS (NZAS)

In July 2012, Meridian was approached by Pacific Aluminium, a business unit of the Rio Tinto group of companies (which owns the majority of NZAS), to discuss potential changes to the NZAS Agreement. The outcome of the negotiations was that the NZAS Agreement was amended on 7 August 2013, replacing the previous agreement which took effect on 1 January 2013.

As at 30 June 2013, the NZAS Agreement, which took effect on 1 January 2013, was unamended. Under NZ IAS 39 this agreement in its unamended form has been recognised in the Statement of Financial Position. The amendment on 7 August 2013 only became effective on 1 July 2013 and therefore has not been recognised in the Statement of Financial Position.

DIVIDENDS

On 11 August 2013 the board declared a dividend of \$152.6 million payable on 30 September 2013. The payment of the dividend will not have tax consequences for the Group other than reducing the imputation credit account balances.

Accounting Policies

Judgements and Estimates

The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are in relation to the valuation of generation structures, plant assets and energy derivatives. In addition, accounting judgements are made in respect of the hedge designation of certain financial instruments, assessment of hedge effectiveness, determination of useful lives of property, plant and equipment.

FAIR VALUE ESTIMATE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and financial liabilities, including derivative instruments, must be estimated for recognition and measurement, or for disclosure purposes.

The fair value of instruments traded in active markets (such as market traded electricity futures) is based on closing market prices at balance date.

The fair value of instruments that are not traded on an active market (interest rate swaps (IRSs), cross currency interest rate swaps (CCIRSs), foreign exchange contracts (FECs), contracts for difference (CFDs)) is determined using various valuation techniques which include assumptions on both observable data when such data is available (IRSs, CCIRSs, FECs, some CFDs) and non-observable data (some CFDs) in all other instances. The fair value of IRSs, CCIRSs, FECs and CFDs is based on the discounted value of future cash flows. Assumptions on the determination of future cash flows are based on the publicly available forecast prices where available and internal models when a forecast price is not available.

In relation to forecast prices used to determine future cash flows for CFDs for non-observable periods, the following significant assumptions are used where relevant:

- forecast of the forward wholesale electricity price for the non-observable period based on a fundamental analysis of expected demand and cost of new supply; and
- forecast consumers price index.

Future electricity price estimates are used to determine expected cash flows to be settled on CFDs. The expected cash flows are then discounted to determine a fair value of the CFD. The discount rates used are based on Government Bond Rates adjusted for additional risks including credit risk and the remaining term of the CFD.

The fair value of FECs is determined using forward exchange market rates at balance date discounted to present value. The fair value of currency options is determined using appropriate binomial models or the Black-Scholes model.

The fair value of financial liabilities in a fair value hedge relationship and for the purpose of disclosure is estimated by discounting the future designated cash flows at current market interest rates applicable to the risks being hedged.

The valuations determined for instruments not traded on an active market, particularly in respect of CFDs, can vary significantly based on assumptions in relation to forecast electricity price and interest rates.

PROPERTY, PLANT AND EQUIPMENT

In determining the fair value of generation structures and plant, Meridian applies judgement regarding the methodology and key assumptions to be used. Meridian also uses its judgement to determine the estimated remaining useful lives of assets. They are as follows:

Generation Structures and Plant	Up to 80 years
Freehold Buildings	Up to 67 years
Other Plant and Equipment	Up to 20 years
Resource Consents	Up to 50 years

The residual value and the useful lives of assets are reviewed, and if appropriate adjusted, at each balance date.

INTANGIBLE ASSETS

Meridian has used its judgement to determine the estimated remaining useful lives of intangible assets. They are as follows:

Customer Acquisition Costs	Up to 10 years
Computer Software	Up to 3 years
Patents and Trademarks	Up to 20 years
Licence Agreement	Up to 10 years
Other Licences	Up to 6 years

The residual value and the useful lives of assets are reviewed, and if appropriate adjusted, at each balance date.

The recoverable amount of goodwill is calculated using value in use (the net present value of expected future cash flows) of the cash generating units or fair value less costs to sell. Key assumptions used in the value in use model that require Meridian's estimation and judgement include sales forecasts (including volumes and pricing), costs and discount rates.

REVENUE RECOGNITION

Meridian has exercised its judgement in determining estimated retail sales for unread electricity meters at balance date. Specifically this involves an estimate of consumption for each unread meter, based on the customer's past consumption history.

TAXATION

When corporate tax rates change Meridian uses judgement with regard to determining temporary differences expected to reverse before the date of the change. The effect of any change is recognised in the income statement and statement of comprehensive income.

Basis of Consolidation

SUBSIDIARIES

Subsidiaries are those entities controlled directly or indirectly by Meridian. Control is achieved when Meridian Energy Limited is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The acquisition method is used to account for the purchase of subsidiaries by Meridian. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All material intra-group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests in the net assets of consolidated subsidiaries are presented in the equity section of the consolidated statement of financial position, separately from the equity of the owners of the parent.

JOINT VENTURES

Joint arrangements in which each venturer has entitlement to a share of the net assets of the joint venture and which are subject to joint control (unanimous decision making) by the venturers are referred to as joint ventures. Meridian reports its interest in joint ventures using the equity method of accounting.

Under the equity method, investments in joint ventures are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in Meridian's share of the net assets of the joint venture, less any impairment in the value of individual investments. Losses of a joint venture in excess of Meridian's interest in that joint venture (which includes any long-term interests that, in substance, form part of Meridian's net investment in the joint venture) are not recognised unless there is a legal or constructive obligation incurred by Meridian on behalf of the joint venture.

JOINTLY CONTROLLED OPERATIONS

Where Meridian has an interest in a jointly controlled asset Meridian recognises its share using the proportionate consolidation method. Under this method Meridian recognises its share of the jointly controlled asset according to the nature of the asset, any liabilities incurred in respect of the joint operations and any income or expenses from its share of the joint operations or incurred in respect of the joint operations.

OPERATING SEGMENTS

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive.

FOREIGN CURRENCY

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities at reporting date are translated at the exchange rate prevailing at reporting date.

Assets and liabilities of overseas entities, whose functional currency is other than New Zealand dollars, are translated at the closing rate at balance date. The revenues and expenses of these entities are translated at rates approximating the exchange rates at the dates of the transactions. Exchange differences arising on the translation of the financial statements of these entities are recorded in the foreign currency translation reserve. Such translation differences are recognised in the income statement in the period in which the foreign operation is disposed of.

PROPERTY, PLANT AND EQUIPMENT

Meridian's generation structures and plant assets (including land and buildings) are stated in the statement of financial position

at their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance date.

Any increase arising on revaluation is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the income statement, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged to the income statement to the extent it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

Accumulated depreciation at revaluation date is eliminated against the gross carrying amount so that the carrying amount after revaluation equals the revalued amount.

Subsequent additions to generation structures and plant assets are recorded at cost, which is considered fair value, including costs directly attributable to bringing the asset to the location and condition necessary for its intended service. The cost of assets constructed includes all expenditure directly related to specific contracts including financing costs where appropriate.

Financing costs for qualifying assets are capitalised based on either the actual borrowing costs incurred or Meridian's weighted average borrowing cost applicable to the general borrowings (excluding specific borrowings) that were outstanding during the period. Costs cease to be capitalised as soon as the asset is ready for use.

All other property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement. Any balance attributable to the disposed asset in the asset revaluation reserve is transferred to retained earnings.

Depreciation of property, plant and equipment assets, other than freehold land, is calculated on a straight-line basis to allocate the cost or fair value amount of an asset, less any residual value, over its estimated remaining useful life.

ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale.

Immediately before classification as held for sale, the assets (or disposal group) are re-measured in accordance with Meridian's accounting policies. Thereafter the assets (or disposal group) are

measured at the lower of their carrying amount or fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

FINANCE LEASE

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Meridian recognises assets held under finance lease arrangements as a receivable or payable at an amount equal to the present value of the minimum lease payments. Finance lease receipts are apportioned between principal repayments, relating to the lease receivable, and interest revenue. The interest revenue reflects a constant periodic rate of return on Meridian's net investment over the term of the lease. Finance leases are classified as loans and receivables.

COMPUTER SOFTWARE

Acquired computer software licences, that are not considered an integral part of related hardware, are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lives on a straight-line basis.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs directly associated with the production of identifiable and unique software products that will generate economic benefits beyond one year are recognised as intangible assets and amortised over their estimated useful lives on a straight-line basis.

IMPAIRMENT OF NON-FINANCIAL ASSETS OTHER THAN GOODWILL

At each balance date or when events/circumstance indicate, Meridian reviews the recoverability of the carrying amounts of its tangible and intangible assets to determine whether they have suffered an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). An impairment loss is recognised immediately in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Non-financial assets that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

GOODWILL

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised in the income statement and is not subsequently reversed. For the purpose of assessing impairment goodwill is allocated to cash generating units.

NON-DERIVATIVE FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on Meridian's statement of financial position when Meridian becomes a party to the contractual provisions of the instrument (trade date).

NON-DERIVATIVE FINANCIAL ASSETS

Meridian classifies its financial assets as either loans or receivables, or assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Meridian determines the classification of its financial assets at initial recognition.

AVAILABLE FOR SALE INVESTMENTS

Certain shares held by Meridian are classified as being available for sale and stated at fair value. Gains and losses arising from changes in fair value are recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in the income statement for the period. Dividend income is recognised in the income statement separately from other changes in fair value.

Investments in shares that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost, less any impairment loss to reflect irrecoverable amounts.

TRADE RECEIVABLES

Trade receivables are measured on initial recognition at fair value, and are subsequently carried at amortised cost. Appropriate allowances for estimated unrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents used in the statement of cash flows comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

NON-DERIVATIVE FINANCIAL LIABILITIES

Meridian classifies its financial liabilities as either borrowings or payables, or liabilities held for sale. Financial liabilities are classified as held for sale if the sale of the asset or disposal group to which they relate is highly probable and is available for immediate sale in its present condition subject only to normal sale terms. The classification of other financial liabilities depends on the purpose for which the financial liabilities were acquired. Meridian determines the classification of its financial liabilities at initial recognition.

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs. Borrowings not designated as hedged items are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings designated as hedged items are subject to measurement under hedge accounting requirements.

PAYABLES AND ACCRUALS

Trade and other accounts payable are recognised when Meridian becomes obligated to make future payments resulting from the purchase of goods and services, and are subsequently carried at amortised cost which approximates fair value.

DEFERRED INCOME ON ENVIRONMENTAL PRODUCTS

Meridian receives carbon credits and other tradable environmental products from specific energy production levels of certain renewable generation facilities. The future revenue arising from the sale of these units is a key matter in deciding whether to proceed with construction of the generation facility and is considered to be part of the value of the generation assets recorded in the statement of financial position. Proceeds received on the sale of environmental products are recorded as deferred income in the statement of financial position until the committed energy production level pertaining to the unit sold has been generated.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivatives include cross currency interest rate swaps (CCIRSS), interest rate swaps (IRSS) (including forward rate agreements and interest rate options), foreign exchange contracts (FECs) (including currency options) and electricity contracts for differences (CFDs) (including electricity options).

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured on a periodic basis at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Meridian designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

For derivatives designated in a hedge relationship Meridian documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. Meridian also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

FAIR VALUE HEDGE

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement in net change in fair value of financial instruments within other finance related expenses in respect of CCIRs, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Interest expense on the loans designated as hedged items in fair value hedges is recognised in finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the period to maturity.

CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in net change in fair value of financial instruments within operating profit in respect of FECs and net change in fair value of financial instruments within other finance related expenses in respect of CCIRs and certain IRs.

Amounts accumulated in other comprehensive income are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast transaction that is hedged takes place). The realised gain or loss relating to the effective portion of derivatives is recognised in the income statement on the same line as the hedged item.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability as a 'basis adjustment'.

However, if Meridian expects that all or a portion of a loss previously deferred in equity will not be recovered in one or more future periods, the amount that is not expected to be recovered is reclassified into profit or loss immediately.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

DERIVATIVES NOT DESIGNATED AS HEDGES

Derivative instruments that do not qualify for hedge accounting or for which hedge accounting is not actively sought are at fair value through profit or loss and classified as being held for trading. Changes in their fair value, therefore, are recognised immediately in the income statement within operating profit in respect of CFDs and FECs or within finance costs in respect of IRs. Cash settlements on such derivatives will adjust the price of the underlying item to which they relate. The cost of certain electricity options is recognised within "Net Change in Fair Value of Financial Instruments (Operational)".

DAY 1 ADJUSTMENT

A Day 1 adjustment arises when an electricity derivative is entered into at a fair value determined to be different to the transaction price. This difference can then be accounted for in one of two ways. The first option is to amortise the Day 1 adjustment to the income statement as contracted electricity volumes expire in the derivative. Alternatively the valuation model can be recalibrated by a fixed percentage to result in a value at inception equal to the transaction price (fair value). This recalibration adjustment is then applied to future valuations over the life of the contract.

RESERVES

The revaluation reserve arises on the revaluation of generation structures and plant and from the revaluation of certain intangible assets. Where revalued generation structures, plant assets or intangible assets are sold, that portion of the asset revaluation reserve which relates to that asset, is effectively realised and is transferred directly to retained earnings. Where a revalued intangible asset is impaired the impairment is recognised in the reserve to the extent of any surplus for that asset otherwise the impairment is recognised in the income statement.

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred. The cumulative deferred gain or loss on the hedge is recognised in the income statement when the transaction impacts the profit and loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

The available-for-sale revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued asset is sold, that portion of the reserve which relates to that financial asset that is effectively realised, is recognised in the income statement. Where a revalued financial asset is impaired, the impairment is recognised in the reserve to the extent of any surplus for that asset, otherwise the impairment is recognised in the income statement.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where Meridian is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and Meridian intends to settle its current tax assets and liabilities on a net basis.

EMPLOYEE BENEFITS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and employee incentives when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured using the remuneration rate expected to apply at the time of settlement.

The cost of equity settled benefits under the Executive LTI Scheme and Employee Share Ownership Plan will be measured based on the fair value of the Shares at the date at which they are granted and expensed on a straight-line basis over the vesting period. The cumulative expense at each reporting date until vesting date reflects the extent to which the vesting period in which the performance and service conditions associated with the schemes are fulfilled.

GOODS AND SERVICES TAX (GST)

The income statement and statement of cash flows are prepared on a GST exclusive basis. All items in the statement of financial position are stated net of GST, except for receivables and payables, which include GST.

INVENTORIES

Inventories are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. Net realisable value represents the estimated selling price less estimated selling expenses.

ENVIRONMENTAL PRODUCTS

Australian Renewable Energy Certificates (RECs) are created monthly and validated shortly thereafter on the Australian REC registry based on the amount of eligible renewable electricity generated by certain Australian-based facilities. New Zealand emission units are allocated by the New Zealand government to renewable electricity generators on an annual basis. Both types of units are readily tradable.

If the units can be measured reliably and it is probable that expected future benefits will flow to the Group, they are recognised in the statement of financial position. After initial recognition at market value, which is a proxy for cost, the units are reviewed regularly for impairment with any movements taken to the income statement. Initial market value is determined with reference to quoted prices.

PROVISIONS

Provisions are recognised when Meridian has a present obligation as a result of a past event, and it is probable that Meridian will be required to settle that obligation and the amount has been reliably estimated.

OPERATING LEASES

Operating leases are leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items.

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease.

Revenue Recognition

SALE OF ENERGY AND OTHER RELATED SERVICES

Revenue comprises amounts received or receivable in the ordinary course of business for the sale of electricity sold into the wholesale electricity market and to retail customers and for energy related goods and services provided.

Revenue from a contract to provide dam related maintenance services is recognised by reference to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed.

DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

INTEREST INCOME

Interest income is recognised on a time proportionate basis using the effective interest method.

ENERGY RELATED EXPENSES

Energy related expenses reported in the income statement include amounts payable for electricity purchased from the wholesale market and energy related services purchased from suppliers.

STATEMENT OF CASH FLOWS

The statement of cash flows is prepared exclusive of GST, which is consistent with the method used in the income statement. The GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority is classified as an operating cash flow.

Statutory Auditor's Report

Deloitte.

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20 September 2013

The Directors
Meridian Energy Limited
PO Box 10 840
WELLINGTON

Dear Directors

This report is issued in respect of the public offer of ordinary shares in Meridian Energy Limited (the "Company") by Her Majesty the Queen in Right of New Zealand (the "Crown"), in terms of the offer document dated 20 September 2013 (the "Offer Document").

This report is made solely to the directors of the Company (the "directors"), in accordance with clause 28 of Schedule 1 to the Securities Regulations 2009 ("Schedule 1"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible for the preparation and presentation of:

- a) the financial statements referred to in accordance with clause 23 of Schedule 1. The financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the "Group"), referred to on page 197, comprise the statements of financial position as at 30 June 2013, and the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The directors are responsible to ensure that the financial statements comply with generally accepted accounting practice in New Zealand and give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

- b) the summary financial statements of the Group for the years ended 30 June 2009, 2010, 2011, 2012 and 2013 as required by clause 9 of Schedule 1; and
- c) the prospective financial information of the Group for the years ending 30 June 2014 and 30 June 2015, including the assumptions on which the prospective financial information is based, as required by clause 11 of Schedule 1.

Auditor's Responsibilities

We are responsible for:

- a) reporting in accordance with clauses 28(3) and 28(4) of Schedule 1, on the auditor's report on the financial statements of the Group as at 30 June 2013, and for the year ended on that date, prepared and presented by the directors;
- b) reporting, in accordance with clause 28(1)(h) of Schedule 1, on the amounts included in the summary financial statements for the years ended 30 June 2009, 2010, 2011, 2012 and 2013; and
- c) reporting, in accordance with clause 28(2) of Schedule 1, on the prospective financial information for the years ending 30 June 2014 and 30 June 2015.

This report has been prepared for inclusion in the Offer Document for the purpose of meeting the requirements of clause 28 of Schedule 1. We disclaim any assumption of responsibility for reliance on this report or the amounts and disclosures included in the financial statements, the summary financial statements and the prospective financial information for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Offer Document not mentioned in this report.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, our firm carries out other assurance assignments for the Company and Group in the areas of carbon emissions audit, review of the interim financial statements, audit of the securities registers, and has been appointed as the investigating accountant in respect of this public offer, which are services compatible with those independence requirements. In addition to this, principals and employees of our firm deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group.

Other than the audit and these assignments, the firm has no other relationship with or interests in the Company or Group.

Basis of Opinion

We have undertaken procedures to provide reasonable assurance that the amounts in the summary financial statements have been correctly taken from audited financial statements.

In addition, we have examined the prospective financial information to confirm that, so far as the accounting policies and calculations are concerned, they have been properly compiled on the footing of the assumptions made or adopted by the directors of the Company and are presented on a basis consistent with the accounting policies normally adopted by the Group, as outlined on pages 154 to 160. The assumptions relate to future events. However, we are not in a position to, and do not express an opinion on, these assumptions on a stand-alone basis.

Unqualified Opinion

We report in accordance with clause 28(4) of Schedule 1, that in relation to the financial statements of the Group as at 30 June 2013 and for the year ended on that date referred to on page 197, our audit report (dated 11 August 2013) was unmodified and unqualified and did not refer to a fundamental uncertainty, emphasis of matter or other matter paragraph in any respect.

Our audit of the financial statements of the Group as at 30 June 2013 and for the year ended on that date was completed on 11 August 2013 and our unmodified opinion was expressed as at that date. We have not performed any procedures in relation to the 30 June 2013 annual financial statements subsequent to 11 August 2013.

In our opinion:

- a) the amounts in the summary financial statements, on pages 148 to 153, pursuant to clause 9 of Schedule 1, have been correctly taken from audited financial statements of the Group for the years ended 30 June 2009, 2010, 2011, 2012 and 2013; and
- b) the prospective financial information for the years ending 30 June 2014 and 30 June 2015 set out on pages 133 to 138, so far as the accounting policies and calculations are concerned, has been properly compiled on the footing of the assumptions made or adopted by the directors of the Company set out on pages 139 to 147 of this Offer Document and is presented on a basis consistent with the accounting policies normally adopted by the Group, as outlined on pages 154 to 160.

Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether results consistent with the prospective financial information will be achieved.

We completed our work for the purposes of this report on 20 September 2013 and our unqualified opinion is expressed as at that date.

Yours faithfully



Michael Wilkes
Deloitte
On behalf of the Auditor-General
Christchurch, New Zealand

Investigating **Accountant's Report**

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20 September 2013

The Directors of Meridian Energy Limited
Meridian Energy Limited
Her Majesty the Queen in Right of New Zealand

INVESTIGATING ACCOUNTANT'S REPORT ON PROSPECTIVE FINANCIAL INFORMATION

1. Introduction

We have prepared this Investigating Accountant's Report (the "Report") on the prospective financial information of Meridian Energy Limited (the "Company") and its subsidiaries (together, the "Group") for inclusion in the combined prospectus and investment statement ("Offer Document") to be dated on or about 20 September 2013 and to be issued by the Company and Her Majesty the Queen in Right of New Zealand (the "Crown"), in respect of the initial public offering of ordinary shares in the Company and instalment receipts in respect of those shares, by the Crown (the "Offer").

Expressions defined in the Offer Document have the same meaning in this Report.

2. Scope

Deloitte has been requested to prepare this Report to cover the Prospective Financial Information as defined below.

The prospective financial information as set out on pages 133 to 147 of the Offer Document comprises:

- Prospective consolidated income statements and statements of comprehensive income of the Group for the years ending 30 June 2014 and 30 June 2015;
- Prospective consolidated statements of changes in equity of the Group for the years ending 30 June 2014 and 30 June 2015;
- Prospective consolidated statements of financial position of the Group as at 30 June 2014 and 30 June 2015;
- Prospective consolidated statements of cash flows of the Group for the years ending 30 June 2014 and 30 June 2015; and
- Notes and assumptions to these consolidated prospective income statements, statements of comprehensive income, changes in equity, financial position and cash flows,

(hereafter, the "Prospective Financial Information").

The Prospective Financial Information is based on the assumptions as outlined on pages 139 to 147 of the Offer Document.

This Report is made solely to the Company, its directors and the Crown for inclusion in the Offer Document. To the fullest extent permitted by law and subject to section 61 of the Securities Act 1978 we do not accept or assume responsibility to anyone other than the addressees of this report for the conclusions that we have formed.

3. Directors' Responsibility for the Prospective Financial Information

The Directors of the Group have prepared and are responsible for the preparation and presentation of the Prospective Financial Information. The Directors are also responsible for the determination of the best-estimate assumptions as set out on pages 139 to 147 of the Offer Document.

4. Our Responsibility

Our responsibility is to express a conclusion on the Prospective Financial Information based on our review.

We have conducted an independent review of the Prospective Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

- a) The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;
- b) The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- c) The Prospective Financial Information is not presented fairly for the periods to which it relates in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed on pages 154 to 160 of the Offer Document; and
- d) The Prospective Financial Information is unreasonable.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to the Group's potential future financial performance and position based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from this Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the risk factors set out under the heading "What are my risks?" in the Answers to Important Questions section of the Offer Document.

Our review of the best estimate assumptions underlying the Prospective Financial Information was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000, issued by the External Reporting Board, applicable to assurance engagements other than audits or reviews of historical financial information.

Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form the conclusion set out below.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

5. Review conclusion on Prospective Financial Information

Based on our review of the Prospective Financial Information, which is not an audit, and based on our review of the reasonableness of the Directors' best-estimate assumptions giving rise to the Prospective Financial Information, nothing has come to our attention which causes us to believe that:

- The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- The Prospective Financial Information is not presented fairly for the periods to which it relates in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed on pages 154 to 160 of the Offer Document; and
- The Prospective Financial Information is unreasonable.

The best-estimate assumptions, set out in pages 139 to 147 of the Offer Document, are subject to significant uncertainties and contingencies often outside the control of the Group and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by the Group may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

6. Independence or Disclosure of Interest

Deloitte does not have any interest in the outcome of the Offer other than the preparation of this Report and our audit role on behalf of the Office of the Auditor-General for which normal professional fees will be received.

In addition to our role as investigating accountant and as auditor on behalf of the Office of the Auditor-General, our firm carries out other assurance assignments for the Company and Group in the areas of carbon emissions audit, review of the interim financial statements and audit of the securities registers, which are services compatible with the independence requirements of the Auditor-General and the External Reporting Board. In addition to this, principals and employees of our firm deal with the Company and Group on normal terms within the ordinary course of trading activities of the business of the Company and Group.

Other than these assignments, the firm has no other relationship with or interests in the Company or Group.

Our services in our role as investigating accountant have not impaired our independence as auditor of the Company on behalf of the Office of the Auditor-General.

7. Restriction of Use

This Report has been prepared for inclusion in the Offer Document and should be read in conjunction with the Offer Document. We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Yours faithfully

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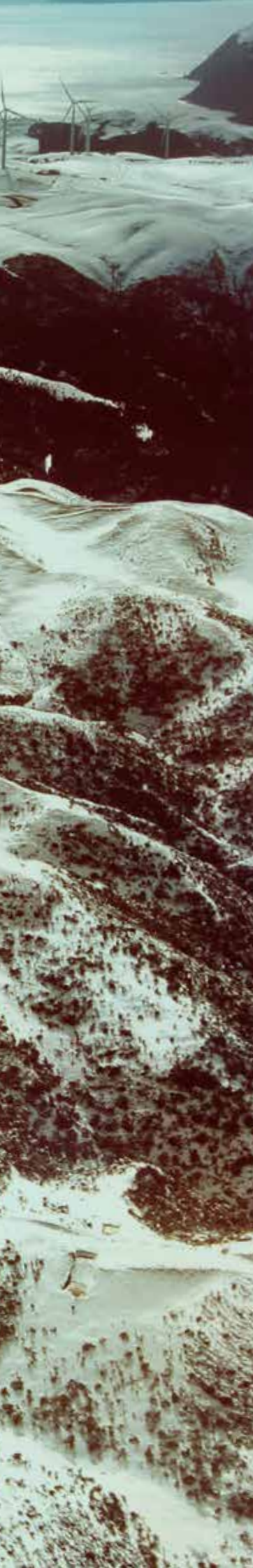


Paul Munro
Partner

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West Wind wind farm is the third wind farm Meridian has built in New Zealand



07

Offer Details

In this section

Why should you read this section?

7.1	Details of the Offer	170
7.2	Description of Instalment Receipts and Trust Deed	181
7.3	Statutory Information	188
7.4	New Zealand Taxation Implications	203

You will find detailed information about the Offer, the instalment receipt feature and the New Zealand taxation implications of investing in the Shares, as well as information which is prescribed by the Securities Regulations.

Details of the Offer

The Offer

The Offer comprises the offer of up to 1,255,870,000 Shares in the Company, which represents up to 49% of the Shares on issue in the Company.

The Offer is made on the terms, and is subject to the conditions, set out in this Offer Document.

The Offer comprises the Retail Offer, the Institutional Offer and the Participating Iwi Offer.

Payment for the Shares is to be made in two instalments as described in 7.4 *Answers to Important Questions* under the heading “How much do I pay?”. Successful Applicants will be issued with Instalment Receipts, with each Instalment Receipt evidencing a beneficial interest in one Share. Upon receipt of payment of the Final Instalment, holders of Instalment Receipts will receive the Shares represented by their Instalment Receipts and the Instalment Receipts will be cancelled. The terms of the Instalment Receipts are set out in 7.2 *Description of Instalment Receipts and Trust Deed*.

A Retail Price Cap of \$1.60 per Share will apply to the Final Price payable by New Zealand Applicants who are allocated Instalment Receipts and corresponding Shares in the Retail Offer and who continue to hold their Instalment Receipts in the same registered name until 4 May 2015. This means that the Final Instalment payable by such New Zealand Applicants will be no more than \$0.60 per Share. Such New Zealand Applicants will pay no more than \$1.60 per Share even if the Final Price determined by the Crown (and payable by participants in the Institutional Offer) is higher. It is a condition of the entitlement to the Retail Price Cap that New Zealand Applicants continue to hold their Instalment Receipts in the same registered name until 4 May 2015. A fuller description of this condition is set out below under the heading “Condition of Entitlement to Retail Price Cap”.

The Retail Price Cap will also apply to the Participating Iwi Offer but not to the Institutional Offer.

DETERMINATION OF THE FINAL PRICE

The Final Price will be determined by the Crown, in its sole discretion, on or before the date on which Shares are allocated under the Offer after the close of the Retail Offer and Institutional Offer. It is expected that the Final Price will be announced on 23 October 2013 (including through the NZX Main Board under Meridian’s stockcode ‘MEL’) and the basis of Share allocation on 25 October 2013.

In determining the Final Price, consideration may be given to the following factors (amongst others):

- the objectives of the Government under the extension of the mixed ownership model programme;
- the level of demand for Shares in the Retail Offer and the Participating Iwi Offer;
- the level of demand for Shares in the Institutional Offer at various prices;
- the desire for an orderly secondary market for the Instalment Receipts; and
- any other factors the Crown considers relevant in meeting its objectives.

The Final Price payable under the Institutional Offer will not necessarily be the highest price at which Shares could be sold under the Offer and may be set above, within or below the Indicative Price Range.

The Final Price payable by New Zealand Applicants in the Retail Offer and participants in the Participating Iwi Offer will be capped at \$1.60 per Share. The Retail Price Cap only applies to Instalment Receipts and corresponding Shares allotted to New Zealand Applicants in the Retail Offer which continue to be held in the same registered name until the Final Instalment Record Date. Consequently, the Retail Price Cap does not apply to any Instalment Receipts and corresponding Shares purchased on the secondary market.

PURPOSE OF THE OFFER

The purpose of the Offer is to provide:

- an opportunity for the Crown to sell up to 49% of its current shareholding in Meridian as part of the extension of the mixed ownership model; and
- Meridian with greater access to capital markets and commercial independence in the form of greater external oversight and transparency, increasing the incentive for improved performance.

USE OF PROCEEDS

The Crown will receive the proceeds of the Offer and pay the majority of the costs and expenses of the Offer, with the remainder of the costs and expenses to be paid by Meridian. None of the proceeds will be received by Meridian.

SHAREHOLDING STRUCTURE

On completion of the Offer, assuming the maximum Offer size, the Crown will hold 1,307,130,000 Shares (51%) in the Company (together with any Shares acquired by certain Crown entities under the Offer).

The Public Finance Act, the Constitution and the Trust Deed provide that the Crown must hold at least 51% of any shares issued by Meridian (including the Shares forming part of this Offer) and any other securities with voting rights in Meridian and that, other than the Crown, no person may have a relevant interest in more than 10% of any class of shares or voting securities in Meridian. As the Instalment Receipts confer a 'relevant interest' in the underlying Shares represented by those Instalment Receipts, the 10% Limit also applies to the Instalment Receipts to the extent that a holding of Instalment Receipts gives rise to an interest in more than 10% of the Shares.

The Crown intends that its shareholding in Meridian not sold through the Offer will continue to be held by and through the Shareholding Ministers.

ALLOCATION BETWEEN RETAIL OFFER AND INSTITUTIONAL OFFER

As at the date of this Offer Document, no allocation decisions have been made by the Crown. Allocations:

- to NZX Firms and selected trading banks in the Broker Firm Offer; and
- between the Retail Offer and the Institutional Offer,

will be determined by the Crown, in consultation with its advisers and Meridian. In the case of allocations to NZX Firms and selected trading banks in the Broker Firm Offer, this determination is expected to be made prior to the opening of the Retail Offer and in the case of allocations between the Retail Offer and the Institutional Offer, this determination is expected to be made following the close of the bookbuild process.

The allocation of Shares to the Broker Firm Offer will be determined by the Crown, having regard to the level of demand in the Broker Firm Offer and any other factors that the Crown considers appropriate, after consultation with its advisers and Meridian. The Crown will retain the ability to scale back allocations to NZX Firms and selected trading banks in the Broker Firm Offer following the close of the bookbuild process on a pro rata basis.

DISCRETION REGARDING THE OFFER

The Crown reserves the right to withdraw the Offer at any time prior to the allotment of Instalment Receipts to Applicants. If the Offer or any part of it is withdrawn then all Application amounts, or the relevant Application amounts, will be refunded without interest no later than five Business Days after the announcement of the decision to withdraw the Offer. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

The Crown also reserves the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications either generally or in particular cases, reject any Application, or allocate to any Applicant fewer Shares and corresponding Instalment Receipts than the amount of Shares applied for.

If the Crown amends the Closing Date of the Retail Offer, any such amendment will be announced through NZX.

QUESTIONS ABOUT THE OFFER

If you have any queries about the risk or suitability of an investment in the Instalment Receipts or the Shares you should consult your financial adviser or a NZX Firm. If you have questions about how to apply under the Offer, you can call **0800 90 30 90** (New Zealand only) during the Offer period or visit www.meridianshares.govt.nz.

RIGHT TO REFUSE APPLICATIONS

The Crown reserves the right to refuse any Application or to accept an Application in part only, without providing a reason. If the Crown refuses an Application or accepts an Application in part, all or the relevant balance of the Application amount will be refunded no later than five Business Days after the Allotment Date. No interest will be paid on any Application amount that is refunded to the Applicant. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

7.1 Offer Details

Details of the Offer

Retail Offer

The Retail Offer is open to New Zealand Applicants and Eligible Employees in New Zealand and comprises the General Offer and the Broker Firm Offer.

SUMMARY OF THE RETAIL OFFER

Who can apply for Shares in the Retail Offer? ⁷⁵	How many Shares can you apply for?	Will you be allocated all the Shares that you apply for?	How do you apply?
General Offer: New Zealand Applicants	<ul style="list-style-type: none"> If you decide to apply for Shares, you will specify the number of Shares you are applying for in your Application and pay the First Instalment for that number of Shares. The minimum number of Shares you can apply for is 1,000 Shares (for which the First Instalment will be \$1,000), and in multiples of 100 Shares thereafter. You will, in addition, be required to pay the Final Instalment in the manner described under the heading "Final Instalment" in <i>1.4 Answers to Important Questions - How much do I pay?</i> 	<ul style="list-style-type: none"> Applications up to 1,000 Shares (for which the First Instalment will be \$1,000) will not be scaled. Applications in excess of 1,000 Shares will not receive less than 1,000 Shares and corresponding Instalment Receipts If the Offer is over-subscribed your Application may be scaled back 	<ul style="list-style-type: none"> Apply online at: www.meridianshares.govt.nz or by completing the Application Form included with this Offer Document
Broker Firm Offer: New Zealand Applicants who are offered a firm allocation by a NZX Firm or selected trading bank	<ul style="list-style-type: none"> The minimum Application size is 1,000 Shares, and in multiples of 100 Shares thereafter. Your broker will inform you of your firm allocation 	<ul style="list-style-type: none"> It will be a matter for the NZX Firm or selected trading bank how they make allocations amongst their eligible retail clients and whether your Application will be scaled back If the Crown exercises its right to scale back Broker Firm allocations following completion of the bookbuild process, all retail client applications under the Broker Firm Offer will be scaled back on a pro rata basis 	<ul style="list-style-type: none"> Contact your NZX Firm or selected trading bank that notified you of your allocation and they will provide you with Application instructions
General Offer: Eligible Employees	<ul style="list-style-type: none"> If you decide to apply for Shares, you will specify the number of Shares you are applying for in your Application and pay the First Instalment for that number of Shares. The minimum number of Shares you can apply for is 1,000 Shares (for which the First Instalment will be \$1,000). You will, in addition, be required to pay the Final Instalment in the manner described under the heading "Final Instalment" in <i>1.4 Answers to Important Questions - How much do I pay?</i> 	<ul style="list-style-type: none"> Eligible Employees apply under the General Offer but will receive a minimum guaranteed allocation of 5,000 Shares (for which the First Instalment will be \$5,000) provided the requirements for an Eligible Employee are met If over-subscribed, Applications in excess of 5,000 Shares are potentially subject to scaling. This scaling may be on a more favourable basis than scaling of other Applicants in the General Offer This minimum guaranteed allocation of 5,000 Shares for each Eligible Employee does not include any Shares and corresponding Instalment Receipts to be allocated to that employee under the Executive LTI Plan (for a description of the Executive LTI Plan, see <i>4.3 Board, Management and Corporate Governance</i>)⁷⁶ 	<ul style="list-style-type: none"> Apply by completing the Eligible Employee Application Form provided to you by the Company. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call 0800 90 30 90 to request one You will need to include your Meridian employee number on the Eligible Employee Application Form

75. The General Offer and the Broker Firm Offer are only open to New Zealand Applicants and Eligible Employees resident in New Zealand. The Retail Offer is not open to persons in the United States or elsewhere outside New Zealand.

76. The trustee of the Executive LTI Plan will receive a guaranteed allocation in respect of any Shares for which it applies on behalf of participating executives (for a description of the Executive LTI Plan, see *4.3 Board, Management and Corporate Governance*).

NUMBER OF SHARES

You will be asked to apply for a specific number of Shares when applying under the Retail Offer.

If your Application is scaled and you are not allocated Shares and corresponding Instalment Receipts for the total number of Shares applied for, an amount equal to the First Instalment of those

Shares not allocated to you will be refunded to you no later than five Business Days after the Allotment Date without interest. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

INCENTIVES FOR NEW ZEALAND APPLICANTS

The Crown is providing incentives to New Zealand Applicants under the Retail Offer as follows:

Guaranteed allocation (General Offer only)	Applications under the General Offer up to 1,000 Shares (for which the First Instalment will be \$1,000) will not be scaled and will receive one Share and corresponding Instalment Receipt for each Share applied for. Applications in excess of 1,000 Shares will not receive less than 1,000 Shares and corresponding Instalment Receipts.
Pay no more than \$1.60 per Share	A Retail Price Cap of \$1.60 per Share will apply to the Final Price payable by New Zealand Applicants under the Retail Offer who continue to hold their Instalment Receipts in the same registered name until 4 May 2015, which means that the Final Instalment will be no more than \$0.60 per Share. Such Applicants will pay no more than \$1.60 per Share even if the Final Price determined by the Crown for the Institutional Offer is higher.

New Zealand Applicants applying through Custodians will be entitled to these incentives on the same basis as if they were applying directly in the Offer, provided that the eligibility criteria are satisfied.

Details of the process for applying through a Custodian are set out in 8 Application Instructions.

CONDITION OF ENTITLEMENT TO RETAIL PRICE CAP

Entitlement of New Zealand Applicants in the Retail Offer to the Retail Price Cap will be subject to the condition that such Applicants hold the Instalment Receipts allocated to them continuously in the same registered name until 4 May 2015, being the Final Instalment Record Date. The requirement to hold Instalment Receipts in the same registered name means the entitlement to the Retail Price Cap will cease in respect of any Instalment Receipts where ownership changes, including where:

- there is a transfer of Instalment Receipts from the New Zealand Applicant to another person, including to a family member or trust in which they are a beneficiary; or
- there is a voluntary change in joint ownership arrangements.

The number of Instalment Receipts to which the Retail Price Cap will be applied will be equal to the lowest number of Instalment Receipts allocated and held continuously by the New Zealand Applicant between the Allotment Date and 4 May 2015. The exceptions to this 'same registered name' requirement are:

- a bona fide change of name of the registered holder (for example, by marriage, divorce or deed poll) provided that appropriate documentary evidence in support of the change is provided;
- a transmission to a legal personal representative (for example, an executor or administrator) of a deceased holder pending final administration of the holder's estate;
- a transmission from a deceased holder to a beneficiary (either directly or via the legal personal representative of the deceased);

- a transfer to the surviving joint holder(s) where a joint holder dies;
- a transfer as a result of a Court order or relevant legislation, for example following a marriage dissolution (although the Crown reserves the right to assess each such transfer to determine if it is legitimately out of the control of the original holder);
- in respect of Instalment Receipts issued under the Participating Iwi Offer, a transfer of Instalment Receipts by Public Trust to a Post-Settlement Governance Entity or a transfer of Instalment Receipts approved by the Crown by a Post-Settlement Governance Entity under the terms of the relevant embargo agreement;
- an amendment to the register to correct certain registry or broker errors; or
- a transfer to or from a nominee, trustee or other fiduciary party requiring a change in the registered holder details but where there is no change in the underlying beneficial shareholder, provided that the nominee or custodian completes and lodges the necessary nominee declaration form by the end of the calendar month in which the transfer was effected on the register.

All changes within the categories listed above will require the timely lodgement of appropriate documentary evidence with the Registrar, in order for the continued Retail Price Cap entitlement to be recognised. Holders of Instalment Receipts or their representatives (including brokers) should make themselves familiar with the process and contact the Registrar to ensure that any transaction they are planning to effect will carry the entitlement to receive the Retail Price Cap to the new holding and that the supporting documentation is in order prior to giving effect to the transaction.

Any change of registered holdings of Instalment Receipts that does not fall within one of the above exceptions (or for which appropriate supporting documentation is not provided on time) will result in the entitlement to the Retail Price Cap expiring in

7.1 Offer Details

Details of the Offer

respect of those Instalment Receipts, unless the Crown, in its sole discretion, decides to extend the above categories.


The Crown may request documentary evidence from a person seeking to rely on an exception to the 'same registered name' requirement. The Crown may request that such documentary evidence comprises original documents, certified copies of original documents or statutory declarations.

GENERAL OFFER

Application Information

You can apply for Shares by completing the online Application process at www.meridianshares.govt.nz, or by completing and submitting the Application Form contained in this Offer Document.

If you are an Eligible Employee, to ensure that you receive any available preference on allocation, you must apply by completing the Eligible Employee Application Form provided to you by the Company. You will need to provide your Meridian employee number on the Eligible Employee Application Form, together with the other requirements for a General Offer Application. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call **0800 90 30 90** to request one.

 Full details on how to apply are set out in [8 Application Instructions](#).

Online Applications must be completed by 5.00pm on 18 October 2013. If you apply online and choose to pay by cheque, your remittance receipt and cheque should be posted to the Registrar using the freepost number provided in time to be received by 5.00pm on 18 October 2013. If you are submitting a paper Application Form, it must be received by the Registrar no later than 5.00pm on 18 October 2013.

Allocations under the General Offer

The Crown will determine allocations of Instalment Receipts, in consultation with its advisers and Meridian.

If the General Offer is over-subscribed, your Application for Shares in the General Offer may be scaled. This means that the number of Shares and corresponding Instalment Receipts allocated to you may be less than the number of Shares you apply for. Scaling will be determined by the Crown, in consultation with its advisers and Meridian, and may not be pro rata. The Government has stated that New Zealanders will be at the front of the queue for Shares.

Shares relating to Instalment Receipts allocated under the General Offer are expected to be transferred to the Trustee for successful Applicants on 30 October 2013 with Instalment Receipts issued to successful Applicants at the same time.

BROKER FIRM OFFER

Application Information

Investors who have been offered an allocation by a NZX Firm or selected trading bank having a firm allocation will be treated as an Applicant under the Broker Firm Offer in respect of that Application.

Investors should contact their NZX Firm or selected trading bank to determine whether they may be allocated Instalment Receipts under the Broker Firm Offer and for Application instructions.

Allocations under the Broker Firm Offer

Allocations by NZX Firms and selected trading banks under the Broker Firm Offer to their New Zealand Applicant clients will be determined by those NZX Firms and selected trading banks. It will be a matter for the NZX Firms and selected trading banks to ensure that New Zealand Applicant clients who have received an allocation from them receive the relevant Instalment Receipts. If the Crown exercises its right to scale back Broker Firm allocations following completion of the bookbuild process, all Applications from New Zealand Applicant clients under the Broker Firm Offer will be scaled back on a pro rata basis.

New Zealand Applicant clients applying through the Broker Firm Offer are entitled to the potential benefit arising from the Retail Price Cap.

Institutional Offer

The Institutional Offer comprises two parts:

- an invitation to New Zealand and Australian resident Institutional Investors and other investors – made under this Offer Document (and, in respect of Australian resident Institutional Investors, accompanied by the Additional Australian Information); and
- an invitation to Institutional Investors resident in certain jurisdictions outside New Zealand and Australia – made under the International Offering Memorandum.

BOOKBUILD PROCESS AND INDICATIVE PRICE RANGE

The Institutional Offer will be conducted using a bookbuild process. A 'bookbuild' is the term used in initial public offerings to refer to the process of collating demand for shares from eligible retail investors who apply for shares in the offer and demand for shares at various prices from institutional investors who bid for shares. The bookbuild process collates the demand of the parties that want shares, how many shares will be sold and the price applicants bid for shares. The information collated in the bookbuild is then used to assist with the determination of the pricing and allocation of shares.

Full details of how to participate, including bidding instructions, will be provided by the Joint Lead Managers to invited participants in due course. Participants can only bid into the book for Shares through the Joint Lead Managers. They may bid for Shares at specific price(s). Participants may bid above, within or below the Indicative Price Range of \$1.50 to \$1.80 per Share. The Indicative Price Range may be varied at any time by the Crown.

All successful participants will pay the First Instalment of \$1.00 per Share for each Share and corresponding Instalment Receipt allocated to them.

Participants in the Institutional Offer are not entitled to receive the potential benefit arising from the Retail Price Cap.

ALLOCATION POLICY UNDER THE INSTITUTIONAL OFFER

The Crown will determine the allocation of Instalment Receipts among Institutional Investors that have bid for Shares in the Institutional Offer, after consultation with its advisers and Meridian. There is no assurance that any participant in the Institutional Offer will be allocated any Instalment Receipts or the number of Instalment Receipts equal to the number of Shares for which it has bid. The allocation policy will be influenced, but not constrained, by factors such as whether the participant is a New Zealand institution managing significant investments on behalf of New Zealanders (including KiwiSaver or superannuation) or a participant representing collective interests in New Zealand such as Māori trust or iwi, the price and number of Shares bid for by particular participants, the timeliness of the bid and any other factors that the Crown considers appropriate, after consultation with its advisers and Meridian.

Participating Iwi Offer

IWI POOL

A pool of up to \$40 million worth of Shares (the Iwi Pool) representing approximately 1% of the Shares⁷⁷ on issue in the Company has been reserved by the Crown for allocation to iwi that currently have unsettled historical claims against the Crown under the Treaty of Waitangi. Iwi that elect to participate in the Offer through the Iwi Pool will receive a payment from the Crown, in the form of Instalment Receipts, on account of their potential settlement amount. As a result, Applications from Participating Iwi will not be accompanied by a cash payment in full for the dollar amount of the First Instalment of \$1.00 per Share for the number of Shares applied for.

Participating Iwi that apply for Shares in the Participating Iwi Offer will not be scaled and will receive a guaranteed allocation of Shares and corresponding Instalment Receipts. The Retail Price Cap of \$1.60 per Share will also apply to the Participating Iwi Offer.

For Participating Iwi that have established a ratified Post-Settlement Governance Entity (PSGE), the Instalment Receipts will be transferred by the Crown to the PSGE. For Participating Iwi that are yet to establish a PSGE, the Instalment Receipts will be transferred by the Crown to Public Trust or its nominee (Public Trust) to be held on trust for Participating Iwi and the Crown, for their respective rights and interests, on the terms set out in a deed of trust between the Crown and Public Trust (Iwi Trust Deed).

All Instalment Receipts transferred to PSGEs or Public Trust under this arrangement will be transferred at the price of the First Instalment and all Instalment Receipts allotted under the Participating Iwi Offer that are still held by PGSEs or Public Trust, as applicable, on the Final Instalment Record Date will be credited by the Crown with the Final Instalment so that

Participating Iwi will have received Shares at the Final Price determined for the Retail Offer.

To the extent that reserved Shares in the Iwi Pool are not taken up by Participating Iwi, those Shares will be made available for allotment under the Retail Offer or the Institutional Offer, as determined by the Crown in its sole discretion.

EMBARGO

The PSGE of each Participating Iwi will be required to enter into an embargo agreement with the Crown prior to Instalment Receipts being transferred to it under the Offer (in the case of Participating Iwi that have a PSGE at that time) or otherwise prior to the Instalment Receipts or Shares being released to it in accordance with the Iwi Trust Deed. Under the embargo arrangements, the Instalment Receipts or Shares transferred or released to a PSGE must not be sold, transferred or otherwise disposed of until the later of:

- the date that is two years from the Allotment Date; and
- the date on which an Agreement in Principle (or equivalent) settling the Participating Iwi's outstanding historical Treaty of Waitangi claims against the Crown has been signed by the Crown and the Participating Iwi,

(the Embargo Period). Under the embargo arrangements, a direction will be given to the Registrar to tag the affected Instalment Receipts and Shares in its system as being unavailable for transfer until the expiry of the Embargo Period, or earlier if the PSGE and the Crown so direct.

RELEASE OF INSTALMENT RECEIPTS OR SHARES TO IWI UNDER IWI TRUST DEED

The Instalment Receipts or Shares (as applicable) will be held by Public Trust until:

- a recognised PSGE is established by the relevant Participating Iwi; and
- that PSGE enters into an embargo agreement with the Crown on the terms set out above.

If these conditions are satisfied in respect of a Participating Iwi, the Crown will direct Public Trust to release the Instalment Receipts or Shares held on behalf of the Participating Iwi to the relevant PSGE together with any funds held by Public Trust on behalf of the Participating Iwi.

SALE OF SHARES UNDER IWI TRUST DEED

The Crown may direct Public Trust to sell all of the Instalment Receipts or Shares held by it for a Participating Iwi if:

- the conditions described above under the heading "Release of Instalment Receipts or Shares to Iwi under Iwi Trust Deed" have not been satisfied in respect of that Participating Iwi by 31 December 2019; or
- prior to that date, the Participating Iwi initiates proceedings in respect of the Offer, the initial public offering of shares in Mighty River Power, the initial public offering of shares in Genesis Energy or Solid Energy (if and when such offering

77. At the Retail Price Cap.

7.1 Offer Details

Details of the Offer

occurs), or otherwise in connection with the Government's proposed extension of the mixed ownership model programme to Meridian, Genesis Energy, Mighty River Power or Solid Energy.

If the Crown directs Public Trust to sell all of the Instalment Receipts or Shares held by it for a Participating Iwi, Public Trust will be required to pay the net proceeds of sale and the Participating Iwi's share of any funds held by Public Trust on its behalf to the Crown.

RIGHTS ATTACHED TO INSTALMENT RECEIPTS OR SHARES HELD IN TRUST

Except as expressly provided under the Iwi Trust Deed, Participating Iwi will not have any rights in relation to Instalment Receipts or Shares while they are held by Public Trust.

Participating Iwi may direct Public Trust to exercise voting rights attached to Instalment Receipts or Shares held on its behalf, in which case Public Trust must arrange for the Trustee to exercise votes attached to Shares represented by Instalment Receipts held by Public Trust or vote the relevant Shares held by Public Trust, as applicable, in accordance with the relevant Iwi's direction. If such a direction is not received from a Participating Iwi, Public Trust must not exercise the votes attached to the Instalment Receipts or Shares held for that Participating Iwi.

The Iwi Trust Deed also provides that:

- if Meridian makes a rights issue, Public Trust will sell any entitlements attaching to the Shares held by it and hold the proceeds of sale in trust on the terms of the Iwi Trust Deed;
- Public Trust will not accept any form of takeover offer made under the Takeovers Code Approval Order 2000 in respect of any of the Instalment Receipts or Shares held by it;
- Public Trust will participate, in respect of all of the Instalment Receipts or Shares held by it, in any dividend reinvestment plan implemented by Meridian and the Shares issued to it will be held on trust on the terms of the Iwi Trust Deed;
- Public Trust will not accept any share buy back offers made by Meridian in respect of any Instalment Receipts or Shares held by it;
- any dividends paid on, or other distributions made in respect of Instalment Receipts or Shares held by Public Trust will be placed by Public Trust in interest bearing bank deposits in its name with a registered bank in New Zealand until paid to a PSGE or the Crown (as the case may be) in accordance with the terms of the Iwi Trust Deed; and
- any Shares issued by Meridian as bonus shares in respect of Shares will be held by Public Trust on the terms of the Iwi Trust Deed.

APPLICATION INFORMATION

Participating Iwi should contact the Office of Treaty Settlements to confirm whether they may be allocated Instalment Receipts under the Participating Iwi Offer and for Application instructions. Applications in the Participating Iwi Offer must be received by the Office of Treaty Settlements no later than 5.00pm on 18 October 2013.

78. Other than Applications from Participating Iwi.

Payment and Allotments

PAYMENT


Applications must be accompanied by payment in full of the First Instalment for Shares applied for. Payment may be made to the Crown by one-time direct debit or cheque and will be held by the Crown in trust until Shares relating to the Instalment Receipts are transferred to the Trustee and Instalment Receipts allotted, or until Application monies are refunded.⁷⁸

Your Application, together with payment of the First Instalment for Shares for which you have applied, must be completed online or received by the Registrar by 5.00pm on 18 October 2013. If you do not return your Application and payment by this time, you may not receive any Shares.

If you are the registered holder of Instalment Receipts on the Final Instalment Record Date (4 May 2015), you will, in addition, be required to pay the Final Instalment in respect of those Instalment Receipts. If you trade your Instalment Receipts and cease to be the registered holder on or before the Final Instalment Record Date, you are not required to pay the Final Instalment.

BROKERAGE, COMMISSION AND STAMP DUTY

No brokerage, commission or stamp duty is payable by Applicants on subscribing for Shares under the Offer.

 For details of the brokerage payable to NZX Firms and selected trading banks, see the information under the heading "Preliminary and Issue Expenses" in 7.3 Statutory Information.

ALLOTMENTS

Instalment Receipts allocated under the Offer are expected to be allotted to successful Applicants on 30 October 2013. The contracts formed on acceptance of Applications in the Retail Offer and Participating Iwi Offer and bids in the Institutional Offer will be conditional on NZX agreeing to quote Instalment Receipts and Shares on the NZX Main Board, on the transfer of Shares that relate to the Instalment Receipts to the Trustee and on settlement of the Institutional Offer. These conditions are expected to be satisfied on 30 October 2013. If these conditions are not satisfied, the contracts formed on acceptance of Applications in the Retail Offer and Participating Iwi Offer and bids in the Institutional Offer will be cancelled and all Application amounts will be refunded without interest no later than five Business Days after the cancellation of those contracts.

Shares allocated under the Offer are expected to be allotted to holders of Instalment Receipts on 21 May 2015, subject to receipt of clear payment of the Final Instalment.

CONFIRMING ALLOCATIONS

Successful Applicants in the General Offer who applied online will be able to confirm their allocation at www.meridianshares.govt.nz using their Unique Reference Number from 25 October 2013. Successful Applicants in the

General Offer who did not apply online (including any Eligible Employees who have applied for Shares) will be able to confirm their allocation by calling **0800 90 30 90** from 25 October 2013. Broker Firm Applicants should contact their broker or bank to find out if their Application was successful.

Securities transaction statements in respect of the Instalment Receipts are expected to be sent to all successful Applicants on 30 October 2013. Securities transaction statements in respect of Shares are expected to be sent to Shareholders on 21 May 2015, subject to receipt of clear payment of the Final Instalment.

None of the Crown, Meridian, any Trustee, the Joint Lead Managers, the Registrar or any of their respective directors, officers or employees accepts any liability or responsibility should any person attempt to sell or otherwise deal with the Instalment Receipts or, following payment of the Final Instalment, the Shares before the statements confirming allotments of the Instalment Receipts or Shares (as applicable) are received.

Cancellation of Sale of Shares

The Crown may cancel the issue of Instalment Receipts or, following payment of the Final Instalment, the sale of Shares to an Applicant under this Offer if the Applicant misrepresented its entitlement to be allocated Instalment Receipts or Shares under the Offer as a New Zealand Applicant. If the Crown cancels an issue of Instalment Receipts or sale of Shares on those grounds:

- the Trustee must sell Instalment Receipts (and for this purpose the Trustee is appointed as agent and attorney for the Applicant) or, following payment of the Final Instalment, the Company must sell Shares held by that Applicant, up to the number of Instalment Receipts or Shares sold to it under this Offer, irrespective of whether or not those Instalment Receipts or Shares (as applicable) were acquired by the Applicant under this Offer (unless the Applicant had previously sold, transferred or disposed of all of its Instalment Receipts or Shares (as applicable) to a person who was not an associated person of the Applicant); and
- the Applicant will receive from the sale the lesser of:
 - the sale price for the Instalment Receipts or Shares (as applicable) less the costs incurred by the Trustee or Meridian (as applicable); and
 - the First Instalment for the Instalment Receipts or the Final Price for the Shares paid under the relevant Offer (as applicable) less those costs,

with any excess amount being payable to the Crown.

If an Applicant who misrepresented their entitlement to Instalment Receipts or Shares has sold, transferred or otherwise disposed of its Instalment Receipts or Shares (as applicable) to an associated person, then the power of sale will extend to Instalment Receipts or Shares (as applicable) held by that associated person, up to the number of Instalment Receipts or Shares (as applicable) transferred, sold or otherwise disposed of to the associated person by the relevant Applicant. Any sale

of Instalment Receipts held by Australian residents would take place on either the ASX or the NZX Main Board at the discretion of the Crown. Any sale of Instalment Receipts held by other persons, or any sale of Shares, would take place on the NZX Main Board.

Listing and Quotation of Instalment Receipts and Shares

NZX - APPLICATION FOR LISTING

Application has been made to NZX for permission to list Meridian and to initially quote the Instalment Receipts and then subsequently the Shares on the NZX Main Board, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange regulated under the Securities Markets Act 1988. The Company's NZX stockcode in respect of the Instalment Receipts is 'MELCA' and in respect of the Shares is 'MEL'.

ASX - APPLICATION FOR LISTING

An application will be made to ASX after the Offer Document (accompanied by the Additional Australian Information) has been lodged with ASIC for the Company to be admitted to the official list of the ASX and for quotation of the Instalment Receipts on the ASX. An Application will also be made to ASX for quotation of the Shares prior to the expected initial quotation of the Shares on the ASX on 30 April 2015. The Company's ASX stockcode in respect of the Instalment Receipts is 'MEZCA' and in respect of the Shares is 'MEZ'.

ASX takes no responsibility for the contents of this Offer Document and the Additional Australian Information or for the merits of the investment to which this Offer Document and the Additional Australian Information relate. The fact that ASX may admit the Company to the official list and quote the Instalment Receipts or the Shares on the ASX is not to be taken as an indication of the merits, or as an endorsement by ASX, of the Company or the Instalment Receipts or the Shares. The ASX is not a registered market under the Securities Markets Act 1988.

QUOTATION AND TRADING OF INSTALMENT RECEIPTS

Initial quotation of the Instalment Receipts on the NZX Main Board and the ASX is expected to occur on or about 29 October 2013. If you wish to sell your Instalment Receipts on the NZX Main Board after confirming your allocation you must contact a NZX Firm.

To be eligible to trade on the NZX Main Board you must have an account with a NZX Firm, a CSN and an Authorisation Code (FIN). If you do not have an account with a broker you should be aware that opening an account can take a number of days depending on the NZX Firm's new client procedures. If you do not have a CSN

7.1 Offer Details

Details of the Offer

you will be automatically assigned one. If you applied online you will also be able to obtain your CSN at www.meridianshares.govt.nz from 25 October 2013 or, if you did not apply online, by calling **0800 90 30 90** from the same date. You will also receive a CSN from the Registrar when you receive your allotment notice for the Offer (which is expected to be sent on the Allotment Date, after trading has commenced). If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on 24 October 2013. If you have a broker and have not received a FIN by the date you want to trade Instalment Receipts, your broker can arrange to obtain your FIN from the Registrar. Your broker will be charged \$20 for requesting your FIN from the Registrar and may pass this cost on to you.

Initial quotation and trading of Instalment Receipts on the NZX Main Board will be initially on a conditional basis until the Crown has advised NZX that the Shares have been transferred to the Trustee and settlement of the Institutional Offer has occurred, which is expected to be on 30 October 2013. Trading of Instalment Receipts on a normal settlement basis on the NZX Main Board is expected to commence on 31 October 2013.

Initial quotation and trading of Instalment Receipts on the ASX is expected to be initially on a conditional and deferred settlement basis until the Crown has advised ASX that the Shares have been transferred to the Trustee and settlement of the Institutional Offer has occurred, which is expected to be on 30 October 2013. This means that any Applicant who sells their Instalment Receipts on the ASX on or before that date will not receive the proceeds of such a sale until after 6 November 2013, being the expected date of settlement of all deferred trades. Trading of Instalment Receipts on a normal settlement basis on the ASX is expected to commence on 31 October 2013.

If the Offer is cancelled during the consideration period, all conditional trades will be cancelled and NZX Firms will be required to refund any purchase money to persons who purchase Instalment Receipts during the conditional period.

It is expected that trading in Instalment Receipts on the NZX Main Board and the ASX will cease on 29 April 2015, being three trading days prior to the Final Instalment Record Date.

QUOTATION AND TRADING OF SHARES

Initial quotation of the Shares on the NZX Main Board and the ASX is expected to occur on 30 April 2015, being two trading days prior to the Final Instalment Record Date. If you wish to sell your Shares on the NZX Main Board you must contact a NZX Firm.

Initial quotation and trading of Shares on the NZX Main Board will be initially on a deferred settlement basis until the Shares are available on the register following their transfer by the Trustee to holders of Instalment Receipts who paid the Final Instalment in cleared funds by 15 May 2015. Trading of Shares on a normal settlement basis on the NZX Main Board is expected to commence on 22 May 2015.

Initial quotation and trading of Shares on the ASX is expected to be initially on a deferred settlement basis until the Shares are available on the register following their transfer by the Trustee to holders of Instalment Receipts who paid the Final Instalment in cleared funds by 15 May 2015. Trading of Shares on a normal settlement basis on the ASX is expected to commence on 22 May 2015.

This means that any Applicant who sells their Shares on the NZX Main Board or the ASX before the Shares are available on the register (which is expected to occur on 21 May 2015) will not receive the proceeds of such a sale until after 27 May 2015, being the expected date of settlement of all deferred trades.

FAILURE TO ACHIEVE LISTING

In the event that admission to list Instalment Receipts or Shares on the NZX Main Board is denied or the Offer does not proceed for any other reason, including if the Shares that relate to the Instalment Receipts are not transferred to the Trustee or, settlement of the Institutional Offer does not occur, all Application amounts will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed. Failure to achieve admission to list on the ASX will not, of itself, prevent the Offer from proceeding.

CONFIRMATION OF ALLOCATION

You should not attempt to sell your Instalment Receipts until you know whether, and how many, Instalment Receipts have been allocated to you. None of the Crown, Meridian, any Trustee, the Joint Lead Managers, the Registrar, or any of their respective directors, officers or employees accepts any liability or responsibility should any person attempt to sell or otherwise deal with Instalment Receipts before the statements confirming allotments of Instalment Receipts are received by the Applicants or the successful bidders under the Institutional Offer (as applicable).

CHESS

The Company will apply to participate in ASX's Clearing House Electronic Subregister System (CHESS), in accordance with the ASX Settlement Operating Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in a paperless form.

When the Instalment Receipts and, following payment of the Final Instalment, the Shares become CHESS Approved Securities, holdings will be registered in one of two subregisters, an electronic CHESS subregister or a Company sponsored subregister. The Instalment Receipts of a holder of Instalment Receipts or the Shares of a Shareholder (as applicable) who is a participant in CHESS or a person sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Instalment Receipts or Shares (as applicable) will be registered on the Company sponsored subregister.

Following the allotment of the Instalment Receipts and, following payment of the Final Instalment, the Shares, any holder of Instalment Receipts or Shareholder (as applicable) who has

elected to have their Instalment Receipts or Shares registered in CHES will be sent an initial statement of holding that sets out the number of Instalment Receipts or Shares that have been allocated. This statement will also provide details of the holder's or Shareholder's Holder Identification Number (HIN) or, where applicable, the Shareholder Reference Number (SRN) for Company sponsored holders. Holders of Instalment Receipts or Shareholders will subsequently receive statements showing any changes to their holding in the Company.

Supplementary Disclosure

If any significant adverse developments occur prior to commencement of the bookbuild process, the Crown and Meridian may advise investors of those developments by publishing advertisements in newspapers, with additional information on the Offer website www.meridianshares.govt.nz or which is available by calling **0800 90 30 90**, pursuant to an exemption granted by the Financial Markets Authority under the Securities Act. Further details of this exemption are discussed under the heading "Other Material Matters" in 7.3 *Statutory Information*.

In the case of a significant adverse development prior to the commencement of the bookbuild process, then in addition to any other rights of withdrawal that an Applicant may have, an Applicant may withdraw their Application:

- in the case of a supplementary disclosure being made before 5.00pm on the Closing Date: if the Application is dated on or before the date of the supplementary disclosure and received before 5.00pm on the Closing Date; or
- in the case of a supplementary disclosure being made after the closing of the Retail Offer and the Participating Iwi Offer: if the Application has been validly made in accordance with the terms and conditions of the Offer,

provided that in each case that notice of withdrawal is received by or on behalf of the Crown or Meridian within seven days after the publication of the advertisements in newspapers advising investors of the significant adverse developments.

Notice of withdrawal must be given in one of the following manners:

- by calling **0800 90 30 90**; or
- by completing the withdrawal form that will be made available on the Offer website www.meridianshares.govt.nz.


Withdrawals made by any other method may not be accepted by the Crown.

If an Applicant does not take any action to effect withdrawal within the relevant time period, the Crown will be entitled to accept the Applicant's Application.

The Crown and Meridian must refund any Applicant who has validly withdrawn their Application (not including any interest on their Application monies) within five Business Days after the expiry of the seven day withdrawal period described above.

Offer Management Agreement

The Crown, Meridian and the Joint Lead Managers have entered into an Offer Management Agreement. Under the Offer Management Agreement, once the Final Price has been determined, the Joint Lead Managers or their affiliates will be obliged to provide settlement support in respect of successful bids in the Institutional Offer to the extent that the Crown does not retain any Shares in respect of which Institutional Investors have defaulted on their payment obligations in respect of the First Instalment. The Offer Management Agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations.

 You can find further information about the Offer Management Agreement under the heading "Material Contracts" in 7.3 *Statutory Information*.

Selling Restrictions

The Offer is only being made to New Zealand Applicants and Participating Iwi in New Zealand and to Institutional Investors and other investors in New Zealand, Australia and certain other jurisdictions.

No person may offer, sell (including resell) or deliver or invite any other person to so offer, sell (including resell) or deliver any Instalment Receipts or Shares or distribute any documents (including this Offer Document) in relation to the Instalment Receipts or Shares to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction.

Unless otherwise agreed with the Crown and Meridian, any person or entity subscribing for Shares in the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Offer Document, and is not acting for the account or benefit of a person within such jurisdiction. None of the Crown, Meridian, any Trustee, the Joint Lead Managers, the Registrar, or any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

This Offer Document may not be released or distributed in the United States or elsewhere outside New Zealand or Australia unless it is attached to, or constitutes part of, the International Offering Memorandum that describes selling restrictions applicable in the United States and other jurisdictions outside New Zealand and Australia, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The Instalment Receipts and Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States except in accordance with an exemption from,

7.1 Offer Details

Details of the Offer

or in a transaction not subject to, the registration requirements of the US Securities Act and any other applicable securities laws. Offers to any persons in the United States are only being made pursuant to, and in accordance with the terms described in, the International Offering Memorandum.

Each Applicant in the General Offer, the Broker Firm Offer and the Participating Iwi Offer will be taken to have represented, warranted and agreed as follows:

- it understands that the Instalment Receipts and Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States and is not acting for the account or benefit of a person in the United States;
- it has not and will not send the Offer Document or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Instalment Receipts or Shares in the United States or in any other jurisdiction outside New Zealand and Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Instalment Receipts or Shares are offered and sold.

Each successful bidder under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

Description of Instalment Receipts and Trust Deed

The following summary of the material provisions of the Instalment Receipts and of each Trust Deed does not purport to be complete and is qualified in its entirety by the relevant Trust Deed (and the terms and conditions of the Instalment Receipts). Each Share represented by a particular Instalment Receipt is referred to in this section of the Offer Document as an ‘underlying Share’.

Holders of Instalment Receipts (referred to in this section as ‘Holders’) are entitled to the benefit of, are bound by, and are deemed to have notice of, the provisions of each Trust Deed. The New Zealand Trust Deed may be inspected at the offices of the Registrar, at its address set out in the Directory. The Australian Trust Deed may be inspected at the offices of the Australian Trustee, at its address set out in the Directory. Each Trust Deed can also be obtained, free of charge, upon request in writing made to Meridian’s registered office as set out in the Directory.

Terms used in this section of the Offer Document and not otherwise defined in it have the meanings assigned to them in the relevant Trust Deed. The following summary should also be read in conjunction with 7.1 *Details of the Offer* and with the section under the heading “Shareholding Restrictions” in 4.4 *Relationship between Meridian and the Crown*.

The Trustees that hold the Instalment Receipts on trust, The New Zealand Guardian Trust Company Limited or, in respect of Australian resident holders of Instalment Receipts only, The Trust Company (Australia) Limited, have each entered into trust arrangements with the Crown, on substantially similar terms, in respect of the Instalment Receipts, a summary of which is set out below.

General

Payment for Shares under the Offer is to be made in two instalments. Successful Applicants for Shares will be issued with Instalment Receipts with each Instalment Receipt evidencing a beneficial interest in one underlying Share. On payment of the Final Instalment on its due date, holders of Instalment Receipts will receive the Shares represented by their Instalment Receipts. The underlying Shares, any rights relating to them and any proceeds will be subject to a security interest in favour of the Crown securing payment of the Final Instalment, default interest and fees, costs and expenses described under the headings “Default Interest” and “Fees, Costs and Expenses” below.

Subject to the Constitution and the Trust Deed, Holders will receive full dividends on the underlying Shares and have the right to direct voting by the Trustee with respect to the underlying Shares. See the sections under the headings “Dividends” and “Voting” below. Holders may not create any encumbrances, such as a charge, over the Shares represented by their Instalment Receipts. Holders may transfer their Instalment Receipts in accordance with the provisions of the Trust Deed. Holders are required by the Trust Deed to pay certain duties and taxes relating or referable to them, their Instalment Receipts or the underlying Shares. See the section under the heading “Duties and Taxes” below.

Transfer of Shares to the Trustee and Issue of Instalment Receipts

On the Allotment Date the Crown will transfer to the Trustee the Shares that have been allocated to successful Applicants. These Shares will be held in trust under the terms of the Trust Deed. When it is advised by the Crown that Shares have been transferred to each Trustee, the New Zealand Trustee will issue Instalment Receipts in respect of Shares held by each Trustee. The Instalment Receipts will be issued in the amounts, and in the names of the persons, as the Crown directs. Once issued, the Instalment Receipts will be administered by the relevant Trustee under the terms of the Trust Deed. Each of the Instalment Receipts will evidence that:

- the First Instalment for the underlying Share has been paid;
- the Trustee holds the underlying Share on trust for the Holder subject to a security interest in favour of the Crown; and
- the Holder is entitled to the rights, and is subject to the obligations, set out in the Trust Deed, including, without limitation, the right to receive the underlying Share on payment of the Final Instalment in accordance with, and subject to the terms of, the Trust Deed.

Payment of Final Instalment

Cleared payment of the Final Instalment is due by 5.00pm on 15 May 2015 (the Final Instalment Payment Date). The person liable to pay the Final Instalment in respect of an Instalment Receipt will be the person registered as the Holder of that Instalment Receipt on 4 May 2015 (the Final Instalment Record Date).

On receiving notification from the Crown of the payment of the Final Instalment on or before the Final Instalment Payment Date, the Trustee will transfer the underlying Share to the Holder within four Business Days after the Final Instalment Payment Date provided the payment made by the Holder in respect of the Final Instalment is cleared. If payment is cleared later, the transfer will take place as soon as practicable after clearance. On transfer of the underlying Shares, the security interest of the Crown will be extinguished, and the relevant Instalment Receipt will be cancelled. Holders will, at that time, be entered as the holders of the underlying Shares in Meridian's register of Shareholders.

The Registrar will send reminder notices to Holders prior to the Final Instalment Payment Date reminding them of their obligation to pay the Final Instalment. The accidental omission to send a reminder notice to, or non-receipt of a reminder notice by, a Holder will not affect that Holder's obligation to pay the Final Instalment on the Final Instalment Payment Date.

If a Holder defaults in payment of the Final Instalment when required to do so under the Trust Deed, the Trustee (on behalf of and as agent for the Crown) must, unless otherwise directed by the Crown, sell the underlying Shares pursuant to the Crown's security interest and apply the proceeds in paying the Final Instalment as well as default interest and fees, costs and expenses described under the headings "Default Interest" and "Fees, Costs and Expenses" below. The Holder will receive the balance, if any. If the net proceeds of sale are insufficient to pay the Final Instalment, the Trust Deed provides that the defaulting Holder will remain liable to the Crown for the shortfall. Any sale of Shares pursuant to the Crown's security interest would take place on the NZX Main Board.

Holders do not have the right to pay the Final Instalment and receive their underlying Shares early.

Default Interest

A Holder who fails to pay the Final Instalment in full on the Final Instalment Payment Date, or fails to pay any other amounts payable by a Holder under the Trust Deed as set out below in the first paragraph under the heading "Fees, Costs and Expenses", will be required to pay interest to the Crown on the Final Instalment as well as those unpaid fees, costs and expenses. In the case of the Final Instalment, interest will accrue from and including the day immediately following the Final Instalment Payment Date. In the case of each other unpaid fee, cost and expense under the Trust Deed, interest will accrue from the relevant date due for payment (or, in the case of fees, costs and expenses paid by the Trustee, from the date such sum is paid). In each case, interest accrues until the date that the relevant unpaid amount is received by the Crown in cleared funds (whether arising from payment by the Holder or sale of Shares or other enforcement action by the Trustee).

This means that interest will continue to accrue on any shortfall arising from the sale of underlying Shares if the Final Instalment

is not paid in full on the Final Instalment Payment Date and the proceeds of sale are insufficient to meet the default interest, fees, costs and expenses and the Final Instalment owing to the Crown.

The interest rate is the 90 day bank bill rate plus 2% per annum. The 'bank bill rate' is the bid settlement rate displayed at or about 10.45am on the day upon which the bank bill rate falls to be calculated on the Reuters monitor screen page BKBM (or its successor page) for bank accepted bills having a term of 90 days, or if there is no such rate displayed, then such other comparable rate as the Crown in its discretion specifies. By way of example, on 30 August 2013, the 90 day bank bill rate as calculated under the Trust Deed plus 2% per annum equalled an interest rate of 4.7% per annum. The actual interest rate that will apply under the Trust Deed will depend upon the relevant bank bill rate if and when interest becomes payable and is likely to be different from this example rate.

Fees, Costs and Expenses

A Holder who fails to pay the Final Instalment in full on the Final Instalment Payment Date will, in addition to the Final Instalment, be liable to pay the fees, costs and expenses associated with its failure to pay comprising:

- any fees, costs or expenses properly incurred by the Trustee in the recovery or attempted recovery of money owing by a Holder;
- any fees, costs or expenses incurred in or about the sale or forced disposal of Shares (including such administration fee as the Trustee considers fair and reasonable on account of its internal costs in administering such sale or forced disposal), to the extent those fees, costs or expenses have not been deducted from the gross sale price; and
- any duties and taxes payable by the Holder.

Unpaid fees, costs and expenses will also be subject to default interest. Although the fees, costs and expenses associated with the failure of a Holder to pay the Final Instalment are not currently known (and will depend upon the circumstances and difficulty of any action that has to be taken to recover amounts owing to the Crown), they are expected to include brokerage on the sale of shares and, in some circumstances, legal costs. Legal costs might be incurred by the Trustee if the proceeds of sale are not sufficient to meet the default interest, fees, costs and expenses and the Final Instalment owing to the Crown and action has to be taken against the Holder to recover the shortfall.

In addition, each Holder is liable for:

- the fees, costs and expenses reasonably incurred by the Trustee in connection with the cancellation of the allotment, and the subsequent sale, of Instalment Receipts as summarised under the heading "New Zealand Applicants" below; and
- in respect of a breach of the 10% Limit, brokerage, other costs of sale and other costs incurred by the Trustee in

connection with any sale of Instalment Receipts and all costs reasonably incurred by Meridian in investigating whether there is a contravention of the 10% Limit, and all other costs reasonably incurred by Meridian in connection with that contravention.

The Registrar may also charge a reasonable copying and administration fee for providing a copy of the Instalment Receipt register to any requesting person.

Restrictions on Encumbrances

The obligation of Holders to pay the Final Instalment is secured by a security interest in favour of the Crown over the underlying Shares, any rights relating to them and any proceeds. Holders may not create any encumbrance, such as a charge, over the underlying Shares, rights and proceeds, and no encumbrance may be created, arise or exist under which a person is able to acquire or is granted any right in respect of the underlying Shares, rights and proceeds before the Crown's security interest has been released.

Transfers of Instalment Receipts and Instalment Receipt Register

Holders may transfer their Instalment Receipts in accordance with the Trust Deed. Once a transferee is entered as a Holder of Instalment Receipts in the Instalment Receipt register, the transferee is conclusively deemed to be bound by all of the terms of the Trust Deed, including the obligation to pay the Final Instalment. The transferor will cease to have any further rights or obligations in respect of the Instalment Receipts if the transfer is registered on or before the Final Instalment Record Date. The transferor will retain the obligation to pay the Final Instalment if the transfer is registered after the Final Instalment Record Date.

Holders may transfer their Instalment Receipts by a transfer document in the form prescribed by the Trust Deed or otherwise approved by the Registrar, or by any method of transfer of marketable securities operated in accordance with the requirements of the Constitution, the NZX Main Board Listing Rules, the ASX Listing Rules and any applicable laws, and which is approved by the Registrar.

Because of the nature of each Holder's interest in the underlying Shares of the Holder's Instalment Receipts, the restrictions contained in the Public Finance Act governing the transfer of Shares also apply to the transfer of Instalment Receipts and to Holders. A failure to comply with these rules may, amongst other things, result in the entitlement to receive dividends or other distributions and the voting rights attached to the Shares represented by the Instalment Receipts being suspended, and the Instalment Receipts being sold. These rules, and the consequences for Holders if they fail to comply with them, are discussed in more detail under the heading "Shareholding Restrictions" in *4.4 Relationship between Meridian and the Crown*.

The last day for trading the Instalment Receipts on the NZX Main Board and the ASX is expected to be on 29 April 2015. On the next trading day, trading of the underlying Shares is expected to commence on a deferred settlement basis on the NZX Main Board and the ASX. Trading on this basis is expected to continue until the underlying Shares are available on the register following their transfer by the Trustee to Holders who paid the Final Instalment on the due date.

Holders should be aware that, if any sale of their Instalment Receipts has not for any reason been settled and registered on or before the Final Instalment Record Date, they will remain liable to pay the Final Instalment. Accordingly, they should make appropriate arrangements if selling their Instalment Receipts in the period immediately prior to the Final Instalment Record Date.

The Trust Deed provides for a register of Holders to be kept and permits the maintenance of a branch register in any other jurisdiction. The relevant register will be conclusive evidence of the holding of Instalment Receipts by investors.

The Trust Deed provides for any person to have the right to inspect and, subject to certain conditions, take a copy of, or extracts from, the Instalment Receipt register. Holders must notify the Registrar of any change of name, or change in their address, entered on the register. No notice of any trust, express, implied or constructive, may be entered on the Instalment Receipt register, or recognised by Meridian, the Registrar or any other person.

Fixing Record Date

Each Trustee in consultation with the Registrar and the other Trustee has the right to determine the date and time as at which any right conferred, or obligation imposed by, the holding of Instalment Receipts, or underlying Shares, is determined. These rights include rights to receive dividends and to direct the Trustee to exercise voting rights on a poll at Meridian Shareholder meetings. The Trust Deed provides that any record date shall, as nearly as practically possible, be the same as the record date fixed by Meridian in respect of the relevant event. See, however, the section under the heading "Voting" below.

Dividends

The Trustee is required by the Trust Deed to take Reasonable Steps (see the definition from the Trust Deed in the Glossary) to cause dividends paid by Meridian during the period up to and including the Final Instalment Payment Date to be paid to Holders. The Trustee will take Reasonable Steps necessary to, and the Crown has arranged under the Co-ordination Agreement for Meridian to:

- ensure that payments of dividends up to and including the Final Instalment Payment Date will be made directly by Meridian to Holders (instead of the Trustee), as if they were the registered holders of Shares at their record date for that

dividend and otherwise in the same manner, and by the same means, as applies to holders of Shares; and

- take all reasonable steps to confer on Holders the benefit of imputation credits, or other tax benefits (if any), as the case may be, attached to any dividends paid by Meridian to the extent permitted under the Tax Act.

In this regard, such dividends will be paid to the persons who are registered as Holders at the record date for the dividend. See the section under the heading “Co-ordination Agreement” below.

If the Trustee receives a dividend after the Final Instalment Payment Date then:

- if the dividend is attributable to an underlying Share in respect of which the Final Instalment has been paid by a cleared payment or an underlying Share which has been sold on an ex-dividend basis pursuant to the Crown’s security interest and there are no unpaid amounts or interest outstanding, the Trustee is to take Reasonable Steps to pay the dividend to the relevant Holder; or
- if the dividend is attributable to an underlying Share in respect of which there has been a default in payment of the Final Instalment or there are unpaid amounts or interest outstanding, the dividend is to be applied in or towards payment of the unpaid amounts due to the Crown and others.

Meridian has the right pursuant to the Constitution to suspend payments of its dividends to certain Shareholders in certain circumstances, and this right to suspend payment of dividends may also affect Holders of Instalment Receipts. Further details of this right are discussed under the heading “Effect of exceeding the 10% Limit” in *4.4 Relationship between Meridian and the Crown*.

If the Crown advises the Trustee that Meridian, purporting to act pursuant to the Constitution, has determined to suspend dividends, the Trustee is entitled, without enquiry and without notice to the relevant Holder, to act in accordance with that advice.

The Trust Deed provides for any withholding payments required to be made by law to be deducted and paid to the relevant taxation authority.

Voting

The Crown has arranged under the Co-ordination Agreement for Holders to receive annual reports and other shareholder notices, including notices of annual or special meetings, directly from Meridian as if they were holders of Shares.

The Crown has arranged under the Co-ordination Agreement for Holders to be invited to attend annual or special meetings of Shareholders of Meridian but Holders will not, however, have the right to exercise votes in person at any such meetings, nor will they have the power to request personally, meetings of Meridian.

If there is a meeting of Shareholders, then the Crown is to send or cause to be sent to Holders a form inviting them to instruct the Trustee as to the manner in which votes on the underlying Shares are to be exercised on a poll. Such instructions must be received, on a properly completed form, by the Registrar not less than 96 hours before the relevant meeting. The Trustee, as the holder of the underlying Shares, will only exercise votes at Shareholder meetings in accordance with the voting instructions that it has received from the Holders. The Trustee is required to call for voting on all resolutions at meetings to be by way of poll, if entitled to do so under the Constitution or the Companies Act. The Trustee does not have any right to exercise votes in respect of any underlying Shares for which it has not received voting instructions, nor does it have the right to vote at its own discretion.

The Company has agreed to:

- provide all reasonable assistance so that notices, reports and other information are sent to Holders at the same time as they are sent to Shareholders; and
- use its reasonable endeavours to increase the period of notice for Shareholder meetings beyond the minimum required by law, in order to provide Holders more time to consider the subject of the meeting and to provide instructions to the Trustee.

The Trustees are required to request meetings of Shareholders if requested to do so in writing by persons holding Instalment Receipts which represent at least that number of underlying Shares which, if those Shares were registered in the names of those Holders, would entitle them to request such a meeting.

The right of a Holder to give voting instructions to the Trustee, and the obligation of the Trustee to act in accordance with those instructions, may be suspended in certain circumstances. See, in this regard, the commentary in the section under the heading “Shareholding Restrictions” in *4.4 Relationship between Meridian and the Crown*. The Trustee may, without enquiry, act on advice from the Crown that Meridian has determined that under the Constitution no vote is eligible to be cast in respect of the Shares represented by Instalment Receipts. Further, the Crown, with the approval of the Trustee, may decide not to seek voting instructions if the period of time between the time the Trustee receives notice of the meeting and the date of the meeting is such that it is not practicable to do so.

Sale of Instalment Receipts

If the Trustee, at the direction of the Crown, sells (as agent and attorney for the Holder) any of the Instalment Receipts as a consequence of the shareholding restriction provisions summarised under the heading “Shareholding Restrictions” in 4.4 *Relationship between Meridian and the Crown*, then the Trustee will apply all proceeds of the sale in payment of the relevant amounts described under the heading “Fees, Costs and Expenses” above, and will hold the balance on trust for the Holder and account to the Holder for the balance.

If the Trustee, at the direction of the Crown, sells any of the Instalment Receipts as a consequence of an Applicant misrepresenting its entitlement to be allocated Instalment Receipts under the Offer as a New Zealand Applicant as summarised under the heading “Cancellation of Sale of Shares” in 7.1 *Details of the Offer*, then the Applicant will receive from the sale (after payment of the relevant amounts described under the heading “Fees, Costs and Expenses” above) the lesser of:

- the sale price for the Instalment Receipts; and
- the First Instalment paid by the relevant holder,

with any excess amount being payable to the Crown.

If the Crown directs the Trustee to take any action to sell or dispose of any Instalment Receipts, the Trustee is entitled, without enquiry, and without notice to the relevant Holder, to act in accordance with that direction.

Limitations on Ownership

The Public Finance Act and the Constitution contain provisions which regulate significant acquisitions of Meridian Shares. Because of the nature of each Holder’s interest in the underlying Shares as a ‘relevant interest’, these provisions also apply to Holders and, therefore, to the acquisition of Instalment Receipts. These provisions are summarised in the section under the heading “Shareholding Restrictions” in 4.4 *Relationship between Meridian and the Crown*.

New Zealand Applicants

The Crown may cancel the sale of Shares to an Applicant under this Offer if the Applicant misrepresented its entitlement to apply for, and be sold, Shares and have Instalment Receipts issued to it under the Offer as a New Zealand Applicant, in which case the issue of Instalment Receipts to that Applicant will be cancelled. If the Crown cancels the sale and issue on those grounds, the Crown may direct the Trustee to sell (as agent and attorney for the Applicant) Instalment Receipts held by that Applicant. If that Applicant transferred its Instalment Receipts to an associated person, then the power of sale will extend to Instalment Receipts held by that associated person, up to the number of Instalment

Receipts transferred to it. Any sale of Instalment Receipts held by Australian residents would take place on either the ASX or the NZX Main Board at the discretion of the Crown. Any sale of Instalment Receipts held by other persons, or any sale of Shares, would take place on the NZX Main Board. These rules are discussed in more detail under the heading “Cancellation of Sale of Shares” in 7.1 *Details of the Offer*.

Position of Trustee

The trustee in respect of Instalment Receipts held by Australian residents is The Trust Company (Australia) Limited. The trustee in respect of all other Instalment Receipts, and the issuer of all Instalment Receipts, is The New Zealand Guardian Trust Company Limited. All money payable by Holders in respect of Instalment Receipts will be payable to the Crown (and not to the Trustee). In holding the Shares on trust and, in the case of the New Zealand Trustee only, issuing the Instalment Receipts, the Trustee is not an issuer, an offeror or a promoter of either the Shares or the Instalment Receipts for the purposes of the Securities Act or this Offer Document and neither it nor its directors, officers and agents guarantee the Shares, the Instalment Receipts or Meridian. Neither the Trustee nor its directors, officers and agents have any responsibility for the content of this Offer Document or the Offer. The Trustee has neither caused the Offer to be made nor the issue of this Offer Document.

Except as set out in the Trust Deed or as may be necessary to give effect to the Trust Deed, the Trustee has no powers, rights or discretions in respect of the underlying Shares.

The Trust Deed contains limitations on the liability of the Trustee to any person, including Holders, including a provision that the Trustee is not liable to any person for any loss or damage arising out of the exercise or non-exercise of the Trustee’s discretion, or for any other act or omission on the Trustee’s part, unless caused by the negligence, wilful misconduct or fraud of the Trustee.

The Trust Deed also contains provisions which entitle, or in some cases require, the Trustee in certain circumstances to comply with or rely or act upon any advice, information, notice or direction from the Crown, the Registrar or Meridian or advice from lawyers, accountants, NZX Firms, stockbrokers and certain other persons.

The Trustee has no right to be reimbursed or indemnified out of the assets held on trust by it other than in respect of any Unpaid Amount outlaid or charged by the Trustee in relation to that trust. The Trustee is, however, entitled to be reimbursed and indemnified by the Crown against costs, losses or liabilities incurred by it in the execution or purported or attempted execution of its duties and powers as Trustee.

The Trustee will not pay any interest on any amounts held by it in connection with its role under the Trust Deed, the Co-ordination Agreement or otherwise in connection with the Instalment Receipts.

Amendments to Trust Deed

The Trustee and the Crown may, by agreement between them, amend the Trust Deed in a broad range of circumstances set out in the Trust Deed.

No amendment may, however:

- impair the rights of any Holder, by payment of the Final Instalment as provided in the Trust Deed, to receive a transfer of the underlying Shares and, pending such transfer, to enjoy its rights and interests in respect of such underlying Shares, subject to the terms of the Trust Deed;
- vary the date for payment, or the amount, of the Final Instalment;
- abrogate any right which any Holder would otherwise have to receive dividends in respect of the underlying Shares;
- abrogate any right which any Holder would otherwise have to give voting instructions to the Trustee; or
- in respect of certain provisions, be made without the consent of Meridian.

Change of Trustee

The Trustee may retire at any time by giving two months' notice to the Crown. The Crown may remove the Trustee from office at any time by giving one month's notice or a shorter period that the Crown considers necessary in order to ensure that any breach of Part 5A of the Public Finance Act is remedied or prevented. The Crown alone has the power to appoint a new Trustee.

Duties and Taxes

The Trustee is entitled to recover from Holders, duties or taxes relating or referable to them, their holdings of Instalment Receipts or the underlying Shares.

In particular, if the Trustee receives a demand or an assessment from a revenue or other authority, or otherwise becomes aware that it may be liable to pay any such duties and taxes then, if the Trustee is advised that it is bound to pay the same, such part of the sum to be paid as is referable to an Instalment Receipt or to an underlying Share is payable by the relevant Holder to the Trustee upon demand.

If payment is not received by the Trustee in the manner, and within the period, prescribed by a notice (a 'Tax Notice') given to the Holder under the Trust Deed, the Trustee is entitled to take all necessary and appropriate action to recover the relevant amount as a debt due from the Holder. The Trustee may sell the relevant Shares and apply the proceeds of sale in accordance with the priority order set out in the Trust Deed.

The obligation of a Holder to make payment, and the Trustee's powers to enforce that obligation, are not affected by any non-receipt of, or accidental failure by the Trustee to give, any Tax Notice.

Governing Law

The Trust Deed is governed by New Zealand law.

The Trust Deed provides that the courts of New Zealand shall have non-exclusive jurisdiction to determine all actions, claims, disputes and proceedings in connection with the Instalment Receipts and the Trust Deed. Each Holder will be deemed to have submitted to the jurisdiction of those courts and to have waived any immunity in respect of obligations under the terms of the Trust Deed from the jurisdiction of any court or any legal or arbitration process for any reason.

Other Provisions

The Trust Deed also contains provisions to the following effect:

- the Crown is to bear all expenses of the various trusts created under the Trust Deed (other than fees, costs and expenses described under the heading "Fees, Costs and Expenses" above);
- where the Trustee takes action to recover amounts owed by Holders or to enforce the Crown's security interest, the Trustee acts as agent for the Crown, and in those circumstances is to have regard, to the full extent the law permits, solely to the interests of the Crown. There are various provisions limiting Holders' recourse with respect to the timing or manner of sales of the underlying Shares or their Instalment Receipts;
- information held by the Trustee regarding the identity of Holders, and other information obtained by it in connection with its role as Trustee (including information regarding any tax identification numbers or exemption details of Holders), may be provided to the Crown, Meridian and the securities exchanges on which the Instalment Receipts are listed. The Crown is authorised to supply, to the Trustee and to Meridian, information provided by Applicants for Instalment Receipts in their Application Forms;
- if the Crown considers (in its sole discretion, acting reasonably) that the Australian Trustee has, or is in the future likely to have, breached the 10% Limit, the Crown may, by notice in writing to the Australian Trustee, require the Australian Trustee to transfer Shares to another trustee holding the relevant Australian Financial Services Licences, to be held on trust by that other trustee pursuant to a trust deed the terms of which are the same in all material respects as, and in any event are no less favourable to Holders than, the terms of the Australian Trust Deed, or to enter into such other arrangements as the Crown may reasonably require to avoid a breach of the 10% Limit;
- the New Zealand Trust Deed contains provisions under which the New Zealand Trustee will transfer to the Australian Trustee, to be held on trust under the Australian Trust Deed, Shares that the New Zealand Trustee holds which correspond to Instalment Receipts that become held by an Australian resident (whether through a change in the Holder or the Holder's residency). The Australian Trust Deed contains a similar provision in respect of transfers to the New Zealand

Trustee where Shares that the Australian Trustee holds correspond to Instalment Receipts that become held by a Holder resident outside Australia (whether through a change in the Holder or the Holder's residency);

- joint Holders of Instalment Receipts owe the obligations imposed on Holders under the Trust Deed jointly and severally;
- all payments required to be made by Holders must be made free of any right to counterclaim or set-off, and by cleared payment, without deduction of any kind;
- if a Holder is required by law to make a deduction or withholding payment, such person is obliged to 'gross up' the relevant payment so that the Trustee or the Crown receives the amount it would have received if the deduction or withholding had not been required. The Registrar, the Trustee and Meridian are entitled to make any deduction or withholding required by law from any payment to any Holder without any obligation to 'gross up';
- the Trustee's obligation to pay monies (including dividends) or send materials to Holders may be discharged by the Trustee or the Crown arranging for Meridian to do so directly, which the Crown has arranged under the Co-ordination Agreement. Neither the Trustee nor the Crown is responsible to any person for any neglect or default on the part of Meridian to do so, for any accidental omission to send any materials to Holders or any failure by Holders to receive materials for any reason; and
- there are general provisions allowing changes to times and dates (other than the date for payment of the Final Instalment) in the event of non-Business Days or otherwise where NZX, ASX or another securities exchange permits the change.

Meridian also agrees that it will not at any time until the Final Instalment Payment Date:

- make a bonus issue, an entitlements offer, a buy back offer (other than an offer made in connection with the Executive LTI Plan or the cash award plan for the Australian Chief Executive Officer) or a distribution other than a dividend;
- establish a dividend reinvestment plan or similar scheme;
- issue new securities other than debt securities without the Crown's consent;
- redeem a Share;
- consolidate or sub-divide Shares or any class of shares;
- seek listing or quotation of Shares or Instalment Receipts on any securities exchange other than NZX or ASX;
- amalgamate Meridian into a different company without the Crown's consent;
- exercise any rights and obligations attaching to an Instalment Receipt that Meridian holds itself; or
- give any financial assistance other than financial assistance that is given solely for the purpose of the Executive LTI Plan or the Employee Share Ownership Plan.

Co-ordination Agreement

On 19 September 2013 Meridian entered into a co-ordination agreement with the Crown and the Trustees. Under the agreement Meridian agrees to perform various functions, and to arrange for the Registrar to perform various functions, in connection with the Instalment Receipts, including relating to the keeping of the register, dealing with transfers (between holders of Instalment Receipts and between Trustees), quotation on the NZX Main Board and the ASX, voting, the payment of dividends and distribution of notices of meeting and other materials directly to Instalment Receipt holders, and processing payment of the Final Instalment. The Trustees also agree to perform various functions in connection with the Instalment Receipts, including (in the case of the New Zealand Trustee) entering into a quotation agreement with ASX.

Statutory Information

This section contains the information required by Schedule 1 to the Securities Regulations in respect of the offer of Shares. In accordance with section 5(3) of the Securities Act, this section is not required to contain information required by Schedule 1 to the Securities Regulations in respect of the offer of Instalment Receipts.

1. Main Terms of Offer

The issuer of the Shares is Meridian. Its registered office is set out in the Directory.

The issuer of the Instalment Receipts for the purposes of the Securities Act is the Crown as it is the person on whose behalf money is paid in consideration of the allotment of those securities. The Crown's address in New Zealand is set out in the Directory. The New Zealand Trustee will issue all Instalment Receipts under the New Zealand Trust Deed but will do so solely in the exercise of its functions under that deed. The Trustee is not an issuer, offeror or a promoter of either the Shares or the Instalment Receipts for the purposes of the Securities Act or this Offer Document, and neither it nor its directors, officers and agents guarantee the Shares, the Instalment Receipts or Meridian. Neither the Trustee nor its directors, officers and agents have any responsibility for the content of this Offer Document or the Offer. The Trustee has not caused the Offer to be made or the issue of this Offer Document.

The securities offered under this Offer are fully paid ordinary shares in Meridian. Successful Applicants will be issued with Instalment Receipts pending payment of the Final Instalment.

The maximum number of Shares being offered under the Offer is 1,255,870,000.

The Shares are to be paid for by investors in two instalments, with the First Instalment of \$1.00 per Share payable on Application and the Final Instalment payable by 15 May 2015. Based on the Indicative Price Range of \$1.50 to \$1.80 per Share, the Final Instalment is expected to be in the range of \$0.50 to \$0.80 per Share. While the Crown, in its sole discretion, may set the Final Price within, above or below this Indicative Price Range, the Final Price payable by New Zealand Applicants participating in the Retail Offer is subject to a Retail Price Cap of \$1.60 per Share if they hold their Instalment Receipts continuously in the same registered name until 4 May 2015. This means that the Final Instalment payable by such New Zealand Applicants will be no more than \$0.60 per Share. Information about how the Final Price will be determined is set out under the heading

“Determination of the Final Price” in *7.1 Details of the Offer*. It is expected that the Final Price will be announced on 23 October 2013, including under Meridian's NZX stockcode 'MEL'.

Upon payment of the Final Instalment in the manner set out below, holders of Instalment Receipts will receive the Shares represented by their Instalment Receipts. Each Share gives the holder a right to:

- attend and vote at a meeting of Shareholders, including the right to cast one vote per Share on a poll on any resolution, such as a resolution to:
 - appoint or remove a director;
 - adopt, revoke or alter the Constitution;
 - approve a major transaction (as that term is defined in the Companies Act);
 - approve the amalgamation of the Company under section 221 of the Companies Act; or
 - place the Company in liquidation;
- receive an equal share in any distribution, including dividends, if any, authorised by the board and declared and paid by the Company in respect of that Share;
- receive an equal share with other Shareholders in the distribution of surplus assets in any liquidation of the Company;
- be sent certain information, including notices of meeting and company reports sent to Shareholders generally; and
- exercise the other rights conferred upon a Shareholder by the Companies Act and the Constitution.

A Shareholder's ability to exercise these rights is subject to restrictions contained in the Constitution, the NZX Main Board Listing Rules and the ASX Listing Rules.

Successful Applicants will be issued with Instalment Receipts, with each Instalment Receipt representing one Share. The Terms of the Instalment Receipts are set out in *7.2 Description of Instalment Receipts and Trust Deed*.

2. Name and Address of Offeror

The Crown is the offeror of the Shares and the Instalment Receipts. The Crown's address in New Zealand is set out in the Directory.

The net amount of consideration received by Meridian in respect of its existing ordinary shares was \$1.6 billion. Meridian will not receive any consideration for the allotment of Instalment Receipts or Shares to be offered under this Offer.

3. Details of Incorporation of Issuer

Meridian was incorporated in New Zealand on 16 December 1998 under the Companies Act. Meridian's registration number is 938552. You can inspect the public file relating to Meridian maintained by the Companies Office of the Ministry of Business, Innovation and Employment on its website at www.business.govt.nz/companies.

4. Principal Subsidiaries of Issuer

Not applicable.

5. Names, Addresses and Other Information

DIRECTORATE

The directors of Meridian, and the city, town or district in which their principal residence is based as at the date of this Offer Document are:

Christopher John David Moller (Eastbourne), John Herbert Bongard (Auckland), Mark Cooper Cairns (Tauranga), Janice Amelia Dawson (Auckland), Mary Monica Devine (Christchurch), Sally Marie Farrier (Melbourne), Anake Angus Murray Goodall (Christchurch), Stephen Reindler (Auckland) and Peter David Wilson (Otaki).

You can contact the directors at the registered office of Meridian as set out in the Directory.

None of the directors is an employee of Meridian or of an associated person of Meridian.

PROMOTER

Under the Securities Act, the Crown is a 'promoter' of the Offer. The contact address of the Crown is set out in the Directory.

SECRETARY

The Company Secretary of Meridian is Jason Stein.

TRUSTEE

The trustee in respect of the Instalment Receipts is The New Zealand Guardian Trust Company Limited or, for Australian resident holders of Instalment Receipts only, The Trust Company (Australia) Limited.

The Australian Trustee and the New Zealand Trustee are each wholly owned by The Trust Company Limited, an Australian public company listed on the ASX. The Trust Company Limited is currently subject to a number of proposed change of control transactions which have been publicly announced on the ASX. Although a successful transaction may result in a change of control of the holding company of the Australian Trustee and the New Zealand Trustee, it is not expected that this will affect the ability of the Australian Trustee or the New Zealand Trustee to perform their respective obligations under the Australian Trust Deed or the New Zealand Trust Deed.

REGISTRAR

The registrar of the Instalment Receipts and the Shares is Computershare Investor Services Limited. The contact address of the Registrar is set out in the Directory.

AUDITOR

Pursuant to the Public Audit Act 2001, the auditor of Meridian must be the New Zealand Controller and Auditor-General. The New Zealand Controller and Auditor-General has appointed Michael Wilkes of Deloitte to perform the audit on her behalf. The contact address of the Auditor is set out in the Directory.

ADVISERS

The names and addresses of the solicitors and other professional advisers who have been involved in the preparation of this Offer Document are set out in the Directory.

EXPERTS

Deloitte, Chartered Accountants, gave its consent and has not withdrawn its consent before delivery of this Offer Document for registration under section 41 of the Securities Act to the distribution of this Offer Document with the inclusion of the Investigating Accountant's Report in this Offer Document in the form and context in which it is included. The registered address of Deloitte is set out in the Directory.

Beca Carter Hollings & Ferner Limited, Consulting Engineers, gave its consent and has not withdrawn its consent before delivery of this Offer Document for registration under section 41 of the Securities Act to the distribution of this Offer Document with the inclusion of the Independent Engineer's Report in this Offer Document in the form and context in which it is included. The registered address of Beca Carter Hollings & Ferner Limited is Ground Floor, Beca House, 21 Pitt Street, Auckland 1010, New Zealand.

Neither Deloitte nor Beca Carter Hollings & Ferner Limited is or intends to be a director, officer or employee of either of Meridian or the Crown. However, both Deloitte and Beca Carter Hollings & Ferner Limited have provided, and may in the future provide, professional advisory services to Meridian.

6. Restrictions on Directors' Powers

The Constitution incorporates by reference the requirements of the NZX Main Board Listing Rules and the ASX Listing Rules, and requires Meridian to comply with the NZX Main Board Listing Rules and the ASX Listing Rules for so long as the Instalment Receipts or the Shares are quoted on the NZX Main Board and the ASX respectively. The principal restrictions on the powers of the board imposed by the Constitution (including the requirements of the NZX Main Board Listing Rules and the ASX Listing Rules incorporated into the Constitution), the NZX Main Board Listing Rules and the ASX Listing Rules (which will apply once the Instalment Receipts or the Shares are quoted on the NZX Main Board and the ASX) are as follows:

- the board may not issue or acquire any equity securities of the Company except in accordance with the provisions of the Companies Act, the Constitution, the NZX Main Board Listing Rules and the ASX Listing Rules;
- the board may not act in a manner that contravenes Part 5A of the Public Finance Act;
- the board may not give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by Meridian, except in limited circumstances and in accordance with the provisions of the Companies Act, the Constitution, the NZX Main Board Listing Rules and the ASX Listing Rules;
- the board may not cause Meridian to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Meridian which would change the essential nature of the business of Meridian, or in respect of which the gross value is in excess of 50% of the average market capitalisation of Meridian, without the prior approval of Shareholders in accordance with the Constitution, the NZX Main Board Listing Rules and the ASX Listing Rules; and
- subject to the waiver granted by NZX in relation to transactions with Transpower (as described below under the heading "Other Material Matters") the board may not allow Meridian to enter into certain material transactions with related parties, a subsidiary, certain substantial holders of Shares, or any associates of any of those persons, if those persons or their associates are, or are likely to be become, a direct or indirect party to the material transaction without the prior approval of Shareholders in accordance with the Constitution, the NZX Main Board Listing Rules and the ASX Listing Rules.

In addition, a director may not vote on any matter in which he or she is interested unless the matter is one in respect of which directors are required under the Companies Act to sign a certificate or which relates to the grant of an indemnity for a director or employee.

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the board. For example, directors cannot allow Meridian to:

- enter into any major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolution of Shareholders; or
- take any action which affects the rights attaching to the Shares without the prior approval of a special resolution of each interest group (being a group of Shareholders with similar or identical rights).

These provisions apply to any company registered under the Companies Act.

7. Substantial Equity Security Holders of Issuer

The Crown holds its Shares by and through the Shareholding Ministers. The Shareholding Ministers hold Shares for and on behalf of the Crown, which is the beneficial owner of the Shares.

The following table sets out the only registered holdings of equity securities of Meridian as at the date of this Offer Document, together with the nature of the relevant interest held by them and the consideration and other terms and conditions of the transactions under which they acquired their Shares:

SHAREHOLDER AND NATURE OF RELEVANT INTEREST	NUMBER OF SHARES (%)	CONSIDERATION AND OTHER TERMS
Minister for State-Owned Enterprises (Registered holder)	1,281,500,000 (50%)	800,000,001 Shares were issued in two tranches for a total cash consideration of \$800,000,001. The Company also made a taxable bonus issue of 481,499,999 Shares.
Minister of Finance (Registered holder)	1,281,500,000 (50%)	800,000,001 Shares were issued in two tranches for a total cash consideration of \$800,000,001. The Company also made a taxable bonus issue of 481,499,999 Shares.

None of the persons named above guarantees or undertakes any liability in respect of the Shares or the Instalment Receipts.

8. Description of Activities of Issuing Group

The principal activities carried out by Meridian are those involved in operating an electricity company with hydro and wind generation complemented by sales to homes and businesses. You can read a full description of the business of the Group in *4.2 Business Description*.

Meridian's principal assets are its hydro power stations and wind farms, which Meridian uses to generate electricity for sale to its direct customers and the wholesale spot market. Meridian owns these assets. Some of these assets are subject to obligations in favour of other persons that modify or restrict Meridian's ability to deal with them. You can find further details of Meridian's generation assets in *4.2 Business Description*.

9. Summary Financial Statements

Summary financial statements for each of the five consecutive financial years preceding 30 June 2013 are set out in *6.6 Summary Historical Financial Information*.

10. Prospects and Forecasts

4.2 Business Description describes generally the Group, together with material information relevant to its trading prospects. The Group's trading prospects are described more particularly in *6.5 Prospective Financial Information*.

Special trade factors and risks which could materially affect the prospects of Meridian and which are not likely to be known or anticipated by the general public are set out in *5 What are the Risks?*

11. Provisions relating to Initial Placements and Minimum Subscription

DIRECTORS' PLANS

The plans of the directors in respect of the Group during the 12 month period commencing on the date of this Offer Document are to continue to implement its strategy as described under the heading "Overview and Strategy" in *4.2 Business Description*.

The sources of finance required for these plans will be Meridian's operating cash flow, supplemented by borrowings and the issuance of debt securities.

USE OF PROCEEDS

The Company will not receive any proceeds of the Offer. Accordingly, the proceeds of the Offer will not be applied towards the directors' plans set out above.

The Government intends to use the proceeds of the Offer to provide funding for its Future Investment Fund. The Future Investment Fund will be used to invest in capital projects that the Government believes will help grow the economy and improve public services, including schools, hospitals and broadband internet infrastructure. Using the proceeds in this way will reduce pressure on the Government to borrow to fund those projects.

PROSPECTIVE STATEMENT OF FINANCIAL POSITION, FINANCIAL PERFORMANCE AND CASH FLOWS

A prospective statement of financial position (balance sheet), a prospective statement of financial performance (income statements) and a prospective statement of cash flows for the accounting periods ending 30 June 2014 and 30 June 2015 are set out in 6.5 *Prospective Financial Information*.

MINIMUM AMOUNT

All of the Offer proceeds are payable to the Crown. Accordingly there is no amount that must be raised by the issue of the Shares for the purposes of section 37(2) of the Securities Act.

12. Acquisition of Business or Subsidiary

Not applicable.

13. Securities Paid Up Otherwise than in Cash

Not applicable.

14. Options to Subscribe for Securities of Issuing Group

Not applicable.

15. Appointment and Removal of Directors

Meridian is or will be party to a listing agreement with NZX (a registered exchange) and the manner in which directors of Meridian may be appointed to or removed from, or otherwise vacate, office include methods the same as those contained in the NZX Main Board Listing Rules and other methods not materially different from the relevant director appointment and removal provisions of the Companies Act. Directors can be appointed by the Shareholders in a general meeting, or by the board to fill a casual vacancy or as an addition to the existing directors.

Each director has the power to appoint any person as an alternate director, who may be any person not disqualified under the Companies Act from holding the position of a director of a company other than another director of the Company and who is approved by a majority of the other directors.

In addition, the Minister of Finance must approve the appointment of the Chairperson nominated by the board.

16. Interested Persons

For the purposes of the information set out under this heading, 'specified person' means:

- a director or proposed director of Meridian, or an associated person of any of them; and
- the Crown, the Shareholding Ministers (as holders of the Shares at the time of the Offer) or an associated person of any of them.

No specified person will be entitled to any remuneration from the Group other than by way of directors' fees and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a director. There is no dollar limit on the expenses that the directors are entitled to recover from Meridian.

The table below sets out details of any shareholdings in Meridian that specified persons have, or have had, at any time during the five years preceding the date of this Offer Document.

SPECIFIED PERSON	NUMBER OF SHARES HELD⁷⁹
Minister for State-Owned Enterprises	1,281,500,000
Minister of Finance	1,281,500,000

The Ministers hold their Shares on behalf of the Crown, and accordingly the Crown has a material interest in Meridian through the Shares held by the Ministers.

Genesis Energy, Mighty River Power and Transpower are associated persons of the Crown.

MINISTERIAL REVIEW TRANSACTIONS

The Government's electricity industry reforms (under the Electricity Industry Act 2010) required Meridian to enter into a number of agreements with Genesis Energy and Mighty River Power, including the following agreements:

Virtual Asset Swaps

Meridian has entered into virtual asset swaps (long-term financial hedge instruments) with Genesis Energy and Mighty River Power. The virtual asset swaps are described under the heading "Significant Electricity Contracts" in 4.2 *Business Description*.

Tekapo Sale Transactions

The Tekapo sale transactions involved the sale by Meridian to Genesis Energy of the Tekapo A and Tekapo B power stations. Meridian and Genesis Energy entered into a sale and purchase agreement, agreements relating to the provision of transitional and operational services, a water management agreement, and lead in and long term hedges.

⁷⁹ The number of Shares held includes the 481,499,999 Shares which were issued to each of the Minister for State-Owned Enterprises and the Minister of Finance on 19 September 2013. This was the only issue of Shares by the Company in the last five years.

The water management agreement is in place to 2025 and relates to the exercise of water rights held by both Meridian and Genesis Energy in relation to the generating stations on the Waitaki system. This agreement is described under the heading “Waitaki Hydro Scheme” in *4.2 Business Description*.

The lead in and long term hedges are described under the heading “Significant Electricity Contracts” in *4.2 Business Description*.

Genesis Swaption and Tekapo Canal Contract

Meridian and Genesis Energy have entered into the Genesis swaption and the Tekapo Canal contract, each of which is described under the heading “Significant Electricity Contracts” in *4.2 Business Description*.

DEFAULT TRANSMISSION AGREEMENT

Under the Electricity Industry Participation Code, a default transmission agreement (also known as the benchmark agreement) applies as a binding contract between Meridian and Transpower. This agreement sets out the terms for connection to Transpower’s grid from Meridian’s hydro assets. It provides for grid charges payable by Meridian to Transpower in accordance with a transmission pricing methodology set out in the Code. Meridian may terminate any point of connection on six months’ notice, and Transpower may de-energise any point of connection in certain circumstances, including if Meridian does not comply with its obligations. Meridian and Transpower have facilities deeds and services agreements for each of Meridian’s hydro assets. These deeds and agreements set out the rights and obligations for each party to services and access rights to sites.

Meridian and Transpower have entered into separate connection agreements for Te Āpiti and West Wind wind farms with similar terms and conditions as the standard benchmark agreement.

ANCILLARY SERVICE PROCUREMENT CONTRACTS

Meridian provides ancillary services to Transpower pursuant to terms set out in schedules to ancillary service procurement contracts entered into between the parties. Meridian (as ‘ancillary service agent’) provides frequency keeping and instantaneous reserve services to Transpower (as System Operator) under the parties’ 2009 contract, and Meridian provides over frequency reserve and black start services under the parties’ 2010 contract.

Each of the contracts described above is material to either or both of the associated person and Meridian.

Except as set out above, no specified person has, or has had at any time during the five years preceding the date of this Offer Document, any direct or indirect material interest in Meridian or any of its subsidiaries, or in any contract or arrangement entered into on behalf of or in respect of Meridian or any of its subsidiaries, that is material to either or both of the person who has the interest and Meridian or any of its subsidiaries.

17. Material Contracts

Meridian has entered into the following material contracts in the past two years:

COMPANY INDEMNITY

On 19 September 2013 the Crown and the Company entered into a deed of indemnity (the Company Indemnity) under which the parties provide certain warranties to each other and the Crown is required to indemnify the Company in respect of certain liabilities which the Company may incur as a result of any claim or proceedings brought or threatened against the Company in respect of the Offer. The Company Indemnity applies only to the extent that any such liability is not covered by insurance effected by the Company in respect of its potential liability under or in relation to any such claim or proceedings. The Crown’s and the Company’s obligations under the Company Indemnity are subject to certain exclusions and limitations (for example, the indemnity does not apply in respect of criminal liability or liability resulting from wilful misconduct, malice, fraud or recklessness on the part of the Company).

OFFER MANAGEMENT AGREEMENT

On 19 September 2013, Meridian, the Crown and the Joint Lead Managers entered into the Offer Management Agreement, which sets out the obligations of the Joint Lead Managers in relation to the operation of the bookbuild and the provision of settlement support in certain circumstances described below.

The Joint Lead Managers will be obliged, subject to various terms and conditions, to provide settlement support in respect of Applications under the Institutional Offer (excluding in respect of Broker Sponsored Bids). If Institutional Investors default in payment of the First Instalment for Instalment Receipts allocated to that Institutional Investor (excluding in respect of Broker Sponsored Bids), the Crown, at its discretion, may either require the Joint Lead Managers to purchase some or all of the relevant Instalment Receipts at the First Instalment price (and those Instalment Receipts may then be on-sold by the Joint Lead Managers) or retain some or all of those Instalment Receipts and not issue or sell them under the Offer. The Offer is not underwritten other than such settlement support in respect of applications under the Institutional Offer.

The Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations in respect of the Institutional Offer in certain circumstances, including where, on or before settlement of the Institutional Offer (which is expected to occur on 30 October 2013):

- the Offer is withdrawn by the Crown;
- the Trustee is prevented from issuing the Instalment Receipts or the Crown is prevented from transferring the Shares to the Trustee by any applicable laws or as a result of an order of a Court or the actions or order of a regulatory authority;
- any information or statement in this Offer Document is or becomes untrue, inaccurate, misleading or deceptive in any material respect or a material matter is omitted;

- any of the following occurs and, in the reasonable opinion of the Joint Lead Managers, is likely to have a material adverse effect on certain specified matters, including Institutional Investors' ability to comply with their settlement obligations or the Joint Lead Managers' ability to perform their functions:
 - a material adverse change in the Group;
 - particular disruptions in certain major financial markets;
 - a representation or warranty contained in the Offer Management Agreement on the part of Meridian or the Crown is not true or correct; or
 - a breach of any material obligations under the Offer Management Agreement on the part of Meridian or the Crown.

The obligations of the Joint Lead Managers under the Offer Management Agreement are subject to certain conditions. These conditions include:

- receipt by the Joint Lead Managers of various legal and accounting reports, opinions, comfort letters and other sign-offs;
- registration of this Offer Document; and
- all necessary regulatory rulings, exemptions and waivers being granted.

If the conditions of the Offer Management Agreement are not satisfied (or waived, if capable of waiver), the Joint Lead Managers would not be obliged to perform their obligations under the Offer Management Agreement (including their settlement support obligations in respect of Applications under the Institutional Offer). That may not necessarily mean that the Crown would withdraw the Offer or that the Offer would not proceed.

Pursuant to the Offer Management Agreement, the Crown has granted an indemnity to the Joint Lead Managers in relation to losses resulting from a breach by the Crown or the Company of, or a failure by the Crown or the Company to perform or observe their respective obligations under the Offer Management Agreement or any unlawful, negligent, reckless or deliberately wrongful act or omission by the Crown or the Company in relation to the Offer. The Crown has also granted an indemnity to the Joint Lead Managers in relation to losses suffered in connection with the offer and sale of Instalment Receipts and Shares to Institutional Investors located in the United States as a result of the International Offering Memorandum containing an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements in the International Offering Memorandum not misleading.

The Offer Management Agreement also sets out a number of representations, warranties and undertakings given by Meridian and the Crown to the Joint Lead Managers, and by the Joint Lead Managers to the Crown and Meridian customary for an offering of this nature.

The Company has agreed that, subject to certain exceptions, during the lock-up period from the date of the Offer Management Agreement until the expiration of 90 days after settlement of the Institutional Offer, it will not, without the prior written consent of the Joint Lead Managers (not to be unreasonably withheld), allot or issue, issue or grant any right or option in respect of an issue of, create any debt obligation which may be convertible or exchangeable into or redeemable by, or otherwise enter into an agreement entitling a person to the allotment and issue of, in each case, Shares or other equity securities of the Company.

The Crown has agreed that it will not, during the lock-up period from the date of the Offer Management Agreement until the expiration of 90 days after settlement of the Institutional Offer, without the prior written consent of the Joint Lead Managers (not to be unreasonably withheld), sell or accept offers for any Shares held by the Crown in excess of the minimum holding requirement under the Public Finance Act, other than in relation to resolving any disputed applications under the Retail Offer.

DEED OF RELINQUISHMENT

On 25 March 2013 the Crown and the Company entered into a deed of relinquishment under which historical indemnities in relation to water and land resumption (the ECNZ Indemnities) given to the Company by the Crown were relinquished. The Company had been entitled to the benefit of them since the split of ECNZ in 1999. The first of these indemnities provided a right to compensation from the Crown in the event that any tax, royalty, levy or impost was imposed upon Meridian's use of water in respect of its hydro power stations and as a consequence Meridian incurred costs or expenses (which were not reflected in increased prices for energy generally) or was deprived of revenue. The second of these indemnities placed an obligation on the Crown to compensate Meridian for any costs arising from any resumption for use in a Treaty settlement of the land acquired by the Company from ECNZ that were not covered by compensation under the Public Works Act 1981.

CO-ORDINATION AGREEMENT

On 19 September 2013 the Company entered into a co-ordination agreement with the Crown and the Trustees, which is described under the heading "Co-ordination Agreement" in 7.2 *Description of Instalment Receipts and Trust Deed*.

NZAS AGREEMENT

In August 2013, Meridian entered into the following documents with NZAS:

- the Electricity Amendment Agreement dated 7 August 2013 between Meridian and NZAS, amending and restating the Electricity Agreement dated 1 October 2007;
- the Further Amendment to Electricity Agreement dated 7 August 2013 between Meridian and NZAS; and
- the Amendment to Electricity Agreement dated 15 August 2013 between Meridian and NZAS,

which, together, comprise the “NZAS Agreement”;

- the Deed of Guarantee and Indemnity beginning in Period 1 dated 7 August 2013 granted by Sumitomo Chemical Company, Limited (Sumitomo) in favour of Meridian;
- the Deed of Guarantee and Indemnity dated 7 August 2013 granted by Sumitomo in favour of Meridian;
- the Deed of Guarantee and Indemnity dated 7 August 2013 granted by Rio Tinto Alcan (New Zealand) Limited (RTANZ) in favour of Meridian;
- the Deed of Undertaking dated 7 August 2013 granted by Sumitomo and RTANZ in favour of Meridian; and
- the Deed of Guarantee and Indemnity dated 22 August 2013 granted by Meridian in favour of the “Clearing Manager” of the New Zealand electricity market.

The NZAS Agreement is described under the heading “Significant Electricity Contracts” in *4.2 Business Description*. The deeds of guarantee and indemnity granted by Sumitomo and RTANZ in favour of Meridian are also described in that section. The Deed of Undertaking granted by Sumitomo and RTANZ in favour of Meridian limits Meridian’s liability for certain claims made against it under the NZAS Agreement. The Deed of Guarantee and Indemnity granted by Meridian in favour of the Clearing Manager comprises the prudential security provided to the New Zealand electricity market on NZAS’s behalf as described under the heading “Significant Electricity Contracts” in *4.2 Business Description*.

MACARTHUR SHARE PURCHASE AGREEMENT

As described in *4.2 Business Description*, Meridian sold its interests in the Macarthur wind farm to a subsidiary of Malakoff Corporation Berhad, a Malaysian independent power producer, on 28 June 2013. The share purchase agreement dated 28 June 2013 for the Macarthur sale provides for rights and obligations that are usual in Australia for a sale and purchase of shares of a proprietary company. Three River and Meridian Energy Australia each provide representations and warranties to Malakoff Holdings as to their incorporation, existence and ownership of the shares in Meridian Wind. Three River also provides a range of customary representations and warranties to Malakoff Holdings as to the state of affairs of Meridian Wind and its related entities. Other than in limited cases, the warranties given by Three River and Meridian Energy Australia under the share purchase agreement are subject to matters within the actual knowledge of Malakoff Holdings or matters disclosed in the sale process of the Macarthur wind farm or available from public record searches. The share purchase

agreement also contains a range of qualifications and limitations that apply to warranty claims by Malakoff Holdings, including liability caps, thresholds and applicable claim periods. Subject to the applicable qualifications and limitations, Malakoff Holdings may have a contractual right of recovery against Three River or Meridian for losses or damages suffered by it as a result of a breach of warranty given by those parties.

EXEMPTION NOTICE

Pursuant to the Securities Act (Meridian Energy Limited Crown share offer) Exemption Notice 2013, Meridian and the Crown have been granted an exemption in relation to the disclosure of certain commercially sensitive information contained in the NZAS Agreement and the Macarthur Share Purchase Agreement that are filed with the Registrar of Financial Service Providers in accordance with the Securities Regulations.

The following provisions (a statement of the general nature of which is set out below) have been excluded from the copies of the NZAS Agreement and the Macarthur Share Purchase Agreement delivered to the Registrar of Financial Service Providers for registration together with this Offer Document and made available for inspection:

DOCUMENT	PROVISION EXCLUDED	GENERAL NATURE OF EXCLUDED PROVISIONS
NZAS Agreement	Various dollar amounts in clause 5.2	These amounts are used to calculate the CFD payments under the NZAS Agreement.
NZAS Agreement	In the model attached as Annex Two to Schedule A, the hydrological data for the years 1932 to 2006 contained in the sheet titled "Inflows"	Hydrological data for the years 1932 to 2006, which is used as an input to the model applied by Meridian and NZAS in connection with Meridian's right to require the smelter to reduce demand when South Island hydro lake storage is low.
Macarthur Share Purchase Agreement	References to amounts in clause 5.5(b)	These amounts represent the maximum amount that may be recovered from the Meridian vendor subsidiaries in respect of claims against those companies relating to the share sale.
Macarthur Share Purchase Agreement	Dollar amounts specified in clause 5.5(c)	These amounts represent the minimum amount that must be payable before the Meridian vendor subsidiaries are obliged to make payment in respect of claims against those companies relating to the share sale.
Macarthur Share Purchase Agreement	Schedule 7, the Locked Box Balance Sheet	The Locked Box Balance Sheet is a special purpose balance sheet, prepared to assist the parties to determine the consideration payable for the share sale.
Macarthur Share Purchase Agreement	Schedule 7, Facility Details Notice (other than items 1 (Term Facility Limit), 2 (Enterprise Value) and 9 (Equity Amount) in attachment 1)	The Facility Details Notice sets out details of certain funding arrangements relating to the Macarthur wind farm (which the Meridian vendor subsidiaries are no longer party to) and the completion cashflows.

These provisions have been excluded as they contain commercially sensitive information which would result in a commercial detriment to Meridian if that information were publicly disclosed.

Copies of the NZAS Agreement and the Macarthur Share Purchase Agreement (without the excluded provisions) may be inspected during the currency of this Offer Document on request and without any fee by any person on the Companies Office website at www.business.govt.nz/companies or at Meridian's registered office as set out in the Directory, during normal business hours of 9.00am to 5.00pm on a working day (as defined in the Companies Act).

The directors of Meridian and the Crown are of the opinion that the exclusion of the provisions listed above from the NZAS Agreement and the Macarthur Share Purchase Agreement does not make this Offer Document misleading in any material particular by a failure to refer, or give proper emphasis, to any adverse circumstances.

18. Pending Proceedings

There are no legal proceedings or arbitrations that are pending as at the date of the Offer Document that may have a material adverse effect on Meridian.

19. Preliminary and Issue Expenses

Issue expenses (including brokerage and commission fees, management fees, share registry expenses, legal fees, audit and accounting fees, other professional consulting fees, employee compensation and benefits specifically related to the Offer, advertising costs, printing costs and postage and courier costs) relating to the Offer are estimated to amount to an aggregate of approximately \$41.5 million, assuming the maximum Offer size.

The Crown has entered into a Joint Lead Manager Engagement Agreement with the Joint Lead Managers under which each Joint Lead Manager is entitled to receive a base fee of \$750,000 in consideration for the performance of its services as a joint lead manager of the Offer. In addition, the Joint Lead Managers may each receive up to a further \$750,000 by way of performance fees based on the achievement of certain agreed performance criteria relating to the achievement of agreed demand and value targets.

The Crown has also agreed to pay the following selling commissions and fees:

- the Joint Lead Managers will be paid, jointly, a commission of 0.3% of the aggregate proceeds of all Shares sold under the Institutional Offer to Institutional Investors in New Zealand;
- the Joint Lead Managers will be paid, jointly, a commission of 0.6% of the aggregate proceeds of all Shares sold under the Institutional Offer to Institutional Investors outside New Zealand;
- each NZX Firm and selected trading bank will be paid a fee of 1.25% of the aggregate proceeds of all Shares sold to that NZX Firm or trading bank under the Broker Firm Offer;
- each NZX Firm and selected trading bank will be paid a fee of 0.7% of the aggregate proceeds of all Shares sold under the Institutional Offer to Institutional Investors in New Zealand under Broker Sponsored Bids bearing their stamp;
- each NZX Firm and selected trading bank will be paid a broker stamping fee equal to 1.0% of the aggregate proceeds of all Shares sold under the General Offer under valid Applications bearing their stamp;
- the Joint Lead Managers will be paid, jointly, a fee equal to 0.1% of the aggregate proceeds of all Shares sold under valid Applications made under the Retail Offer (excluding those for which either a broker stamping fee, a broker firm fee or a broker sponsored bid fee (as described above) is payable to any person); and
- the New Zealand Retail Offer Manager will be paid a fee equal to the greater of \$120,000 and 0.034% of the aggregate proceeds of all Shares sold as part of the Retail Offer (excluding those for which either a broker stamping fee, a broker firm fee or a broker sponsored bid fee (as described above) is payable to any person).

To reflect the nature of the instalment receipts structure used for the Offer, each of the selling commissions and fees described directly above will be calculated as at the Allotment Date, based on the aggregate of the First Instalment payments and the net present value of the portion of the proceeds that have been deferred as a result of the instalment receipts structure, using a discount rate of 10% per annum.

20. Restrictions on Issuing Group

Other than the restrictions set out in the Co-ordination Agreement, there are no restrictions on the Group making a distribution or borrowing, being restrictions that result from any undertaking given, or contract or deed entered into, by a member of the Group. The restrictions in the Co-ordination Agreement are described under the heading “Co-ordination Agreement” in 7.2 *Description of Instalment Receipts and Trust Deed*.

Nonetheless, there are a number of contractual restrictions which indirectly affect the Group’s ability to borrow or to make distributions. The principal contractual restrictions are described below.

GLOBAL DEED POLL AND MASTER TRUST DEED

Meridian is party to a global deed poll (Global Deed Poll) which contains financial and other covenants, and guarantees by certain of its subsidiaries. Meridian has extended the benefit of the Global Deed Poll to all of its bank lenders and a number of its bank derivative counterparties. Meridian extends the benefit of the Global Deed Poll to new counterparties by signing an acknowledgement in the form scheduled to the Global Deed Poll. A number of subsidiaries of Meridian have acceded to the Global Deed Poll as guarantors since it was executed in December 2006. The subsidiaries of Meridian which currently are guarantors under the Global Deed Poll are Three River Holdings No. 2 Limited, Three River Holdings No. 1 Limited, Meridian Energy Australia Pty Limited, Meridian Energy Markets Pty Limited, MEL Meridian Australia Partnership, Meridian Finco Pty Limited, Meridian Wind Monaro Range Holdings Pty Limited, Meridian Wind Monaro Range Pty Limited, Mt Millar Wind Farm Pty Limited, Meridian Australia Holdings Pty Limited, Meridian Wind Australia Holdings Pty Limited and Mt Mercer Windfarm Pty Limited.

Meridian has also entered into a master trust deed (Master Trust Deed) with Trustees Executors Limited establishing a debt security programme under which it may from time to time issue securities denominated in New Zealand dollars. The Master Trust Deed contains certain financial and other covenants, and each series of debt securities issued by the Company under the Master Trust Deed is guaranteed by certain subsidiaries of Meridian. The subsidiaries of Meridian which currently are guarantors under the Master Trust Deed are the same as the guarantors listed above in respect of the Global Deed Poll.

Under both the Global Deed Poll and the Master Trust Deed:

- at all times total tangible assets of the Guaranteeing Group (being Meridian and its guaranteeing subsidiaries) must not be less than 80% of total tangible assets of the Group;

- at all times equity of the Group must not be less than \$1,250,000,000;
- at all times debt of the Group must not be more than 55% of debt plus equity of the Group;
- on the last day of each semi-annual and annual reporting period of the Company ('testing date') the ratio of earnings before interest, tax, depreciation and amortisation (EBITDA) of the Group to interest and financing costs of the Group, in each case, for any two of the three consecutive twelve month periods ending on a semi-annual or annual reporting period of the Company on or prior to such testing date must not be less than 2.5 to 1.0; and
- no member of the Guaranteeing Group may create or permit to arise or subsist any security interest whatsoever over the whole or any part of its assets as security for any indebtedness for borrowed money unless:
 - it is a permitted security interest of the type specified in the Master Trust Deed or the Global Deed Poll (as applicable); or
 - the aggregate principal amount of the indebtedness for borrowed money so secured by all such security interests (excluding permitted security interests) does not exceed 7.5% of the total assets of the Group; or
 - there is created at the same time as, or prior to the creation of, that security interest, the same or an equivalent security interest for all the indebtedness of the members of the Guaranteeing Group under the Master Trust Deed and the documents which have the benefit of the Global Deed Poll.

US NOTE PURCHASE AGREEMENT

The Company has entered into a US Note Purchase Agreement, under which the Company has issued four tranches of senior guaranteed notes to institutional investors in the United States on 29 April 2004 with an aggregate principal amount of US\$400,000,000. The first tranche of US Notes matured in 2012 and the remaining US Notes have an aggregate principal amount of US\$330,000,000 with maturity dates ranging from 2014 to 2019. The notes are guaranteed by certain of the Company's subsidiaries. The US Note Purchase Agreement contains the contractual restrictions set out below which could affect the ability of the Group to borrow or make distributions:

- the Company will not, at any time, permit the ratio of consolidated net indebtedness of the Group to consolidated net capitalization of the Group to exceed 0.60 to 1.00;
- the Company will not, as at the last day of each semi-annual and annual fiscal period of the Company ('USNPA testing date'), permit the ratio of consolidated EBITDA of the Group to interest and financing costs of the Group, in each case, for any two of the three twelve month periods ending on the last day of any semi-annual or annual fiscal period of the Company on or prior to such USNPA testing date, to be less than 2.75 to 1.00;
- the Company will not, at any time, permit priority indebtedness of the Group to exceed 20% of consolidated equity of the Group; and
- the Company has agreed that it will not, and will not permit any of its subsidiary guarantors to, create any security interest

over their respective assets in favour of any person, with the exception of a number of permitted security interests similar to those permitted under the Global Deed Poll and the Master Trust Deed referred to above, unless the liabilities under the US Notes are equally and rateably secured with such security interest. In addition, the Company has agreed that if it or any of its subsidiary guarantors creates, assumes, incurs or permits to exist any security interest over their respective assets securing any financial indebtedness of more than \$50,000,000 under one or more credit facilities entered into with two or more banks or other financial institutions, then the indebtedness under the US Notes must be equally and rateably secured with such other security interest.

OTHER RESTRICTIONS

The Group is subject to a number of other contractual restrictions in its borrowing documentation which relate to, amongst other things, restrictions on asset sales and other dispositions, restrictions on changes in the nature of its business or operations, related party dealing restrictions, restrictions on giving financial assistance, restrictions on amalgamations and other general business covenants.

The Company is in any event subject to general company law restrictions (such as satisfaction of the solvency test under the Companies Act) in relation to the payment of dividends, which operate as fetters on the ability to make distributions.

21. Other Terms of Offer and Securities

All terms of the Offer, and all terms of the Instalment Receipts and the Shares, are set out in this Offer Document, other than any terms implied by law or any terms set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Offer Document.

22-23. Financial Statements

By virtue of the Securities Act (Meridian Energy Limited Crown share offer) Exemption Notice 2013, subject to certain conditions set out in that exemption, Meridian and the Crown are exempt from the requirement to include in or provide with this Offer Document, Meridian's full financial statements for the year ended 30 June 2013.

Meridian's audited financial statements for the 12 month accounting period to 30 June 2013 were filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment on 29 August 2013.

24. Additional Interim Financial Statements

Not applicable.

25. Places of Inspection of Documents

You may inspect (without charge) during the period of the Offer, during normal business hours, the Constitution, copies of the material contracts referred to above under the heading “Material Contracts” and copies of the financial statements referred to under the heading “Financial Statements” above, at the registered office of the Company at 33 Customhouse Quay, Wellington. You may also inspect copies of those documents on the Companies Office website at www.business.govt.nz/companies.

26. Other Material Matters

DIRECTOR INDEMNITY

On 19 September 2013 the Crown and each of the directors of the Company entered into substantively identical deeds of indemnity (each a Director Indemnity). The Director Indemnity requires the Crown to indemnify each director in respect of liabilities which the director may incur as a result of any claim or proceedings brought or threatened against the director in respect of the Offer. These include costs incurred in the defence of criminal proceedings where the director is found guilty, if the relevant director acted honestly and in good faith and did not know, and was not reckless as to whether, the relevant act would result in criminal liability, or if the Company or the director acted with the express consent or concurrence of the Crown. The Director Indemnity applies only to the extent that any such liability is not covered by insurance effected by the Company, or by an indemnity granted by the Company in favour of the director, in respect of the director’s potential liability under or in relation to any such claim or proceedings. The Crown’s obligations under the Director Indemnity are subject to certain exclusions and limitations (for example, the indemnity does not apply in respect of liability resulting from wilful misconduct, malice, fraud or recklessness on the part of the director).

By virtue of the Securities Act (Meridian Energy Limited Crown share offer) Exemption Notice 2013, the Crown has been exempted from the prohibition on issuers indemnifying directors set out in section 61 of the Securities Act.

EXEMPTIONS RELATING TO SUPPLEMENTARY DISCLOSURE

By virtue of the Securities Act (Meridian Energy Limited Crown share offer) Exemption Notice 2013, the Crown and Meridian have been exempted from section 37A(1)(b) of the Securities Act and Regulation 21 of the Securities Regulations. This exemption enables the Crown and Meridian to produce and publicise a supplementary disclosure document so that potential investors in Meridian can be informed of any significant adverse developments that may arise without the Crown and Meridian incurring costs or delay in producing new offer documents and distributing them to Applicants and potential investors. The exemption is limited to significant adverse developments that occur prior to the commencement of the bookbuild

process. The conditions of the exemption require, amongst other things, that (i) the Crown and Meridian alert potential investors to the publication of the supplementary disclosure; and (ii) any Applicant whose Application is dated on or before the publication of the supplementary disclosure and received by 5.00pm on the Closing Date is given the right to withdraw their Application within seven days after the publication of the advertisements in newspapers advising investors of the significant adverse developments and have their Application monies (excluding interest) refunded.

Investors will not be contacted or notified personally of any supplementary disclosure made pursuant to this exemption.

Meridian and the Crown are further exempted from section 34(1)(b) of the Securities Act to the extent that this Offer Document is distributed after the significant adverse development has occurred but before the supplementary disclosure has been published alerting investors about the significant adverse development.

EXEMPTIONS RELATING TO INSTALMENT RECEIPTS

By virtue of the Securities Act (Meridian Energy Limited Crown share offer) Exemption Notice 2013, the Crown and the Company have been exempted from sections 37A(1)(a), 37A(1)(b) and 37A(1)(c) of the Securities Act in respect of the transfer of Shares to Instalment Receipt holders on payment of the Final Instalment. The exemption was granted on the conditions that the Instalment Receipts are listed on NZX until the Shares are listed on NZX, that the Offer Document include certain material information in relation to the offer of the Instalment Receipts, and that each Trustee hold the Shares transferred to it on the terms of the applicable Trust Deed for the benefit of the holders of Instalment Receipts subject to a security interest in favour of the Crown securing payment of the Final Instalment, and only dispose of them in accordance with the terms of the applicable Trust Deed.

Meridian and the Crown are also exempted from any requirement under section 36A of the Securities Act that the Crown hold the First Instalment in trust for subscribers until the Final Instalment is paid and Shares are allotted to holders of Instalment Receipts. The exemption was granted on the condition that subscriptions received by or on behalf of the Crown on account of the First Instalment under the Offer are held in trust for the subscriber until the Shares are transferred to the relevant Trustee, the Instalment Receipts corresponding to those Shares are allocated to the subscriber and any refund to which the subscriber is entitled is paid to the subscriber.

NZX MAIN BOARD LISTING RULE WAIVERS AND APPROVAL

NZX has approved the Constitution under Rule 6.1.2(a).

NZX has granted a waiver in respect of the requirement in Rule 7.9.1 of the NZX Main Board Listing Rules that the Crown and the Company enter into a security agreement with NZX setting out the restrictions on the disposal of Shares by the Crown.

NZX has granted a waiver in respect of the prohibition in Rule 11.1.6 of the NZX Main Board Listing Rules on the cancellation or variation of a benefit or right attaching to an Instalment Receipt or a Share by reason only of a transfer of that Instalment Receipt or Share. The effect of this waiver is to permit the suspension of voting and dividend rights under the Constitution if a person other than the Crown has a relevant interest (including by holding Instalment Receipts conferring a relevant interest in the underlying Shares) in more than 10% of the Shares.

In relation to the inclusion in the Trust Deeds and the Constitution of provisions giving effect to Part 5A of the Public Finance Act and the Crown's powers of cancellation, NZX has granted waivers of Rules 11.1.1 and 11.1.3 of the NZX Main Board Listing Rules allowing the inclusion of those provisions in the Trust Deeds and has approved, under Rule 11.1.5 of the NZX Main Board Listing Rules, the inclusion of those provisions in the Constitution. Part 5A of the Public Finance Act provides, amongst other things, that the Crown must hold at least 51% of the Shares and that no person other than the Crown may have a relevant interest (including by holding Instalment Receipts conferring a relevant interest in the underlying Shares) in more than 10% of the Shares. These provisions of the Constitution are discussed in more detail under the heading "Shareholding Restrictions" in 4.4 *Relationship between Meridian and the Crown*.

As a condition of these waivers and approvals the Company will bear a 'non-standard' designation on the NZX Main Board.

NZX has also granted a waiver of Rule 9.2.1, permitting the Company to enter into transmission agreements with Transpower which constitute material transactions with a related party without obtaining shareholder approval where those agreements are entered into in order to comply with the Electricity Industry Participation Code and the amounts payable under those agreements are determined in accordance with the transmission pricing methodology and regulated under the Electricity Industry Participation Code and Part 4 of the Commerce Act 1986 (subject to certain conditions).

ASX LISTING RULE WAIVERS AND CONFIRMATIONS

ASX has made an in principle decision to grant certain waivers and confirmations in respect of the ASX Listing Rules of a similar nature to those granted by NZX to allow the Constitution to contain provisions reflecting the ownership restrictions imposed by the Public Finance Act and to allow the Crown to cancel the sale of Instalment Receipts or Shares to Applicants who acquire Instalment Receipts or Shares under the Retail Offer and are not New Zealand Applicants.

The key waivers and confirmations to be granted in that regard include:

- waivers and confirmations under certain ASX Listing Rules to permit the Constitution to contain provisions allowing the Crown and the Company to enforce the 10% Limit; and
- waivers and confirmations under certain ASX Listing Rules to permit the Constitution to contain provisions enabling

the Company to prevent holders or Shareholders who acquired Instalment Receipts or, following payment of the Final Instalment, Shares under the Retail Offer and are not New Zealand Applicants from transferring those Instalment Receipts or Shares and to enable the Company to sell those Instalment Receipts or Shares.

ASX has also made an in principle decision to grant waivers and confirmations from the ASX Listing Rules that:

- are customary for the quotation of the Instalment Receipts, including a confirmation that the Instalment Receipts will be treated as the main class of securities of Meridian, but only up until the time at which the Final Instalment is required to be paid; and
- are customary for a New Zealand company listed on both the NZX Main Board and the ASX.

ASX has also made an in principle decision that the New Zealand Trustee would be required to enter into a quotation application and agreement with ASX for its role as issuer of the Instalment Receipts.

ASIC RELIEF

ASIC has granted a declaration that the Offer is a recognised offer within the meaning of subsection 1200B(1) of the Corporations Act notwithstanding that the Crown and the New Zealand Trustee may not give the notice and lodge the documents referred to in section 1200C(5) of the Corporations Act 14 days before the Offer is made in Australia, and to allow the Crown and the New Zealand Trustee to satisfy the requirements of section 1200C(5) of the Corporations Act 7 days before the Offer is first made in Australia to align with the requirements in New Zealand.

There are no other material matters relating to the Offer, other than those set out in this Offer Document, the financial statements or in contracts entered into in the ordinary course of business of a member of the Group.

27. Directors' Statement

The directors of Meridian, after due enquiry by them, are of the opinion that none of the following have materially and adversely changed during the period between 30 June 2013 and the date of registration of this Offer Document:

- the trading or profitability of the Group;
- the value of the Group's assets; or
- the ability of the Group to pay its liabilities due within the next 12 months.

28. Auditor's Report

The Auditor's report required by clause 28 of Schedule 1 to the Securities Regulations is set out in *6.8 Statutory Auditor's Report*. The financial statements required by clause 28 of Schedule 1 to the Securities Regulations have been audited by Deloitte on behalf of the New Zealand Controller and Auditor-General. Deloitte is registered under the Auditor Regulation Act 2011 with registration number AUD187. There are no restrictions or limitations on Deloitte's registration.

29. Signatures Required under the Securities Act

A copy of this Offer Document has been signed by each director of Meridian (or his or her agent authorised in writing), and for and on behalf of Her Majesty the Queen in Right of New Zealand by Her Minister of Finance and Her Minister for State-Owned Enterprises.

7.3 Offer Details
Statutory Information

Signed for and on behalf of **Her Majesty the Queen in Right of New Zealand** by **Her Minister of Finance** and **Her Minister for State-Owned Enterprises**:



Hon Simon William English
Minister of Finance



Hon Anthony Boyd Williams Ryall
Minister for State-Owned Enterprises

Signed by each director of **Meridian Energy Limited**:



Christopher John David Moller



Sally Marie Farrier



John Herbert Bongard



Anake Angus Murray Goodall



Mark Cooper Cairns



Stephen Reindler



Janice Amelia Dawson



Peter David Wilson



Mary Monica Devine

New Zealand Taxation Implications

In this section, 'you' refers to the person who acquires the Instalment Receipts or Shares.

Tax will affect your return from the Instalment Receipts or Shares.

The following comments are of a general nature. They are based on the law at the date of this Offer Document and do not deal with your specific circumstances.

You should seek your own tax advice in relation to your Instalment Receipts or Shares.

The IRD has issued Product Ruling 13/11 (the IRD Ruling) and Special Determination S24 (the Determination) which confirm the tax treatment of certain aspects of the Instalment Receipts issued pursuant to the Retail Offer and the Institutional Offer, to the extent that the Shares to which those Instalment Receipts relate are held by the New Zealand Trustee. The comments below in relation to the confirmations provided by the IRD Ruling and Determination will apply to you if your Instalment Receipts were issued pursuant to the Retail Offer or the Institutional Offer, to the extent that the Shares to which those Instalment Receipts relate are held by the New Zealand Trustee.

Are you Tax Resident in New Zealand?

Your tax residence status will affect how New Zealand taxes apply to your return on the Instalment Receipts or Shares. If you are a natural person and you:

- have a permanent place of abode in New Zealand; and/or
- have been present in New Zealand for more than 183 days in a 12 month period, and not subsequently absent from New Zealand for more than 325 days in a 12 month period,

you will be a New Zealand tax resident.

A company is tax resident in New Zealand if it is incorporated in New Zealand, has its head office or centre of management in New Zealand, or if its directors exercise control of the company in New Zealand.

Generally Instalment Receipts or Shares held by a trust will be treated as held by a New Zealand tax resident if a New Zealand tax resident has contributed to the trust.

If you are a New Zealand tax resident and are also tax resident in another country, the following summary applying to New Zealand tax residents may not apply to you, and you should seek your own tax advice.

Meridian will assume you are a New Zealand tax resident unless you notify Meridian otherwise.

New Zealand Tax Implications for New Zealand Tax Residents

The following is a summary of the New Zealand tax implications of investing in Instalment Receipts or Shares if you are tax resident in New Zealand.

DISTRIBUTIONS YOU RECEIVE FROM MERIDIAN

Distributions you receive from Meridian will generally be taxable dividends for New Zealand tax purposes. Some distributions you receive from Meridian may not be taxable dividends (for example, non-taxable bonus issues and certain returns of capital). The IRD Ruling confirms that dividends paid by Meridian to holders of Instalment Receipts will be derived directly by them for tax purposes. The tax treatment of dividends paid to you as a holder of Instalment Receipts will be the same as if you held the Shares directly.

New Zealand operates an imputation regime under which income tax paid by Meridian gives rise to credits, known as imputation credits, which may be attached to dividends it pays. Imputation credits attached to dividends may be used by New Zealand tax resident shareholders to offset their tax liability in respect of the dividends. The maximum ratio at which Meridian can attach imputation credits to dividends is 28:72 (ie \$28 of imputation credits to \$72 of cash dividend).

Meridian will generally be required to deduct resident withholding tax (RWT) from dividends it pays to you. Currently, the rate of RWT on dividends is 33%, less the amount of imputation credits attached to the dividend. Accordingly, where imputation credits are attached to dividends at the maximum permitted ratio (ie fully imputed), RWT equal to 5% of the gross dividend (ie cash plus imputation credits) will be deducted. Where dividends are partially imputed, the amount of RWT deducted will be greater than 5% of the gross dividend. You will be entitled to a credit against your income tax liability for the amount of RWT deducted. Meridian will not deduct RWT from dividends you receive if you hold a current RWT exemption certificate and have provided a copy of that certificate to Meridian before the dividend is paid to you.

Example of a Fully Imputed Taxable Dividend

The following is an illustrative example of a fully imputed cash dividend of \$72 paid to a New Zealand tax resident Shareholder or holder of Instalment Receipts that does not have an RWT exemption certificate:

	Cash dividend	\$72	A fully imputed cash dividend of \$72 will have \$28 of imputation credits attached, giving a gross dividend of \$100. The gross dividend is taxable income to the recipient.
plus	Imputation credits attached	\$28	
	Gross dividend	\$100	
	RWT at 33%	\$33	The RWT deducted by Meridian will be 33% of the gross dividend less the amount of imputation credits attached.
less	Imputation credits attached	(\$28)	
	RWT deducted	\$5	
	Cash dividend	\$72	After RWT is deducted, the recipient will receive a net cash dividend of \$67. The recipient will be entitled to a credit against their personal income tax liability for the imputation credits attached to the dividend and the RWT deducted. Therefore, a recipient on a 33% marginal tax rate will not have any further tax to pay in respect of the dividend. A recipient on a marginal tax rate lower than 33% may be able to use excess tax credits to satisfy a tax liability on other income, or obtain a refund of tax.
less	RWT deducted	(\$5)	
	Net cash dividend received	\$67	

Example of a Partially Imputed Taxable Dividend

The following is an illustrative example of a cash dividend of \$72 imputed to the extent of 50% (ie \$14 of imputation credits attached) paid to a New Zealand tax resident Shareholder or holder of Instalment Receipts that does not have an RWT exemption certificate:

	Cash dividend	\$72	A partially imputed cash dividend of \$72 with \$14 of imputation credits attached gives a gross dividend of \$86. The gross dividend is taxable income to the recipient.
plus	Imputation credits attached	\$14	
	Gross dividend	\$86	
	RWT at 33%	\$28.38	The RWT deducted by Meridian will be 33% of the gross dividend less the amount of imputation credits attached.
less	Imputation credits attached	(\$14)	
	RWT deducted	\$14.38	
	Cash dividend	\$72	After RWT is deducted, the recipient will receive a net cash dividend of \$57.62. The recipient will be entitled to a credit against their personal income tax liability for the imputation credits attached to the dividend and the RWT deducted. Therefore, a recipient on a 33% marginal tax rate will not have any further tax to pay in respect of the dividend. A recipient on a marginal tax rate lower than 33% may be able to use excess tax credits to satisfy a tax liability on other income, or obtain a refund of tax.
less	RWT deducted	(\$14.38)	
	Net cash dividend received	\$57.62	

FILING AN INCOME TAX RETURN

If you are not otherwise required to file an income tax return, receiving dividends from Meridian will generally not change that. If you are on a tax rate of less than 33% you may be able to reduce your other tax liabilities, or get a refund of some or all of the RWT deducted from dividends paid to you, by filing a tax return.

If you file a tax return, you must include in your taxable income not only the cash dividend you receive, but also the imputation credits attached to, and RWT deducted from, your Meridian dividend. The total amount included in your taxable income is referred to as the gross dividend. You will be able to use attached imputation credits and a credit for RWT deducted to satisfy (or partially satisfy) your tax liability on the gross dividend. If the attached imputation credits and RWT deducted exceed the amount of tax on the gross dividend, your tax liability on other income you earn may be reduced as a result of receiving the Meridian dividend.

TAX ON SALE OR DISPOSAL OF INSTALMENT RECEIPTS OR SHARES

Although New Zealand does not have a general capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Instalment Receipts or Shares or be allowed a deduction for any loss you make. You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Instalment Receipts or Shares will be taxable (or loss deductible).

Generally, you will be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of your Instalment Receipts or Shares if you:

- are in the business of dealing in shares;
- acquire your Instalment Receipts or Shares as part of a profit making undertaking or scheme; or
- acquire your Instalment Receipts or Shares with the dominant purpose of selling them.

Your taxable gain (or tax deductible loss) will be the difference between the cost of your Instalment Receipts or Shares and the amount received for their sale or disposal. The IRD Ruling confirms that, if you pay the Final Instalment in respect of an Instalment Receipt, the cost of the Share transferred to you by the New Zealand Trustee will be the aggregate of that Final Instalment and either the First Instalment you paid or the amount you paid to acquire the Instalment Receipt after the Allotment Date (as applicable). If you have a taxable gain you will likely be required to include that gain in a tax return for the tax year in which the sale occurs. You will need to pay any tax owing in respect of that gain at your marginal tax rate.

The IRD Ruling confirms that the transfer of Shares to you upon payment of the Final Instalment is not a taxable event.

FINANCIAL ARRANGEMENTS RULES

The IRD Ruling and the Determination confirm that although the financial arrangements rules in New Zealand's tax legislation apply to your agreement to purchase Shares, any gain or loss you make on buying or selling Instalment Receipts, or acquiring Shares on payment of the Final Instalment, is not income or expenditure to you under those rules.

For the purposes of the financial arrangements rules, the Crown confirms that the Final Price payable by you is the lowest price it would have accepted for those Shares on the basis of payment in full by you on the Allotment Date.

New Zealand Tax Implications for Non-Residents

The following is a summary of the New Zealand tax implications of investing in Instalment Receipts or Shares if you are not tax resident in New Zealand and hold less than 10% of the voting interests in Meridian.

DISTRIBUTIONS YOU RECEIVE FROM MERIDIAN

Meridian will deduct non-resident withholding tax (NRWT) from taxable dividends paid to you. Most distributions by Meridian will be taxable dividends, but non-taxable bonus issues and certain returns of capital will not be taxable dividends. Dividends paid by Meridian to holders of Instalment Receipts will be derived directly by them for tax purposes. This means that the tax treatment of dividends paid to you as a holder of Instalment Receipts will be the same as if you held the Shares directly.

A 15% rate of NRWT will apply:

- to the extent the dividend is fully imputed; or
- if you are resident in a country with which New Zealand has a Double Taxation Agreement that provides for such a rate,

otherwise a 30% rate of NRWT will apply.

If Meridian pays a fully imputed dividend, then Meridian may pay you an additional supplementary dividend which effectively offsets the NRWT on the dividend. If Meridian pays a partially imputed dividend, the amount of supplementary dividend will be reduced on a pro rata basis so that it will effectively offset the NRWT on part of the dividend only.

SALE OR DISPOSAL OF INSTALMENT RECEIPTS OR SHARES

Although New Zealand does not have a general capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Instalment Receipts or Shares (or allowed a deduction for any loss you make). You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Instalment Receipts or Shares will be taxable (or loss deductible).

Generally, you will be subject to tax on any gain (or be allowed to deduct any loss) arising from the sale or disposal of your Instalment Receipts or Shares where you:

- are in the business of dealing in shares;
- acquire your Instalment Receipts or Shares as part of a profit making undertaking or scheme; or
- acquire your Instalment Receipts or Shares with the dominant purpose of selling them.

Your taxable gain (or tax deductible loss) will be the difference between the cost of your Instalment Receipts or Shares and the amount received for their sale or disposal. If you pay the Final Instalment in respect of an Instalment Receipt, the cost of the Share transferred to you by the New Zealand Trustee (or, as the case may be, the Australian Trustee) will be the aggregate of that Final Instalment and either the First Instalment you paid or the amount you paid to acquire the Instalment Receipt after the Allotment Date (as applicable).

If you are a resident of a country which has a Double Taxation Agreement with New Zealand, subject to the particular provisions of the relevant Double Taxation Agreement, any New Zealand tax liability on any income you derive from the sale of shares in New Zealand companies may generally be relieved under the terms of the relevant Double Taxation Agreement unless:

- you have a 'permanent establishment' in New Zealand through which the Instalment Receipts or Shares are held; or
- the shares are in a company whose value is derived as to 50% or more from land, buildings and other real property.

Because Meridian's assets largely comprise land, structures affixed to land and natural resources, you may not be entitled to relief from New Zealand tax on any gain on sale by reason of a Double Taxation Agreement.

If you derive a taxable gain on the sale or disposal of your Shares and the New Zealand tax liability is not relieved under a Double Taxation Agreement, you will be required to include that gain in a New Zealand tax return for the tax year in which the sale occurred and pay tax on the gain in New Zealand at your applicable rate.

The transfer of Shares to you upon payment of the Final Instalment is not a taxable event.

FINANCIAL ARRANGEMENTS RULES

Although the financial arrangements rules in New Zealand's tax legislation may apply to your agreement to purchase Shares (for instance if you hold Instalment Receipts for the purposes of a business carried on in New Zealand through a fixed establishment in New Zealand), any gain or loss you make on buying or selling Instalment Receipts, or acquiring Shares on payment of the Final Instalment, is not income or expenditure to you under those rules.

For the purposes of the financial arrangements rules, the Crown confirms that the Final Price payable by you is the lowest price it would have accepted for those Shares on the basis of payment in full by you on the Allotment Date.

No Stamp Duty or GST

New Zealand does not have stamp duty. New Zealand GST should not apply to your investment in the Instalment Receipts or Shares.

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West Wind wind farm uses one of Wellington's most renowned natural resources - wind.



08

Application Instructions

In this section

Why should you read this section?

Application Instructions 210

You will find out how to make an Application if you decide to invest.

To apply online, go to: www.meridianshares.govt.nz

Application Instructions

Retail Application Information

The Retail Offer is open to New Zealand Applicants and Eligible Employees in New Zealand and comprises the General Offer and the Broker Firm Offer.

The Retail Offer is expected to open on 30 September 2013 and will remain open until 5.00pm on 18 October 2013 or such other date as the Crown may choose.

The payment for the First Instalment for Shares will be for a fixed price of \$1.00 per Share. The Final Instalment, which is for the balance of the Final Price per Share will be payable in May 2015. The minimum number of Shares you can apply for is 1,000 Shares (for which the First Instalment will be \$1,000), and in multiples of 100 Shares thereafter. If you are the registered holder of Instalment Receipts on the Final Instalment Record Date, you will also be required to pay the Final Instalment in the manner described under the heading "Final Instalment" in *1.4 Answers to Important Questions - How much do I pay?*

General Offer Applications

There are two ways you can submit an application in the General Offer:

- online at www.meridianshares.govt.nz; or
- by using the paper Application Form.

The General Offer is only being made to New Zealand Applicants and Eligible Employees.

Valid Applications by New Zealand Applicants must include:

- a valid IRD number;
- a valid New Zealand bank account number;
- a New Zealand address; and
- a declaration that:
 - in the case of an individual, the individual is a New Zealand citizen or permanent resident; or
 - in the case of a company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or
 - in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or
 - in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents.

ELIGIBLE EMPLOYEE APPLICATIONS

If you are an Eligible Employee, to ensure that you receive any available preference on allocation, you must apply by completing the Eligible Employee Application Form provided to you by the Company. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call **0800 90 30 90** to request one. You will need to include your Meridian employee number on your Eligible Employee Application Form, together with the other requirements for a General Offer Application.

APPLYING THROUGH A BROKER, CUSTODIAN OR NOMINEE ACCOUNT

To apply using a broker, Custodian or nominee account, contact your broker and they will provide you with Application instructions.

If you are applying using a Custodian, you must provide your Custodian with all the information necessary to establish the validity of your Application as a New Zealand Applicant as if you were applying directly for Shares in the Offer.

If your Custodian provides this information with its Application in accordance with the instructions it has been given, you will be entitled to the same incentives for New Zealand Applicants and your Application will be scaled (in the event of over-subscriptions) on the same basis as if you had applied directly for Shares in the Offer.

Broker Firm Offer Applications

To apply in the Broker Firm Offer, contact your broker and they will provide you with Application instructions. Broker Firm Offer Applications must be made directly through your broker. Applications made through the www.meridianshares.govt.nz website, or made on paper forms submitted directly to the Registrar, will be processed as General Offer Applications and will be in addition to any Application made in the Broker Firm Offer.

There is no restriction on Applicants applying in both the Broker Firm Offer and the General Offer, although the Crown reserves the right to treat duplicate Applications on a differential basis for the purposes of scaling Applications in the General Offer.

Participating Iwi Offer Applications

Participating Iwi will be provided with their Application instructions by the Office of Treaty Settlements. Participating Iwi that apply for Shares in the Participating Iwi Offer will not be required to make a cash payment for the Shares for which they apply. Rather they will receive a transfer of Instalment Receipts on account of their potential settlement amount.

Treatment of Application

If your Application is incomplete or otherwise invalid, including because the Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, the Crown may still treat it as valid. The Crown reserves the right to refuse any Application or to accept an Application in part only, without providing a reason.

The decision of the Crown as to whether to treat your Application as valid, and any changes made by the Crown to complete your Application, will be final. The decision on the number of Shares and corresponding Instalment Receipts (if any) to be allocated to you will also be final. You will not be allocated more Shares and corresponding Instalment Receipts than the number of Shares you apply for. If your Application is not accepted, or is accepted in part, you will receive a refund of the balance payment without interest, within five Business Days after the Allotment Date. Any such refund will be made to you in the manner in which you elect any future dividend payments to be paid.

If scaling is required for the Retail Offer, it will be undertaken in the manner described in *7.1 Details of the Offer*.

If, due to scaling of your Application, the amount you have paid is more than the amount of the First Instalment for Shares represented by, and corresponding to, the Instalment Receipts you receive, this difference will be refunded to you no later than five Business Days after the Allotment Date without interest. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

Applying Using the Paper Application Form

If you requested a paper copy of the Offer Document online or by calling **0800 90 30 90**, you should have received a personalised Application Form with your Offer Document. Otherwise use one of the blank Application Forms at the back of this Offer Document. If you are applying as an Eligible Employee, use the Eligible Employee Application Form provided to you by the Company.

Sections A, B, D, F and G are mandatory sections.

A. Applicant Details

Insert your title, full name(s), postal address and telephone numbers.

Applications must be in the names of natural persons, companies or other legal entities, up to a maximum of three names per Application. Applications by trusts, funds, estates, partnerships or other unincorporated bodies must be made in the individual names of the persons who are the trustees, proprietors, partners or office bearers (as appropriate). If you are applying as an Eligible Employee your Application must be in your own name and not in the name of a company, trust or other legal entity or unincorporated body.

More than one Applicant name may be required, depending on the terms of any governing documents for the body (for example, the Trust Deed or Charter).

If, for your own purposes, you want to record that the Applicants hold their Shares (and Instalment Receipts) on a particular account or for a particular purpose, you can record that in the "Company / Trust / Account Name".

Use the below table to see how to write names correctly.

FOR A COMPANY

Applicant Name N/A

Company / Trust / Account Name ABC Limited

FOR A TRUST

Applicant Name (1) Mr Alfred John Smith

Applicant Name (2) Mrs Michelle Jane Smith

Company / Trust / Account Name Smith Family Trust

FOR A PARTNERSHIP

Applicant Name Mr Alfred John Smith

Company / Trust / Account Name John Smith & Sons

FOR ANY OTHER UNINCORPORATED BODY

Applicant Name Ms Jane Annabel Smith

Company / Trust / Account Name Smith Investment Club A/C

If you are applying on behalf of your children, or some other person in respect of whom you have the required authority, you should complete the Application Form in their name.

B. Payment of First Instalment

You need to enter:

- the specific number of Shares that you are applying for. The minimum number of Shares you can apply for is 1,000 (for which the First Instalment payable is \$1,000), and in multiples of 100 Shares thereafter; and
- the total amount payable for the First Instalment. This is calculated by multiplying the number of Shares for which you are applying by the First Instalment amount per Share of \$1.00. You may wish to use the following table to help calculate the amount payable for the First Instalment.

SHARES	FIRST INSTALMENT	SHARES	FIRST INSTALMENT	SHARES	FIRST INSTALMENT
1,000	\$1,000	3,000	\$3,000	20,000	\$20,000
1,500	\$1,500	5,000	\$5,000	50,000	\$50,000
2,000	\$2,000	10,000	\$10,000	100,000	\$100,000

The purchase price for the Shares you apply for will be payable in two instalments.

1. **First Instalment:** The payment submitted with your Application Form is for the First Instalment only. The payment for the First Instalment for Shares is a fixed price of \$1.00 per Share.
2. **Final Instalment:** The balance of the Final Price per Share must be paid by 15 May 2015. Applicants who sell their Instalment Receipts before the Final Instalment Record Date (4 May 2015) will not be responsible for paying the Final Instalment. The Registrar will send notifications setting out the details of the Final Instalment closer to the time it is due.

There are two options to pay the First Instalment: one-time direct debit and cheque. You need to select one of the two.

OPTION 1: ONE-TIME DIRECT DEBIT

If you choose to make a one-time payment out of your bank account, the direct debit will be processed on the first Business Day after your Application Form is received by the Registrar or, if received on the day the Offer closes, the same Business Day.

You will need to include the details of your bank account on your Application Form. One-time direct debits will only be processed from New Zealand registered banks. You must ensure that:

- the bank account details supplied are correct;
- there are sufficient funds in the specified bank account;
- you have the authority to operate the account solely/jointly; and
- the bank account you nominated is one which will allow the one-time direct debit to be made. For example, certain savings accounts may not allow money to be withdrawn in this manner. If you are uncertain you should contact your bank.

If the direct debit from your bank account is not successful, your Application will be rejected. The terms and conditions for one-time direct debit can be obtained by calling **0800 90 30 90** during the Offer period.

OPTION 2: CHEQUE

If you choose to pay by cheque your cheque should be made payable to "Meridian Offer", be crossed "Not Transferable" and not be post-dated.

Your cheque and completed Application Form should be posted to the Registrar using the freepost number provided in time to be received by 5.00pm on 18 October 2013.

Your cheque will be banked on the Business Day it is received. If your cheque is post-dated or dishonoured, your Application may be rejected.

C. Common Shareholder Number (CSN)

If you have other investments in shares or other securities which are quoted on a market operated by NZX and are registered under a CSN, please supply your CSN in the space provided. A CSN is a nine digit number commencing with 31, 32 or 33.

The name and address details on your Application Form must match the registration details of the CSN you have supplied. To check the registration details of your CSN, please refer to a recent securities transaction statement or remittance advice.

If you do not provide a CSN, the Registrar will assume you do not have one and you will be allocated a CSN and Authorisation Code ((FIN) which is like a pin number for buying and selling shares).

Please leave this section blank if you do not have a CSN or if you are unsure.

D. Future Dividend Payments

You may receive dividends from the Company in the future. Select how you wish to be paid any such dividends:

OPTION 1: PAYMENT DIRECT TO YOUR BANK ACCOUNT

If you chose to make your Application payment through a one-time direct debit from your bank account (see "Payment of First Instalment" above), you can elect to have any dividends paid into the same bank account.

Alternatively, if you would like any dividends paid to a different account, or if you have chosen to pay for your Application by cheque, insert the bank account details in the space provided.

The bank account provided must be with a New Zealand registered bank.

OPTION 2: PAYMENT TO YOUR BROKER CASH MANAGEMENT ACCOUNT

If you have a Cash Management Account with a broker, you can elect to have any dividends paid directly to it.

Insert the name of the NZX Firm where your Cash Management Account is held and enter your account number.

OPTION 3: PAYMENT BY CHEQUE

Tick if you wish to have any dividends paid to you by cheque.

E. Electronic Communications

Insert your email address, if you have one, in the space provided (optional).

By entering your email address, you are agreeing to be provided with Instalment Receipt and Shareholder communications electronically. It will also help us to contact you if there are any problems processing your Application.

F. Eligibility & Declaration

- Insert your IRD number.
- If you are applying on behalf of a minor (under the age of 18) or a dependent, use their IRD number.
- If the Applicant is a trust, company, partnership or other entity, use that entity's IRD number.
- If you are making a joint Application, you only need to supply one IRD number.
- Multiple Applications containing the same IRD number may not be accepted, or may be scaled on a differential basis, at the Crown's discretion.
- Resident withholding tax (RWT) will be deducted from any dividends paid to the Shareholder (unless you provide a valid RWT exemption certificate).
- If you are exempt from RWT, please tick the exempt box and attach a photocopy of your current RWT exemption certificate (your IRD number should match the IRD number on the certificate).
- If you are a non-resident for tax purposes please tick the box to indicate this. You will be treated as a New Zealand tax resident unless this box has been ticked.
- Insert your New Zealand bank account number.

Complete the declaration of citizenship or permanent residency and check that you have provided all of the required information.

If you do not complete the declaration, or your bank account number or the IRD number is invalid or not supplied, your Application may be rejected.

By completing and returning your Application Form you acknowledge and agree that if you have misrepresented that you are a New Zealand Applicant by making a false declaration, the Crown may cancel the issue of Instalment Receipts or sale of Shares to you under the Retail Offer, and Instalment Receipts or Shares held by you, up to the number of Instalment Receipts allocated to you under the Retail Offer, may be sold.

G. Signature

Sign your Application Form.

The Application Form must be signed by, or on behalf of, each Applicant. If the Applicant is a company or other entity, it should be signed by a duly authorised person in accordance with any applicable constitution or governing document.

If the Applicant is a minor (under the age of 18) the parent or legal guardian should sign the Application Form on the Applicant's behalf.

If you elect to pay by one-time direct debit, you should ensure that the signatories are consistent with your bank authorities.

H. Certificate of Non-Revocation of Power of Attorney

If you are not an attorney, please ignore this section.

If an attorney signs the Application Form on behalf of an Applicant, 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 on the Application Form.

I. Certificate of Non-Revocation of Agent

If you are not an agent, please ignore this section.

If an agent signs the Application Form on behalf of an Applicant, the agent must complete the certificate of non-revocation of agent on the Application Form.

Submitting your Application

If applying in the General Offer, your Application Form (with cheque if applicable) should be posted to the Registrar using the freepost number provided in time to be received by 5.00pm on 18 October 2013. If applying in the Broker Firm Offer your Application Form must be provided directly to your broker. If you submit your Application Form to your broker they will forward your Application and payment to the Registrar. Alternatively, Applications can be lodged with any NZX Firm, the Joint Lead Managers or any other channel approved by NZX so as to be received in time to enable forwarding to the Registrar by 5.00pm on 18 October 2013.

If you have questions about how to apply under the Offer, you can call **0800 90 30 90** between 8.00am to 8.00pm (Monday to Friday) and 9.00am to 5.00pm (weekends).

You will not be able to reverse or change your Application after it has been submitted, except in the case of a supplementary disclosure document being produced (see *7.1 Details of the Offer* for more details). By submitting an Application you agree to purchase and subscribe for the number of Shares you specify in your Application Form on the terms and conditions set out in this Offer Document (including the Application Form).

If you attempt to sell or otherwise deal with the Instalment Receipts or Shares before receiving confirmation of the number of Shares and corresponding Instalment Receipts that you have been allocated, no other person shall accept any liability or responsibility.

By submitting an Application Form, you also agree:

- that you have received this Offer Document and apply for Shares subject to the terms and conditions set out in this Offer Document;
- to become a Shareholder of the Company and to be bound by the Constitution as applicable from time to time;
- to become a holder of Instalment Receipts and to be bound by the relevant Trust Deed as applicable from time to time;
- to the use of your personal information in accordance with the Privacy Policy set out in these Application Instructions;
- that you understand that the Instalment Receipts and Shares have not been and will not be registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States or in any other jurisdiction outside New Zealand;
- that you are not a person in the United States and are not acting for the account or benefit of a person in the United States and you will not send the Offer Document or any other material relating to the offer of Instalment Receipts or Shares in the Company to any person in the United States;
- that you will not offer or sell the Instalment Receipts or Shares in the United States or in any other jurisdiction outside New Zealand except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Instalment Receipts or Shares are offered and sold; and
- that, if any significant adverse developments occur prior to the commencement of the bookbuild process which result in a supplementary disclosure document being produced, you will be permitted to withdraw your Application in the manner and within the timeframe prescribed in the supplementary disclosure document and set out under the heading "Supplementary Disclosure" in *7.1 Details of the Offer*. Withdrawals made by any other method may not be accepted. If you do not take any action to effect withdrawal within the relevant time period, the Crown will be entitled to accept your Application.

PRIVACY POLICY

If you apply for Shares, you will be asked to provide personal information to The Treasury, Meridian, the Registrar, the Trustee and their respective agents who will collect and hold the personal information provided by you in connection with your Application.

Your personal information will be used: (a) for considering, processing and corresponding with you about your Application; (b) in connection with your holding of Instalment Receipts or Shares, including sending you information concerning Meridian, your Instalment Receipts or Shares and other matters Meridian considers may be of interest to you by virtue of your holding of Instalment Receipts or Shares; (c) for conducting an audit or review of the activities contemplated in (a) or (b); and (d) for sending you information about special offers for Instalment Receipt holders or Shareholders in relation to Meridian's products and services.

To do these things, The Treasury, Meridian, the Registrar or the Trustee may disclose your personal information to: (a) each other; (b) their respective related companies; and (c) agents, contractors or third party service providers to whom they outsource services such as mailing and registry functions, including the Joint Lead Managers, Solution Dynamics Limited and Reach Investor Solutions Pty Ltd. However, all of these parties will be bound by the same privacy policies as The Treasury, Meridian, the Registrar and the Trustee.

In addition, if you elect to pay by one-time direct debit, the Registrar will communicate with your nominated bank (including providing your personal information) for the purposes of processing your payment. If you identify in your Application Form that you have a relationship with a broker, financial adviser or private banker (including submitting an Application Form that has a broker, financial adviser or private banker's stamp or code in the top right hand corner), The Treasury, Meridian or the Registrar may provide the details of your Application to your nominated broker, financial adviser or private banker.

Failure to provide the required personal information may mean that your Application Form is not able to be processed efficiently, if at all.

Where The Treasury, Meridian, the Registrar and the Trustee hold personal information about you in such a way that it can be readily retrieved, you have a right to obtain from The Treasury, Meridian, the Registrar and the Trustee confirmation of whether or not they hold such personal information, and to access and seek correction of that personal information under the Privacy Act 1993 by contacting the privacy officers of The Treasury, Meridian, the Registrar and the Trustee at their respective addresses shown in the Directory. You can also access your information on the Registrar's website: **www.investorcentre.com/nz** (you will be required to enter your CSN and Authorisation Code (FIN)).

Glossary

10% LIMIT	The limit under the Public Finance Act on persons other than the Crown having a relevant interest in more than 10% of the Shares on issue	ASIC	Australian Securities and Investments Commission
A\$	Australian dollars	ASX	ASX Limited, or the financial market operated by ASX Limited, as the context requires, also known as the Australian Securities Exchange
ADDITIONAL AUSTRALIAN INFORMATION	Additional information containing disclosure relevant to Australian Institutional Investors and to comply with requirements for a recognised offer under Chapter 8 of the Australian Corporations Act 2001 (Cth) and the Australian Corporations Regulations 2001 (Cth), which accompanies or is attached to this Offer Document for the purposes of the Institutional Offer made in Australia	ASX LISTING RULES	The official listing rules of ASX
AGL ENERGY	AGL Energy Limited	AUDITOR	The New Zealand Controller and Auditor-General pursuant to sections 14 and 15 of the Public Audit Act 2001. Michael Wilkes of Deloitte was appointed by the New Zealand Controller and Auditor-General to perform the audit on behalf of the New Zealand Controller and Auditor-General
ALLOTMENT DATE	The date on which Shares are allotted to the Trustee on behalf of successful Applicants, which is expected to be 30 October 2013, unless varied by the Crown	AUSTRALIAN CORPORATIONS ACT	Corporations Act 2001 (Cth) of Australia
APPLICANT	Any person named as an applicant on an Application Form	AUSTRALIAN CORPORATIONS REGULATIONS	Corporations Regulations 2001 (Cth) of Australia
APPLICATION	An application to subscribe for Shares offered pursuant to this Offer Document made online at www.meridianshares.govt.nz or on the Application Form and accompanied by the Application amount	AUSTRALIAN TRUST DEED	A deed of trust between the Crown and the Australian Trustee in relation to Instalment Receipts held by Australian residents
APPLICATION FORM	An application form attached to, or accompanying, this Offer Document	AUSTRALIAN TRUSTEE	The Trust Company (Australia) Limited
ARC INNOVATIONS	Arc Innovations Limited, a wholly owned subsidiary of Meridian	BROKER FIRM OFFER	The offer of Shares under this Offer Document to New Zealand Applicant clients in New Zealand of NZX Firms and selected trading banks, who have received an allocation from their NZX Firm or selected trading bank

BROKER SPONSORED BIDS	Bids by participants in the Institutional Offer who are in New Zealand and who are clients of NZX Firms and selected trading banks who are sponsored to participate in the Institutional Offer	CUSTODIAN	An Applicant for Shares that satisfies the Registrar that it: <ul style="list-style-type: none"> • is a trustee corporation or a nominee company; • will hold Shares by reason only of acting for another person in the ordinary course of business of that trustee corporation or nominee company; • holds a range of other securities which are quoted on a market operated by NZX on the same basis for defined beneficial owners; and • provides regular reporting and corporate actions services to the underlying beneficial owners; and <ul style="list-style-type: none"> – is owned by or affiliated to a NZX Firm, or routinely and in the ordinary course of business provides these services to NZX Firms or clients of NZX Firms; or – has a demonstrable history of applying for shares in public offers on behalf of underlying beneficial owners
BUSINESS DAY	A day on which the NZX Main Board is open for trading	DAMWATCH	Damwatch Services Limited, a wholly owned subsidiary of Meridian
CARBON PRICE SCHEME	The carbon price scheme in Australia, as described in <i>3 Industry Overview</i>	DERIVATIVE	A financial instrument, the price of which is derived from the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments or any agreed pricing index or arrangement. It can either be a private agreement negotiated between two parties or a standardised agreement traded on an exchange
CFD	A contract for difference is an agreement where the parties settle the difference between an agreed price and the wholesale electricity price for a nominated volume of electricity, as described in more detail in <i>4.2 Business Description</i>	EBITDAF	A non-GAAP alternative measure of profitability defined as earnings before interest, tax, depreciation, amortisation, change in fair value of financial instruments, impairments and gain/loss on sale of assets and joint venture equity accounted earnings (as described further in <i>6.2 Overview of Operational and Financial Information</i>)
CLOSING DATE	The last day on which Applications will be accepted under the Offer, which is expected to be 18 October 2013, unless varied by the Crown		
COMPANIES ACT	Companies Act 1993		
COMPANY	Meridian Energy Limited		
CONSTITUTION	The constitution of the Company, as amended from time to time		
CONTACT ENERGY	Contact Energy Limited		
CO-ORDINATION AGREEMENT	The co-ordination agreement dated 19 September 2013 between Meridian, the Crown and the Trustee, as described in <i>7.2 Description of Instalment Receipts and Trust Deed</i>		
CROWN	Her Majesty the Queen in Right of New Zealand		
CSN	Common Shareholder Number		

ECNZ	Electricity Corporation of New Zealand Limited	FIRST INSTALMENT	The first instalment of \$1.00 per Share
EFI	Energy for Industry Limited	FREE CASH FLOW	NPAT adjusted for the post tax impact of fair value movements of derivatives and impairments, plus depreciation and amortisation, less the average level capital cost of maintaining Meridian's asset base and systems (Stay in Business Capital Expenditure)
ELIGIBLE EMPLOYEE	A permanent employee of Meridian in New Zealand who, as at the date the Retail Offer opens, is employed to work at least 20 hours per week and has performed at least a minimum of three months' continuous service, or a director of Meridian in New Zealand	FY	Financial year ended 30 June. If followed by 'F', this indicates prospective information for a future financial year
EMPLOYEE SHARE OWNERSHIP PLAN	The share ownership plan offered to eligible permanent employees of Meridian, intended to be introduced at the beginning of the 2015 financial year (as described in 4.3 Board, Management and Corporate Governance)	GAAP	Generally Accepted Accounting Practice
ENERGY MARGIN	A non-GAAP financial measure representing energy sales revenue less energy related expenses and energy distribution expenses (as described further in 6.2 Overview of Operational and Financial Information)	GENERAL OFFER	The portion of the Retail Offer that is open to any New Zealand Applicant or Eligible Employee
ETS	New Zealand Emissions Trading Scheme	GENESIS ENERGY	Genesis Energy Limited
EV	Enterprise Value, calculated as the indicative market capitalisation plus prospective net debt	GOVERNMENT	The Government of New Zealand
EXECUTIVE LTI PLAN	The long-term incentive share plan offered to senior executives of the Company, as described in 4.3 Board, Management and Corporate Governance	GROUP	Meridian Energy Limited and each of its subsidiaries
FINAL INSTALMENT	The Final Price less the First Instalment	GWh	Gigawatt hour. One gigawatt hour is equal to 1,000 MWh or 1,000,000 kWh
FINAL INSTALMENT PAYMENT DATE	15 May 2015, the date by which the Final Instalment is due	HAPŪ	Māori term used to describe a division or subset of a larger iwi
FINAL INSTALMENT RECORD DATE	4 May 2015, the date for determining the persons liable to pay the Final Instalment	HVAC	High voltage alternating current
FINAL PRICE	The price per Share at which the Shares will be allotted, expected to be determined on or about 23 October 2013, which is subject to the Retail Price Cap	HVDC	High voltage direct current
		ICP	Installation control point. A point of connection on a local network or an embedded network that the distributor nominates as the point at which a retailer is deemed to supply electricity to a consumer
		IFRS	International Financial Reporting Standards published by the International Accounting Standards Board
		INDICATIVE PRICE RANGE	\$1.50 to \$1.80 per Share

INSTALMENT RECEIPTS	The instalment receipts issued to successful Applicants under the Offer	IWI TRUST DEED	A deed of trust between the Crown and Public Trust in relation to Instalment Receipts or Shares
INSTITUTIONAL INVESTOR	(i) An investor outside the United States to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which Meridian and the Crown are willing to comply with), including in New Zealand persons to whom offers or invitations can be made without the need for a registered prospectus under the Securities Act or including in New Zealand persons making Broker Sponsored Bids; (ii) a person located in the United States who is reasonably believed to be a 'qualified institutional buyer', as defined in Rule 144A under the US Securities Act; or (iii) a dealer or other professional fiduciary organised, incorporated or (if an individual) resident in the United States that is acting for an account (other than estate or trust) held for the benefit or account of persons that are not US persons for which it has and is exercising investment discretion within the meaning of Rule 902(k)(2)(i) of Regulation S under the US Securities Act	JOINT LEAD MANAGERS	Craigs Investment Partners Limited, Deutsche Bank AG (New Zealand branch), Goldman Sachs New Zealand Limited and Macquarie Capital (New Zealand) Limited or in the context of the Offer Management Agreement Macquarie Securities (NZ) Limited
INSTITUTIONAL OFFER	The invitation to Institutional Investors under this Offer Document and the International Offering Memorandum, as described in 7.1 <i>Details of the Offer</i>	KAITIAKITANGA	Māori term used for the Māori concept of guardianship, particularly relevant in respect of the environment. Increasingly used in New Zealand for broader roles of trusteeship or guardianship
INTERNATIONAL OFFERING MEMORANDUM	The international offering memorandum under which the Institutional Offer will be made in certain jurisdictions other than New Zealand and Australia, which consists of this Offer Document, a prospectus wrap and certain other information	LGCS	Large-scale Generation Certificates which relate to the Large-scale Renewable Energy Target in Australia, as described in 3 <i>Industry Overview</i>
IRD	New Zealand Inland Revenue Department	MACARTHUR SHARE PURCHASE AGREEMENT	The share purchase agreement dated 28 June 2013 between Meridian Australia, Three River and Malakoff Holdings, as described in 7.3 <i>Statutory Information</i>
IWI	Māori term for a set of people bound together often by descent from common ancestors or waka (canoe) that migrated to New Zealand. Modern meaning: tribe or tribes	MALAKOFF HOLDINGS	Malakoff Holdings Pty Ltd
		MERIDIAN	The Company or the Group, as the context requires
		MERIDIAN ENERGY AUSTRALIA	Meridian Energy Australia Pty Limited
		MERIDIAN USA	Meridian Energy USA, Inc
		MERIDIAN WIND	Meridian Wind Macarthur Holdings Pty Ltd
		MIGHTY RIVER POWER	Mighty River Power Limited
		MRET SCHEME	The Mandatory Renewable Energy Target Scheme in Australia, as described in 3 <i>Industry Overview</i>
		MW	A megawatt (MW) is a unit of power and equal to 1,000,000 watts (W) or 1,000 kilowatts (kW)

MWh	A megawatt hour (MWh) is the amount of electricity equivalent to a steady power of one MW running for one hour. Megawatt hours are the metering standard unit for the wholesale spot market	NMI	National metering identifier. The unique identifier for each connection point in the Australian electricity market; equivalent to an 'ICP' in the New Zealand context
NEM	The Australian national electricity market	NODE	A location where electricity flows into or out of the national grid
NEW ZEALAND APPLICANT	<p>An Applicant for Shares for whom the following information has been provided with their Application Form:</p> <ul style="list-style-type: none"> • a valid New Zealand IRD number; • a valid New Zealand bank account number; • a New Zealand address; and • a declaration that: <ul style="list-style-type: none"> – in the case of an individual, the individual is a New Zealand citizen or permanent resident; or – in the case of a company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or – in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or – in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents 	NPAT	Net profit after tax
NEW ZEALAND RETAIL OFFER MANAGER	Forsyth Barr Limited	NZAS	New Zealand Aluminium Smelters Limited
NEW ZEALAND TRUST DEED	A deed of trust between the Crown and the New Zealand Trustee in relation to Instalment Receipts held by all persons other than Australian residents	NZAS AGREEMENT	The agreement dated 1 October 2007 between Meridian and NZAS, as amended on 7 and 15 August 2013 and described in 4.2 <i>Business Description</i>
NEW ZEALAND TRUSTEE	The New Zealand Guardian Trust Company Limited	NZ GAAP	New Zealand Generally Accepted Accounting Practice
		NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
		NZX	NZX Limited, also known as the New Zealand Stock Exchange
		NZX FIRM	Any person designated as a Primary Market Participant by NZX
		NZX MAIN BOARD	The main board equity security market, operated by NZX
		NZX MAIN BOARD LISTING RULES	The listing rules applying to the NZX Main Board as amended from time to time
		OFFER	The offer of Shares pursuant to this Offer Document or the International Offering Memorandum, as applicable
		OFFER DOCUMENT	This combined prospectus and investment statement
		OFFER MANAGEMENT AGREEMENT	The agreement dated 19 September 2013 between Meridian, the Crown and the Joint Lead Managers, as described in 7.3 <i>Statutory Information</i>

PARTICIPATING IWI	Iwi that currently have unsettled historical claims against the Crown under the Treaty of Waitangi and that elect to participate in the Offer and receive a payment from the Crown, in the form of Instalment Receipts and Shares, on account of their potential settlement amount, provided that all decisions with regard to whether and to what extent an iwi will participate in the Offer will be made exclusively by such iwi's mandated negotiators in New Zealand and without the approval or authorisation of members of that iwi that are outside New Zealand	RETAIL OFFER	The General Offer and the Broker Firm Offer, in each case to New Zealand Applicants
PARTICIPATING IWI OFFER	The Offer of Shares to Participating Iwi pursuant to this Offer Document	RETAIL PRICE CAP	The retail price cap of \$1.60 per Share which applies to the Final Price payable by New Zealand Applicants under the Retail Offer who continue to hold their Instalment Receipts in the same registered name until 4 May 2015, as further described in 7.1 <i>Details of the Offer</i>
PEAKING	Peaking power stations meet peaks or spikes in electricity demand (known as peak demand). Peak-load power stations need to be responsive to quickly achieve the levels of electricity generation required to meet peak demand or take advantage of high wholesale electricity prices	RMA	Resource Management Act 1991
POWERSHOP	Powershop New Zealand Limited, a wholly owned subsidiary of Meridian	S&P	Standard & Poor's (Australia) Pty. Limited, a financial services company that provides credit ratings and other services
PSGE	Post-Settlement Governance Entity	SECURITIES	Instalment Receipts and/or Shares, as the case may be
PUBLIC FINANCE ACT	Public Finance Act 1989	SECURITIES ACT	Securities Act 1978
REASONABLE STEPS	A defined term used in the Trust Deed relating to steps that are lawful, practicable and reasonable in the circumstances, which do not necessitate any unreimbursed expense by the Trustee and which do not expose the Trustee to material, actual or contingent liability (being a contingent liability reasonably likely to arise) for which it is not entitled to indemnification by the Crown	SECURITIES REGULATIONS	Securities Regulations 2009
REGISTRAR	Computershare Investor Services Limited	SHARE	A fully paid ordinary share in the Company
		SHAREHOLDER	A holder of one or more Shares
		SHAREHOLDING MINISTERS	The Minister of Finance and Minister for State-Owned Enterprises
		SOE	A state-owned enterprise under the State-Owned Enterprises Act 1986
		SOLID ENERGY	Solid Energy New Zealand Limited
		SPOT PRICE	The wholesale electricity price determined each half hour by the wholesale electricity market
		SWITCHING	Customers switching from one electricity retailer to another
		SYSTEM OPERATOR	The manager of the real-time operation of the New Zealand electricity grid, being Transpower

TAX ACT	Income Tax Act 2007 or, as applicable, the Tax Administration Act 1994
THREE RIVER	Three River Holdings No. 2 Limited
TRANSPOWER	Transpower New Zealand Limited
TRUST DEED	The relevant trust deed for Instalment Receipts being the New Zealand Trust Deed or, in respect of Instalment Receipts held by Australian resident holders only, the Australian Trust Deed
TRUSTEE	The relevant trustee for Instalment Receipts being the New Zealand Trustee or, in respect of Australian resident holders of Instalment Receipts only, the Australian Trustee
TRUSTPOWER	TrustPower Limited
UNDERLYING NPAT	A non-GAAP measure of profitability that removes from NPAT the effects of one-off and/or infrequently occurring events, impairments and changes in the fair value of financial instruments (as described further in 6.2 <i>Overview of Operational and Financial Information</i>)
UNIQUE REFERENCE NUMBER	The unique reference number you will receive if you apply for Shares online
US\$	United States dollars
US SECURITIES ACT	The United States Securities Act of 1933

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Directory

THE COMPANY

Meridian Energy Limited

33 Customhouse Quay
Wellington 6011

THE CROWN

C/- The Treasury
1 The Terrace
Wellington 6011

REGISTRAR

Computershare Investor Services Limited

Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

TRUSTEES

The New Zealand Guardian Trust Company Limited

Level 7, Vero Centre
48 Shortland Street
Auckland 1010

The Trust Company (Australia) Limited

Level 15, 20 Bond Street
Sydney, New South Wales 2000
Australia

LEGAL ADVISERS TO THE COMPANY

Russell McVeagh

Level 30, Vero Centre
48 Shortland Street
Auckland 1010

Level 24, Vodafone on the Quay
157 Lambton Quay
Wellington 6143

LEGAL ADVISERS TO THE CROWN

Bell Gully

Level 21, Vero Centre
48 Shortland Street
Auckland 1010

Level 21
171 Featherston Street
Wellington 6140

AUDITOR

Deloitte

50 Hazeldean Road
Christchurch 8024

INVESTIGATING ACCOUNTANT

Deloitte

50 Hazeldean Road
Christchurch 8024

FINANCIAL ADVISER TO THE CROWN

Deutsche Bank AG, New Zealand branch

Level 36, Vero Centre
48 Shortland Street
Auckland 1010

JOINT LEAD MANAGERS

Deutsche Bank AG, New Zealand branch, together with Craigs Investment Partners Limited

Level 36, Vero Centre
48 Shortland Street
Auckland 1010

Goldman Sachs New Zealand Limited

Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Macquarie Capital (New Zealand) Limited

Level 17, Lumley Centre
88 Shortland Street
Auckland 1010

LEGAL ADVISERS TO THE TRUSTEE

Chapman Tripp

23 Albert Street
PO Box 2206, Auckland 1140

10 Customhouse Quay
PO Box 993, Wellington 6140

RETAIL AFFILIATES OF THE JOINT LEAD MANAGERS

Craigs Investment Partners Limited

Level 32, Vero Centre
48 Shortland Street
Auckland 1010

JBWere (NZ) Pty Limited

Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Macquarie Equities New Zealand Limited

Level 17, Lumley Centre
88 Shortland Street
Auckland 1010

NEW ZEALAND RETAIL OFFER MANAGER

Forsyth Barr Limited

Level 9, Forsyth Barr House
The Octagon
Dunedin 9054

NEW ZEALAND RETAIL OFFER CO-MANAGERS

ANZ Bank New Zealand Limited

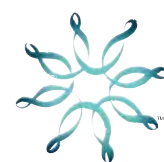
Level 10
170-186 Featherston Street
Wellington 6011

ASB Bank Limited

Level 2, ASB North Wharf
12 Jellicoe Street
Auckland 1010

Front Cover: The Ōhau A power station is located at the end of the man-made Pūkaki Canal and was the second hydro station to be built on the Upper Waitaki hydro scheme.

Please recycle.



meridian

New Zealand Government